



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

March 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 376MW 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 6.9 years, beyond our senior notes' average 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	94%
	Carhuaquero	Hydro generation/ Run-of-river	110MW	90%

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 FY 2021 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 October 2021 and consequent cash tender offers, our Notes amount to US\$363.2 million.



Gas-to-Power Businesses Companies

i. Sale of Gas-to-Power Businesses Companies

On October 1, 2021, OEP signed a purchase agreement with Nautilus Partners III Perú S.A.C., a special purpose vehicle of Nautilus Energy Partners LLC, to sell its 100% ownership in Orazul Energy Group II S.A.C. ("OEG II"). OEG II was a subsidiary of OEP and the owner of 99.99% of the shares of the Gas-to-Power businesses companies, Aguaytía Energy del Perú S.R.L. ("Aguaytía") and Termoselva S.R.L. ("Termoselva"), for a total consideration of US\$41.8 million, which was fully paid on October 4, 2021. The sale was compliant with the requirements of the Notes' indenture and all requirements for related party transactions.

Aguaytía produces natural gas and natural gas liquids ("NGLs"), mainly liquefied petroleum gas ("LPG") and natural gasoline. Natural gas is transported using company-owned pipelines and sold to Termoselva to produce electricity at the Aguaytía thermal plant ("CTA"). Whenever CTA is not operating, extracted natural gas is reinjected into the wells to allow for the continued supply of NGLs. Termoselva, which operates CTA, is comprised of two single-cycle gas turbines, with a total installed capacity of 192MW.

Aguaytía and Termoselva consolidated represented approximately US\$51 million in revenues and US\$21 million in EBITDA based on 2021 consolidated audited financial statements (US\$51 million in revenues and US\$27 million in EBITDA based on 2020 consolidated audited financial statements).

Under the obligations of our Notes, Net Cash Proceeds from the sale of assets may be used within 1 year 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) with any Excess Net Cash Proceeds after (i), (ii), (iii), make an offer to purchase the Notes, at par. OEP complied with this obligation with the tender described in the following Offer to Purchase section.

After Shareholders approved the sale of OEG II, it was classified in our financial statements as held-for-sale since September 30, 2021. Since OEG II's book value was higher than its fair market value, Asset Held for Sale includes an impairment loss provision for US\$ 117 million. In addition, the transaction generated a deferred income tax asset of US\$138 million related to the tax loss carried forward triggered by the sale.

The sale of these companies had no impact in the normal operation of OEP's hydro power business.

ii. Offer to Purchase

On October 29, 2021, OEP announced the commencement of a cash tender offer (the "Gas-to-Power Tender Offer") for up to an amount of its outstanding Senior Notes that would not result in the aggregate purchase price exceeding US\$41.8 million (the "Maximum Tender Amount").

The Gas-to-Power Tender Offer constitutes an asset sale offer pursuant to the requirements of the indenture governing the Notes, in connection with OEP's sale in October 2021 of its indirect ownership in the thermal power generation and hydrocarbon businesses, Termoselva and Aguaytía.

On November 30, 2021, OEP announced the final tender results for its Gas-to-Power Tender Offer. A total of US\$180.3 million aggregate principal amount of the Notes was validly tendered. Since the aggregate principal amount of the Notes validly tendered resulted in an aggregate purchase price that exceeded the Maximum Tender Amount of US\$41.8 million, OEP accepted for purchase US\$41.5 million aggregate principal amount of the Notes, using a proration factor of approximately 23%.

The total consideration for the Notes validly tendered and accepted pursuant to the Gas-to-Power Tender Offer was US\$1,007.5 per US\$1,000 principal amount of Notes. In addition to the Total Consideration, holders received accrued and unpaid interest on all Notes tendered and accepted for payment from the last interest payment date up to, but not including, December 1, 2021, together with additional amounts thereon.

After the Gas-to-Power Tender Offer was completed, 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 consolidated financial statements as of March 31, 2022, and 2021.

For the three-month period ended March 31, 2022 and 2021

	Three months ended March 31		% Change
<i>In millions of U.S. dollars</i>	2022	2021*	
Revenue of energy	29	22	32%
Cost of sales (excluding depreciation)	(4)	(4)	0%
Depreciation	(3)	(3)	0%
Administrative expenses	(1)	(1)	0%
Other income, net	-	-	-
Operating profit	21	14	50%
Finance income	-	-	-
Finance costs	(6)	(9)	-33%
Net foreign exchange difference	-	(1)	-100%
Finance cost, net	(6)	(10)	-40%
Profit before income tax	15	4	275%
Income tax income (expense)	6	(2)	-400%
Profit from continuing operations	21	2	950%
Profit from subsidiaries held for sale	-	2	-100%
Profit for the period	21	4	425%

(*) 2021 comparative information has been restated due to discontinued operations, as detailed in note 3 of the unaudited financial statements.

Results of Operations

The Company's profit for three-month period ended March 2022 amounted to US\$21 million compared to US\$4 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\$7 million, or 32%, to US\$29 million during the first quarter of 2022, from US\$22 million during the same period in 2021. This was explained by:

- US\$3 million increase in net energy sales to the spot market explained by higher average spot price of US\$22.6/MWh during the first quarter of 2022 compared to US\$8.3/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 decrease in net volumes of energy sales in the spot market to 257 GWh during the first quarter of 2022 from 296 GWh during the same period in 2021, triggered by higher sales under PPAs.
- US\$3 million higher energy sales under PPAs due to 9% higher prices to an average of US\$40.4/MWh during the first quarter of 2022 from an average of US\$37.1/MWh during the same period in 2021, added to 8% higher volumes of energy sales under PPAs to 431 GWh during the first quarter of 2022 from 399 GWh during the same period in 2021.

**Cost of sales (excluding depreciation)**

Cost of sales (excluding depreciation) amounted to US\$4 million during the first quarter of 2022, unchanged from the same period in 2021.

Depreciation

Depreciation amounted to US\$3 million during the first quarter of 2022, unchanged from the same period in 2021.

Administrative expenses

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

Net finance costs

Net finance costs decreased by US\$4 million, or 40%, to US\$6 million during the first quarter of 2022 from US\$10 million during the same period in 2021. This was explained by lower interest expense related to Orazul's Notes lower outstanding balance as a result of the tender offers made after the sale of the transmission and gas-to-power businesses.

Income tax income

Income tax income increased by US\$8 million to US\$6 million income during the first quarter of 2022 from US\$2 million expense during the same period in 2021. The tax income was explained primarily by the re-expression of the tax losses carried forward due to a 7.3% revaluation of the Peruvian sol against the U.S. dollar in the first quarter of 2022.

Profit from discontinued operation, net of tax

Profit from discontinued operation, net of tax decreased by US\$2 million, to nil during the first quarter of 2022 from US\$2 million during the same period in 2021. During 2021, discontinued operation corresponds to the net profit from the sale in October 2021 of our gas-to-power business.



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.

During 2022 and 2021, cash flow generated by operations was primarily used for investment activities and to service our outstanding interest and debt obligations.

As of March 31, 2022, our cash and cash equivalents amounted to US\$33 million.

Cash Flows

<i>In millions of U.S. dollars</i>	Three months ended March 31,		% Change
	2022	2021*	
Cash from operating activities	18	29	-38%
Income tax paid	-	(3)	-100%
Net cash from operating activities	18	26	-31%
Net cash used in investing activities	(1)	(5)	-80%
Net cash used in financing activities	(5)	(2)	150%
Net increase in cash	12	19	-37%
Cash and cash equivalent as of January 1	21	153	-86%
Effects of variations on exchange difference on held cash	-	(1)	-100%
Cash at March 31	33	171	-81%

(*) During 2022, and with the purpose of making the financial information comparable, certain reclassifications were made to the presentation of the Cash Flows figures as of March 31, 2021.

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\$8 million, or 31%, to US\$18 million during the first quarter of 2022 from US\$26 million during the same period in 2021.

The decrease was primarily driven by US\$11 million lower collections of energy, capacity and hydrocarbons related to the gas-to-power business, added to commercial invoices collected the first week of April 2022. These effects were partially offset by US\$3 million of lower monthly advance income tax payments.



Cash Flows from Investing Activities

Net cash flows used in our investing activities decreased by US\$4 million, or 80%, to US\$1 million during the first quarter of 2022 from US\$5 million during the same period in 2021.

During the first quarter of 2022, cash used in investing activities was mainly for payments related to the option agreements signed with distribution companies to extend the contract terms of certain PPAs, recorded as intangibles.

During the first quarter of 2021, cash used in investing activities was for (i) US\$3 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 increased by US\$3 million, or 150%, to US\$5 million during the first quarter of 2022 from US\$2 million during the same period in 2021.

During the first quarter of 2022, we used cash to pay US\$5 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.

During the first quarter of 2021, we used cash to pay US\$1 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.



Appendixes

EBITDA reconciliation

	Three months ended March 31,		Discontinued operations	As previously reported
<i>In millions of U.S. dollars</i>	2022	2021	2021	2021
Operating profit	21	14	5	19
Depreciation	3	3	3	6
Total EBITDA	US\$24	US\$17	US\$8	US\$25

As of March 31, 2022, last 12 months (LTM) EBITDA increased by US\$12 million, or 19%, to US\$75 million, compared to US\$63 million LTM EBITDA as of March 2021.

Material Indebtedness

<i>In millions of U.S. dollars</i>	Outstanding Principal Amount as of March 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

