



ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

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

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

December 31, 2021 and 2020



ORAZUL ENERGY PERU

About the Company

We are a Peruvian company, and our business is composed of two hydroelectric power plants in northern Peru with a combined capacity of 376 MW, being the 4th largest hydroelectric complex within the Peruvian system. Orazul's 376MW are diversified in 2 geographic power plants with a total of 11 turbines. 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 91%¹ with an average life of approximately 7.1 years, beyond our senior notes' average remaining life, reducing the risk related to the fluctuation of spot market prices.

Our hydroelectric business is summarized in the following table:

Location		Type	Capacity	Availability ²
Orazul	Cañón del Pato	 Hydro generation/ Run-of-river	266MW	94%
	Carhuaquero	 Hydro generation/ Run-of-river	110MW	90%

OEP 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, specifically on generation and distribution, with operations in Peru and other countries in Latin America. 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, OEP's related parties include Kallpa Generación S.A. ("Kallpa") and Samay I S.A. Since January 1, 2019, as part of a strategy to optimize operations and maximize benefits from having the same shareholders, Kallpa and OEP have 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 19 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 significant 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 the following 3 years (2022-2024).

² FY 2021 average availability.



Our Notes

On April 25, 2017, OEP 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 rated BB by Fitch Ratings and BB- by Standard & Poor’s³. As explained in the following sections, after the sale of the Transmission and Gas to Power businesses and consequent cash tender offers, our Notes amount to US\$363.2 million

³ On November 23, 2021, Standard & Poor’s downgraded OEP Notes to BB- from BB.



Transmission Business Companies

i. Sale of Transmission Business Companies

On March 10, 2020, OEP and Orazul Energía (UK) Holdings LTD signed a purchase agreement with Interconexión Eléctrica – ISA Peru (“ISA Peru”), part of the ISA group, to sell its 100% ownership in Orazul Energy Group S.A.C. (“OEG”). OEG was a subsidiary of OEP and the owner of 99.99% of the shares of the transmission business companies, Etenorte S.R.L. and Eteselva S.R.L. The closing of the sale agreement was subject to the approval from Peruvian authorities.

On August 11, 2020, INDECOPI, the Peruvian antitrust authority, approved the acquisition by ISA Peru without any conditions.

On August 24, 2020, OEP sold to ISA Peru its ownership in OEG for US\$158.3 million total consideration after working capital adjustments.

Eteselva S.R.L. and Etenorte S.R.L. consolidated represented approximately US\$12 million in revenues and US\$11 million in EBITDA based on 2019 consolidated audited financial statements.

Under the obligations of our Notes, Net Cash Proceeds from the sale of assets may be used within 1 year since the closing date to (i) purchase any Notes or repay other Senior Indebtedness, (ii) make capital expenditures in a Permitted Business (iii) reinvest in or purchase Additional Assets; or (iv) any combination of items (i); (ii) and (iii). On, or at any time prior to, the first anniversary of the closing date, OEP may make an Asset Sale Offer to purchase the Notes, at par, with any Excess Net Cash Proceeds. OEP complied with this obligation with the tender described in the following Offer to Purchase section.

The sale of these companies has no impact in the normal operation of OEP’s hydro power business.

ii. Offer to Purchase

On June 25, 2021, OEP announced the commencement of a cash tender offer (the “Transmission Tender Offer”) for up to an amount of its outstanding Senior Notes that would not result in the aggregate purchase price exceeding US\$150.4 million (the Maximum Transmission Tender Amount).

The Transmission Tender Offer constituted an Asset Sale Offer pursuant to the requirements of the indenture governing the Notes, in connection with OEP’s sale in August 2020 of its indirect ownership in the transmission business companies, Etenorte S.R.L. and Eteselva S.R.L.

On August 12, 2021, OEP announced the final tender results for its Transmission Tender Offer. OEP informed that a total of US\$362.5 million aggregate principal amount of the Notes was validly tendered. Since the aggregate principal amount of the Notes validly tendered resulted in an aggregate purchase price that exceeded the Maximum Transmission Tender Amount of US\$150.4 million, OEP accepted for purchase US\$145.3 million aggregate principal amount of the Notes, using a proration factor of approximately 40.1%.

The total consideration for the Notes validly tendered and accepted pursuant to the Transmission Tender Offer was US\$1,035 per US\$1,000 principal amount of Notes. In addition to the total consideration, holders received accrued and unpaid interest on all Notes tendered and accepted for payment from the last interest payment date up to, but not including, August 13, 2021, together with additional amounts thereon.

After the Transmission Tender Offer was completed, our Notes amounted to US\$404.7 million.



Gas-to-Power Businesses Companies

i. Sale of Gas-to-Power Businesses Companies

On October 1, 2021, OEP signed a purchase agreement with Nautilus Partners III Perú S.A.C., a special purpose vehicle of Nautilus Energy Partners LLC, to sell its 100% ownership in Orazul Energy Group II S.A.C. ("OEG II"). OEG II was a subsidiary of OEP and the owner of 99.99% of the shares of the Gas-to-Power businesses companies, Aguaytía Energy del Perú S.R.L. ("Aguaytía") and Termoselva S.R.L. ("Termoselva"), for a total consideration of US\$41.8 million, which was fully paid on October 4, 2021. The sale was compliant with the requirements of the Notes' indenture and all requirements for related party transactions.

Aguaytía produces natural gas and natural gas liquids ("NGLs"), mainly liquefied petroleum gas ("LPG") and natural gasoline. Natural gas is transported using company-owned pipelines and sold to Termoselva to produce electricity at the Aguaytía thermal plant ("CTA"). Whenever CTA is not operating, extracted natural gas is reinjected into the wells to allow for the continued supply of NGLs. Termoselva, which operates CTA, is comprised of two single-cycle gas turbines, with a total installed capacity of 192MW.

Aguaytía and Termoselva consolidated represented approximately US\$51 million in revenues and US\$21 million in EBITDA based on 2021 consolidated audited financial statements (US\$51 million in revenues and US\$27 million in EBITDA based on 2020 consolidated audited financial statements).

Under the obligations of our Notes, Net Cash Proceeds from the sale of assets may be used within 1 year to (i) purchase any Notes or repay other senior indebtedness, (ii) make capital expenditures in a Permitted Business, (iii) reinvest in or purchase Additional Assets, or (iv) with any Excess Net Cash Proceeds after (i), (ii), (iii), make an offer to purchase the Notes, at par. OEP complied with this obligation with the tender described in the following Offer to Purchase section.

After Shareholders approved the sale of OEG II, it was classified in our financial statements as held-for-sale since September 30, 2021. Since OEG II's book value was higher than its fair market value, Asset Held for Sale includes an impairment loss provision for US\$ 117 million. In addition, the transaction generated a deferred income tax asset of US\$138 million related to the tax loss carry forward triggered by the sale. The 2020 comparative condensed consolidated statement of profit or loss and other comprehensive income has been re-presented to show the discontinued operation separately from continuing operations (for additional information see note 5 of our audited financial statements).

The sale of these companies has no impact in the normal operation of OEP's hydro power business.

ii. Offer to Purchase

On October 29, 2021, OEP announced the commencement of a cash tender offer (the "Gas-to-Power Tender Offer") for up to an amount of its outstanding Senior Notes that would not result in the aggregate purchase price exceeding US\$41.8 million (the "Maximum Tender Amount").

The Gas-to-Power Tender Offer constitutes an asset sale offer pursuant to the requirements of the indenture governing the Notes, in connection with OEP's sale in October 2021 of its indirect ownership in the thermal power generation and hydrocarbon businesses, Termoselva and Aguaytía.

On November 30, 2021, OEP announced the final tender results for its Gas-to-Power Tender Offer. A total of US\$180.3 million aggregate principal amount of the Notes was validly tendered. Since the aggregate principal amount of the Notes validly tendered resulted in an aggregate purchase price that exceeded the Maximum Tender Amount of US\$41.8 million, OEP accepted for purchase US\$41.5 million aggregate principal amount of the Notes, using a proration factor of approximately 23%.

The total consideration for the Notes validly tendered and accepted pursuant to the Gas-to-Power Tender Offer was US\$1,007.5 per US\$1,000 principal amount of Notes. In addition to the Total Consideration, holders received accrued and unpaid interest on all Notes tendered and accepted for payment from the last interest payment date up to, but not including, December 1, 2021, together with additional amounts thereon.

After the Gas-to-Power Tender Offer was completed, our Notes amount to US\$363.2 million.



Gas Price Declaration – Regulatory Update

During the past few years, based on the Electricity Law, the Peruvian electricity system used the marginal cost of electricity to define the dispatch ranking of the power generators. Thus, spot prices only included the variable portion of the gas supply cost. However, because of a legal action initiated by Luz del Sur S.A.A., a distribution company, a Supreme Court resolution was published in September 2020 that:

- Declared that Supreme Decree 043-2017-EM, which regulated the gas price declaration mechanism, was illegal and void, alleging it contravened main principles of the Constitution and the Electricity Law, and that it did not solve systemic issues set forth Supreme Decree 039-2017-EM;
- Instructed the Ministry of Energy and Mines (MINEM) to issue new regulation; and,
- Questioned the nature of fixed costs of take or pay and ship or pay conditions in current gas supply, transportation and distribution contracts.

The Company considers that Supreme Court ruling is illegal because:

- i. It violated the foundations of the marginal cost system sustained by the Electricity Law;
- ii. It led MINEM to issue new regulation forcing gas plants to declare prices including fixed costs related to the provision of fuel, which is contrary to the Electricity Law; and,
- iii. The Supreme Court cannot instruct the executive branch on how to issue new regulations.

The Company filed constitutional actions, which were admitted for analysis and further resolution.

On December 19, 2020, MINEM issued the Supreme Decree 031-2020-EM that instructed COES to propose to OSINERGMIN, the system regulator, a procedure to determine the variable cost of thermal plants using natural gas. On February 2021, COES submitted its proposal to OSINERGMIN.

On March 22, 2021, OSINERGMIN published its proposal to modify Technical Procedure N°31 for comments. Such proposal considered that variable cost of natural gas power plants should be determined using the total unitary natural gas price (supply, transportation, and distribution).

On April 5, 2021, the Company sent comments to the proposal, arguing that it is illegal and contrary to the Electric Concession Law and marginal cost principles. Comments were supported by several legal and regulatory reports issued by external advisors.

On May 3, 2021, OSINERGMIN ratified its position through Resolution 092-2021-OS/OD. Therefore, the new procedure is in force since July 1, 2021, and COES considers the total unitary gas prices of each plant to determine the merit order for dispatch.

The average system marginal cost has increased approximately from US\$10/MWh on average between 2017 and mid-2021 to US\$25-30/MWh.

The increase in spot prices will have a positive impact in the Company's future gross margin.



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, 2021, and 2020.

For the year ended December 31, 2021, and 2020

	Year ended		%
	December 31		Change
<i>In millions of U.S. dollars</i>	2021	2020*	
Revenue	91	85	7%
Cost of sales (excluding depreciation)	(21)	(19)	11%
Depreciation	(13)	(14)	-7%
Administrative expenses	(4)	(4)	0%
Other income, net	1	-	-
Operating profit	54	48	13%
Finance income	-	-	-
Finance costs	(39)	(37)	5%
Net foreign exchange difference	(1)	(1)	0%
Net finance costs	(40)	(38)	5%
Profit before income tax	14	10	40%
Income tax income	131	112	17%
Profit from continuing operations	145	122	19%
(Loss) Profit from discontinued operation, net of tax	(83)	127	-165%
Profit for the period	62	249	-75%

(*) 2020 comparative information has been restated due to discontinued operations, as detailed in section "Gas-to-Power Businesses Companies".

Results of Operations

The Company's profit for 2021 amounted to US\$62 million compared to US\$249 million in 2020. The Company's results are mainly explained by the following:

Revenue

Revenue increased by US\$6 million, or 7%, to US\$91 million in 2021 from US\$85 million in 2020. This was explained by:

- US\$4 million increase in net energy sales to the spot market mainly explained by higher average spot price of US\$16.9/MWh during 2021 compared to US\$9.5/MWh during 2020. Spot prices were affected by (i) the +10.2% y/y increase in demand in 2021, from -7.0% y/y in 2020 due to the quarantine decreed by the Peruvian government from March 15 to June 30, 2020; and, (ii) regulatory changes in the gas price declaration⁶. In addition, there was an increase in net volumes of energy sales in the spot market to 653 GWh during 2021 from 339 GWh during 2020, triggered by (i)

⁶ For further detail see "Gas Price Declaration – Regulatory Update" section.



higher generation to 2,189 GWh during 2021 from 2,105 GWh during 2020 due to higher water availability in the Carhuaquero basin

- US\$1 million higher energy sales under PPAs due to 11% higher prices to an average of US\$39.4/MWh during 2021 from an average of US\$35.5/MWh during 2020, partially offset by lower volumes of energy sales under PPAs.
- US\$1 million higher guaranteed capacity revenue received from the spot market explained by an increase in the electricity demand that triggered a higher collection from the demand to cover the guaranteed monthly payments to generation power plants within the system's reserve margin.

Cost of sales (excluding depreciation)

Cost of sales (excluding depreciation) increased by US\$2 million, or 11%, to US\$21 million in 2021 from US\$19 million in 2020, primarily due to higher property and business interruption insurance costs.

Depreciation

Depreciation decreased by US\$1 million, or 7%, to US\$13 million in 2021 from US\$14 million in 2020, mainly due to the end of the useful life of certain assets.

Administrative expenses

Administrative expenses amounted to US\$4 million in 2021, unchanged from 2020.

Net finance costs

Net finance costs increased by US\$2 million, or 5%, to US\$40 million in 2021 from US\$38 million in 2020. This was explained by:

- US\$8 million higher financial cost due to (i) US\$6 million related to the premium paid to bondholders, and (ii) US\$2 million related to the write off of transaction costs, both in connection with the Transmission and the Gas-to-Power Tender Offers.

This effect was partially offset by:

- US\$3 million lower financial cost related to a US\$64 million amortization of the subordinated shareholder loan during 2020, which generated non-cash interest expenses.
- US\$3 million lower interest expense related to Orazul's Notes lower outstanding balance as a result of the Transmission and the Gas-to-Power Tender Offers in August 2021 and December 2021, respectively.

Income tax income

Income tax income increased by US\$19 million, or 17%, to US\$131 million in 2021 from US\$112 million in 2020. The tax income during 2021 and 2020 corresponds primarily to the deferred income tax asset related to the tax loss carry forward triggered by the sale of our Gas-to-Power businesses companies and Transmission business companies in October 2021 and August 2020, respectively.

(Loss) profit from discontinued operation, net of tax

(Loss) profit from discontinued operation, net of tax increased by US\$210 million, to US\$83 million loss in 2021 from US\$127 million profit in 2020. During 2021, US\$83 million loss corresponds to the net loss from the sale of our Gas-to-Power businesses. During 2020, US\$127 million profit corresponds to the net gain from the sale of our Transmission business (for additional information see note 5 of our audited financial statements).



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; and
- Debt and interest service.

Our principal sources of liquidity have traditionally consisted of the following:

- Cash flow from operating activities; and,
- Availability of short-term borrowings under our US\$25 million committed credit facilities.

During 2021 and 2020, cash flow generated by operations was primarily used for investment activities and to service our outstanding interest and debt obligations.

As of December 31, 2021, our cash and cash equivalents amounted to US\$21 million.

Cash Flows

<i>In millions of U.S. dollars</i>	Year ended December 31,		% Change
	2021	2020*	
Cash from operating activities	84	84	0%
Income tax paid	(5)	(7)	-29%
Net cash from operating activities	79	77	3%
Net cash from investing activities	17	135	-87%
Net cash used in financing activities	(227)	(99)	129%
Net (decrease) increase in cash	(131)	113	-216%
Cash and cash equivalent as of January 1	153	41	273%
Effects of variations on exchange difference on held cash	(1)	(1)	0%
Cash as of December 31	21	153	-86%

(*) During 2021, and with the purpose of making the financial information comparable, certain reclassifications were made to the presentation of the Cash Flows figures as of December 31, 2020.

Cash Flows from Operating Activities

Our primary source of operating funds is cash flow generated from our operations. The net cash from operating activities increased by US\$2 million, or 3%, to US\$79 million during 2021 from US\$77 million during 2020.

The increase was primarily driven by (i) US\$18 million decrease in payments to suppliers mainly related to the Transmission business and the Gas-to-Power businesses sold in August 2020 and October 2021, respectively, and (ii) US\$2 million of lower monthly advance income tax payments. These effects were partially offset by US\$18 million decrease in collections of energy, capacity and hydrocarbons given lower collections derived from the sale of the Transmission business and the Gas-to-Power businesses.



Cash Flows from Investing Activities

Net cash flows provided by our investing activities decreased by US\$118 million, or 87%, to US\$17 million during 2021 from US\$135 million during 2020.

During 2021, cash provided by investing activities corresponds to US\$32 million related to the sale of the Gas-to-Power businesses companies, net of transaction costs; partially offset by (i) US\$8 million in payments related to the option agreements signed with distribution companies to extend the contract terms of certain PPAs, recorded as intangibles; and (ii) US\$7 million in payments related to the acquisition of property, plant and equipment.

During 2020, cash provided by investing activities corresponds to US\$148 million related to the sale of the Transmission business companies, net of transaction costs; partially offset by (i) US\$8 million in payments related to the option agreements signed with distribution companies to extend the contract terms of certain PPAs, recorded as intangibles; and (ii) US\$6 million in payments related to the acquisition of property, plant and equipment.

Cash Flows used in Financing Activities

Net cash flows used in our financing activities increased by US\$128 million, or 129%, to US\$227 million during 2021 from US\$99 million during the same period in 2020.

During 2021, we used cash to (i) amortize US\$187 million of the Notes as a result of the Transmission and the Gas-to-Power Tender Offers in August and December 2021, respectively; (ii) pay US\$34 million mainly in interest related to the Notes and its respective withholding tax, (iii) US\$5 million related to the premium paid to the bondholders in connection with the Transmission Tender Offer; and (iv) pay US\$1 million in interest related to the shareholder loan granted by Orazul Energia Partners LLC.

During 2020, we used cash to (i) amortize US\$64 million of the shareholder loan granted by Orazul Energia Partners LLC; and (ii) pay US\$35 million in interest related to the Notes and its respective withholding tax.



For the three-month period ended December 31, 2021 and 2020

	Three months ended December 31		% Change
<i>In millions of U.S. dollars</i>	2021	2020*	
Revenue	27	24	13%
Cost of sales (excluding depreciation)	(6)	(7)	-14%
Depreciation	(3)	(4)	-25%
Administrative expenses	(1)	(1)	0%
Other income, net	-	-	-
Operating profit	17	12	42%
Finance income	-	-	-
Finance costs	(7)	(8)	-13%
Net foreign exchange difference	-	-	-
Net finance costs	(7)	(8)	-13%
Loss (Profit) before income tax	10	4	150%
Income tax income (expense)	1	(3)	-133%
Profit from continuing operations	11	1	1000%
Profit from discontinued operation, net of tax	1	1	0%
Profit for the period	12	2	500%

(*) 2020 comparative information has been restated due to discontinued operations, as detailed in section “Gas-to-Power Businesses Companies”.

Results of Operations

The Company's profit for the for the three-month period ended December 31, 2021, amounted to US\$12 million compared to US\$2 million during the same period in 2020. The Company's results are mainly explained by the following:

Revenue

Revenues increased by US\$3 million, or 13%, to US\$27 million during the fourth quarter of 2021 from US\$24 million during the same period in 2020, primarily due to US\$3 million increase in net energy sales to the spot market mainly explained by higher average spot price of US\$23.0/MWh during the fourth quarter of 2021 compared to US\$14.4/MWh during the same period in 2020. Spot prices were affected by (i) the +3.0% y/y increase in demand during the fourth quarter of 2021, from -0.6% y/y during the same period in 2020; and (ii) regulatory changes in gas price declaration⁷. In addition, there was an increase in net volumes of energy sales in the spot market to 241 GWh during the fourth quarter of 2021 from 27 GWh net energy purchases in the spot market during the same period in 2020, triggered by (i) higher generation to 614 GWh during the fourth quarter of 2021 from 458 GWh during the same period in 2020 due to higher water availability in the Carhuaquero basin.

⁷ For further detail see “Gas Price Declaration – Regulatory Update” section.

**Cost of sales (excluding depreciation)**

Cost of sales (excluding depreciation) decreased by US\$1 million, or 14%, to US\$6 million during the fourth quarter of 2021 from US\$7 million during the same period in 2020, primarily due to lower energy purchases in the spot market explained by higher generation.

Depreciation

Depreciation decreased by US\$1 million, or 25%, to US\$3 million during the fourth quarter of 2021 from US\$4 million during the same period in 2020, primarily due the end of the useful life of certain assets.

Administrative expenses

Administrative expenses amounted to US\$1 million during the fourth quarter of 2021, unchanged from the same period in 2020.

Net finance costs

Net finance costs decreased by US\$1 million, or 13%, to US\$7 million during the fourth quarter of 2021 from US\$8 million during the same period in 2020 explained by lower interest expense related to Orazul' s Notes lower outstanding balance as a result of the Transmission and the Gas-to-Power Tender Offers in in August 2021 and December 2021, respectively.

Income tax income (expense)

Income tax income decreased by US\$4 million, to US\$1 million income during the fourth quarter of 2021, from US\$3 million expense during the same period in 2020. The effective tax rate during the fourth quarter of 2021 was affected primarily by the re-expression of the tax losses carry forward due to a 3.3% revaluation of the Peruvian sol against the U.S. dollar.



Appendixes

EBITDA reconciliation

	FY 2021				Q4			
	Year ended December 31,		Discontinued operations	As previously reported	Three months ended December 31,		Discontinued operations	As previously reported
<i>In millions of U.S. dollars</i>	2021	2020	2020	2020	2021	2020	2020	2020
Operating profit	54	48	16	64	17	12	4	16
Depreciation	14	15	13	28	4	5	3	8
Total EBITDA	US\$68	US\$63	US\$29	US\$92	US\$21	US\$17	US\$7	US\$24

Material Indebtedness

<i>In millions of U.S. dollars</i>	Outstanding Principal Amount as of December 31, 2021	Interest Rate	Final Maturity	Amortization
Long-term debt:				
Unsecured:				
5.625% Notes due 2027	359	5.625%	April 2027	Principal due at maturity with semi-annual interest payments.
Total	US\$359			

Note: values net of transaction costs

