



ORAZUL ENERGY PERU S.A. AND SUBSIDIARY

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

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

September 30, 2023 and 2022



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 6.1 years, beyond our senior notes' remaining life.

Our hydroelectric business is summarized in the following table:

Location		Type	Capacity	Availability ²
Orazul	Cañón del Pato	 Hydro generation/ Run-of-river	266MW	91%
	Carhuaquero	 Hydro generation/ Run-of-river	110MW	92%

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.

² Last twelve-month September 2023 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.



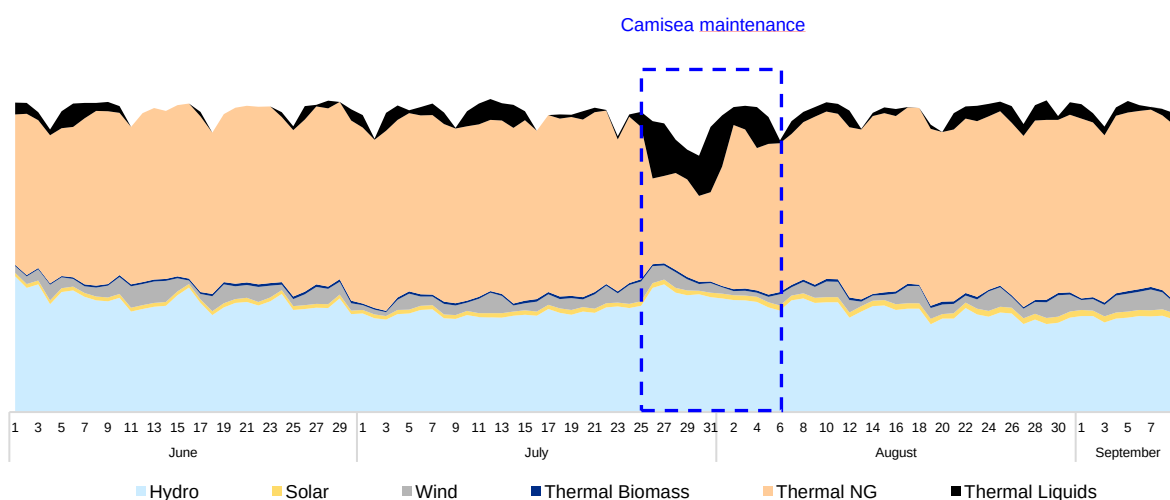
Peruvian Electric Market – Extraordinary events during 3Q-2023

Curtailment in natural gas supply

A maintenance in the Malvinas gas plant (“Camisea”) was programmed initially from July 25 to July 31. However, the maintenance works were unexpectedly extended until August 22. The Ministry of Energy and Mines declared an emergency on the natural gas supply, transportation, and distribution systems during this period, and the rationing mechanism was activated, which resulted in a change in the allocation of natural gas, prioritizing local demand.

Although maintenance works ended in August 22, the curtailment in natural gas supply for thermal generation was from July 25 to August 6. It materially impacted the electric market system and triggered the system operator to dispatch non-efficient thermal liquids units (mainly diesel) to cover demand (Graphic 1), increasing average spot prices significantly (Graphic 3).

Graphic 1: National Interconnected Electrical System Dispatch



Weather phenomena

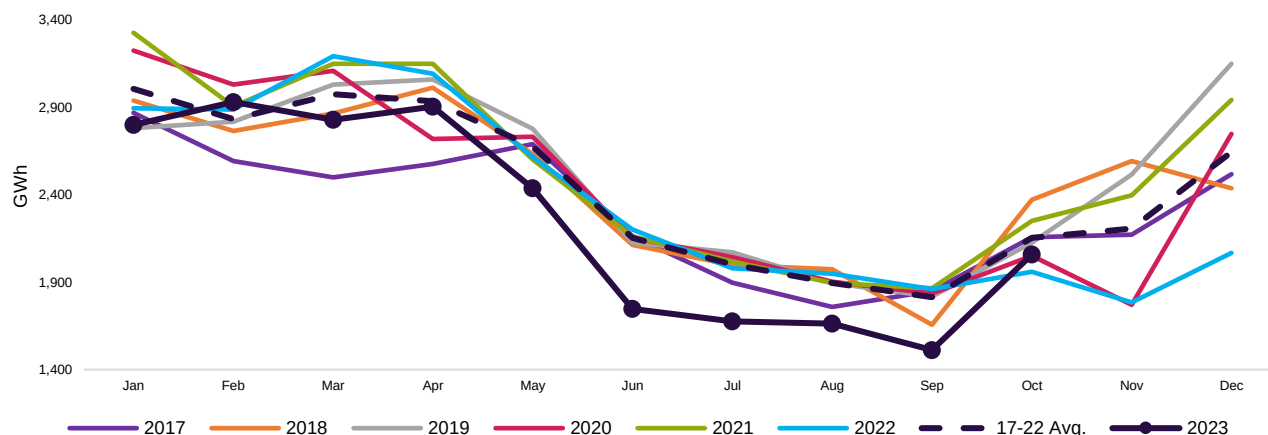
El Niño is a recurring weather phenomenon in which Pacific Ocean trade winds slow down, with intense warming effects. The ongoing El Niño is impacting rainfall patterns. Changes in the sea surface temperature in the coast of Peru have an influence on the annual rainfall cycle, mainly in the Andean regions.

El Niño causes a range of effects in Peru, generating changes in the distribution of rainfall, often leading to intense rains and flooding in the north, with drought in parts of the central and south Andean highlands. The 2023 dry and rainy season were characterized by a rainfall shortfall in the Andean region, classified as the driest in the last 60 years. Several regions in the Peruvian Andes have recorded below-average rainfall, resulting in droughts mainly in the southern and central mountains. Even though El Niño is a recurring phenomenon, Peru is facing the consequences of unusual climatic events given the occurrence of “La Niña” phenomenon; the “Coastal El Niño” phenomenon, a cyclone hitting the north coast in the first quarter of 2023 (“Yaku”) and the “Global El Niño” phenomenon.



Given this uncommon climatic situation, the hydro generation of the Peruvian system decreased significantly during 2023 in comparison with previous years (Graphic 2).

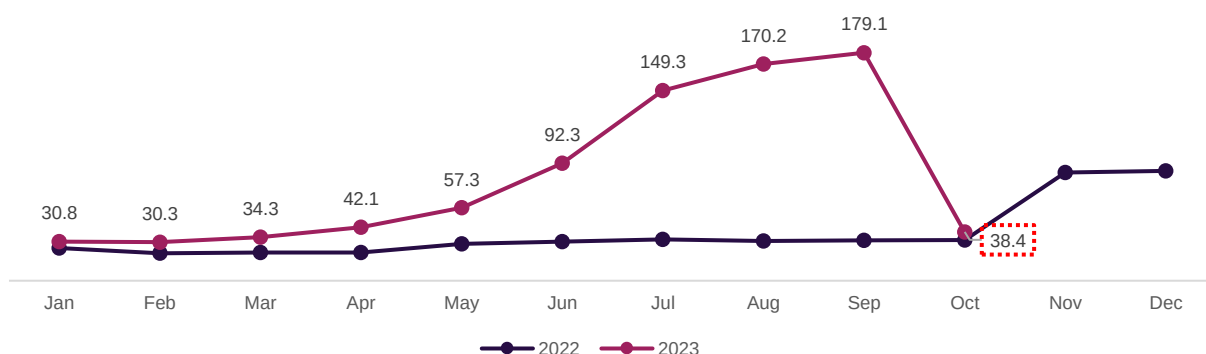
Graphic 2: National Interconnected Electrical System Hydro Generation



The effects of the extreme drought were exacerbated by the Camisea maintenance and the outage of two relevant hydropower plants in the system (i) Chaglla with 476 MW, which represents 10% of the total hydro capacity³ of the system, from July 24th to October 19th, due to corrective maintenance works; and, (ii) Quitaracsa with 118 MW, which represents 2% of the total hydro capacity of the system⁴, since March 12th, due to damages in its infrastructure related to the Yaku Cyclone which caused unsafe conditions and excessive sedimentation in certain rivers.

Notwithstanding, as the rainy season approaches, the expectation is that trend will converge to an average scenario for the coming months.

Graphic 3: Average Marginal Cost US\$/MWh at Santa Rosa 220 kV



³ Total hydro effective capacity of the Peruvian system as of December 2022.

⁴ As of the date of this report, Quitaracsa hydro power plant remains out of service. However, on November 30, 2023, Quitaracsa started operational tests at 50% of its capacity,



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 consolidated interim financial statements as of September 30, 2023, and 2022.

For the nine-month period ended September 30, 2023, and 2022

	Nine months ended		%
	September 30		Change
<i>In millions of U.S. dollars</i>	2023	2022	
Revenue of energy	84	82	2%
Cost of sales (excluding depreciation)	(33)	(18)	83%
Depreciation	(19)	(8)	138%
Administrative expenses	(3)	(4)	-25%
Operating profit	29	52	-44%
Finance income	1	-	-
Finance costs	(17)	(21)	-19%
Net foreign exchange difference	-	-	0%
Net finance cost	(16)	(21)	-24%
Profit before income tax	13	31	-58%
Income tax expense	(4)	(12)	-67%
Profit for the period	9	19	-53%

Results of Operations

The Company's profit for the nine-month period ended September 30, 2023, amounted to US\$9 million compared to US\$19 million during the same period in 2022. The Company's results are explained by the following:

Revenue

Revenue increased by US\$2 million, or 2%, to US\$84 million during the first nine months of 2023, from US\$82 million during the same period in 2022. This was explained by:

- US\$4 million increase in energy sales to the spot market related to a 213% increase in the average spot price to US\$84.8/MWh during the first nine months of 2023 compared to US\$27.0/MWh during the same period in 2022, caused by:
 - i. the unexpected delay of the maintenance works at Camisea⁵, initially scheduled from July 25 to July 31, extended until August 22;
 - ii. lower water availability which triggered a decrease in the system's hydro generation³ and resulted in demand being covered by generation from non-efficient thermal liquids (mainly diesel) plants, and;
 - iii. the corrective maintenance of hydropower plants affected by Cyclone Yaku and El Niño phenomenon, which caused unsafe conditions and excessive sedimentation in certain rivers.

This was partially offset by a 4% decrease in net volumes of energy sales in the spot market to 250 GWh during the first nine months of 2023 from 260 GWh during the same period in 2022.

- US\$1 million increase in capacity sales to the spot market.

⁵ For further detail see section "Peruvian Electric Market: Extraordinary events during 3Q-2023".



These effects were partially offset by:

- US\$3 million in lower sales under PPAs mainly due to a 6% decrease in energy volumes sold to 1,230 GWh during the first nine months of 2023 from 1,313 GWh during the same period in 2022, mostly in connection with the end of certain PPAs, partially offset by a 3% increase in PPA prices to an average of US\$43.7/MWh during the first nine months of 2023 from an average of US\$42.3/MWh during the same period in 2022 mainly explained by the indexation of certain existing PPAs.

Cost of sales (excluding depreciation)

Cost of sales (excluding depreciation) increased by US\$15 million, or 83%, to US\$33 million during the first nine months of 2023, from US\$18 million during the same period in 2022 explained by:

- US\$11 million increase in energy purchases to the spot market mainly related to a 213% increase in the average spot price to US\$84.8/MWh during the first nine months of 2023 compared to US\$27.0/MWh during the same period in 2022, due to (i) the curtailment in natural gas supply from July 25 to August 6, due to the unexpected delay of the maintenance works at Camisea, initially scheduled from July 25 to July 31, extended until August 22; (ii) lower water availability which triggered a decrease in the system's hydro generation and resulted in demand being covered by generation from non-efficient diesel plants; and, (iii) the corrective maintenance of hydropower plants affected by Cyclone Yaku and El Niño phenomenon, which caused unsafe conditions and excessive sedimentation in certain rivers⁶.
- US\$2 million increase in other energy costs related to 2022 year-end COES transfers recalculation.
- US\$1 million increase in insurance cost.

Depreciation

Depreciation increased by US\$11 million to US\$19 million during the first nine months of 2023, from US\$8 million during the same period in 2022 due to the US\$399 million PP&E revaluation of the hydroelectric power plants performed in November 2022.

Administrative expenses

Administrative expenses decreased by US\$1 million, or 25%, to US\$3 million during the first nine months of 2023, from US\$4 million during the same period in 2022 due to lower intercompany services.

Net finance cost

Net finance cost decreased by US\$5 million, or 24%, to US\$16 million during the first nine months of 2023, from US\$21 million during the same period in 2022. This result corresponds to (i) US\$4 million in lower finance cost related to the interest paid in 2022 in connection with the shareholder loan granted by Orazul Energia Partners LLC; and (ii) US\$1 million increase in interest income related to higher interest paid on our cash balances.

Income tax expense

Income tax expense decreased by US\$8 million, or 67%, to US\$4 million during the first nine months of 2023, from US\$12 million during the same period in 2022. The effective tax rate during the first nine months of 2023 was 31% (the effective tax rate during the same period in 2022 was 39%). Changes in the effective tax rate correspond primarily to the re-expression of the tax losses carry forward due to exchange rate variations explained by a 0.6% and 0.4% revaluation of the Peruvian sol against the U.S. dollar during the first nine months of 2023 and the first nine months of 2022, respectively.

⁶ For further detail see section "Peruvian Electric Market: Extraordinary events during 3Q-2023".



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 source of liquidity has traditionally consisted of cash flow from operating activities.

As of September 30, 2023, our cash amounted to US\$42 million.

Cash Flows

	Nine months ended September 30,		% Change
<i>In millions of U.S. dollars</i>	2023	2022	
Cash from operating activities	53	59	-10%
Net Income tax paid	(13)	-	-
Net cash from operating activities	40	59	-32%
Net cash used in investing activities	(4)	(4)	0%
Net cash used in financing activities	(11)	(51)	-78%
Net increase in cash	25	4	525%
Cash and cash equivalent as of January 1	17	21	-19%
Cash at September 30	42	25	68%

Cash Flows from Operating Activities

Our source of operating funds is the cash flow generated from our operations. The net cash from operating activities decreased by US\$19 million, or 32%, to US\$40 million during the first nine months of 2023 from US\$59 million during the same period in 2022.

The decrease was driven by:

- A US\$14 million increase in payment to suppliers mainly due to higher energy purchases in the spot market.
- A US\$12 million increase in income tax paid related to the 2022 corporate income tax reported in the annual tax return.

These effects were partially offset by a US\$7 million increase in collections of energy and capacity related to higher energy sales in the spot market during the first nine months of 2023 and collection of 2022 outstanding balances.



Cash Flows used in Investing Activities

Net cash flows used in our investing activities amounted to US\$4 million during the first nine months of 2023, unchanged from the same period in 2022.

During the first nine months of 2023, cash used in investing activities was for payments related to the acquisition of property, plant, and equipment.

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.

Cash Flows used in Financing Activities

Net cash flows used in our financing activities decreased by US\$40 million, or 78%, to US\$11 million during the first nine months of 2023 from US\$51 million during the same period in 2022.

During the first nine months of 2023, we used cash to pay US\$11 million in interest related to the 2027 Notes and related withholding tax.

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 related taxes; (ii) US\$15 million in dividends to shareholders; and (iii) US\$11 million in interest related to the Notes and related withholding tax.



For the three-month period ended September 30, 2023, and 2022

	Three months ended September 30		% Change
<i>In millions of U.S. dollars</i>	2023	2022	
Revenue of energy	21	25	-16%
Cost of sales (excluding depreciation)	(20)	(9)	122%
Depreciation	(7)	(2)	250%
Administrative expenses	-	(1)	-100%
Operating (loss) profit	(6)	13	-146%
Finance income	1	-	-
Finance costs	(6)	(9)	-33%
Net foreign exchange difference	-	(1)	-100%
Net finance cost	(5)	(10)	-50%
(Loss) Profit before income tax	(11)	3	-467%
Income tax expense	(5)	(10)	-50%
Loss for the period	(16)	(7)	129%

Results of Operations

The Company's loss for the three-month period ended September 30, 2023, amounted to US\$16 million compared to US\$7 million during the same period in 2022. The Company's results are explained by the following:

Revenue

Revenue decreased by US\$4 million, or 16%, to US\$21 million during the third quarter of 2023, from US\$25 million during the same period in 2022. This was mainly explained by (i) US\$3 million lower sales under PPAs due to an 11% decrease in energy volumes sold to 393 GWh during the third quarter of 2023 from 443 GWh during the same period in 2022, mostly in connection with the end of certain PPAs; and (ii) US\$1 million decrease in energy sales to the spot market.

Cost of sales (excluding depreciation)

Cost of sales (excluding depreciation) increased by US\$11 million, to US\$20 million during the third quarter of 2023, from US\$9 million during the same period in 2022 mainly explained by an increase in energy purchases to the spot market related to a 413% increase in the average spot price to US\$158.2/MWh during the third quarter of 2023 compared to US\$30.8/MWh during the same period in 2022, due to (i) the curtailment in natural gas supply from July 25 to August 6, due the unexpected delay of the maintenance works at Camisea, initially scheduled from July 25 to July 31, extended until August 22; (ii) lower water availability which triggered a decrease in the system's hydro generation and resulted in demand being covered by generation from non-efficient thermal liquids (mainly diesel) plants; and, (iii) the corrective maintenance of hydropower plants affected by Cyclone Yaku and El Niño phenomenon, which caused unsafe conditions and excessive sedimentation in certain rivers⁷.

Depreciation

Depreciation increased by US\$5 million to US\$7 million during the third quarter of 2023, from US\$2 million during the same period in 2022 due to the US\$399 million PP&E revaluation of the hydroelectric power plants performed in November 2022.

⁷ For further detail see section "Peruvian Electric Market: Extraordinary events during 3Q-2023".



Net finance costs

Net finance cost decreased by US\$5 million, or 50%, to US\$5 million during the third quarter of 2023, from US\$10 million during the same period in 2022. This result corresponds to (i) US\$4 million in lower finance cost related to the interest paid in 2022 in connection with the shareholder loan granted by Orazul Energia Partners LLC; (ii) US\$1 million decrease in foreign exchange losses due to a 0.5% average revaluation of the Peruvian sol against the U.S. dollar during the third quarter of 2023; and, (iii) US\$1 million increase in interest income related to higher interest paid on our cash balances.

Income tax expense

Income tax expense decreased by US\$5 million, to US\$5 million during the third quarter of 2023, from US\$10 million during the same period in 2022. The effective tax rate during the third quarter of 2023 was 45% (the effective tax expense rate during the same period in 2022 was 333%). Changes in the effective tax rate correspond primarily to the re-expression of the tax losses carry forward due to exchange rate variations.



Appendixes

EBITDA reconciliation

	Nine months ended September 30,		Three months ended September 30,	
<i>In millions of U.S. dollars</i>	2023	2022	2023	2022
Operating profit	29	52	-6	13
Depreciation	19	9	6	3
Total EBITDA	US\$48	US\$61	US\$0	US\$16

As of September 30, 2023, last twelve months (LTM) EBITDA decreased by US\$16 million, or 20%, to US\$64 million, compared to US\$80 million LTM EBITDA as of September 2022.

Material Indebtedness

<i>In millions of U.S. dollars</i>	Outstanding Principal Amount as of Sep 30, 2023	Interest Rate	Final Maturity	Amortization
Long-term debt:				
Unsecured: 5.625% Notes due 2027	360	5.625%	April 2027	Principal due at maturity with semi-annual interest payments.
Total	US\$360			

Note: values net of transaction costs

