



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

**March 31, 2023 and 2022**

## **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 4<sup>th</sup> 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%<sup>1</sup> with an average life of approximately 6.3 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 <sup>2</sup> |
|----------|----------------|-----------------------------------|----------|---------------------------|
| Orazul   | Cañón del Pato | Hydro generation/<br>Run-of-river | 266MW    | 89%                       |
|          | Carhuaquero    | Hydro generation/<br>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.

<sup>1</sup> Estimated for FY 2023.

<sup>2</sup> Last twelve-month March 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.



## **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 March 31, 2023, and 2022.

### **For the three-month periods ended March 31, 2023 and 2022**

|                                        | Three months ended |            | %           |
|----------------------------------------|--------------------|------------|-------------|
|                                        | March 31           |            | Change      |
| <i>In millions of U.S. dollars</i>     | 2023               | 2022       |             |
| Revenue of energy                      | 31                 | 29         | 7%          |
| Cost of sales (excluding depreciation) | (6)                | (4)        | 50%         |
| Depreciation                           | (6)                | (3)        | 100%        |
| Administrative expenses                | (1)                | (1)        | 0%          |
| <b>Operating profit</b>                | <b>18</b>          | <b>21</b>  | <b>-14%</b> |
| Finance costs                          | (6)                | (6)        | 0%          |
| <b>Finance cost, net</b>               | <b>(6)</b>         | <b>(6)</b> | <b>0%</b>   |
| <b>Profit before income tax</b>        | <b>12</b>          | <b>15</b>  | <b>-20%</b> |
| Income tax (expense) income            | (3)                | 6          | -150%       |
| <b>Profit for the period</b>           | <b>9</b>           | <b>21</b>  | <b>-57%</b> |

### **Results of Operations**

The Company's profit for the three-month period ended March 31, 2023 amounted to US\$9 million compared to US\$21 million during the same period in 2022. The Company's results are explained by the following:

#### **Revenue**

Revenue increased by US\$2 million, or 7%, to US\$31 million during the first quarter of 2023, from US\$29 million during the same period in 2022. This was mainly explained by an increase in energy sales to the spot market related to a 37% increase in average spot price to US\$31.0/MWh during the first quarter of 2023 compared to US\$22.6/MWh during the same period in 2022, mainly due to the lower hydrology generated by the corrective maintenances of hydropower plants affected by Cyclone Yaku and El Niño – Southern Oscillation, which caused unsafe conditions and excessive sedimentation in certain rivers. In addition, there was an increase in energy sales under PPAs related to 9% higher prices to an average of US\$44.2/MWh during the first quarter of 2023 from an average of US\$40.4/MWh during the same period in 2022.

#### **Costs of sales (excluding depreciation)**

Costs of sales (excluding depreciation) increased by US\$2 million, or 50%, to US\$6 million during the first quarter of 2023, from US\$4 million during the same period in 2022 mainly explained by an increase in other energy costs related to 2022 year-end COES transfers recalculation. In addition, there was an increase in transmission tolls and system costs in connection with the higher revenues.

#### **Depreciation**

Depreciation increased by US\$3 million, or 100%, to US\$6 million during the first quarter of 2023, from US\$3 million during the same period in 2022 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 first quarter of 2023, unchanged from the same period in 2022.

**Net finance costs**

Net finance costs amounted to US\$6 million during the first quarter of 2023, unchanged from the same period in 2022.

**Income tax (expense) income**

Income tax expense increased by US\$9 million, to US\$3 million tax expense during the first quarter of 2023, from US\$6 million income during the same period in 2022. The effective tax expense rate during the first quarter of 2023 was 25% (the effective tax income rate during the same period in 2022 was 40%). Changes in the effective tax rate correspond primarily to the effect of exchange rate variations in each quarter mainly explained by the re-expression of the tax losses carry forward due to a 1.4% revaluation of the Peruvian sol against the U.S. dollar compared to a 7.3% revaluation of the Peruvian sol against the U.S. dollar in the first quarter of 2022.



## 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,

As of March 31, 2023, our cash and cash equivalents amounted to US\$32 million.

## Cash Flows

| <i>In millions of U.S. dollars</i>           | Three months ended<br>March 31, |            | %<br>Change  |
|----------------------------------------------|---------------------------------|------------|--------------|
|                                              | 2023                            | 2022       |              |
| Cash from operating activities               | 25                              | 18         | 39%          |
| Net Income tax paid                          | (9)                             | -          | 100%         |
| <b>Net cash from operating activities</b>    | <b>16</b>                       | <b>18</b>  | <b>-11%</b>  |
| <b>Net cash used in investing activities</b> | <b>(1)</b>                      | <b>(1)</b> | <b>0%</b>    |
| <b>Net cash used in financing activities</b> | <b>-</b>                        | <b>(5)</b> | <b>-100%</b> |
| <b>Net increase in cash</b>                  | <b>15</b>                       | <b>12</b>  | <b>25%</b>   |
| Cash and cash equivalent as of January 1     | 17                              | 21         | -19%         |
| <b>Cash at March 31</b>                      | <b>32</b>                       | <b>33</b>  | <b>-3%</b>   |

## 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\$2 million, or 11%, to US\$16 million during the first quarter of 2023 from US\$18 million during the same period in 2022.

The decrease was driven by:

- a US\$9 million increase in income tax paid during the first quarter of 2023 due to the 2022 corporate income tax reported in the annual tax return.

This effect was partially offset by:

- a US\$7 million increase in collections of energy and capacity mainly related to higher sales during the first quarter 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\$1 million during the first quarter of 2023 unchanged from the same period in 2022.

During the first quarter of 2023, cash used in investing activities was mainly for payments related to the acquisition of property, plant, and equipment; among others.

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 term of certain PPAs, recorded as intangibles; among others.

### **Cash Flows used in Financing Activities**

Net cash flows used in our financing activities decreased by US\$5 million, or 100%, to nil from US\$5 million during the first quarter of 2022.

During the first quarter of 2022, Orazul used cash to pay US\$5 million in interest accrued up to 2018 related to the shareholder loan granted by Orazul Energia Partners LLC repaid in August 2022. Starting 2019, this loan bore no interest.



## Appendixes

### **EBITDA reconciliation**

| <i>In millions of U.S. dollars</i> | Three months ended<br>March 31, |               |
|------------------------------------|---------------------------------|---------------|
|                                    | 2023                            | 2022          |
| Operating profit                   | 18                              | 21            |
| Depreciation                       | 6                               | 3             |
| <b>Total EBITDA</b>                | <b>US\$24</b>                   | <b>US\$24</b> |

As of March 31, 2023, last twelve months (LTM) EBITDA increased by US\$2 million, or 3%, to US\$77 million, compared to US\$75 million LTM EBITDA as of March 2022.

### **Material Indebtedness**

| <i>In millions of U.S. dollars</i>  | Outstanding<br>Principal Amount<br>as of March 31,<br>2023 | Interest<br>Rate | Final Maturity | Amortization                                                  |
|-------------------------------------|------------------------------------------------------------|------------------|----------------|---------------------------------------------------------------|
| Long-term debt:                     |                                                            |                  |                |                                                               |
| Unsecured:<br>5.625% Notes due 2027 | 360                                                        | 5.625%           | April 2027     | Principal due at maturity with semi-annual interest payments. |
| <b>Total</b>                        | <b>US\$360</b>                                             |                  |                |                                                               |

**Note:** values net of transaction costs

