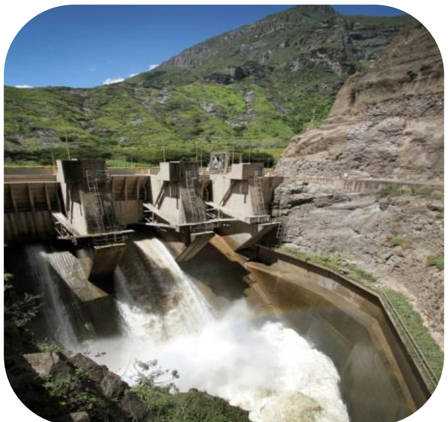

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

March 31, 2019 and 2018

ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

US$550,000,000 – 5.625% Senior Notes due 2027

ORAZUL ENERGY PERU AND SUBSIDIARIES S.A.

About the Company

We are a Peruvian company and our business is composed of a diversified portfolio of hydropower and thermal power generation, transmission and natural gas production and processing assets. We are the only vertically integrated power company that owns and operates natural gas extraction and transmission assets in Peru.

We conduct our operations through two primary business units: Orazul, which is comprised of hydropower generation and transmission assets, and Aguaytia, which is an integrated gas-to-power complex comprised of natural gas production and processing, thermal power generation and transmission. We generate and sell electricity to regulated customers (distribution companies) and unregulated customers under short-term and long-term power purchase agreements ("PPAs") and to the spot market. Our contracting level under PPAs is approximately 84%[1] and in 2018 we extended our PPA portfolio life from 4 years to an average life of approximately 10 years, reducing the risk related to spot market prices of electricity.

Our businesses are summarized in the following table:

	Entity	Location	Type	Overview
Orazul Energy Peru	Orazul	Cañon del Pato	Hydro Generation/ Run-of-river	255MW
		Carhuaquero	Hydro Generation/ Run-of-river	110MW
	Etenorte	Huallanca - Chimbote - Carhuaquero - Chiclayo	Transmission	349km
Aguaytía	Termoselva	Aguaytía	Thermal Generation (natural gas)	192MW
	Eteselva	Aguaytía - Tingo Maria - Vizcarra - Conocoha - Paramonga	Transmission	391km
	Aguaytía Energy del Perú	Aguaytía	Hydrocarbons	52.5mmscfd 1,200-1,300 bbls/day

Orazul Energy Perú S.A. ("OEP") is a subsidiary of Orazul Energia (UK) Holdings LTD. OEP was incorporated in Peru on October 10, 2016 and on December 20, 2016, acquired, from Duke Energy Corporation, 87.23% of Orazul Energy Group S.A.C. (formerly Duke Energy International Group), which owned a group of companies in Peru, Chile, Guatemala and El Salvador engaged primarily in power generation. On August 2, 2017, OEP acquired an additional 12.76% of Orazul Energy Group S.A.C. from Orazul Energía (España) Holding S.R.L. (which had previously acquired the participation from Duke Energy Corporation in 2016), increasing its share to the current 99.99%. On August 16, 2017, OEP merged by absorption with Orazul Energy Egenor S. en C. por A., one of its main subsidiaries in Peru. As part of the strategy to improve business efficiencies, a corporate

[1] Estimated for the following 3 years (2019-2021)

restructuring was executed during 2017 and 2018, and the businesses located in Chile, Guatemala and El Salvador were carved-out.

OEP is indirectly owned by certain funds managed by I Squared Capital Advisors (US) LLC (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. After the Peruvian antitrust authority (INDECOPI), approved the December 2017 Inkia acquisition by the Sponsor, the related parties of OEP include Kallpa Generación S.A. (“Kallpa”) and Samay I S.A. (“Samay”). 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 15 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 significant 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.

Our Notes

On April 25, 2017, OEP issued senior 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 the US$450 million senior secured loan facility with Deutsche Bank AG, Banco de Crédito del Perú, Scotiabank and Banco Internacional del Perú S.A.A., as lenders, and (ii) prepay US$35 million and US$40 million, in aggregate outstanding principal amount of local corporate bonds. The Notes are rated BB by Fitch Ratings and Standard & Poor’s.

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 Unaudited Condensed Consolidated Interim Financial Statements as of March 31, 2019 and 2018.

For the three-month period ended March 31, 2019 and 2018

	Three-month ended March 31		*% Change*
In millions of U.S. dollars	**2019**	**2018**	
Revenues of energy	35	36	*-3%*
Revenues of hydrocarbons	4	6	*-33%*
Revenues	**39**	**42**	***-7%***
Cost of Sales of energy	(7)	(8)	*-13%*
Cost of Sales of hydrocarbons	(2)	(3)	*-33%*
Cost of sales (excluding depreciation)	**(9)**	**(11)**	***-18%***
Depreciation	(9)	(12)	*-25%*
Administrative expenses	(3)	(5)	*-40%*
Other income, net	1	-	-
Operating profit	**19**	**14**	***36%***
Finance income	-	1	*-100%*
Financial expenses	(9)	(12)	*-25%*
Finance cost, net	**(9)**	**(11)**	***-18%***
Profit before income tax	**10**	**3**	***233%***
Income tax expense	(6)	(1)	*500%*
Profit for the period	**4**	**2**	***100%***
Net profit for the period from discontinued operations	-	1	-
Total other comprehensive profit for the period	**4**	**3**	***33%***

Results of Operations

The Company's net profit during the first quarter of 2019 amounted to US$4 million compared to US$2 million in 2018. The Company's results were mainly explained by the following:

Revenues

Sales of energy, transmission and hydrocarbons declined by US$3 million, or 7%, to US$39 million during the first quarter of 2019 from US$42 million in the same period in 2018, primarily due to:

(i) US$ 4 million lower spot energy revenues due to decrease in spot prices (US$6.5/MWh during the first quarter of 2019 compared to US$13.8/MWh in the same period in 2018), coupled with lower net volumes (272 GWh during the first quarter of 2019 compared to 299 GWh in the same period in 2018), in connection with lower thermal generation; and,

(ii) US$2 million lower liquids sales, mainly natural gasoline revenues due to lower production and prices (US$58/bbl during the first quarter of 2019 compared to US$ 61/bbl in the same period in 2018), related to lower international prices.

These effects were partially offset by US$ 3 million increase in PPAs with distribution companies mainly due to higher prices.

Cost of sales (excluding depreciation)

Cost of sales decreased by US$2 million, or 18%, to US$9 million during the first quarter of 2019 from US$11 million in the same period in 2018, primarily due to (i) US$ 1 million lower gas royalties due to the decrease in thermal generation, coupled with lower cost of royalties, storage and transport of natural gasoline related to lower liquids sales; and (iii) US$ 1 million decrease in personnel expenses due to the management integration process between Kallpa and Orazul which started in January 2019.

Depreciation and amortization

Depreciation and amortization decreased by US$ 3 million, or 25% to US$ 9 during the first quarter of 2019 from US$12 million in the same period in 2018, due to property, plant and equipment written off, coupled with the ending of the useful life of certain assets in 2018.

Administrative expenses

Administrative expenses decreased by US$2 million, or 40% to US$3 million during the first quarter of 2019 from US$5 million in the same period in 2018, primarily due to a decrease in personnel expenses related to the management integration process between Kallpa and Orazul which started in January 2019.

Other income, net

Other income, net amounted to US$1 million during the first quarter of 2019 due to services rendered by Cañon del Pato's maintenance workshop, added to income from an insurance recovery related to a previous year incident.

Financial expenses, net

Financial expenses, net decreased by US$2 million, or 18% to US$9 million during the first quarter of 2019 from US$11 million in the same period in 2018, primarily due to (i) US$ 1 million lower interest due to the reduction in the interest rate of our shareholder loan to zero since January 2019; and, (ii) US$ 1 million lower withholding taxes related to loans with related parties.

Income tax expense

Income tax expense increased by US$5 million to US$6 million during the first quarter of 2019 from US$1 million in the same period in 2018; primarily due to higher exchange gains in local currency during 2019 (1.8% local currency devaluation as of March 31,2019 compared to 0.2% in the same period in 2018).

Liquidity and Capital Resources

Our main cash requirements are primarily for the following purposes:

- Working capital requirements;
- Capital expenditures related to maintenance projects; and
- Debt and interest service.

Our main sources of liquidity have traditionally consisted of the following:

- Cash flow from operating activities;
- Financial income from the investment of cash and available funds; and
- Short-term under our US$25 million committed credit facilities and long-term borrowings.

During 2019 and 2018, cash flow generated by operations was primarily used for working capital requirements, investment activities and to service our outstanding interest and debt obligations.

As of March 31, 2019, our cash and cash equivalents amounted to US$ 66 million.

Cash Flows

	Three-month ended		%
In millions of U.S. dollars	**2019**	**2018**	
Cash from operating activities	**22**	**19**	**16%**
Income tax paid	(1)	(4)	-75%
Net cash from operating activities	**21**	**15**	**40%**
Net cash used in (from) investing activities	**(5)**	**1**	**-600%**
Net cash used in financing activities	**-**	**(17)**	**-100%**
Net increase (decrease) in cash	**16**	**(1)**	**-1700%**
Cash and cash equivalent as of January 1	50	23	117%
Effects of variations on exchange difference on held cash	-	-	-
Cash as of March 31	**66**	**22**	**200%**

Cash Flows from Operating Activities

Our main source of operating funds corresponds to cash flow generated from our operations. Net cash provided by operating activities increased by 40% to US$21 million in the first quarter of 2019 from US$15 million in the same period 2018.

The increase was primarily driven by: (i) US$ 4 million due to a decrease in personnel expenses related to the management integration process between Kallpa and Orazul, (ii) US$ 4 million in lower third party purchases added to improved terms in accounts payable to suppliers of goods and services; and, (iii) US$ 3 million in lower income tax payments due to application of prior year tax credit. These effects were partially offset by (i) US$ 5 million in lower collections from natural gasoline sales due to the higher collections of the first quarter of 2018 which included an outstanding amount from 2017, coupled to lower energy sales in the spot market.

Cash Flows Used in Investing Activities

Net cash used in investing activities increased in US$ 6 million to US$ 5 million in the first quarter of 2019 from US$ 1 million provided in the same period in 2018.

During the first quarter of 2019, cash from investing activities was mainly used in payments for US$3 million related to option agreements with regulated customers to extended the PPAs, and US$1 million in capital expenditures.

During the first quarter of 2018, investing activities for which we received and used cash primarily consisted of dividends from a Chilean subsidiary for US$1 million.

Cash Flows from Financing Activities

No net cash flows were used in our financing activities during the first quarter of 2019 compared to US$ 17 million in the same period in 2018.

During the first quarter of 2018, we used cash in a capital reduction of US$17 million.

Appendixes

EBITDA & Adjusted EBITDA reconciliation

	Three months ended March 31,	
In millions of U.S.	**2019**	**2018**
Profit for the period	4	2
(+) Income tax and profit sharing	6	1
(+) Financial expense, net	9	11
(+) Depreciation and amortization	9	12
Total EBITDA	**28**	**26**
(+/-) Non-recurring expenses, net	-	-
Total Adjusted EBITDA	**28**	**26**

Material Indebtedness

In millions of U.S. dollars	**Outstanding Principal Amount as of Mar. 31, 2019**	**Interest Rate**	**Final Maturity**	**Amortization**
Long-term debt:				
Unsecured: 5.625% Notes due 2027	541	5.625%	April 2027	Principal due at maturity with semi-annual interest payments.
Total	**US$541**			

Note: *values net of transaction costs*