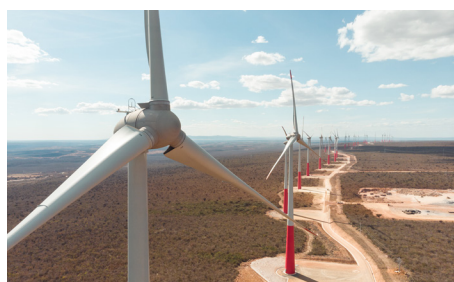


Case Study: Rio Energy

Rio Energy's Story

Rio Energy, a developer, owner and operator of renewable energy projects in Brazil, was formed in 2012 by global private equity firm Denham Capital. Recognizing a fundamental need for new generation capacity in Brazil, Denham opened an office in São Paulo in 2008 and spent the following three years comprehensively accessing the clean energy investment opportunity in the market. Through this process, Denham's deal team identified Marcos Meireles as a proven developer in the Brazilian power sector, and executed an agreement that provided the private equity firm with the option to create a renewable power project development company with Meireles as its Chief Executive Officer.

Meireles worked with the Denham team to prepare a business plan that focused on acquiring renewable power projects in late-stage development and subsequently building 250 megawatts (MW) of wind power farms. These projects would utilize some of the best wind resources in Brazil with capacity factors—or the average power generated divided by



maximum possible output—exceeding 50%, thus enabling significantly reduced power costs. Together they identified a pipeline of projects and began to build a team. Following an initial investment from Denham, Rio Energy was officially established.

Today, Rio Energy has 90 employees and a platform of 2.6 gigawatts (GW) of projects, with 484 MW across three wind projects in operation or construction. The company is committed to a sustainable future through the development, construction and operation of renewable energy generation projects to high quality standards.

The Role Played by Private Capital

Since the initial investment in 2012, Denham Capital has driven all aspects of growth at Rio Energy. The private equity firm and Rio Energy's management team focused on a number of immediate key priorities, including acquiring renewable power projects in late-stage development and winning long-term, competitively priced power purchase agreements with creditworthy off-takers—all while ensuring local community support through active engagement with a broad spectrum of stakeholders. Denham played an important role in bringing these projects to financial close by arranging non-recourse debt through the Brazilian Development Bank (BNDES) and facilitating the issuance of local currency bonds, known as infrastructure debentures, resulting in Rio Energy being one of the first Brazilian companies to issue green bonds.

A critical component of Denham's efforts prior to establishing Rio Energy was developing a strong working relationship with the people who would form the company's management team in order to ensure that it could operate to international standards—a key value creation measure as Rio Energy grew. By being a partner of the company since inception, Denham was able to ensure that all the requisite systems, policies and procedures were in place with regard to finance and accounting, contract management and procurement, human resources, and the identification and management of environmental, social and governance (ESG) issues in line with the IFC Performance Standards. Denham worked with Rio Energy to put a reporting framework in place to record ESG data on a quarterly basis, capturing both quantitative and qualitative metrics.

The Company



Essentials

Company: Rio Energy

Website: rioenergyllc.com

Country: Brazil

Sector: Utilities

Business focus: Renewable energy

Size: US\$940 million in enterprise value (as of September 2018)

GP: Denham Capital, a global energy and resources-focused private equity firm (denhamcapital.com)

Dates of investment: August 2012, with 30 follow-on investments through May 2018

Investment: Denham Capital formed Rio Energy in 2012 and remains the controlling shareholder

Impact Highlights

Recognizing a fundamental need for new generation capacity in Brazil, global private equity firm Denham Capital formed Rio Energy in 2012 to develop and operate renewable energy projects in accordance with international standards. As of September 2018, Rio Energy owns 2.6 GW of projects, including 484 MW of wind projects either in operation or under construction and a 144 MW wind project in late-stage development. These projects generate clean energy, providing power to over 1.1 million households.

Following the initial investment, Denham Capital and Rio Energy focused on a number of immediate priorities, including acquiring renewable power projects in late-stage development and winning long-term, competitively priced power purchase agreements with creditworthy off-takers. Denham also played an important role in bringing these projects to financial close by arranging non-recourse debt through the Brazilian Development Bank (BNDES) and facilitating the issuance infrastructure debentures, resulting in Rio Energy being one of the first Brazilian companies to issue green bonds.

Rio Energy's management team has a strong commitment to corporate social responsibility, working closely with the communities in which they operate. Over the past six years, Rio Energy has invested approximately US\$1 million across 13 social projects and nine environmental projects directed toward the communities near the three operating wind farms, benefiting approximately 60,000 people. For example, in 2018, the company supplied medical equipment and furnished surgery rooms for a hospital near Itarema, Ceará, which allows patients to be treated locally while reducing the number of medical transfers.

The Company View

“Denham Capital’s support has been essential in allowing Rio Energy to build out a substantial renewable energy footprint in northeastern Brazil. The majority of our projects are located in remote rural communities that face basic social and economic challenges. Working closely with Denham and a diverse set of local stakeholders, we are proud to have been able to design and execute a number of programs related to water and sanitation, health, income generation and biodiversity that bring direct and sustainable benefits to our local community partners. We consider these initiatives to be a value-generating component of our investment strategy.”

Roberto Colindres
CFO, Rio Energy

Denham assisted the company in adding a number of key positions. For example, it helped expand Rio Energy’s financial team to ensure accurate and timely reporting. This team collects financial information from 38 legal entities, and consolidates it into monthly and quarterly financial reports, while also publishing yearly audited financial statements for BNDES and the company’s debentures holders. Furthermore, Denham worked with Rio Energy to hire a manager to set up an integrated management system. This system covers standards: ISO-9001, ISO-14001 and ISO-45001.

In partnership with Denham, Rio Energy implemented core governance systems,

including built-in governance guidelines for the integrated management system. Denham has also worked with Rio Energy’s management team since its entry in 2012 to institute additional policies and guidelines around anti-corruption, environmental and social responsibilities, quality and compliance. Denham further helped the company produce an employee handbook, code of ethics, training guidelines and benchmarked compensation policies. As Rio Energy’s indirect employees and subcontractors can total over 1,700 during peak construction times, the company has moreover built a dedicated team to design and enforce health and safety standards.

Beyond the Bottom Line

Denham Capital’s management teams typically work closely with project and local stakeholders, implementing community-related initiatives alongside the development of power assets. Rio Energy is no exception, having established a culture of promoting economic and social development in the communities in which it works. Over the past six years, the company has invested over US\$507,000 (R\$2 million) in 13 social projects directed toward the communities near the three wind farms it owns and operates, benefiting approximately 60,000 people. Examples of these initiatives include:

- Supplying medical equipment and furnishing surgery rooms for a hospital near Itarema, Ceará, which allows patients to be treated locally and reduces the number of medical transfers;
- Building a seafood production center and a handicraft workshop for local fisherwomen and artisans, enabling these communities to generate sustainable income; and,
- Providing local residents with various vocational training programs, such as truck operation, carpentry and tourism.



Additionally, Rio Energy has invested approximately US\$406,000 (R\$1.6 million) in nine environmental projects. For example, the company established a tree nursery, the first of its kind in São Bento, Bahia with the goal to preserve and produce saplings of endangered local flora. In June 2018, saplings from the nursery were used to reforest 20 hectares of land in the area. Rio Energy also built a recycling center in Caetitê and organized a waste collection program in Serra da Babilônia, directly benefiting approximately 40,000 local residents across both communities. In order to support local agriculture while simultaneously improving water use efficiency, Rio Energy has additionally constructed micro-dams for farming communities in Caetitê.

IMPACT HIGHLIGHTS

As of:	Initial Investment	September 2018
Revenue (US\$m)	0	71
EBITDA (US\$m)	0	34
# of employees	5	90
Local taxes paid (US\$m)	0	2.7
Women as % of employees	0	51
Environmental management system in place	No	Yes
Health and safety policies in place	No	Yes