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

September 30, 2022 and 2021

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 376 MW are diversified in 2 run-of-river hydroelectric power plants in different hydrological basins: Cañón del Pato in the Santa River and Carhuaquero in the Chancay River, 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 6.7 years, beyond our senior notes' 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	93%
	Carhuaquero		Hydro generation/ Run-of-river	110MW	93%

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 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 the following 3 years (2022-2024).
[2] Last twelve-month September 2022 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 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.

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 interim financial statements as of September 30, 2022, and 2021.

For the nine-month period ended September 30, 2022 and 2021

	Nine months ended September 30		% Change
In millions of U.S. dollars	**2022**	**2021**	
Revenue of energy	82	64	*28%*
Costs of sales (excluding depreciation)	(18)	(15)	*20%*
Depreciation	(8)	(10)	*-20%*
Administrative expenses	(4)	(3)	*33%*
Other income, net	-	1	*-100%*
Operating profit	**52**	**37**	***41%***
Finance income	-	-	-
Finance costs	(21)	(32)	*-34%*
Net foreign exchange difference	-	(1)	*-100%*
Net finance costs	**(21)**	**(33)**	***-36%***
Profit before income tax	**31**	**4**	*675%*
Income tax expense (income)	(12)	130	*-109%*
Profit from continuing operations	**19**	**134**	***-86%***
Loss from discontinued operation, net of tax	-	(84)	*-100%*
Profit for the period	**19**	**50**	***-62%***

Results of Operations

The Company's profit for the nine-month period ended September 30, 2022, amounted to US$19 million compared to US$50 million during the same period in 2021. The Company's results are explained by the following:

Revenue of energy

Revenue of energy increased by US$18 million, or 28%, to US$82 million during the first nine months of 2022, from US$64 million during the same period in 2021. This was mainly explained by:

- US$12 million increase in energy sales under PPAs due to a 14% increase in prices to an average of US$42.3/MWh during the first nine months of 2022 from an average of US$37.1/MWh during the same period in 2021, added to a 12% increase in volumes of energy sales under PPAs to 1,313 GWh during the first nine months of 2022 from 1,173 GWh during the same period in 2021.
- US$5 million increase in net energy sales to the spot market explained by higher average spot price of US$27.0/MWh during the first nine months of 2022 compared to US$15.0/MWh during the same period in 2021. Spot prices were affected by regulatory changes in the gas price declaration starting on July 1, 2021. This effect was partially offset by a 35% decrease in net volumes of energy sales in the spot market to 260 GWh during the first nine months of 2022 from 401 GWh during the same period in 2021, as a result of higher sales under PPAs.

Costs of sales (excluding depreciation)

Costs of sales (excluding depreciation) increased by US$3 million, or 20%, to US$18 million during the first nine months of 2022, from US$15 million during the same period in 2021. This was mainly explained by US$3 million increase in net energy purchases to the spot market due to higher average spot price of US$27.0/MWh during the first nine months of 2022 compared to US$15.0/MWh during the same period in 2021.

Depreciation

Depreciation decreased by US$2 million, or 20%, to US$8 million during the first nine months of 2022, from US$10 million during the same period in 2021 due to the end of the useful life of certain assets.

Administrative expenses

Administrative expenses increased by US$1 million, or 33%, to US$4 million during the first nine months of 2022, from US$3 million during the same period in 2021 due to the increase in the service agreement with a related party.

Net finance cost

Net finance cost decreased by US$12 million, or 36%, to US$21 million during the first nine months of 2022 from US$33 million during the same period in 2021. This was mainly explained by (i) US$9 million decrease in interest expense as a result of our Notes lower outstanding balance after the asset sales tender offers made in the second half of 2021 after the sale of the transmission and gas to power businesses; (ii) US$5 million decrease in other financial cost related to the premium paid to the bondholders in 2021 in connection with the transmission tender offer; among others.

Income tax expense

Income tax expense increased by US$142 million, to US$12 million expense during the first nine months of 2022 from US$130 million income tax income during the same period in 2021. The estimated average effective tax rate during the first nine months of 2022 was 39%. The tax income during the first nine months of 2021 corresponds primarily to the deferred income tax asset related to the tax loss carry forward triggered by the sale of our gas-to-power business in October 2021.

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.

As of September 30, 2022, our cash and cash equivalents amounted to US$25 million.

Cash Flows

	Nine months ended September 30,		% Change
In millions of U.S. dollars	**2022**	**2021**	
Cash from operating activities	**59**	**65**	**-9%**
Income tax paid	-	(6)	-100%
Net cash from operating activities	**59**	**59**	**0%**
Net cash used in investing activities	**(4)**	**(13)**	**-69%**
Net cash used in financing activities	**(51)**	**(172)**	**-70%**
Net increase (decrease) in cash	**4**	**(126)**	**103%**
Cash and cash equivalent as of January 1	21	153	-86%
Effects of variations on exchange difference on held cash	-	(2)	-100%
Cash at September 30	**25**	**25**	**0%**

Cash Flows from Operating Activities

Our primary source of operating funds is cash flow generated from our operations. The net cash from operating activities amounted to US$59 million during the first nine months of 2022, unchanged from the same period in 2021.

This result was primarily driven by (i) US$24 million lower collections of energy, capacity and hydrocarbons related to the gas-to-power business, partially offset by higher sales from our hydro power business during 2022; and (ii) US$1 million income tax recovered related to the refund of the 2021 taxes on net assets. These effects were offset by (i) US$19 million decrease in payments to suppliers primarily related to the gas-to-power business; and (ii) US$4 million of lower monthly advance income tax payments.

Cash Flows used in Investing Activities

Net cash flows used in our investing activities decreased by US$9 million, or 69%, to US$4 million during the first nine months of 2022 from US$13 million during the same period in 2021.

During the first nine months of 2022, cash used in investing activities was for (i) US$2 million in payments related to the acquisition of property, plant, and equipment; and (ii) US$2 million in payments related to the option agreements signed with distribution companies to extend the contract terms of certain PPAs, recorded as intangibles.

During the first nine months of 2021, cash used in investing activities was mainly for (i) US$7 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 decreased by US$121 million, or 70%, to US$51 million during the first nine months of 2022 from US$172 million during the same period in 2021.

During the first nine months of 2022, we used cash for (i) US$25 million in interest accrued up to 2018 related to the shareholder loan granted by Orazul Energia Partners LLC (starting 2019, this loan bears no interest) and its respective taxes; (ii) US$15 million in dividends to shareholders; and (iii) US$11 million in interest related to the Notes and its respective withholding tax.

During the first nine months of 2021, we used cash for (i) US$145 million amortization of the Notes as a result of the transmission tender offer related to the sale of our transmission business; (ii) US$21 million 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) US$1 million amortization of the shareholder loan granted by Orazul Energia Partners LLC.

For the three-month period ended September 30, 2022 and 2021

	Three months ended September 30		% Change
In millions of U.S. dollars	**2022**	**2021**	
Revenue of energy	25	20	*25%*
Costs of sales (excluding depreciation)	(9)	(7)	*29%*
Depreciation	(2)	(3)	*-33%*
Administrative expenses	(1)	(1)	*0%*
Other income, net	-	-	*0%*
Operating profit	**13**	**9**	***44%***
Finance income	-	-	-
Finance costs	(9)	(15)	*-40%*
Net foreign exchange difference	(1)	-	-
Net finance costs	**(10)**	**(15)**	***-33%***
Profit (loss) before income tax	**3**	**(6)**	*-150%*
Income tax expense (income)	(10)	133	*-108%*
Loss (profit) from continuing operations	**(7)**	**127**	***-106%***
Loss from discontinued operation, net of tax	-	(86)	*-100%*
Loss (profit) for the period	**(7)**	**41**	***-117%***

Results of Operations

The Company's net loss for the three-month period ended September 30, 2022, amounted to US$7 million compared to US$41 million net profit during the same period in 2021. The Company's results are mainly explained by the following:

Revenue of energy

Revenue of energy increased by US$5 million, or 25%, to US$25 million during the third quarter of 2022, from US$20 million during the same period in 2021. This was mainly explained by US$5 million increase in energy sales under PPAs due to a 22% increase in prices to an average of US$44.2/MWh during the third quarter of 2022 from an average of US$36.3/MWh during the same period in 2021, added to an 8% increase in volumes of energy sales under PPAs to 443 GWh during the third quarter of 2022 from 412 GWh during the same period in 2021.

Costs of Sales (excluding depreciation)

Cost of sales (excluding depreciation) increased by US$2 million, or 29%, to US$9 million during the third quarter of 2022, from US$7 million during the same period in 2021. This was mainly explained by US$2 million increase in net energy purchases to the spot market explained by higher average spot price of US$30.8/MWh during the third quarter of 2022 compared to US$26.3/MWh during the same period in 2021.

Depreciation

Depreciation decreased by US$1 million, or 33%, to US$2 million during the third quarter of 2022 from US$3 million during the same period in 2021 due to the end of the useful life of certain assets.

Administrative Expenses

Administrative expenses amounted to US$1 million during the third quarter of 2022, unchanged from the same period in 2021.

Net finance cost

Net finance cost decreased by US$5 million, or 33%, to US$10 million during the third quarter of 2022 from US$15 million during the same period in 2021 mainly explained by lower interest expense related to the Notes lower outstanding balance after the asset sales tender offers.

Income tax expense

Income tax expense increased by US$143 million, to US$10 million expense during the third quarter of 2022 from US$133 million income tax income during the same period in 2021. During the third quarter of 2022, changes in the effective tax rate correspond primarily to translation of the tax loss carry forward which increased the income tax expense by US$10 million. The tax income during the third quarter of 2021 corresponds primarily to the deferred income tax asset related to the tax loss carry forward triggered by the sale of our gas-to-power business.

Appendixes

EBITDA reconciliation

	Nine months ended September 30,		Three months ended September 30,	
In millions of U.S. dollars	**2022**	**2021**	**2022**	**2021**
Operating profit	52	37	13	9
Depreciation	9	10	3	3
Total EBITDA	**US$61**	**US$47**	**US$16**	**US$12**

As of September 30, 2022, last 12 months (LTM) EBITDA increased by US$15 million, or 23%, to US$80 million, compared to US$65 million LTM EBITDA as of September 2021.

Material Indebtedness

In millions of U.S. dollars	**Outstanding Principal Amount as of Sep. 30, 2022**	**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*