



ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

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

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

June 30, 2022 and 2021



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	95%
	Carhuaquero	Hydro generation/ Run-of-river	110MW	94%

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 Last twelve-month June 2022 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 financial statements as of June 30, 2022, and 2021.

For the six-month period ended June 30, 2022 and 2021

	Six months ended		%
	June 30		Change
<i>In millions of U.S. dollars</i>	2022	2021*	
Revenue of energy	57	44	30%
Cost of sales (excluding depreciation)	(9)	(8)	13%
Depreciation	(6)	(7)	-14%
Administrative expenses	(3)	(2)	50%
Other income, net	-	1	-100%
Operating profit	39	28	39%
Finance income	-	-	-
Finance costs	(12)	(17)	-29%
Net foreign exchange difference	1	(1)	-200%
Net finance costs	(11)	(18)	-39%
Profit before income tax	28	10	180%
Income tax expense	(2)	(3)	-33%
Profit from continuing operations	26	7	271%
Profit from discontinued operation, net of tax	-	2	-100%
Profit for the period	26	9	189%

(*) 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 six-month period ended June 30, 2022 amounted to US\$26 million compared to US\$9 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\$13 million, or 30%, to US\$57 million during the first six months of 2022, from US\$44 million during the same period in 2021. This was explained by:

- US\$7 million increase in energy sales under PPAs due to a 10% increase in prices to an average of US\$41.3/MWh during the first six months of 2022 from an average of US\$37.5/MWh during the same period in 2021, added to a 14% increase in volumes of energy sales under PPAs to 869 GWh during the first six months of 2022 from 761 GWh during the same period in 2021.
- US\$5 million increase in net energy sales to the spot market explained by higher average spot price of US\$24.7/MWh during the first six months of 2022 compared to US\$9.5/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 16% decrease in net volumes of energy sales in the spot market to 412 GWh during the first six months of 2022 from 490 GWh during the same period in 2021, as a result of higher sales under PPAs.



Cost of sales (excluding depreciation)

Cost of sales (excluding depreciation) increased by US\$1 million, or 13%, to US\$9 million during the first six months of 2022, from US\$8 million during the same period in 2021. This was mainly explained by US\$1 million increase in net energy purchases to the spot market due to higher average spot price of US\$24.7/MWh during the first six months of 2022 compared to US\$9.5/MWh during the same period in 2021.

Depreciation

Depreciation decreased by US\$1 million, or 14%, to US\$6 million during the first six months of 2022, from US\$7 million during the same period in 2021 due to the end of the useful life of certain assets.

Administrative expenses

Administrative expenses increased by US\$1 million, or 50%, to US\$3 million during the first six months of 2022, from US\$2 million during the same period in 2021 due to the increase in the service agreement with a related party.

Net finance costs

Net finance costs decreased by US\$7 million, or 39%, to US\$11 million during the first six months of 2022 from US\$18 million during the same period in 2021. This was mainly explained by a US\$5 million decrease in interest expense as a result of Orazul's Notes lower outstanding balance after the asset sales tender offers made in the second half of 2021 after the sale of the transmission and gas to power businesses.

Income tax expense

Income tax expense decreased by US\$1 million, or 33%, to US\$2 million during the first six months of 2022 from US\$3 million during the same period in 2021. The estimated average effective tax rate during the first six months of 2022 was 7% (30% during the same period in 2021). In 2022, changes in the effective tax rate correspond primarily to the translation of the tax carry forward due to a 4% revaluation of the Peruvian sol against the U.S. dollar in the first six months of 2022 which reduced the income tax expense by US\$11 million.



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 June 30, 2022, our cash and cash equivalents amounted to US\$35 million.

Cash Flows

<i>In millions of U.S. dollars</i>	Six months ended June 30,		% Change
	2022	2021	
Cash from operating activities	40	45	-11%
Income tax paid	(1)	(5)	-80%
Net cash from operating activities	39	40	-3%
Net cash used in investing activities	(2)	(8)	-75%
Net cash used in financing activities	(24)	(18)	33%
Net increase in cash	13	14	-7%
Cash and cash equivalent as of January 1	21	153	-86%
Effects of variations on exchange difference on held cash	1	(1)	-200%
Cash at June 30	35	166	-79%

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\$1 million, or 3%, to US\$39 million during the first six months of 2022 from US\$40 million during the same period in 2021.

The decrease was primarily driven by US\$19 million lower collections of energy, capacity and hydrocarbons related to the gas-to-power business, partially offset by higher sales from our hydro power business during 2022. These effects were partially offset by (i) US\$13 million decrease in payments to suppliers primarily related to the gas-to-power business; (ii) US\$4 million of lower monthly advance income tax payments; among others.



Cash Flows from Investing Activities

Net cash flows used in our investing activities decreased by US\$6 million, or 75%, to US\$2 million during the first six months of 2022 from US\$8 million during the same period in 2021.

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.

During the first six months of 2021, cash used in investing activities was for (i) US\$4 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\$4 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 increased by US\$6 million, or 33%, to US\$24 million during the first six months of 2022 from US\$18 million during the same period in 2021.

During the first six months of 2022, we 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.

During the first six months of 2021, we used cash to (i) pay US\$17 million in interest related to the 2027 Notes and its respective withholding tax, and (ii) 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).



For the three-month period ended June 30, 2022 and 2021

	Three months ended June 30		% Change
<i>In millions of U.S. dollars</i>	2022	2021*	
Revenue of energy	28	22	27%
Cost of sales (excluding depreciation)	(5)	(4)	25%
Depreciation	(3)	(4)	-25%
Administrative expenses	(2)	(1)	100%
Other income, net	-	1	-100%
Operating profit	18	14	29%
Finance income	-	-	-
Finance costs	(6)	(8)	-25%
Net foreign exchange difference	1	-	-
Net finance costs	(5)	(8)	-38%
Profit before income tax	13	6	117%
Income tax expense	(8)	(1)	700%
Profit from continuing operations	5	5	0%
Profit from discontinued operation, net of tax	-	-	-
Profit for the period	5	5	0%

(*) 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 net income for the three-month period ended June 30, 2022, amounted to US\$5 million unchanged from the same period in 2021. The Company's results are mainly explained by the following:

Revenue of energy

Revenue of energy increased by US\$6 million, or 27%, to US\$28 million during the second quarter of 2022, from US\$22 million during the same period in 2021. This was mainly explained by:

- US\$5 million increase in energy sales under PPAs due to a 10% increase in prices to an average of US\$42.1/MWh during the second quarter of 2022 from an average of US\$38.1/MWh during the same period in 2021, added to a 21% increase in volumes of energy sales under PPAs to 438 GWh during the second quarter of 2022 from 362 GWh during the same period in 2021.
- US\$2 million increase in net energy sales to the spot market explained by higher average spot price of US\$26.8/MWh during the second quarter of 2022 compared to US\$10.7/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 20% decrease in net volumes of energy sales in the spot market to 155 GWh during the second quarter of 2022 from 194 GWh during the same period in 2021, as a result of higher sales under PPAs.

**Cost of Sales (excluding depreciation)**

Cost of sales (excluding depreciation) increased by US\$1 million, or 25%, to US\$5 million during the second quarter of 2022, from US\$4 million during the same period in 2021. This was mainly explained by US\$1 million increase in net energy purchases to the spot market explained by higher average spot price.

Depreciation

Depreciation decreased by US\$1 million, or 25%, to US\$3 million during the second quarter of 2022 from US\$4 million during the same period in 2021 due to the end of the useful life of certain assets.

Administrative Expenses

Administrative expenses increased by US\$1 million, or 100%, to US\$2 million during the second quarter of 2022 from US\$1 million during the same period in 2021 due to the increase in the service agreement with a related party.

Finance cost, net

Finance cost, net decreased by US\$3 million, or 38%, to US\$5 million during the second quarter of 2022 from US\$8 million during the same period in 2021 mainly explained by lower interest expense related to Orazul's Notes lower outstanding balance after the asset sales tender offers.

Income tax expense

Income tax expense increased by US\$7 million, to US\$8 million during the second quarter of 2022 from US\$1 million during the same period in 2021. The estimated average effective tax rate during the second quarter of 2022 was 62% (17% during the same period in 2021). During the second quarter of 2022, changes in the effective tax rate correspond primarily to translation of the tax I carry forward which increased the income tax expense by US\$11 million.



Appendixes

EBITDA reconciliation

	YTD June				Q2			
	Six months ended June 30,		Discontinued operations	As previously reported	Three months ended June 30,		Discontinued operations	As previously reported
<i>In millions of U.S. dollars</i>	2022	2021	2022	2021	2022	2021	2022	2021
Operating profit	39	28	5	33	18	14	-	14
Depreciation	6	7	7	14	3	4	4	8
Total EBITDA	US\$45	US\$35	US\$12	US\$47	US\$21	US\$18	US\$4	US\$22

As of June 30, 2022, last 12 months (LTM) EBITDA increased by US\$13 million, or 19%, to US\$79 million, compared to US\$66 million LTM EBITDA as of June 2021.

Material Indebtedness

<i>In millions of U.S. dollars</i>	Outstanding Principal Amount as of June 30, 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

