



ORAZUL ENERGY PERU S.A. AND SUBSIDIARY

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

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

December 31, 2023 and 2022



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, being the 4th largest hydroelectric complex within the Peruvian system 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.

In September 2021, we incorporated our subsidiary Kondu S.A., to carry out 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 67%¹ with an average life of approximately 6 years, beyond our senior notes' remaining life.

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 21 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 2024.



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\$363.2 million.



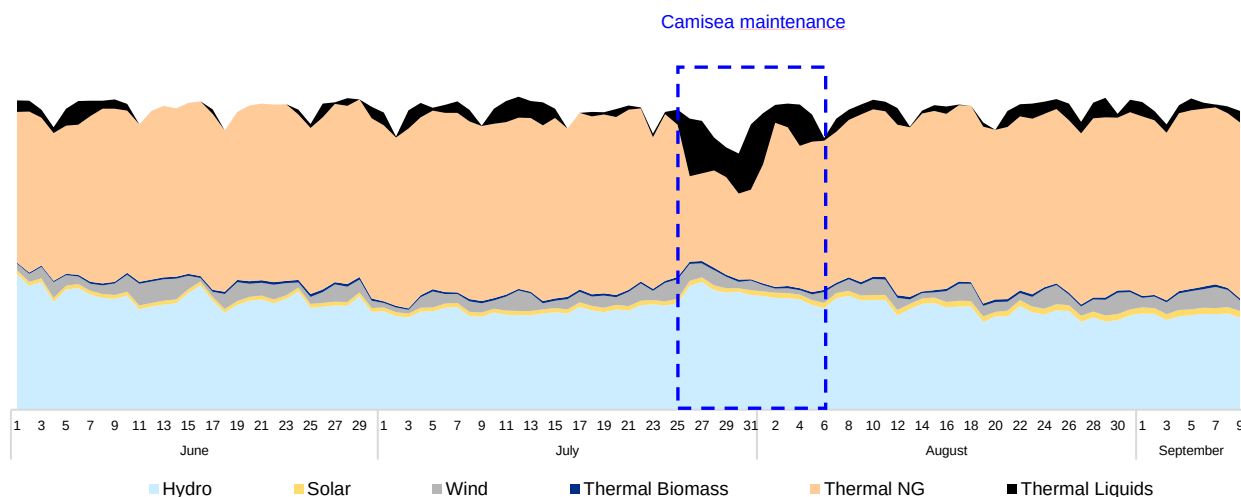
Peruvian Electric Market – 2023 Extraordinary events

Curtailment in natural gas supply

A maintenance in the Malvinas gas plant (“Camisea”) was programmed initially from July 25 to July 31, 2023. However, the maintenance works were unexpectedly extended until August 22. The Ministry of Energy and Mines declared an emergency on the natural gas supply, transportation, and distribution systems during this period, and the rationing mechanism was activated, which resulted in a change in the allocation of natural gas, prioritizing local demand.

Although maintenance works ended on August 22, the curtailment in natural gas supply for thermal generation was from July 25 to August 6. It materially impacted the electric market system and triggered the system operator to dispatch non-efficient thermal liquids units (mainly diesel) to cover demand (Graphic 1), increasing average spot prices significantly (Graphic 3).

Graphic 1: National Interconnected Electrical System Dispatch



Weather phenomena

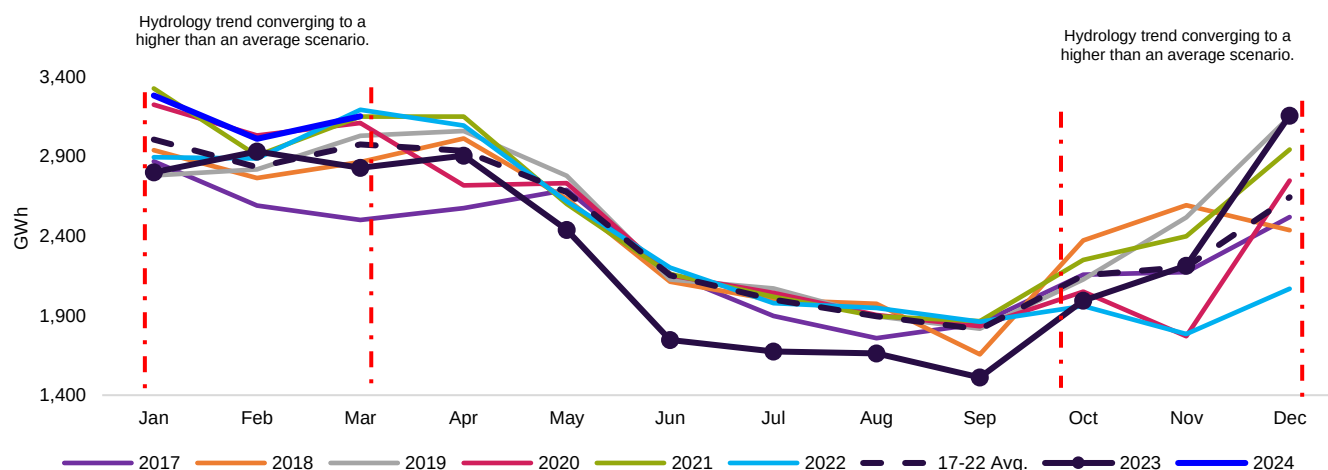
El Niño is a recurring weather phenomenon in which Pacific Ocean trade winds slow down, with intense warming effects. The El Niño impacted rainfall patterns. Changes in the sea surface temperature in the coast of Peru have an influence on the annual rainfall cycle, mainly in the Andean regions.

El Niño causes a range of effects in Peru, generating changes in the distribution of rainfall, often leading to intense rains and flooding in the north, with drought in parts of the central and south Andean highlands. The 2023 dry and rainy season were characterized by a rainfall shortfall in the Andean region, classified as one of the driest in the last 60 years. Several regions in the Peruvian Andes recorded below-average rainfall, resulting in droughts mainly in the southern and central mountains. Even though El Niño is a recurring phenomenon, Peru faced the consequences of unusual climatic events given the occurrence of “La Niña” phenomenon; the “Coastal El Niño” phenomenon, a cyclone hitting the north coast in the first quarter of 2023 (“Yaku”) and the “Global El Niño” phenomenon.



Given this uncommon climatic situation, the hydro generation of the Peruvian system decreased significantly during 2023 in comparison with previous years (Graphic 2).

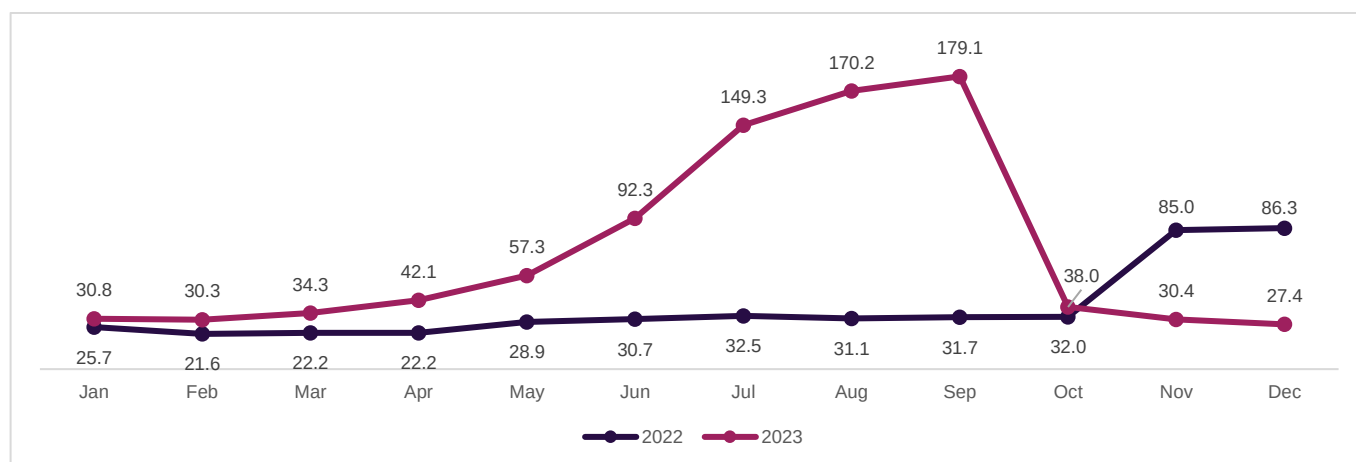
Graphic 2: National Interconnected Electrical System Hydro Generation



The effects of the extreme drought were exacerbated by the Camisea maintenance and the outage of two relevant hydropower plants in the system (i) Chaglla with 476 MW, which represents 10% of the total hydro capacity² of the system, from July 24th to October 19th, 2023 due to corrective maintenance works; and, (ii) Quitaraca with 118 MW, which represents 2% of the total hydro capacity of the system⁴, from March 12th to December 17th, 2023 (59MW from Unit 1) and March 17th, 2024 (59MW from Unit 2); due to damages in its infrastructure related to the Yaku Cyclone which caused unsafe conditions and excessive sedimentation in certain rivers.

Notwithstanding, the current rainy season (November 2023 to March 2024) is showing a higher-than-average hydrological scenario.

Graphic 3: Average Marginal Cost US\$/MWh at Santa Rosa 220 kV



² Total hydro effective capacity of the Peruvian system as of December 2022.



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 audited consolidated financial statements as of December 31, 2023, and 2022.

For the years ended December 31, 2023, and 2022

	Year ended December 31		% Change
<i>In millions of U.S. dollars</i>	2023	2022	
Revenues	114	107	7%
Cost of sales (excluding depreciation)	(42)	(27)	56%
Depreciation	(25)	(12)	108%
Administrative expenses	(6)	(5)	20%
Other income, net	1	1	0%
Operating profit	42	64	-34%
Finance income	2	-	-
Finance costs	(22)	(26)	-15%
Net finance costs	(20)	(26)	-23%
Profit before income tax	22	38	-42%
Income tax income (expense)	11	(9)	-222%
Profit for the period	33	29	14%

Results of Operations

The Company's profit for the year ended December 31, 2023, amounted to US\$33 million compared to US\$29 million in 2022. The Company's results are explained by the following:

Revenues

Revenues increased by US\$7 million, or 7%, to US\$114 million in 2023, from US\$107 million in 2022. This was explained by:

- US\$10 million increase in net energy sales to the spot market mainly due to a 71% increase in volumes sold to the spot market to 392 GWh in 2023 from 229 GWh in 2022. This was mainly explained by a 6% decrease in PPA energy volumes sold and a 3% increase in our hydro generation to 2,058 GWh during 2023 from 2,007 GWh during 2022 related to the higher water availability during the fourth quarter of 2023. In addition, there was an 88% increase in the average spot price to US\$71.5/MWh during 2023 from US\$38.1/MWh during 2022, caused by:
 - i. the unexpected delay of the maintenance works at Camisea³, initially scheduled from July 25 to July 31, 2023, but extended until August 22, 2023;
 - ii. lower water availability, mainly during the third quarter of 2023, which triggered a decrease in the system's hydro generation⁴ and resulted in demand being covered by generation from non-efficient thermal liquids (mainly diesel) plants, and;
 - iii. the corrective maintenance of hydropower plants affected by Cyclone Yaku and El Niño phenomenon, which caused unsafe conditions and excessive sedimentation in certain rivers.

³ For further detail see section "Peruvian Electric Market - 2023 Extraordinary events".



- US\$2 million increase in capacity sales to the spot market.

These effects were partially offset by:

- US\$5 million in lower energy and capacity sales under PPAs mainly due to a 6% decrease in energy volumes sold to 1,666 GWh during 2023 from 1,778 GWh during 2022, mostly in connection with the end of certain PPAs, partially offset by a 5% increase in PPA prices to an average of US\$45/MWh during 2023 from an average of US\$43/MWh during 2022 mainly explained by the indexation of certain existing PPAs.

Cost of sales (excluding depreciation)

Cost of sales (excluding depreciation) increased by US\$15 million, or 56%, to US\$42 million in 2023, from US\$27 million in 2022 explained by:

- US\$ 12 million increase in energy purchases to the spot market mainly in the third quarter 2023, related to a 88% increase in the average spot price to US\$71.5/MWh during 2023 from US\$38.1/MWh during 2022, due to (i) the curtailment in natural gas supply from July 25 to August 6, due to the unexpected delay of the maintenance works at Camisea, initially scheduled from July 25 to July 31, but extended until August 22; (ii) lower water availability, mainly during the third quarter of 2023, which triggered a decrease in the system's hydro generation and resulted in demand being covered by generation from non-efficient diesel plants; and, (iii) the corrective maintenance of hydropower plants affected by Cyclone Yaku and El Niño phenomenon, which caused unsafe conditions and excessive sedimentation in certain rivers.
- US\$2 million increase in intercompany services related to the Operation Service Agreement with Kallpa.
- US\$1 million increase in insurance costs.

Depreciation

Depreciation increased by US\$13 million to US\$25 million in 2023, from US\$12 million in 2022 due to the US\$399 million PP&E revaluation of our hydroelectric power plants performed in November 2022.

Administrative expenses

Administrative expenses increased by US\$1 million, or 20%, to US\$6 million in 2023, from US\$5 million in 2022 due to higher intercompany services related to the Management Service Agreement with Kallpa.

Net finance cost

Net finance cost decreased by US\$6 million, or 23%, to US\$20 million in 2023, from US\$26 million in 2022. This result corresponds to (i) US\$4 million in lower finance cost related to the interest paid in connection with the shareholder loan granted by Orazul Energia Partners LLC which was fully paid in 2022, and (ii) US\$2 million increase in interest income related to the higher cash balances kept during 2023 and the higher interest rates paid on our balances.

Income tax income (expense)

Income tax decreased by US\$20 million to US\$11 million income in 2023, from US\$9 million expense in 2022.

The effective tax rate in 2023 was 50% (positive). Changes in the effective 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.

The effective tax rate in 2022 was 24% (negative). Changes in the effective tax rate correspond primarily to (i) the re-expression of the tax loss carry forward due to a 4.5% revaluation of the Peruvian sol against the U.S. dollar, partially offset by (ii) non-deductible expenses.



Liquidity and Capital Resources

Our principal cash requirements consist of the following:

- Working capital requirements;
- Capital expenditures related to maintenance projects and payments of options for certain PPA extensions;
- 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, 2023, our cash amounted to US\$36 million.

Cash Flows

	Year ended December 31,		% Change
<i>In millions of U.S. dollars</i>	2023	2022	
Cash from operating activities	65	74	-12%
Net Income tax paid	(15)	(1)	1400%
Net cash from operating activities	50	73	-32%
Net cash used in investing activities	(9)	(4)	125%
Net cash used in financing activities	(22)	(73)	-70%
Net increase (decrease) in cash	19	(4)	575%
Cash and cash equivalent as of January 1	17	21	-19%
Cash as of December 31	36	17	112%

Cash Flows from Operating Activities

Our source of operating funds is the cash flow generated from our operations. The net cash from operating activities decreased by US\$23 million, or 32%, to US\$50 million in 2023 from US\$73 million in 2022.

The decrease was driven by:

- US\$22 million increase in payment to suppliers mainly due to higher energy purchases in the spot market.
- US\$14 million increase in income tax paid explained by (i) US\$8 million payment related to the 2022 corporate income tax outstanding in the annual tax return and (ii) US\$6 million higher 2023 tax advance payments.

These effects were partially offset by:

- US\$10 million increase in collections of energy and capacity mainly related to higher sales in the spot market during 2023.
- US\$3 million related to the option agreements signed with distribution companies to extend the contract terms of certain PPAs in 2022.
- US\$1 million increase in collection of interest income.



Cash Flows used in Investing Activities

Net cash flows used in our investing activities increased by US\$5 million, or 125%, to US\$9 million in 2023, from US\$4 million in 2022.

In 2023 and 2022, cash used in investing activities corresponds to payments related to the acquisition of property, plant, and equipment. The US\$5 million increase during 2023 corresponds to (i) US\$2 million in civil works (intake anchors) for Cañon del Pato; (ii) US\$2 million in new injectors in Cañon del Pato with a higher useful life that will reduce future operation and maintenance expenses; and (iii) US\$1 million related to our 0.5MW new solar plant in Carhuaquero.

Cash Flows used in Financing Activities

Net cash flows used in our financing activities decreased by US\$51 million, or 70%, to US\$22 million in 2023 from US\$73 million in 2022.

In 2023, we used cash to pay US\$21 million in interest related to the Notes and related withholding tax; among others.

In 2022, we used cash for (i) US\$26 million in dividends to shareholders; (ii) US\$26 million in interest accrued up to 2018 related to the shareholder loan granted by Orazul Energia Partners LLC and its respective taxes; and (iii) US\$21 million mainly in interest related to the Notes and its respective withholding tax; among others.



For the three-month period ended December 31, 2023, and 2022

	Three months ended		%
	December 31		Change
<i>In millions of U.S. dollars</i>	2023	2022	
Revenues	30	25	20%
Cost of sales (excluding depreciation)	(9)	(9)	0%
Depreciation	(6)	(4)	50%
Administrative expenses	(3)	(1)	200%
Other income, net	1	1	0%
Operating profit	13	12	8%
Finance income	1	-	-
Finance costs	(5)	(5)	0%
Net finance costs	(4)	(5)	-20%
Profit before income tax	9	7	29%
Income tax income	15	3	400%
Profit for the period	24	10	140%

Results of Operations

The Company's net profit for the three-month period ended December 31, 2023, amounted to US\$24 million compared to US\$10 million net profit during the same period in 2022.

The Company's results are explained by the following:

Revenues

Revenues increased by US\$5 million, or 20%, to US\$30 million during the fourth quarter of 2023, from US\$25 million during the same period in 2022. This was mainly explained by the 142 GWh net energy sales in the spot market during the fourth quarter of 2023 versus 31 GWh net energy purchases during the same period in 2022, due to (i) a 33% increase in our hydropower generation to 578 GWh during the fourth quarter of 2023 from 434 GWh during the same period in 2022; and (ii) 6% decrease in PPA energy volumes sold, mostly in connection with the end of certain PPAs. Higher generation was explained by the higher water availability in the fourth quarter of 2023 compared to the same period in 2022.

Cost of sales (excluding depreciation)

Costs of sales (excluding depreciation) amounted to US\$9 million during the fourth quarter of 2023, unchanged from the same period in 2022.

Depreciation

Depreciation increased by US\$2 million to US\$6 million during the fourth quarter of 2023, from US\$4 million during the same period in 2022 due to the US\$399 million PP&E revaluation of our hydroelectric power plants performed in November 2022.



Net finance costs

Net finance costs decreased by US\$1 million, or 20%, to US\$4 million during the fourth quarter of 2023, from US\$5 million during the same period in 2022 due to an increase in interest income related to higher cash balances kept during 2023 and the higher interest rates paid on our balances.

Income tax income

Income tax income increased by US\$12 million, to US\$15 million during the fourth quarter of 2023, from US\$3 million during the same period in 2022. The effective tax rate during the fourth quarter of 2023 was 167% (positive). Changes in the effective tax rate correspond primarily to the deferred income tax from deductible temporary differences related to interest expenses, 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.

The effective tax expense rate during the fourth quarter in 2022 was 43% (positive). Changes in the effective tax rate correspond primarily to the re-expression of the tax loss carry forward due to a 4.1% revaluation of the Peruvian sol against the U.S. dollar.



Appendixes

EBITDA reconciliation

	Year ended December 31,		Three months ended December 31,	
<i>In millions of U.S. dollars</i>	2023	2022	2023	2022
Operating profit	42	64	13	12
Depreciation	25	13	6	4
Total EBITDA	US\$67	US\$77	US\$19	US\$16

Material Indebtedness

<i>In millions of U.S. dollars</i>	Outstanding Principal Amount as of Dec 31, 2023	Interest Rate	Final Maturity	Amortization
Long-term debt:				
Unsecured: 5.625% Notes due 2027	360	5.625%	April 2027	Principal due at maturity with semi-annual interest payments.
Total	US\$360			

Note: values net of transaction costs

