



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

December 31, 2022 and 2021

ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

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



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 94%¹ with an average life of approximately 6.5 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	91%

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"). Since January 1, 2019, as part of a strategy to optimize operations and maximize benefits from having the same shareholders, Kallpa and OEP 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 20 years of experience in the power generation industry and have previously held senior positions in leading power generation companies, financial institutions, and the Peruvian government. Our management team provides in-depth market knowledge and power industry experience, with considerable experience in the Peruvian energy industry and government regulators. We believe that this overall level of experience allows our management team to lead the Company in the effective operation and maintenance of our facilities.

¹ Estimated for FY 2023 (the average estimated for the next 3 years is 67%).

² Full year 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 audited consolidated financial statements as of December 31, 2022, and 2021.

For the years ended December 31, 2022 and 2021

	Year ended December 31		% Change
<i>In millions of U.S. dollars</i>	2022	2021	
Revenue	107	91	18%
Cost of sales (excluding depreciation)	(27)	(21)	29%
Depreciation	(12)	(13)	-8%
Administrative expenses	(5)	(4)	25%
Other income, net	1	1	-
Operating profit	64	54	19%
Finance costs	(26)	(39)	-33%
Net foreign exchange difference	-	(1)	-100%
Net finance costs	(26)	(40)	-35%
Profit before income tax	38	14	171%
Income tax (expense) income	(9)	131	-107%
Profit from continuing operations	29	145	-80%
Loss from discontinued operation, net of tax	-	(83)	-100%
Profit for the period	29	62	-53%

Results of Operations

The Company's profit for the year ended December 31, 2022 amounted to US\$29 million compared to US\$62 million in 2021. The Company's results are explained by the following:

Revenue

Revenue increased by US\$16 million, or 18%, to US\$107 million in 2022, from US\$91 million in 2021. This was mainly explained by an increase in energy sales under PPAs due to a 10% increase in prices to an average of US\$43.3/MWh in 2022 from an average of US\$39.4/MWh in 2021. In addition, there was a 16% increase in energy volumes sold under PPAs to 1,778 GWh during 2022 from 1,536 GWh during 2021.

Costs of sales (excluding depreciation)

Costs of sales (excluding depreciation) increased by US\$6 million, or 29%, to US\$27 million in 2022, from US\$21 million in 2021 mainly explained by an increase in energy purchases to the spot market due to higher average spot price of US\$38.1/MWh in 2022 compared to US\$16.9/MWh in 2021.



Depreciation

Depreciation decreased by US\$1 million, or 8%, to US\$12 million in 2022, from US\$13 million in 2021 due to the end of the useful life of certain assets, partially offset by the higher depreciation in the fourth quarter of 2022 due to the US\$399 million PP&E revaluations of the hydroelectric power plants performed in November 2022.

Administrative expenses

Administrative expenses increased by US\$1 million, or 25%, to US\$5 million in 2022, from US\$4 million in 2021 due to the increase in the service agreement with a related party and an increase in social responsibility expenses within our area of influence, among others.

Net finance costs

Net finance costs decreased by US\$14 million, or 35%, to US\$26 million in 2022 from US\$40 million in 2021. This is mainly explained by (i) a US\$11 million decrease in interest expense as a result of our Notes' lower outstanding balance after the tender offers made in the second half of 2021 due to the sale of the transmission and gas to power businesses; (ii) a US\$6 million decrease due to premium and other financial costs in 2021 in connection with the transmission and gas to power tender offers; and (iii) a US\$1 million decrease in foreign exchange losses due to a 4.5% average revaluation of the Peruvian sol against the U.S. dollar in 2022. These effects were partially offset by a US\$4 million increase in other financial costs related to the expense of unused VAT credit resulting from interest on the shareholder loan.

Income tax (expense) income

Income tax expense increased by US\$140 million, to US\$9 million tax expense in 2022 from US\$131 million tax income in 2021. The effective tax rate in 2022 was 24% compared to 936% effective tax rate in 2021. The 2022 effective tax rate was mainly affected by the deferred income tax related to the tax loss carry forward re-expression as a result of the Peruvian sol revaluation against the U.S. dollar, partially offset by the effect of non-deductible expenses. The 2021 effective tax rate was affected by 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.

Loss from discontinued operation, net of tax

Loss from discontinued operation, net of tax decreased by 100%, due to US\$83 million net loss generated in 2021 from the sale of our gas-to-power businesses.



Liquidity and Capital Resources

Our principal cash requirements consist of the following:

- Working capital requirements;
- Capital expenditures related to maintenance projects and payments of options for certain PPA extensions;
- Debt and interest service, and
- Distributions to our shareholders.

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

- Cash flow from operating activities; and,
- Availability of short-term borrowings.

As of December 31, 2022, our cash and cash equivalents amounted to US\$17 million.

Cash Flows

	Year ended December 31,		% Change
<i>In millions of U.S. dollars</i>	2022	2021	
Cash from operating activities	76	84	-10%
Net Income tax paid	(1)	(5)	-80%
Net cash from operating activities	75	79	-5%
Net cash (used in) from investing activities	(6)	17	135%
Net cash used in financing activities	(73)	(227)	-68%
Net increase (decrease) in cash	(4)	(131)	-97%
Cash and cash equivalent as of January 1	21	153	-86%
Effects of variations on exchange difference on held cash	-	(1)	100%
Cash at December 31	17	21	-19%

Cash Flows from Operating Activities

Our primary source of operating funds is the cash flow generated from our operations. The net cash from operating activities decreased by US\$4 million, or 5%, to US\$75 million in 2022 from US\$79 million in 2021.

This result was primarily driven by (i) a US\$12 million decrease in collections of energy, capacity and hydrocarbons mainly related to the gas-to-power business which was sold in 2021, partially offset by higher collections during 2022 from our hydro power business. These effects were partially offset by (i) a US\$4 million decrease in payments of royalties related to the gas-to-power business which was sold in 2021; (ii) a US\$4 million decrease in advance income tax payments; and (iii) US\$1 million income tax recovered related to the refund of the 2021 taxes on net assets.



Cash Flows used in Investing Activities

Net cash flows used in our investing activities increased by US\$23 million, or 135%, to US\$6 million used in 2022 from US\$17 million cash provided in 2021.

In 2022, cash used in investing activities corresponds to (i) US\$4 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.

In 2021, cash provided by investing activities corresponds to US\$32 million related to the sale of the gas-to-power business; 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.

Cash Flows used in Financing Activities

Net cash flows used in our financing activities decreased by US\$154 million, or 68%, to US\$73 million in 2022 from US\$227 million in 2021.

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

In 2021, cash used in financing activities was mainly for (i) US\$187 million amortization of the Notes as a result of the transmission and gas-to-power tender offers in August and December 2021, respectively; (ii) US\$34 million payment 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) US\$1 million amortization of the shareholder loan granted by Orazul Energia Partners LLC.



For the three-month periods ended December 31, 2022 and 2021

	Three months ended		%
	December 31		Change
<i>In millions of U.S. dollars</i>	2022	2021	
Revenue	25	27	-7%
Cost of sales (excluding depreciation)	(9)	(6)	50%
Depreciation	(4)	(3)	33%
Administrative expenses	(1)	(1)	0%
Other income, net	1	-	-
Operating profit	12	17	-29%
Finance costs	(5)	(7)	-29%
Net finance costs	(5)	(7)	-29%
Profit before income tax	7	10	-30%
Income tax income	3	1	200%
Profit from continuing operations	10	11	-9%
Profit from discontinued operation, net of tax	-	1	-100%
Profit for the period	10	12	-17%

Results of Operations

The Company's net profit for the three-month period ended December 31, 2022, amounted to US\$10 million compared to US\$12 million net profit during the same period in 2021. The Company's results are mainly explained by the following:

Revenue

Revenue decreased by US\$2 million, or 7%, to US\$25 million during the fourth quarter of 2022, from US\$27 million during the same period in 2021. This result corresponds to:

- US\$6 million decrease in energy sales to the spot market mainly explained by 31 GWh net energy purchases during the fourth quarter of 2022 compared to 241 GWh net energy sales during the same period in 2021, triggered by 29% decrease in volumes of generation to 434 GWh during the fourth quarter of 2022 from 614 GWh during the same period in 2021 as a result of lower water availability due to a delay in the start of the rainy season.

This effect was partially offset by:

- US\$4 million increase in energy sales under PPAs due to a 25% increase in volumes of energy sales under PPAs to 465 GWh during the fourth quarter of 2022 from 373 GWh during the same period in 2021, added to a 2% increase in prices to an average of US\$46.3/MWh during the fourth quarter of 2022 from an average of US\$45.2/MWh during the same period in 2021.

Costs of Sales (excluding depreciation)

Cost of sales (excluding depreciation) increased by US\$3 million, or 50%, to US\$9 million during the fourth quarter of 2022, from US\$6 million during the same period in 2021. This is mainly explained by the increase in energy purchases to the spot market due to a 185% increase in average spot price of US\$65.5/MWh during the fourth quarter of 2022 compared to US\$23.0/MWh



during the same period in 2021 related to the lower water availability in the period that resulted in generation from the diesel reserve plants in the country.

Depreciation

Depreciation increased by US\$1 million, or 33%, to US\$4 million during the fourth quarter of 2022 from US\$3 million during the same period in 2021 mainly due to the US\$399 million PP&E revaluations of the hydroelectric power plants performed in November 2022.

Administrative Expenses

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

Net finance costs

Net finance costs decreased by US\$2 million, or 29%, to US\$5 million during the fourth quarter of 2022 from US\$7 million during the same period in 2021 mainly explained by a decrease in interest expense as a result of our Notes' lower outstanding balance.

Income tax income

Income tax income increased by US\$2 million, to US\$3 million during the fourth quarter of 2022 from US\$1 million during the same period in 2021. The effective tax rate during the fourth quarter of 2022 was affected by the deferred income tax related to the re-expression of the tax losses carry forward due to a 4.1% revaluation of the Peruvian sol against the U.S. dollar, partially offset by the effect of non-deductible expenses. 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

	Year ended December 31,		Three months ended December 31,	
<i>In millions of U.S. dollars</i>	2022	2021	2022	2021
Operating profit	64	54	12	17
Depreciation	13	14	4	4
Total EBITDA	US\$77	US\$68	US\$16	US\$21

Material Indebtedness

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

