



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, 2024 and 2023



ORAZUL ENERGY PERU

About the Company

We are a Peruvian company focused on the electric power sector. We own and operate two hydroelectric power plants with a combined capacity of 376 MW, being the 4th largest hydroelectric complex within the Peruvian system and a 1 MW solar plant, all located in northern Peru. Our 377 MW are diversified in: (i) 2 run-of-river hydroelectric power plants in different hydrological basins: Cañón del Pato with 266 MW in the Santa River and Carhuaquero with 110 MW in the Chancay River; with a total of 11 turbines and (ii) our 1 MW solar plant built in 2023 which is located next to the Carhuaquero hydro power plant. The commercial operation date of our solar plant was granted on February 14, 2024.

We incorporated our subsidiary Kondu S.A., to conduct power generation, transmission, and commercialization activities as well as provide energy solutions services to our customers.

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 67%¹ with an average life of approximately 5.4 years.

Orazul Energy Peru (Orazul) 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. 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, Orazul'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 Orazul 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 21 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 2024.



Our Notes

On April 25, 2017, Orazul 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 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 September 30, 2024, and 2023.

For the nine-month period ended September 30, 2024 and 2023

	Nine months ended September 30		% Change
<i>In millions of U.S. dollars</i>	2024	2023	
Revenues	78	84	-7%
Cost of sales (excluding depreciation and amortization)	(18)	(33)	-45%
Depreciation	(19)	(19)	0%
Administrative expenses	(4)	(3)	33%
Other income, net	1	-	-
Operating profit	38	29	31%
Finance income	2	1	100%
Finance costs	(17)	(17)	0%
Net foreign exchange difference	-	-	-
Net finance costs	(15)	(16)	-6%
Profit before income tax	23	13	77%
Income tax expense	(62)	(4)	1450%
(Loss) Profit for the period	(39)	9	-533%

Results of Operations

The Company's net loss for the nine-month period ended September 30, 2024, amounted to US\$39 million compared to US\$9 million net profit during the same period in 2023.

The Company's results are explained by the following:

Revenues

Revenues decreased by US\$6 million, or 7%, to US\$78 million during the first nine months of 2024, from US\$84 million during the same period in 2023. This was explained by:

- US\$16 million decrease in energy and capacity sales under PPAs related to a 24% decrease in energy volumes sold under PPAs to 940 GWh during the first nine months of 2024 from 1,230 GWh during the same period in 2023, mostly in connection with the reduction in the contracted capacity of certain PPAs with distribution companies; partially offset by a 5% increase in PPA energy prices to an average of US\$45/MWh during the first nine months of 2024 from an average of US\$43/MWh during the same period in 2023 explained by the indexation of certain PPAs.

This effect was partially offset by:

- US\$10 million increase in net energy and capacity sales in the spot market mainly due to a 167% increase in net energy sold in the spot market to 668 GWh during the first nine months of 2024 from 250 GWh during the same period in 2023 explained by a 9% increase in our hydroelectric generation to 1,609 GWh during the first nine months of 2024 from 1,480 GWh during the same period in 2023, and lower energy sales under PPAs. This was partially offset by a 65% decrease in



the average spot price to US\$30/MWh during the first nine months of 2024 compared to US\$85/MWh during the same period in 2023, explained by²:

- (i) Higher water availability in the system resulted in a 13% increase in hydroelectric generation to 23,173 GWh during the first nine months of 2024 from 20,498 GWh during the same period in 2023. During 2023 water availability in the system was affected by extraordinary one-time effects and normalized in 2024.
- (ii) The curtailment in natural gas supply from July 25 to August 6, 2023, due to the unexpected delay of the maintenance works at Camisea, which triggered the dispatch of system's non-efficient thermal liquids units (mainly diesel) to cover demand, resulting in a significant increase in spot prices during such period.
- (iii) The outage of two relevant hydropower plants representing 12% of the total hydro capacity of the system: Chaglla with 476 MW, from July 24th to October 19th, 2023 due to corrective maintenance works; and, Quitaracsa with 118 MW, from March 12th to December 17th, 2023 (59MW from Unit 1) and March 17th, 2024 (59MW from Unit 2); due to damages in its infrastructure related to the Yaku Cyclone which caused unsafe conditions and excessive sedimentation in certain rivers.

Cost of sales (excluding depreciation and amortization)

Cost of sales (excluding depreciation and amortization) decreased by US\$15 million, or 45%, to US\$18 million during the first nine months of 2024, from US\$33 million during the same period in 2023 explained by a 89% decrease in net energy purchases in the spot market due to a 65% decrease in the average spot price to US\$30/MWh during the first nine months of 2024 compared to US\$85/MWh during the same period in 2023 in connection with (i) higher water availability in the system which resulted in a 13% increase in hydroelectric generation in the system, (ii) the curtailment in natural gas supply from July 25 to August 6, 2023, due to the unexpected delay of the maintenance works at Camisea, which triggered the dispatch of system's non-efficient thermal liquids units (mainly diesel) to cover demand, and (iii) the outage of two relevant hydropower plants representing 12% of the total hydro capacity of the system.

Depreciation

Depreciation amounted to US\$19 million during the first nine months of 2024, unchanged from the same period in 2023.

Administrative expenses

Administrative expenses increased by US\$1 million or 33%, to US\$4 million during the first nine months of 2024, from US\$3 million during the same period in 2023 mainly explained by an increase in the Management Service Agreement with Kallpa.

Other income, net

Other income, net increased by US\$1 million during the first nine months of 2024, to US\$1 million due to the gain on the sale of certain minor assets.

Net finance costs

Net finance costs decreased by US\$1 million or 6%, to US\$15 million during the first nine months of 2024, from US\$16 million during the same period in 2023 mainly explained by an increase in interest income related to the higher cash balances kept during the first nine months of 2024 and the higher interest rates paid on our balances.

² For further information please refer to the Management's Discussion and Analysis of Financial Condition & Results of Operations of December 2023.



Income tax expense

Income tax expense increased by US\$58 million, to US\$62 million during the first nine months of 2024, from US\$4 million during the same period in 2023. The effective income tax rate during the first nine months of 2024 was 270% (31% during the same period in 2023). The increase in effective tax rate corresponds primarily to US\$55 million one-time adjustment in the deferred tax determination in connection with the 2020 tax audit conducted by the Peruvian tax authority, which resulted in a US\$185 million reduction in the tax loss carryforward. This adjustment did not involve any cash payment. Without the impact of 2020 tax assessment in the deferred income, effective tax rate would have been 30%.

Changes in the effective 2023 tax rate correspond primarily to the re-expression of the tax losses carry forward due to exchange rate variations explained by a 0.6% revaluation of the Peruvian sol against the U.S. dollar during the first nine months of 2023.



Liquidity and Capital Resources

Our principal cash requirements consist of the following:

- Working capital requirements;
- Capital expenditures related to maintenance projects;
- 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, 2024, our cash in hand amounted to US\$67 million.

Cash Flows

	Nine months ended September 30,		% Change
<i>In millions of U.S. dollars</i>	2024	2023	
Cash from operating activities	61	53	15%
Income tax paid	(6)	(13)	-54%
Net cash from operating activities	55	40	38%
Net cash used in investing activities	(4)	(4)	0%
Net cash used in financing activities	(20)	(11)	82%
Net increase in cash	31	25	24%
Cash and cash equivalent as of January 1	36	17	112%
Cash at September 30	67	42	60%

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 increased by US\$15 million, or 38%, to US\$55 million during the first nine months of 2024 from US\$40 million during the same period in 2023.

The increase was driven by (i) US\$18 million decrease in payments to suppliers primarily related to lower purchases of energy in the spot market, (ii) US\$7 million decrease in income tax payments during the first nine months of 2024 mainly related to the 2022 annual income tax return paid during the first quarter of 2023; partially offset by US\$10 million decrease in collections from customers explained by lower energy and capacity sales under PPAs.



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 2024, unchanged from the same period in 2023.

During the first nine months of 2024 and 2023, cash used in investing activities was for payments related to the acquisition of property, plant, and equipment.

Cash Flows Used in Financing Activities

Net cash flows used in financing activities increased by US\$9 million, or 82%, to US\$20 million during the first nine months of 2024 from US\$11 million during the same period in 2023.

During the first nine months of 2024, cash used in financing activities was mainly for (i) US\$10 million in distributions to shareholders; and (ii) US\$10 million of interest service related to the 2027 Notes and its respective withholding tax.

During the first nine months of 2023, cash used in financing activities was mainly for interest service related to the 2027 Notes and its respective withholding tax.



For the three-month period ended September 30, 2024 and 2023

	Three months ended		%
	September 30		Change
<i>In millions of U.S. dollars</i>	2024	2023	
Revenues	19	21	-10%
Cost of sales (excluding depreciation and amortization)	(6)	(20)	-70%
Depreciation	(7)	(7)	0%
Administrative expenses	(1)	-	-
Other income, net	-	-	-
Operating (loss) profit	5	(6)	183%
Finance income	1	1	0%
Finance costs	(6)	(6)	0%
Net foreign exchange difference	1	-	-
Net finance costs	(4)	(5)	-20%
Profit (Loss) before income tax	1	(11)	109%
Income tax expense	(50)	(5)	900%
Loss for the period	(49)	(16)	-206%

Results of Operations

The Company's net loss for the three-month period ended September 30, 2024, amounted to US\$49 million compared to US\$16 million during the same period in 2023. The Company's results are explained by the following:

Revenues

Revenues decreased by US\$2 million, or 10%, to US\$19 million during the third quarter of 2024, from US\$21 million during the same period in 2023. This was mainly explained by US\$4 million decrease in energy and capacity sales under PPAs related to an 18% decrease in energy sold under PPAs to 321 GWh during the third quarter of 2024 from 393 GWh during the same period in 2023, mostly in connection with the reduction in the contracted capacity of certain PPAs with distribution companies; partially offset by US\$2 million increase in net energy and capacity sales to the spot market.

Cost of sales (excluding depreciation and amortization)

Costs of sales (excluding depreciation and amortization) decreased by US\$14 million, or 70%, to US\$6 million during the third quarter of 2024, from US\$20 million during the same period in 2023 mainly explained by a 78% decrease in net energy purchases in the spot market to 18 GWh during the third quarter of 2024 from 80 GWh during the same period in 2023, added to a 80% decrease in the average spot price to US\$31/MWh during the third quarter of 2024 compared to US\$158/MWh during the same period in 2023 in connection with:

- (i) Higher water availability in the system resulted in a 19% increase in hydroelectric generation in the system to 5,775 GWh during the third quarter of 2024 from 4,850 GWh during the same period in 2023.
- (ii) The curtailment in natural gas supply from July 25 to August 6, 2023, due to the unexpected delay of the maintenance works at Camisea, which triggered the dispatch of the system's non-efficient thermal liquids units (mainly diesel) to cover demand, resulting in a significant increase in spot prices during that period³.
- (iii) The outage of two relevant hydropower plants in the system, representing 12% of the total hydro capacity of the system: Chaglla with 476 MW, from July 24th to October 19th, 2023 due to corrective maintenance works; and, Quitaracsa with 118 MW, from March 12th to December 17th, 2023 (59MW from Unit 1) and March 17th, 2024 (59MW from Unit 2);

³ For further information please refer to the Management's Discussion and Analysis of Financial Condition & Results of Operations of December 2023.



due to damages in its infrastructure related to the Yaku Cyclone which caused unsafe conditions and excessive sedimentation in certain rivers.

Depreciation

Depreciation amounted to US\$7 million during the third quarter of 2024, unchanged from the same period in 2023.

Administrative expenses

Administrative expenses increased by US\$1 million during the third quarter of 2024, to US\$1 million mainly explained by an increase in the Management Service Agreements with Kallpa.

Net finance costs

Net finance costs decreased by US\$1 million, or 20%, to US\$4 million during the third quarter of 2024 from US\$5 million during the same period in 2023 due to an increase in foreign exchange gains in the third quarter of 2024 due to a revaluation of the Peruvian sol against the U.S. dollar.

Income tax expense

Income tax expense increased by US\$45 million, to US\$50 million during the third quarter of 2024, from US\$5 million during the same period in 2023. The effective income tax rate during the third quarter of 2024 was 5,000% (45% during the same period in 2023). The increase in effective tax rate corresponds primarily to US\$55 million one-time adjustment in the deferred tax determination in connection with the 2020 tax audit conducted by the Peruvian tax authority, which resulted in a US\$185 million reduction in the tax loss carryforward. This adjustment did not involve any cash payment. Without the impact of 2020 tax assessment in the deferred income, effective tax rate would have been 30%.

Changes in the 2023 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>	2024	2023	2024	2023
Operating profit	38	29	5	-6
Depreciation	19	19	6	6
Total EBITDA	US\$57	US\$48	US\$11	US\$0

As of September 30, 2024, last twelve months (LTM) EBITDA increased by US\$12 million, or 19%, to US\$76 million compared to US\$64 million LTM EBITDA as of September 2023⁴.

Material Indebtedness

<i>In millions of U.S. dollars</i>	Outstanding Principal Amount as of Sep 30, 2024	Interest Rate	Final Maturity	Amortization
Long-term debt:				
Unsecured: 5.625% Notes due 2027	361	5.625%	April 2027	Principal due at maturity with semi-annual interest payments.
Total	US\$361			

Note: values net of transaction costs

⁴ LTM EBITDA September 2023 was affected by the extraordinary one-time effects from Q3 2023. For further information please refer to the Management's Discussion and Analysis of Financial Condition & Results of Operations of December 2023.

