



**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF
OPERATIONS**

December 31, 2024 and 2023

**ORAZUL ENERGY PERU S.A.
AND SUBSIDIARY**

US\$ 363,198,000 – 5.625% Senior Notes due 2027



ORAZUL ENERGY PERU

About the Company

We are a Peruvian company focused on the electric power sector. We own and operate two hydroelectric power plants with a combined capacity of 376 MW, and a 1 MW solar plant, all located in northern Peru. Our 377 MW are diversified in (i) 2 run-of-river hydroelectric power plants in different hydrological basins: Cañón del Pato with 266 MW in the Santa River and Carhuaquero with 110 MW in the Chancay River; with a total of 11 turbines and (ii) our 1 MW solar plant built in 2023 which is located next to the Carhuaquero hydro power plant. The commercial operation date of our solar plant was granted on February 14, 2024.

We incorporated our subsidiary Kondu S.A., to conduct power generation, transmission, and commercialization activities as well as provide energy solutions services to our customers.

We generate and sell non-carbon, efficient and reliable electricity to regulated and non-regulated customers under power purchase agreements (“PPAs”) and to the spot market. Our contracting level under PPAs is 58%¹ with an average life of approximately 5 years.

Orazul Energy Peru (“Orazul”) is indirectly owned by certain funds managed by I Squared Capital Advisors (US) LLC and co-investors (collectively, the “Sponsor”). On December 31, 2017, the Sponsor through Nautilus Inkia Holdings LLC (“Inkia”), acquired substantially all the Latin American and Caribbean business held by Inkia Energy Limited, an international company focused on the electric power sector. On April 30, 2018, the Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual, INDECOPI, the Peruvian antitrust authority, approved the acquisition by the Sponsor. Since then, Orazul’s related parties include Kallpa Generación S.A. (“Kallpa”). Since January 1, 2019, as part of a strategy to optimize operations and maximize benefits from having the same shareholders, Kallpa and Orazul integrated and streamlined their management teams, implementing a single management organization, with no legal mergers between the companies.

Management has extensive experience in the power generation business. Our executive officers have an average of approximately 22 years of experience in the power generation industry and have previously held senior positions in leading power generation companies, financial institutions, and the Peruvian government. Our management team provides in-depth market knowledge and power industry experience, with considerable experience in the Peruvian energy industry and government regulators. We believe that this overall level of experience allows our management team to lead the Company in the effective operation and maintenance of our facilities.

¹ Estimated for FY 2025.



Our Notes

On April 25, 2017, Orazul issued senior unsecured notes for an aggregate principal amount of US\$550 million in the international capital markets under Rule 144A and Regulation S of the Securities Market Law of the United States of America (the “Notes”). These Notes accrue interest at a rate of 5.625% payable semi-annually and have final maturity in April 2027. The proceeds from this issuance were used to: (i) prepay the outstanding senior debt incurred in connection with our acquisition under a US\$450 million senior secured loan facility, and (ii) prepay US\$35 million and US\$40 million, in aggregate outstanding principal amount of local corporate bonds. The Notes are currently rated BB by Fitch Ratings and BB- by Standard & Poor’s.

After the sale of the transmission business in 2020 and the gas to power business in 2021 and consequent cash tender offers, our Notes amount to US\$363 million.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated audited financial statements as of December 31, 2024, and 2023.

For the year ended December 31, 2024 and 2023

<i>In millions of U.S. dollars</i>	Year ended		%
	December 31		Change
	2024	2023	
Revenues	103	114	-10%
Cost of sales (excluding depreciation and amortization)	(27)	(43)	-37%
Depreciation	(25)	(25)	0%
Administrative expenses	(6)	(5)	20%
Other income, net	2	1	100%
Operating profit	47	42	12%
Finance income	3	2	50%
Finance costs	(23)	(22)	5%
Net finance costs	(20)	(20)	0%
Profit before income tax	27	22	23%
Income tax (expense) income	(65)	11	-691%
(Loss) Profit for the period	(38)	33	-215%

Results of Operations

The Company's net loss for the year ended December 31, 2024, amounted to US\$38 million compared to US\$33 million net profit in 2023. The Company's results are explained by the following:

Revenues

Revenues decreased by US\$11 million, or 10%, to US\$103 million in 2024, from US\$114 million in 2023. This was explained by:

- US\$21 million decrease in energy and capacity sales under PPAs related to a 22% decrease in energy volumes sold under PPAs to 1,300 GWh in 2024 from 1,666 GWh in 2023, mostly in connection with the reduction in the contracted capacity of certain PPAs with distribution companies.

This effect was partially offset by:

- US\$10 million increase in net energy and capacity sales in the spot market mainly due to a 94% increase in net energy sold in the spot market to 762 GWh in 2024 from 392 GWh in 2023 explained by lower energy sales under PPAs. This was partially offset by a 60% decrease in the average spot price to US\$29/MWh in 2024 compared to US\$72/MWh in 2023 for the extraordinary events occurred in 2023².

Cost of sales (excluding depreciation and amortization)

Cost of sales (excluding depreciation and amortization) decreased by US\$16 million, or 37%, to US\$27 million in 2024, from US\$43 million in 2023 mainly explained by lower energy purchases in the spot market due to (i) lower energy sales under PPAs and (ii) a 60% decrease in the average spot price to US\$29/MWh in 2024 compared to US\$72/MWh in 2023.

² For further information please refer to the Management's Discussion and Analysis of Financial Condition & Results of Operations of December 2023.



Depreciation

Depreciation amounted to US\$25 million in 2024, unchanged from the same period in 2023.

Administrative expenses

Administrative expenses increased by US\$1 million, or 20%, to US\$6 million in 2024, from US\$5 million in 2023, mainly due to higher other administrative expenses.

Other income, net

Other income, net increased by US\$1 million, or 100%, to US\$2 million in 2024, from US\$1 million in 2023 due to the gain on the sale of certain minor assets.

Net finance costs

Net finance costs amounted to US\$20 million in 2024, unchanged from the same period in 2023.

Income tax (expense) income

Income tax expense increased by US\$76 million, to US\$65 million in 2024, from US\$11 million income in 2023. The effective income tax rate in 2024 was 241% (50% positive in 2023). Changes in the effective 2024 tax rate correspond to (i) US\$55 million one-time adjustment in the deferred tax determination in connection with the 2020 tax audit conducted by the Peruvian tax authority, which resulted in a US\$185 million reduction in the tax loss carryforward, and (ii) the re-expression of the tax losses carry forward due to exchange rate variations explained by a 1.5% devaluation of the Peruvian sol against the U.S. dollar during 2024. The adjustment in deferred tax did not involve any cash payment. Without that impact, effective tax rate would have been 37%.

Changes in the effective 2023 tax rate correspond primarily to (i) the deferred income tax from deductible temporary differences related to interest expenses, and (ii) the re-expression of the tax loss carry forward due to a 2.8% revaluation of the Peruvian sol against the U.S. dollar.



Liquidity and Capital Resources

Our principal cash requirements consist of the following:

- Working capital requirements;
- Capital expenditures related to maintenance projects;
- Debt and interest service, and
- Distributions to our shareholders.

Our principal source of liquidity has traditionally consisted of cash flow from operating activities.

As of December 31, 2024, our cash in hand amounted to US\$26 million.

Cash Flows

<i>In millions of U.S. dollars</i>	Year ended December 31,		% Change
	2024	2023	
Cash from operating activities	72	65	11%
Income tax paid	(8)	(15)	-47%
Net cash from operating activities	64	50	28%
Net cash used in investing activities	(8)	(9)	-11%
Net cash used in financing activities	(66)	(22)	200%
Net (decrease) increase in cash	(10)	19	-153%
Cash and cash equivalent as of January 1	36	17	112%
Cash at December 31	26	36	-28%

Cash Flows from Operating Activities

Our primary source of operating funds is the cash flow generated from our operations. The net cash from operating activities increased by US\$14 million, or 28%, to US\$64 million in 2024 from US\$50 million in 2023.

The increase was driven by (i) US\$27 million decrease in payments to suppliers primarily related to lower purchases of energy in the spot market, (ii) US\$7 million decrease in income tax payments in 2024 mainly related to the 2022 annual income tax return paid during the first quarter of 2023; partially offset by US\$20 million decrease in collections from customers related to lower energy and capacity sales under PPAs during 2024, added to 2024 outstanding balances collected in 2025.

Cash Flows used in Investing Activities

Net cash flows used in our investing activities decreased by US\$1 million, or 11%, to US\$8 million in 2024 from US\$9 million in 2023.

In 2024 and 2023, cash used in investing activities was for payments related to the acquisition of property, plant, and equipment.



Cash Flows Used in Financing Activities

Net cash flows used in financing activities increased by US\$44 million, or 200%, to US\$66 million in 2024 from US\$22 million in 2023.

In 2024, cash used in financing activities was mainly for (i) US\$45 million in distributions to shareholders; and (ii) US\$21 million of interest service related to the 2027 Notes and its respective withholding tax.

In 2023, cash used in financing activities was mainly for interest service related to the 2027 Notes and its respective withholding tax, among others.



For the three-month period ended December 31, 2024 and 2023

<i>In millions of U.S. dollars</i>	Three months ended		%
	December 31		<i>Change</i>
	2024	2023	
Revenues	25	30	-17%
Cost of sales (excluding depreciation and amortization)	(9)	(10)	-10%
Depreciation	(6)	(6)	0%
Administrative expenses	(2)	(2)	0%
Other income, net	1	1	0%
Operating profit	9	13	-31%
Finance income	1	1	0%
Finance costs	(6)	(5)	20%
Net finance costs	(5)	(4)	25%
Profit before income tax	4	9	-56%
Income tax (expense) income	(3)	15	-120%
Profit for the period	1	24	-96%

Results of Operations

The Company's net profit for the three-month period ended December 31, 2024, amounted to US\$1 million compared to US\$24 million during the same period in 2023. The Company's results are explained by the following:

Revenues

Revenues decreased by US\$5 million, or 17%, to US\$25 million during the fourth quarter of 2024, from US\$30 million during the same period in 2023. This was mainly explained by a decrease in energy and capacity sales under PPAs related to a 17% decrease in energy sold under PPAs to 360 GWh during the fourth quarter of 2024 from 436 GWh during the same period in 2023, mostly in connection with the reduction in the contracted capacity of certain PPAs with distribution companies.

Cost of sales (excluding depreciation and amortization)

Costs of sales (excluding depreciation and amortization) decreased by US\$1 million, or 10%, to US\$9 million during the fourth quarter of 2024, from US\$10 million during the same period in 2023 mainly explained by lower complementary services costs from the Peruvian electricity system.

Depreciation

Depreciation amounted to US\$6 million during the fourth quarter of 2024, unchanged from the same period in 2023.

Administrative expenses

Administrative expenses amounted to US\$2 million during the fourth quarter of 2024, unchanged from the same period in 2023.



Income tax (expense) income

Income tax expense increased by US\$18 million, to US\$3 million during the fourth quarter of 2024, from US\$15 million income during the same period in 2023. The effective income tax rate during the fourth quarter of 2024 was 75% (167% positive during the same period in 2023).

Changes in the 2024 effective tax rate correspond primarily to the re-expression of the tax losses carry forward due to a 1.5% devaluation of the Peruvian sol against the U.S. dollar.

Changes in the 2023 effective tax rate correspond primarily to the deferred income tax from deductible temporary differences related to interest expense, added to the re-expression of the tax loss carry forward due to a 2.2% revaluation of the Peruvian sol against the U.S. dollar.



Appendixes

EBITDA reconciliation

<i>In millions of U.S. dollars</i>	Year ended December 31,		Three months ended December 31,	
	2024	2023	2024	2023
Operating profit	47	42	9	13
Depreciation	25	25	6	6
Total EBITDA	US\$72	US\$67	US\$15	US\$19

Material Indebtedness

<i>In millions of U.S. dollars</i>	Outstanding Principal Amount as of Dec 31, 2024	Interest Rate	Final Maturity	Amortization
Long-term debt:				
Unsecured: 5.625% Notes due 2027	361	5.625%	April 2027	Principal due at maturity with semi-annual interest payments.
Total	US\$361			

Note: values net of transaction costs

