



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

December 31, 2020 and 2019

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 Aguaytía, 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 85%² with an average life of approximately 8.6 years, reducing the risk related to the fluctuation of spot market prices.

Our businesses are summarized in the following table:

Entity		Location	Type	Capacity
Orazul	Orazul	Cañón del Pato	Hydro generation/ Run-of-river	266MW
		Carhuaquero	Hydro generation/ Run-of-river	110MW
Aguaytía	Termoselva	Aguaytía	Thermal generation (natural gas)	192MW
	Aguaytía Energy del Perú	Aguaytía	Hydrocarbons	55 mmscfd 4,179 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 18 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 (2021-2023). 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 was 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\$158.3 million total consideration after working capital adjustments.

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.

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 5 of our audited consolidated financial statements).

Aguaytia’s License Agreement extension

Aguaytia has a 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.

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.

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 measures 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 their 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 our 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 manage our cash in a conservative manner and have taken several measures to protect liquidity and 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 our 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 audited consolidated financial statements as of December 31, 2020 and 2019.

For the year ended December 31, 2020 and 2019

	Year ended December 31,		% Change
<i>In thousands of U.S. dollars</i>	2020	2019 ^(*)	
Revenue of energy generation	128	128	0%
Revenue of hydrocarbons	7	16	-56%
Revenue	135	144	-6%
Cost of sales of energy generation and hydrocarbons	(37)	(39)	-5%
Cost of sales (excluding depreciation)	(37)	(39)	-5%
Depreciation	(27)	(30)	-10%
Administrative expenses	(8)	(9)	-11%
Other income, net	1	1	0%
Operating profit	64	67	-4%
Finance income	1	1	0%
Finance costs	(37)	(42)	-12%
Net foreign exchange difference	(2)	-	-
Finance cost, net	(38)	(41)	-7%
Profit before income tax	26	26	0%
Income tax expense	106	(9)	1278%
Profit from continuing operations	132	17	676%
Profit from discontinued operation, net of tax	118	1	11700%
Profit for the period	250	18	1289%

(*) 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 profit for 2020 amounted to US\$250 million compared to US\$18 million in 2019. The Company's results are mainly explained by the following:

Revenue

Revenue of energy, capacity and hydrocarbons declined by US\$9 million, or 6%, to US\$135 million during 2020 from US\$144 million during 2019, due to:

- US\$9 million decrease in hydrocarbon liquid revenue driven by 39% lower production to 168,915 bbl. During 2020 from 274,911 bbl. During 2019, in connection with the unavailability of one of our wells, added to lower natural gasoline and LPG prices, to US\$41/bbl. And US\$42/bbl. Respectively during 2020, from US\$60/bbl. And US\$50/bbl. Respectively during 2019, due to lower international prices.
- US\$6 million lower capacity revenue received from the spot market for our thermal plant explained by the reduction in the electricity demand to -7.0% during 2020. The reduction in the maximum monthly demand resulted in the Aguaytia thermal plant not being considered under the system's reserve margin, and therefore did not receive capacity payments from the spot market from April to August, and partially in September.
- US\$4 million decrease in energy revenue from the spot market, mainly explained by higher energy sales under PPAs which triggered a decrease in volumes to 201 GWh net energy purchases in the spot market during 2020 from 625

GWh net energy sales in the spot market during 2019; partially offset by higher average spot price of US\$9.5/MWh during 2020 compared to US\$8.9/MWh during 2019.

These effects were partially offset by:

- US\$11 million increase in energy and capacity revenue from PPAs to 2,286 GWh during 2020 from 1,776 GWh during 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 PPA (Minera Chinalco), that offset the lower consumption from our customers affected by the quarantine decreed by the Peruvian government.

Cost of sales (excluding depreciation)

Cost of sales decreased by US\$2 million, or 5%, to US\$37 million during 2020 from US\$39 million during 2019, primarily due to:

- US\$5 million lower cost of natural gas royalties related to lower thermal generation, to 72 GWh during 2020 from 320 GWh during 2019 due to the reduction in electricity demand during 2020, as a result of the measures taken by the Peruvian government to control the COVID-19 pandemic.
- US\$4 million lower cost of royalties, storage and transport of natural gasoline and LPG related to lower production and consequently lower sales.
- US\$2 million decrease in services provided by third parties, savings, and others.

These effects were partially offset by:

- US\$5 million increase in energy purchases in the spot market mainly explained by 201 GWh net energy purchases in the spot market during 2020 from 625 GWh net energy sales in the spot market during 2019; added to higher average spot price of US\$9.5/MWh during 2020 compared to US\$8.9/MWh during 2019.
- US\$4 million higher capacity purchases in the spot market to fulfill demand from our PPAs. The reduction in the maximum monthly demand resulted in the Aguaytia thermal plant not being considered under the system's reserve margin, and therefore the Company had to purchase capacity from the spot market from April to August, and partially in September.

Depreciation

Depreciation decreased by US\$3 million, or 10%, to US\$27 million during 2020 from US\$30 million during 2019, mainly due to the end of the useful life of certain assets.

Administrative expenses

Administrative expenses decreased by US\$1 million, or 11%, to US\$8 million during 2020 from US\$9 million during 2019, primarily due to a decrease in personnel expenses, savings and lower third-party services.

Other Income, net

Other income, net amounted to US\$1 million during 2020, unchanged from 2019.

Finance cost, net

Finance cost, net decreased by US\$3 million, or 7%, to US\$38 million during 2020 from US\$41 million during 2019, primarily due to US\$5 million decrease in interest expenses with related parties and its corresponding withholding tax due to a US\$64 million amortization of the subordinated shareholder loan during 2020; partially offset by US\$2 million increase in foreign exchange loss due to a 9.3% devaluation of the Peruvian sol against the U.S. dollar during 2020.

Income tax benefit (expense)

Income tax decreased by US\$115 million, to US\$106 million benefit during 2020 from US\$9 million expense during 2019. The tax benefit during 2020 corresponds primarily to the US\$103 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\$117 million, to US\$118 million during 2020 from US\$1 million during 2019, due to the net gain from the sale of our transmission business. For additional information see note 5A of our audited consolidated 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 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 December 31, 2020, our cash and cash equivalents amounted to US\$153 million.

Cash Flows

	Year ended December 31,		% Change
<i>In millions of U.S. dollars</i>	2020	2019	
Cash from operating activities	80	107	-25%
Income tax paid	(8)	(4)	100%
Net cash from operating activities	72	103	-30%
Net cash from (used in) investing activities	135	(17)	894%
Net cash used in financing activities	(95)	(95)	0%
Cash and cash equivalent as of January 1	41	50	-18%
Effects of variations on exchange difference on held cash	-	-	-
Cash as of December 31	153	41	273%

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\$31 million, or 30%, to US\$72 million during 2020 from US\$103 million during 2019.

The decrease was primarily driven by (i) US\$22 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\$6 million higher payment related to the Operating Service Agreement with Kallpa effective since July 1st, 2019; (ii) US\$18 million decrease in collections of energy, capacity and hydrocarbons given lower sales during 2020 added to lower collections from the transmission business sold in August 2020; (iii) US\$4 million of higher income tax payments in advance; among others. 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 2020.

Cash Flows from (used in) Investing Activities

Net cash from investing activities increased by US\$152 million, to US\$135 million during 2020 from US\$17 million used in investing activities during 2019.

During 2020, cash from investing activities corresponds to US\$148 million related to the sale of our 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\$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.

During 2019, cash from investing activities was mainly used for (i) US\$10 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.

Cash Flows from Financing Activities

Net cash flows used in our financing activities amounted to US\$95 million during 2020 and 2019.

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\$31 million in interest related to the Notes.

During 2019, we used cash to (i) amortize US\$63 million of the shareholder loan granted by Orazul Energia Partners LLC; (ii) pay US\$31 million in interest related to the Notes; among others.

For the three-month period ended December 31, 2020 and 2019

	Three months ended December 31,		% Change
<i>In thousands of U.S. dollars</i>	2020	2019 ^(*)	
Revenue of energy generation	35	34	3%
Revenue of hydrocarbons	1	4	-75%
Revenue	36	38	-5%
Cost of sales of energy generation and hydrocarbons	(11)	(11)	0%
Cost of sales (excluding depreciation)	(11)	(11)	0%
Depreciation	(7)	(8)	-13%
Administrative expenses	(3)	(1)	200%
Other income, net	1	-	-
Operating profit	16	18	-11%
Finance income	-	-	-
Finance costs	(8)	(11)	-27%
Net foreign exchange difference	-	-	-
Finance cost, net	(8)	(11)	-27%
Profit before income tax	8	7	14%
Income tax expense	(4)	(1)	300%
Profit from continuing operations	4	6	-33%
Loss from discontinued operation, net of tax	(1)	-	-
Profit for the period	3	6	-50%

(*) 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 profit for the three-month period ended December 31, 2020 amounted to US\$3 million compared to US\$6 million during the same period in 2019. The Company's results are mainly explained by the following:

Revenue

Revenue of energy, capacity and hydrocarbons decreased by US\$2 million, or 5%, to US\$36 million during the fourth quarter of 2020 from US\$38 million during the same period in 2019, due to:

- US\$3 million decrease in hydrocarbon liquid revenues driven by 44% lower production to 31,794 bbl. during the fourth quarter of 2020 from 57,014 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\$44/bbl. and US\$40/bbl. respectively, during the fourth quarter of 2020, from US\$59/bbl. and US\$47/bbl. respectively during the same period in 2019, due to lower international prices.
- US\$2 million lower capacity revenues received from spot market for our thermal plant explained by the reduction in the electricity demand to -0.4% during the fourth quarter of 2020. The reduction in the maximum monthly demand resulted in the Aguaytia thermal plant not being considered under the system's reserve margin, and therefore receive partial capacity payments from the spot market in September.
- US\$2 million decrease in energy revenues from the spot market, mainly explained by higher energy sales under PPAs which triggered a decrease in volumes to 130 GWh net energy purchases in the spot market during the fourth quarter of 2020 from 171 GWh net energy sales in the spot market during the same period in 2019; partially offset by higher average spot price of US\$14.4/MWh during the fourth quarter of 2020 compared to US\$10.5/MWh during the same period in 2019.

These effects were partially offset by:

- US\$5 million increase in energy and capacity revenue from PPAs to 643 GWh during the fourth quarter of 2020 from 452 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 PPA (Minera Chinalco), that offset the lower consumption from our customers as a result of the measures taken by the Peruvian government to control de COVID-19 pandemic.

Cost of sales (excluding depreciation)

Cost of sales amounted to US\$11 million during the fourth quarter of 2020, unchanged from the same period in 2019.

Depreciation

Depreciation decreased by US\$1 million, or 13%, to US\$7 million during the fourth quarter of 2020 from US\$8 million during the same period in 2019, mainly due to the end of the useful life of certain assets.

Administrative expenses

Administrative expenses increased by US\$2 million, to US\$3 million during the fourth quarter of 2020 from US\$1 million during the same period in 2019, primarily due to an increase of intercompany services rendered by Kallpa.

Finance cost, net

Finance cost, net decreased by US\$3 million, or 27%, to US\$8 million during the fourth quarter of 2020 from US\$11 million during the same period in 2019, primarily due to lower interest expenses with related parties and its corresponding withholding tax due to a US\$20 million amortization of the subordinated shareholder loan during the fourth quarter of 2020.

Income tax expense

Income tax expense increased by US\$3 million, to US\$4 million during the fourth quarter of 2020 from US\$1 million during the same period in 2019 mainly due to income tax regularization as a result of the tax audit for the fiscal years 2017 and 2019, among others.

Appendixes

EBITDA & Adjusted EBITDA reconciliation

	Year ended December 31,		Discontinued operations	As previously reported	Three months ended December 31	
<i>In millions of U.S.</i>	2020	2019	2019	2019	2020	2019
Profit from the period	250	18	-	18	3	6
(+) Income tax and profit sharing	(106)	9	1	10	4	1
(+) Financial expense, net	38	41	(1)	40	8	11
(+) Depreciation and amortization	28	31	7	38	8	9
Total EBITDA	210	99	7	106	23	27
(-) Net profit for the period for discontinued operations	(118)	(1)	1	-	1	-
(+/-) Non-recurring expenses, net	-	-	-	-	-	-
Total Adjusted EBITDA	92	98	8	106	24	27

Material Indebtedness

<i>In millions of U.S. dollars</i>	Outstanding Principal Amount as of Dec. 31, 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

