



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

March 31, 2024 and 2023

ORAZUL ENERGY PERU S.A. AND SUBSIDIARY

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



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 5.9 years, beyond our senior notes' remaining life.

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\$363.2 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, 2024, and 2023.

For the three-month periods ended March 31, 2024 and 2023

	Three months ended		%
	March 31		Change
<i>In millions of U.S. dollars</i>	2024	2023	
Revenues	31	31	0%
Cost of sales (excluding depreciation)	(6)	(6)	0%
Depreciation	(7)	(6)	17%
Administrative expenses	(1)	(1)	0%
Operating profit	17	18	-6%
Finance income	1	-	-
Finance costs	(6)	(6)	0%
Net finance costs	(5)	(6)	-17%
Profit before income tax	12	12	0%
Income tax expense	(4)	(3)	33%
Profit for the period	8	9	-11%

Results of Operations

The Company's net profit for the three-month period ended March 31, 2024, amounted to US\$8 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 amounted to US\$31 million during the first quarter of 2024, unchanged from the same period in 2023. This result was explained by:

- US\$4 million increase in net energy sales to the spot market mainly due to an 84% increase in volumes sold to the spot market to 367 GWh during the first quarter of 2024 from 200 GWh during the same period in 2023. This was mainly explained by a 22% decrease in PPA energy volumes sold and a 12% increase in our hydro generation to 693 GWh during the first quarter of 2024 from 617 GWh during the same period in 2023 related to the higher water availability.

This effect was offset by:

- US\$4 million in lower energy sales under PPAs mainly due to a 22% decrease in energy volumes sold to 326 GWh during the first quarter of 2024 from 417 GWh during the same period in 2023, mostly in connection with the end of certain PPAs, partially offset by a 5% increase in PPA prices to an average of US\$46/MWh during the first quarter of 2024 from an average of US\$44/MWh during the same period in 2023 mainly explained by the indexation of certain PPAs.

**Cost of sales (excluding depreciation)**

Cost of sales (excluding depreciation) amounted US\$6 million, during the first quarter of 2024, unchanged from the same period in 2023.

Administrative expenses

Administrative expenses amounted to US\$1 million during the first quarter of 2024, unchanged from the same period in 2023.

Net finance costs

Net finance costs decreased by US\$1 million, to US\$5 million during the first quarter of 2024 from US\$6 million during the same period in 2023 due to an increase in interest income related to the higher cash balances kept during the first quarter of 2024 and the higher interest rates paid on our balances.

Income tax expense

Income tax expense increased by US\$1 million, to US\$4 million during the first quarter of 2024, from US\$3 million during the same period in 2023. The effective tax rate during the first quarter 2024 was 33% (25% in 2023). Changes in the effective tax rate correspond primarily to the effect of the re-expression of the tax losses carried forward due to a 0.2% devaluation of the Peruvian sol against the U.S. dollar during the first quarter of 2024 compared to a 1.4% revaluation of the Peruvian sol against the U.S. dollar during the same period in 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 March 31, 2024, our cash amounted to US\$56 million.

Cash Flows

	Three months ended March 31,		% Change
<i>In millions of U.S. dollars</i>	2024	2023	
Cash from operating activities	26	25	4%
Net Income tax paid	(3)	(9)	-67%
Net cash from operating activities	23	16	44%
Net cash used in investing activities	(3)	(1)	200%
Net cash used in financing activities	-	-	0%
Net increase in cash	20	15	33%
Cash and cash equivalent as of January 1	36	17	112%
Cash as of March 31	56	32	75%

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\$7 million, or 44%, to US\$23 million during the first quarter of 2024 from US\$16 million during the same period in 2023.

The increase was driven by a US\$6 million decrease in income tax payments during the first quarter of 2024 mainly related to the 2022 annual income tax return paid during the first quarter of 2023.

Cash Flows used in Investing Activities

Net cash flows used in our investing activities increased by US\$2 million, to US\$3 million during the first quarter of 2024, from US\$1 million during the same period in 2023.

During the first quarter of 2024 and 2023, cash used in investing activities was for payments related to the acquisition of property, plant, and equipment. The US\$2 million increase in the first quarter of 2024 corresponds mainly to civil works (intake anchors) for Cañon del Pato; among others.



Appendixes

EBITDA reconciliation

	Three months ended March 31	
In millions of U.S. dollars	2024	2023
Operating profit	17	18
Depreciation	7	6
Total EBITDA	US\$24	US\$24

As of March 31, 2024, last twelve months (LTM) EBITDA decreased by US\$10 million, or 13%, to US\$67 million, compared to US\$77 million LTM EBITDA as of March 2023².

Material Indebtedness

<i>In millions of U.S. dollars</i>	Outstanding Principal Amount as of Mar 31, 2024	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

² LTM March 2024 is 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.

