



ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

US\$550,000,000 – 5.625% Senior Notes due 2027

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

September 30, 2020 and 2019

ORAZUL ENERGY PERU AND SUBSIDIARIES S.A.

About the Company

We are a Peruvian company and our business is composed of a diversified portfolio of hydropower and thermal power generation, natural gas production and processing assets¹. We conduct our operations through two primary business units: Orazul, which is comprised of hydropower generation and Aguaytia, which is an integrated gas-to-power complex comprised of natural gas production and processing and thermal power generation. We generate and sell electricity to regulated customers (distribution companies) and non-regulated customers under power purchase agreements (“PPAs”) and to the spot market. Our contracting level under PPAs is 92%² with an average life of approximately 8.8 years, reducing the risk related to the fluctuation of spot market prices.

Our businesses are summarized in the following table:

Entity		Location	Type	Overview
Orazul	Orazul	Cañón del Pato	Hydro generation/ Run-of-river	266MW
	Orazul	Carhuaquero	Hydro generation/ Run-of-river	110MW
Aguaytía	Termoselva	Aguaytía	Thermal generation (natural gas)	192MW
	Aguaytía Energy del Perú	Aguaytía	Hydrocarbons	45 mmscfd 1,050 bbls/day

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, the related parties of OEP 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 15 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 On August 24, 2020, OEP sold to Interconexión Eléctrica - ISA Peru, part of the ISA group, its indirect ownership in the transmission business companies, Etenorte S.R.L. and Eteselva S.R.L., for US\$158.3 million. For further detail see “Sale of Transmission business companies”.

² Estimated for the following 3 years (2020-2022). Calculated based on the optimal contracting level.

Our Notes

On April 25, 2017, OEP issued senior 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 Standard & Poor’s.

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 is a subsidiary of OEP and the owner of 99.99% of the shares of 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 indirect ownership in the transmission business companies, Etenorte S.R.L. and Eteselva S.R.L., for US\$158.5 million total consideration.

The transaction price was subject to normal closing pricing adjustments within 30 days from the closing date. Total consideration after working capital adjustments amounted to US\$158.3 million.

Net Cash Proceeds 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.

Etenorte S.R.L. and Eteselva S.R.L., have more than 746 km of 220kV and 138kV transmission lines. In 2019 audited financial statements, these companies represented approximately US\$12.4 million in revenues and US\$10.9 million in EBITDA. The sale of these companies has no impact in the normal operation of OEP’s hydro and thermal power generation and hydrocarbon businesses in Peru.

After the purchase agreement was signed, OEG was classified as held-for-sale in our financial statements since March 1st, 2020. The 2019 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 3 of our consolidated interim financial statements).

Aguaytia’s License Agreement extension

On June 10, 2020, the Peruvian government, through Supreme Decree DS014-2020-EM, approved the following:

- The extension of the concession of Block 31-C for an additional period of 10 years since March 2024;
- The commitment of the execution of an additional exploratory program, and;
- The appointment of OEP as corporate guarantor under the contract.

Aguaytia has the concession over a natural gas field located in the central rainforest of Peru (concession Block 31-C), from which it obtains dry natural gas and natural gas liquids; those gas liquids are then processed at the fractioning plant which produces liquefied petroleum gas (LPG) and natural gasoline. Dry natural gas is used by its subsidiary, Termoselva S.R.L., for the generation of electrical energy.

COVID-19

We know the COVID-19 pandemic is causing anxiety and affecting our employees, businesses, customers and communities in a significant manner. At the same time, our operations require to remain open for business at the highest level in order to provide the vital electrical service.

We want to inform you about the measure's management has adopted to ensure the safety and wellbeing of our employees, whilst guaranteeing the continuity of our operations, power service and financial liquidity:

Operational:

We have taken extraordinary measures to limit or mitigate the contracting of the virus, adapting best practices from large public service and medical organizations. We ensure full compliance with legal measures being adopted by the Peruvian Government.

We have developed and implemented contingency plans to face this emergency and will ensure its full compliance. Such plans include:

- Implementation of personnel rotation plans in line with applicable travel restrictions and labor law.
- Secure supply of all necessary equipment and supplies to allow the work of operating teams in our plants.
- Ensure that mechanisms are implemented to communicate timely and effectively all instructions to be followed during this emergency.
- Home-office for employees and directives wherever activities allow it and curfews and mobility restrictions apply.
- Mechanisms to secure adequate and safe transport of personnel and supplies to and from operating facilities, minimizing use of public transport.
- Periodic health-monitoring systems wherever employees are operating.
- All of our contingency procedures are being shared with contractors performing essential tasks, ensuring their adequate compliance.

The Company is also coordinating to ensure adequate cash management during the current situation. Two factors to financially maintain the continuity of our business is debt management and liquidity. The following is a brief description of the status:

Debt Management:

Our total debt of US\$550 million (without transactions costs) corresponds to long-term notes that only require interest payments during the next years. Debt service amounts are secured by significant cash flow from our operations.

OEP is current on its debt and meets all its financial obligations. We expect to maintain such compliance throughout the current period.

Liquidity:

During this period, we are managing our cash in a conservative manner and have taken several measures to protect liquidity and to maintain continuity of business, as well as to be prepared for any unplanned disruptions. Over the next months, the company will continue to closely monitor the evolution of cash flow and be extremely cautious with its liquidity.

OEP ensures timely payment of local obligations: suppliers, contractors, providers of services, etc. It is critical to maintain working capital flow of our suppliers and level of service.

We will continue to be proactive and attentive to the evolution of the market by keeping a close and systematic communication with all financial stakeholders. We will periodically inform the evolution of the operations, debt management and liquidity as matters progress.

Finally, OEP will continue to provide electrical service to all its customers while maintaining safe its employees and service personnel.

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 unaudited condensed Consolidated Financial Statements as of September 30, 2020 and 2019.

For the nine-month period ended September 30, 2020 and 2019

	Nine months ended September 30,		% Change
<i>In thousands of U.S. dollars</i>	2020	2019 ^(*)	
Revenues of energy generation	93	94	-1%
Revenues of hydrocarbons	6	12	-50%
Revenues	99	106	-7%
Costs of sales of energy generation	(23)	(22)	5%
Costs of sales of hydrocarbons	(3)	(6)	-50%
Cost of sales (excluding depreciation)	(26)	(28)	-7%
Depreciation	(20)	(22)	-9%
Administrative expenses	(5)	(8)	-38%
Other income, net	-	1	-100%
Operating profit	48	49	-2%
Finance income	1	1	0%
Finance costs	(29)	(31)	-6%
Net foreign exchange difference	(2)	-	-
Finance cost, net	(30)	(30)	0%
Profit before income tax	18	19	-5%
Income tax benefit (expense)	110	(8)	1475%
Profit from continuing operations	128	11	1064%
Net profit for the period from discontinued operations	119	1	11800%
Profit for the period	247	12	1958%

(*) 2019 comparative information has been restated due to a discontinued operation, as detailed in section "Sale of Transmission business companies".

Results of Operations

The Company's net income for the nine-month period ended September 30, 2020 amounted to US\$247 million compared to US\$12 million during the same period in 2019. The Company's results are mainly explained by the following:

Revenues

Revenues of energy, capacity and hydrocarbons declined by US\$7 million, or 7%, to US\$99 million during the first nine months of 2020 from US\$106 million during the same period in 2019, due to:

- US\$6 million decrease in hydrocarbon liquid revenues driven by 36% lower production to 139,001 bbl. during the first nine months of 2020 from 217,897 bbl. during the same period in 2019, in connection with the unavailability of one of our wells, added to lower natural gasoline and LPG prices, to US\$40/bbl. and US\$42/bbl. respectively during the first nine months of 2020, from US\$61/bbl. and US\$51/bbl. respectively during the same period in 2019, due to lower international prices.
- US\$4 million lower capacity revenues received from the system by our thermal plants explained by the reduction in the electricity demand to -9.3% during the first nine months of 2020 from +4.7% during the same period in 2019. The reduction in the maximum monthly demand resulted in Aguaytia thermal plant not being considered under the system's reserve margin, and therefore did not receive capacity payments from the system from April to August, and only partially in September.

- US\$2 million decrease in energy revenues from the spot market, mainly explained by lower average spot price of US\$7.9/MWh during the first nine months of 2020 compared to US\$8.4/MWh during the same period in 2019. Spot prices were affected by the -9.3% y/y decrease in demand during the first nine months of 2020, from +4.7% y/y during the same period in 2019, due to the quarantine decreed by the Peruvian government from March 15 to June 30, 2020.

These effects were partially offset by:

- US\$4 million increase in energy revenues from PPAs to 1,643 GWh during the first nine months of 2020 from 1,324 GWh during the same period in 2019, mainly explained by the beginning of a new PPA with Enel Distribución in 2020 for up to 100MW and the ramp up of the Toromocho mine (Minera Chinalco), that offset the lower consumption from our customers affected by the quarantine decreed by the Peruvian government; among others.

Cost of sales (excluding depreciation)

Cost of sales decreased by US\$2 million, or 7%, to US\$26 million during the first nine months of 2020 from US\$28 million during the same period in 2019, primarily due to:

- US\$4 million lower cost of royalties, storage and transport of natural gasoline and LPG related to lower production and consequently lower sales.
- US\$4 million lower cost of natural gas royalties related to lower thermal generation, to 17 GWh during the first nine months of 2020 from 254 GWh during the same period in 2019 due to the reduction in the electricity demand during 2020, as a result of the measures taken by the Peruvian government to control the COVID-19 pandemic.

This effect was partially offset by:

- US\$5 million increase in energy purchases in the spot market mainly explained by 71 GWh net energy purchases in the spot market during the first nine months of 2020 from 454 GWh net energy sales in the spot market during the same period in 2019; partially offset by lower average spot price of US\$7.9/MWh during the first nine months of 2020 compared to US\$8.4/MWh during the same period in 2019.
- US\$1 million increase in expenses related to the Operating Service Agreement with Kallpa net of the decrease in personnel expenses due to the management integration between Kallpa and OEP.

Depreciation

Depreciation decreased by US\$2 million, or 9%, to US\$20 million during the first nine months of 2020 from US\$22 million during the same period in 2019, mainly due to the end of the useful life of certain assets.

Administrative expenses

Administrative expenses decreased by US\$3 million, or 38%, to US\$5 million during the first nine months of 2020 from US\$8 million during the same period in 2019, primarily due to a decrease in personnel expenses and lower third-party services.

Other Income, net

Other income, net decreased by US\$1 million to zero during the first nine months of 2020 from US\$1 million during the same period in 2019, mainly due to lower services rendered by Cañón del Pato's maintenance workshop, added to income from an insurance recovery in 2019.

Finance cost, net

Finance cost, net amounted to US\$30 million during the first nine months of 2020, unchanged from the same period in 2019.

Income tax benefit (expense)

Income tax decreased by US\$105 million, to US\$110 million benefit during the first nine months of 2020 from US\$8 million expense during the same period in 2019. The tax benefit during the first nine months of 2020 corresponds primarily to the US\$104 million deferred income tax asset related to the tax loss carry forward triggered by the sale of our transmission business companies.

Net profit from discontinued operations

Net profit from discontinued operations increased by US\$118 million, to US\$119 million during the first nine months of 2020 from US\$1 million during the same period in 2019, due to the net gain from the sale of our transmission business to ISA Peru. For additional information see note 3A of our consolidated interim financial statements.

Liquidity and Capital Resources

Our main cash requirements are primarily for the following purposes:

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

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

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

During the first nine months of 2020 and 2019, cash flow generated by operations was primarily used for investment activities and to service our outstanding interest and debt obligations.

As of September 30, 2020, our cash and cash equivalents amounted to US\$174 million.

Cash Flows

	Nine months ended September 30,		% Change
<i>In millions of U.S. dollars</i>	2020	2019	
Cash from operating activities	49	80	-39%
Income tax paid	(4)	(2)	100%
Net cash from operating activities	45	78	-42%
Net cash from (used in) investing activities	146	(13)	1223%
Net cash used in financing activities	(55)	(36)	53%
Net increase in cash	136	29	369%
Cash and cash equivalent as of January 1	39	50	-22%
Effects of variations on exchange difference on held cash	(1)	-	-
Cash as of September 30	174	79	120%

Cash Flows from Operating Activities

Our primary source of operating funds is cash flow generated from our operations. The net cash from operating activities decreased by US\$33 million, or 42%, to US\$45 million during the first nine months of 2020 from US\$78 million during the same period in 2019.

The decrease was primarily driven by (i) US\$23 million increase in payments to suppliers and others, mainly explained by a US\$7 million payment related to intercompany services rendered by Kallpa during 2019, and US\$5 million higher payment related to the Operating Service Agreement with Kallpa effective since July 1st, 2019; (ii) US\$23 million decrease in collections of energy, capacity, and hydrocarbons given lower sales during the first nine months of 2020 added to uncollected receivables mainly from a distribution company and lower collections from the transmission business sold in August 2020; and, (iii) US\$2 million of higher income tax payments in advance. These effects were partially offset by (i) US\$8 million lower payments to employees related to the management integration between Kallpa and OEP; and, (ii) US\$7 million decrease in payment of royalties given lower production during the first nine months of 2020.

Cash Flows from (used in) Investing Activities

Net cash from investing activities increased by US\$159 million, to US\$146 million during the first nine months of 2020 from US\$13 million used in investing activities during the same period in 2019.

During the first nine months of 2020, cash from investing activities corresponds to US\$156 million related to the sale of our indirect ownership in the transmission business companies, Etenorte S.R.L. and Eteselva S.R.L to ISA Perú, net of transaction costs; partially offset by (i) US\$6 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\$4 million in payments related to the acquisition of property, plant and equipment.

During the first nine months of 2019, cash from investing activities was mainly used for (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\$5 million in payments related to the acquisition of property, plant and equipment.

Cash Flows from Financing Activities

Net cash flows used in our financing activities increased by US\$19 million, or 53%, to US\$55 million during the first nine months of 2020 from US\$36 million during the same period in 2019.

During the first nine months of 2020, we used cash to (i) amortize US\$39 million of the shareholder loan granted by Orazul Energia Partners LLC; and, (ii) pay US\$16 million in interest related to the 2027 Senior Notes.

During the first nine months of 2019, we used cash to (i) amortize US\$20 million of the shareholder loan granted by Orazul Energia Partners LLC; and, (ii) pay US\$16 million in interest related to the 2027 Senior Notes.

For the three-month period ended September 30, 2020 and 2019

	Three months ended September 30		% Change
<i>In thousands of U.S. dollars</i>	2020	2019 ^(*)	
Revenues of energy generation	31	28	11%
Revenues of hydrocarbons	2	3	-33%
Revenues	33	31	6%
Costs of sales of energy generation	(10)	(8)	25%
Costs of sales of hydrocarbons	(1)	(2)	-50%
Cost of sales (excluding depreciation)	(11)	(10)	10%
Depreciation	(7)	(9)	-22%
Administrative expenses	(1)	(2)	-50%
Other income, net	-	-	-
Operating profit	14	10	40%
Finance income	1	1	0%
Finance costs	(10)	(11)	-9%
Net foreign exchange difference	(1)	-	-
Finance cost, net	(10)	(10)	0%
Profit before income tax	4	-	-
Income tax benefit	105	1	10400%
Profit from continuing operations	109	1	7270%
Net profit for the period from discontinued operations	118	-	-
Profit for the period	227	1	16385%

(*) 2019 comparative information has been re-presented due to a discontinued operation, as detailed in section "Sale of Transmission business companies".

Results of Operations

The Company's net income for the three-month period ended September 30, 2020 amounted to US\$227 million compared to US\$1 million during the same period in 2019. The Company's results are mainly explained by the following:

Revenues

Revenues of energy, capacity and hydrocarbons increased by US\$2 million, or 6%, to US\$33 million during the third quarter of 2020 from US\$31 million during the same period in 2019, due to:

- US\$3 million higher energy revenues from PPAs. Despite the overall reduction in the electricity demand that affected consumption from our customers, there was an increase in our energy sales under PPAs to 591 GWh during the third quarter of 2020 from 425 GWh during the same period in 2019, mainly due to the beginning of a new PPA with Enel Distribución up to 100MW in 2020 and the ramp up of the Toromocho mine (Minera Chinalco), partially offset by a 19% decrease in average PPA prices to US\$38/MWh during the third quarter of 2020 from US\$47/MWh during the same period in 2019, as the new contracts have lower energy prices compared to the average price of the portfolio.

This effect was partially offset by:

- US\$1 million decrease in hydrocarbon liquid revenues driven by 46% lower production to 37,474 bbl. during the third quarter of 2020 from 69,686 bbl. during the same period in 2019, in connection with the unavailability of one of our wells, added to lower natural gasoline and LPG prices, to US\$43/bbl. and US\$40/bbl. respectively, during the third quarter of 2020, from US\$61/bbl. and US\$46/bbl. respectively during the same period in 2019, due to lower international prices.

Cost of sales (excluding depreciation)

Cost of sales increased by US\$1 million, or 10%, to US\$11 million during the third quarter of 2020 from US\$10 million during the same period in 2019, primarily due to:

- US\$2 million increase in energy purchases in the spot market net of the lower cost of royalties related to lower thermal generation. Net energy purchases of 306 GWh during the third quarter of 2020 compared to 26 GWh during the same period in 2019 in connection with lower generation of our thermal power plant, to 2 GWh during the third quarter of 2020 from 149 GWh during the same period in 2019, in connection with lower demand due to the quarantine decreed by the Peruvian government.
- US\$1 million increase related to the Operating Service Agreement with Kallpa, among others.

This effect was partially offset by:

- US\$2 million lower cost of royalties, storage and transport of natural gasoline and LPG related to lower sales in connection with lower production.

Depreciation

Depreciation decreased by US\$2 million, or 22%, to US\$7 million during the third quarter of 2020 from US\$9 million during the same period in 2019, mainly due to the end of the useful life of certain assets.

Administrative expenses

Administrative expenses decreased by US\$1 million, or 50%, to US\$1 million during the third quarter of 2020 from US\$2 million during the same period in 2019, primarily due to a decrease in personnel expenses and lower third-party services.

Finance cost, net

Finance cost, net amounted to US\$10 million during the third quarter of 2020, unchanged from the same period in 2019.

Income tax benefit

Income tax benefit increased by US\$104 million, to US\$105 million benefit during the third quarter of 2020 from US\$1 million during the same period in 2019. The tax benefit during the third quarter of 2020 corresponds primarily to the deferred income tax asset related to the tax loss carry forward triggered by the sale of our transmission business companies.

Appendixes

EBITDA & Adjusted EBITDA reconciliation

	Nine months ended September 30,		Discontinued operations	As previously reported	Three months ended September 30	
<i>In millions of U.S.</i>	2020	2019	2019	2019	2020	2019
Profit from continuing operations	128	11	1	12	109	1
(+) Income tax and profit sharing	(110)	8	1	9	(105)	(1)
(+) Financial expense, net	30	30	0	30	10	10
(+) Depreciation and amortization	20	23	5	28	6	7
Total EBITDA	68	72	7	79	20	17

Material Indebtedness

<i>In millions of U.S. dollars</i>	Outstanding Principal Amount as of Sep. 30, 2020	Interest Rate	Final Maturity	Amortization
Long-term debt:				
Unsecured:				
5.625% Notes due 2027	542	5.625%	April 2027	Principal due at maturity with semi-annual interest payments.
Total	US\$542			

Note: values net of transaction costs