



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

June 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 6.2 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	90%
	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"). 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 June 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 June 30, 2023, and 2022.

For the six-month period ended June 30, 2023 and 2022

	Six months ended		%
	June 30		Change
<i>In millions of U.S. dollars</i>	2023	2022	
Revenue of energy	63	57	11%
Cost of sales (excluding depreciation)	(13)	(9)	44%
Depreciation	(12)	(6)	100%
Administrative expenses	(3)	(3)	0%
Operating profit	35	39	-10%
Finance income	-	-	-
Finance costs	(11)	(12)	-8%
Net foreign exchange difference	-	1	-100%
Net finance costs	(11)	(11)	0%
Profit before income tax	24	28	-14%
Income tax income (expense)	1	(2)	-150%
Profit for the period	25	26	-4%

Results of Operations

The Company's profit for the six-month period ended June 30, 2023, amounted to US\$25 million compared to US\$26 million during the same period in 2022. The Company's results are explained by the following:

Revenue

Revenue increased by US\$6 million, or 11%, to US\$63 million during the first six months of 2023, from US\$57 million during the same period in 2022. This was mainly explained by an increase in energy sales to the spot market related to a 93% increase in average spot price to US\$47.7/MWh during the first six months of 2023 compared to US\$24.7/MWh during the same period in 2022, mainly due to (i) corrective maintenance of hydropower plants during the first quarter of 2023 affected by Cyclone Yaku and El Niño – Southern Oscillation, which caused unsafe conditions and excessive sedimentation in certain rivers; and, (ii) lower water availability during the second quarter of 2023 compared to the same period in 2022 which triggered a decrease in the system's hydro generation.

Costs of sales (excluding depreciation)

Costs of sales (excluding depreciation) increased by US\$4 million, or 44%, to US\$13 million during the first six months of 2023, from US\$9 million during the same period in 2022 mainly explained by (i) US\$2 million increase in other energy costs related to 2022 year-end COES transfers recalculation; (ii) a US\$1 million increase in transmission tolls and system costs in connection with the higher revenues; and, (iii) a US\$1 million increase in intercompany services related to higher personnel expenses.

**Depreciation**

Depreciation increased by US\$6 million, or 100%, to US\$12 million during the first six months of 2023, from US\$6 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 amounted to US\$3 million during the first six months of 2023, unchanged from the same period in 2022.

Net finance costs

Net finance costs amounted to US\$11 million during the first six months of 2023, unchanged from the same period in 2022.

Income tax income (expense)

Income tax decreased by US\$3 million, to US\$1 million income during the first six months of 2023, from US\$2 million expense during the same period in 2022. The effective tax income rate during the first six months of 2023 was 4% (the effective tax expense rate during the same period in 2022 was 7%). 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 4.9% and 4.2% revaluation of the Peruvian sol against the U.S. dollar during the first six months of 2023 and the first six months of 2022, respectively.



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 June 30, 2023, our cash amounted to US\$38 million.

Cash Flows

	Six months ended June 30,		% Change
<i>In millions of U.S. dollars</i>	2023	2022	
Cash from operating activities	45	40	13%
Net Income tax paid	(11)	(1)	1000%
Net cash from operating activities	34	39	-13%
Net cash used in investing activities	(2)	(2)	0%
Net cash used in financing activities	(11)	(24)	-54%
Net increase in cash	21	13	62%
Cash and cash equivalent as of January 1	17	21	-19%
Effects of variations on exchange difference on held cash	-	1	-100%
Cash at June 30	38	35	9%

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\$5 million, or 13%, to US\$34 million during the first six months of 2023 from US\$39 million during the same period in 2022.

The decrease was driven by:

- A US\$11 million increase in income tax paid mainly related to the 2022 corporate income tax reported in the annual tax return; and
- A US\$5 million increase in payment to suppliers due to higher energy purchases in the spot market.

These effects were partially offset by a US\$10 million increase in collections of energy and capacity mainly related to higher sales during the first six 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\$2 million during the first six months of 2023 unchanged from the same period in 2022.

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

During the first six months of 2022, cash used in investing activities was for (i) US\$1 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\$1 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\$13 million, or 54%, to US\$11 million during the first six months of 2023 from US\$24 million during the same period in 2022.

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

During the first six months of 2022, Orazul used cash to (i) pay US\$12 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 (ii) pay US\$12 million in interest related to the 2027 Notes and its respective withholding tax.



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

	Three months ended		%
	June 30		Change
<i>In millions of U.S. dollars</i>	2023	2022	
Revenue of energy	32	28	14%
Cost of sales (excluding depreciation)	(7)	(5)	40%
Depreciation	(6)	(3)	100%
Administrative expenses	(2)	(2)	0%
Operating profit	17	18	-6%
Finance income	-	-	-
Finance costs	(5)	(6)	-17%
Net foreign exchange difference	-	1	-
Net finance costs	(5)	(5)	0%
Profit before income tax	12	13	-8%
Income tax income (expense)	4	(8)	-150%
Profit for the period	16	5	220%

Results of Operations

The Company's profit for the three-month period ended June 30, 2023, amounted to US\$16 million compared to US\$5 million during the same period in 2022. The Company's results are explained by the following:

Revenue

Revenue increased by US\$4 million, or 14%, to US\$32 million during the second quarter of 2023, from US\$28 million during the same period in 2022. This was mainly explained by an increase in energy sales to the spot market related to a 134% increase in average spot price to US\$62.8/MWh during the second quarter of 2023 compared to US\$26.8/MWh during the same period in 2022, mainly due to lower water availability which triggered a decrease in the system's hydro generation compared to the same period in 2022.

Costs of sales (excluding depreciation)

Costs of sales (excluding depreciation) increased by US\$2 million, or 40%, to US\$7 million during the second quarter of 2023, from US\$5 million during the same period in 2022 mainly explained by (i) US\$1 million increase in transmission tolls and system costs in connection with higher revenues; and (ii) US\$1 million increase in intercompany services related to higher personnel expenses.

Depreciation

Depreciation increased by US\$3 million, or 100%, to US\$6 million during the second quarter of 2023, from US\$3 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 amounted to US\$2 million during the second quarter of 2023, unchanged from the same period in 2022.

**Net finance costs**

Net finance costs amounted to US\$5 million during the second quarter of 2023, unchanged from the same period in 2022.

Income tax income (expense)

Income tax decreased by US\$12 million, to US\$4 million income during the second quarter of 2023, from US\$8 million expense during the same period in 2022. The effective tax income rate during the second quarter of 2023 was 33% (the effective tax expense rate during the same period in 2022 was 62%). 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

	Six months ended June 30,		Three months ended June 30,	
<i>In millions of U.S. dollars</i>	2023	2022	2023	2022
Operating profit	35	39	17	18
Depreciation	13	6	7	3
Total EBITDA	US\$48	US\$45	US\$24	US\$21

As of June, 30, 2023, last twelve months (LTM) EBITDA increased by US\$2 million, or 3%, to US\$80 million, compared to US\$78 million LTM EBITDA as of June 2022.

Material Indebtedness

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

