Orazul Energy Perú S.A. and Subsidiaries
As of March 2018

About the company

Orazul Energy Perú S.A. (hereinafter, OEP) is a subsidiary of Orazul Energia (UK) Holdings LTD., which owns 99.99% of OEP's voting shares that are representative of its issued capital stock.

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 Sarl), which owned a group of companies in Peru, Chile, Guatemala and El Salvador engaged primarily in generation of electrical energy. 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 previously acquired the participation from Duke Energy Corporation in 2016), increasing its participation to 99.99%.

As part of its strategy to improve business efficiencies, a corporate restructuring was undertaken to carve-out the businesses located in Chile, Guatemala and El Salvador; these businesses have been classified as assets held for sale in the financial statements.

The significant businesses of Peru are related to hydro and thermal power generation, electricity transmission and natural gas production and processing assets.

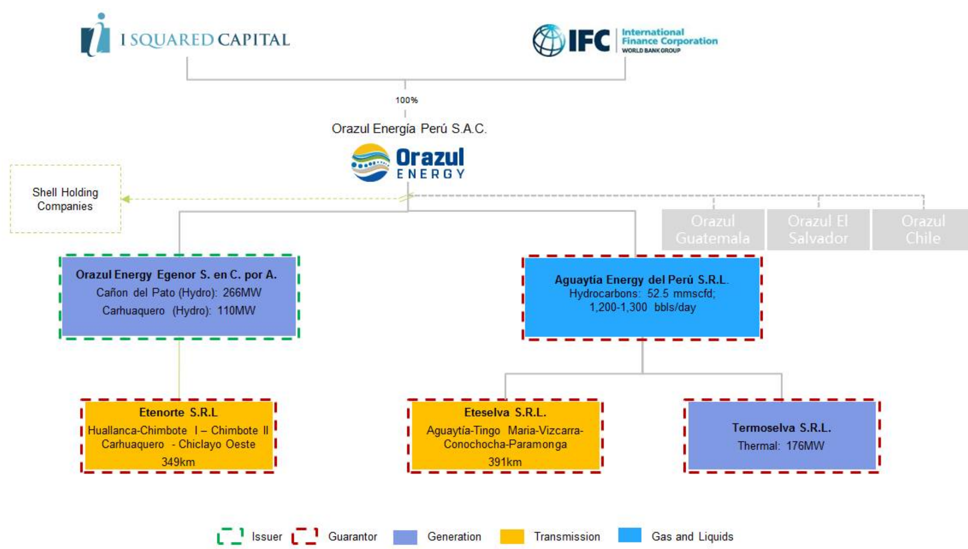
	Entity	Location	Type	Overview	Ownership %
Orazul Energy Peru	Orazul	Cañon del Pato	Hydro Generation/ Run-of-river	266MW	99.9
		Carhuaquero	Hydro Generation/ Run-of-river	Carhuaquero I – V 100MW	99.9
	Etenorte	Huallanca - Chimbote - Carhuaquero - Chiclayo	Transmission	349km	99.9

	Entity	Location	Type	Overview	Ownership %
Aguaytía	Termoselva	Aguaytía	Thermal Generation	176MW	100
	Eteselva	Aguaytía - Tingo Maria - Vizcarra - Conocoha - Paramonga	Transmission	391km	100
	Aguaytía Energy del Perú	Aguaytía	Hydrocarbons	52.5mmscfd 1,200-1,300 bbls/day	100

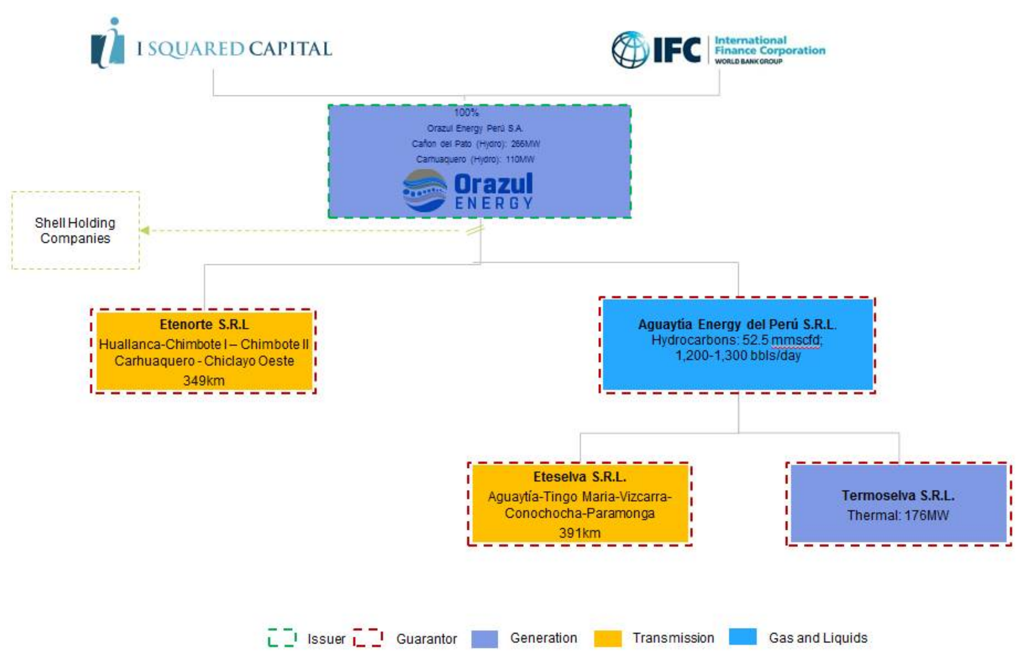
Corporate Reorganization

Based on the reorganization plan within Orazul Group, by public deed dated October 9, 2017 and Shareholders' Meeting held on August 16, 2017, the merger of OEP, remaining as acquirer company, with Orazul Energy Egenor S. en C. por A., was approved, having since then, Aguaytia Energy del Peru S.R.L. (Aguaytia) as its direct subsidiary. It is important to note that the carve-out of the Yungay asset in Chile, as contemplated in the reorganization plan, is still in process. The asset is intended to be carved out prior to or around the end of 2018.

Structure at closing



Current structure[1]



[1] Current structure includes Yungay (Chile)

Bonds - Orazul Energy Perú

On April 25, 2017, OEP priced its inaugural bond offering in the international capital markets in the amount of US$550 million under Rule 144A and Regulation S of the Securities Market Law of the United States of America. The bonds obtained a risk classification of BB by international risk classifiers Fitch Ratings and Standard & Poor´s. The bonds will be redeemed at maturity in April 2027 and accrue interest at an annual rate of 5.625%; interest on the bonds are paid semi-annually.

During the effective term of bonds, OEP is subject to restrictions and responsibilities, the most relevant are as follow:

- OEP agrees to some restrictions in making payments outside its normal operation, new investments and in the sale of assets.

- OEP and its guarantors are obliged to keep their accounting records under IFRS, and report their Financial Statements within the periods established in the agreement.

- OEP agrees to comply with certain restrictions for new indebtedness.

- OEP agrees to maintain insurance policies effective that cover its generation and transmission assets and that have coverage, deductibles and insured amounts that result reasonable and usual for private companies engaged in the generation and distribution of electrical energy.

Overview of Results

For the three months ended March 31, 2018, OEP achieved Adjusted 2018 EBITDA of US$26.9 million, which was higher than Adjusted EBITDA for the three months ended March 31, 2017 of US$26.5 million by US$0.4 million. This was mainly due to:

- (+) Higher capacity revenues at the Aguaytia thermal plant (net of transmission charges and spot capacity purchases) due to the resolution of a system issue related to congestion in transmission lines (+US$2.8 million);

- (+) Higher spot energy revenue due to increase in spot price (US$13.8/MWh during the three months ended March 31, 2018 and US$9.0/MWh during the three months ended March 31, 2017), as result of partial unavailability of the Camisea Gas Supply in February, and higher volumes (298.6 GWh during the three months ended March 31, 2018 vs 140.5 GWh during the three months ended March 31, 2017) (+US$2.6 million);

- (+) Lower energy purchase expense due to higher thermal generation in connection with unavailability of the Camisea Gas Supply in February (+US$1.3 million);

- (+) Higher third-party energy transmission revenues due to favorable change in regulation in May 2017, which reduced the allocation of Eteselva and Etenorte tariffs to Termoselva and Orazul (+US$0.5 million);

- (+) Higher natural gasoline gross margin due to increase in prices (US$ 61.3/bbl during the first quarter of 2018 and US$ 37.7/bbl during the first quarter of 2017), largely offset by higher one-time cost of storage and transport in relation to a precautionary measure obtained by Maple that ordered Aguaytía to resume the supply contract with them. Accordingly, from December 14, 2017 until February 2, 2018, when the measure was revoked, Aguaytía was required to store the natural gasoline until resolution of the legal proceedings (+US$0.1 million); and

- (+) Reduction in expenses associated with third party services (+US$0.5 million).

These effects were partially offset by:

- (-) Lower PPA energy sales primarily due to the termination of certain contracts during 2017 (-US$2.4 million);

- (-) Lower consumption of distribution companies driven by low demand growth and migration of small-to-mid-size distribution clients to the bilateral PPA market (-US$2.7 million);

- (-) Timing of PPA revenues associated with 88 GW of Renewable Energy Resources (RER) contracts (-US$1.4 million);

- (-) Higher gas royalties due to the increase in thermal generation as a result of the partial unavailability of the Camisea Gas Supply in February (-US$0.5 million); and

- (-) Lower LPG gross margin mainly due to an atypical decrease in demand that is expected to recover during the following quarter (-US$0.4 million).

Management's discussion and analysis of financial condition and results of operations

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements as of March 31, 2018 and 2017.

Consolidated Statements of Profit or Loss for the three months ended March 31, 2018 and 2017 (In thousands of dollars US$000)

	Q12018	Q12017
CONTINUOUS OPERATIONS		
Sale of energy and electrical energy transmission services	44,931	47,623
Sale of hydrocarbons	5,919	4,998
Total of sales	50,850	52,621
Costs of sale of energy and electrical energy transmission services	(25,659)	(28,145)
Cost of sales of hydrocarbons	(5,880)	(3,366)
Total of cost of sales	(31,539)	(31,511)
Gross profit	19,311	21,110
Administrative expenses	(5,099)	(7,417)
Selling expenses	(358)	(314)
Other income (expenses), net	120	(243)
Financial expenses, net	(11,019)	(12,525)
Profit before income tax	2,955	611
Income tax expense	(825)	(4,033)
Net profit (loss) for continuous operations	2,130	(3,422)
(+) Income tax expense and Profit sharring	1,055	4,751
(+) Financial expense, net	11,019	12,525
(+) Depreciación and amortization	12,232	9,811
EBITDA	**26,436**	**23,665**
(+) Maple gas provision	-	2,834
(+/-) Any extraordinary gain or loss or any non-recurring expenses	441	28
ADJUSTED EBITDA	**26,877**	**26,527**

For the three months ended March 31, 2018 and 2017

Revenues

Sale of energy, electrical energy transmission and hydrocarbons during the three months ended March 31, 2018 declined by US$1.8 million or 3.4% to US$50.9 million from US$52.6 million in the three months ended March 31, 2017, primarily due to (i) lower PPA energy sales due to the termination of certain contracts during 2017 (-US$2.4 million), (ii) lower demand from distribution companies mainly due to the migration of small-to-mid-size distribution clients to the bilateral PPA market (-US$2.7 million), (iii) timing of PPA revenues associated with 88 GW of Renewable Energy Resources (RER) contracts (-US$1.4 million), (iv) lower LPG sales due to an atypical decrease in demand that is expected to recover in following quarter (-US$0.5 million). These effects were partially offset by (i) higher capacity revenues at the Aguaytia thermal plant (net of transmission charges and spot capacity purchases) due to the resolution of a system issue related to congestion in transmission lines (+US$2.8 million), (ii) higher spot energy revenue due to increase in spot price (US$13.8/MWh in during the three months ended March 31, 2018 and US$9.0/MWh during the three months ended March 31, 2017), as a result of partial unavailability of the Camisea Gas Supply in February, coupled with higher volumes (298.6 GWh during the three months ended March 31, 2018 vs 140.5 GWh during the three months ended March 31, 2017) (+US$2.6 million) (iii) higher natural gasoline revenues due to increase in prices (US$ 61.3/bbl during the three months ended March 31, 2018 and US$ 37.7/bbl during the three months ended March 31, 2017) (+US$1.5 million), and (iv) higher third-party energy transmission revenues due to favorable change in regulation in May 2017, which reduced the allocation of Eteselva and Etenorte tariffs to Termoselva and Orazul (+US$0.5 million).

Cost of sales (including depreciation)

Cost of sales of energy, electrical energy transmission and hydrocarbons during the three months ended March 31, 2018 remains in line with cost of sales during the three months ended March 31, 2017 at US$31.5 million. Factors impacting cost of sales had a net effect of (i) higher cost of royalties and one-time storage and transport of natural gasoline associated with a temporary stay through February 2nd, 2018 on Aguaytía's natural gasoline sales to third parties. (-US$1.4 million), (ii) higher depreciation due to capitalized assets during 2017 and changes in the useful life of certain assets (-US$2.4 million), (iii) higher gas royalties due to increase in thermal generation in connection with the partial unavailability of the Camisea Gas Supply in February (+US$0.5 million), (iv) lower energy purchase expense in the spot market due to higher thermal generation (+US$1.3 million), and, (v) reduction in expenses associated with third party services (+US$0.7 million).

Administrative expenses (including depreciation)

Administrative expenses during the three months ended March 31, 2018 decreased by US$2.3 million or 31.3% to US$5.1 million from US$7.4 million in the three months ended March 31, 2017, primarily due to (i) lower bad debt allowance in relation to natural gasoline sales to Maple Gas (+US$2.8 million), partially offset by (ii) higher legal expenses related to arbitration process with Maple (-US$0.5 million), among others.

Financial expenses, net

Financial expenses, net during the three months ended March 31, 2018 decreased by US$1.5 million or 12.0% to US$11.0 million from US$12.5 million during the three months ended March

31, 2017, primarily due to (i) lower net non-cash interest to related parties mainly due to Shareholder loan capitalization on July 2017 (+US$4.3 million), partially offset by (ii) higher interest expense related to 5.625% bond issued in April 2017, among others.

Income tax expense

Income tax during the three months ended March 31, 2018 decreased by US$3.2 million or 79.5% to US$0.8 million from US$4.0 million during the three months ended March 31, 2017, primarily due to timing on income tax of OEP in 2017, recorded after merger with Orazul Energy Egenor in August 2017.

Liquidity and Capital Resources

As of March 31, 2018 and December 31, 2017, OEP had cash and cash equivalents of US$22.1 million and US$23.4 million, respectively, and working capital of US$2.2 million and US$4.7 million, respectively. The decrease was primarily due higher accrued interest related to bonds (from October to April).

Capital requirements are primarily for the following purposes:

- Operation, maintenance and administration expenses;
- Capital expenditures related to expansion projects; and
- Debt service.

Sources for liquidity and capital resources are:

- Funds generated by business activities through revenues from sales of electricity, revenues from energy transmission services, from hydrocarbons and other revenues;
- Committed credit line facilities in the amount of US$25.0 million; and
- Financial income from the investment of cash and available funds.

Cash Flows

The table below sets forth OEP consolidated cash flows for the three months ended March 31, 2018 and 2017.

	Periods ended March 31	
	2018	**2017**
	US$000	**US$000**
Net cash and cash equivalents provided by (used in)		
Operating activities	15,255	11,970
Investment activities	616	(2,962)
Financing activities	(17,197)	(22,540)
Net decrease of cash and cash equivalents	**(1,326)**	**(13,532)**
Cash and cash equivalents at the beginning of the period	**23,429**	**85,213**
Cash and cash equivalents at the end of the period	**22,103**	**71,681**

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 was US$15.3 million as of March 31, 2018 and US$12.0 million as of March 31, 2017. Increase was primarily driven by: (i) lower energy and capacity purchase coupled with timing in accounts payable to suppliers of goods and services (+US$4.5 million) (ii) lower labor and benefits (+US$2.0 million), (iii) lower income tax payments due to application of prior year tax credit (+US$2.0 million); partially offset by (iv) lower revenues related to sale of energy coupled with higher hydrocarbons sales for reason explained above (-US$5.1 million), among others.

Cash Flows Used in Investing Activities

Net cash provided (used) in investing activities was US$0.6 million as of March 31, 2018 and -US$3.0 million as of March 31, 2017.

During the three months ended March 31, 2018, investing activities for which we received and used cash primarily consisted of dividends from a Chilean subsidiary for US$1.0 million coupled with collection related to the sale of equipment for US$0.2 million, partially offset by acquisitions of property, plant and equipment of US$0.6 million mainly related to the completion of flare and blowdown system in gas plant, plugs installation in wells, implementation of automated control systems in hydroelectric plants, among others.

During the three months ended March 31, 2017, investing activities for which we used cash primarily consisted of acquisitions of property, plant and equipment of US$3.0 million, related primarily to Aguaytia's gas facilities, including the storage and loading plant, a fire system and a flare and blowdown system.

Cash Flows from Financing Activities

Cash flows used by financing activities were US$17.2 million during the three months ended March 31, 2018, compared to US$22.5 million during the three months ended March 31, 2017.

During the three months ended March 31, 2018, we used cash in a capital reduction of US$17.2 million.

During the three months ended March 31, 2017, we used cash to (i) pay a related entity loan for US$21.4 million, and (ii) pay debt interest for US$1.1 million.

Notes to the Consolidated Statements of Profit or Loss for the three months ended March 31, 2018 and 2017
(In thousands of dollars US$000)

Sale of Energy and Electrical Energy Transmission Services and Hydrocarbons

	Q12018	Q12017
Sale of electrical energy:		
Sale of electrical energy and power		
Energy	19,730	26,611
Capacity	13,913	14,057
COES Compensations		
Energy	6,363	3,746
Capacity	2,754	1,910
Other	409	33
Sale of hydrocarbons:		
LPG	1,928	2,470
Natural gasoline	3,991	2,528
Electrical energy transmission	1,762	1,266
Total of sales	50,850	52,621

Costs of Sale of Energy and Electrical Energy Transmission Services and Hydrocarbons

	Q12018	Q12017
Royalties from electrical energy sales	1,323	844
Royalties from sales of hydrocarbons		
Natural gasoline	1,493	1,111
LPG	612	761
Storage, transport and other related to Natural Gasoline	1,020	-
Supplies, spare parts and fuel	222	189
Purchase of transmission charges	9,526	9,049
Purchase of energy		
Energy	509	1,831
Capacity	-	2,584
Other cost	411	680
Personnel charges	2,494	2,502
Services provided by third parties	1,199	1,484
Taxes	417	430
Sundry management charges	207	351
Estimates of the period:		
Depreciation	11,955	9,558
(Recovery) loss for obsolescence estimate	(25)	-
Employee severance indemnities	126	137
Total	31,489	31,511

Administrative expenses

	Q12018	Q12017
Personnel charges	1,853	1,861
Services provided by third parties	1,474	946
Taxes	705	719
Sundry management charges	545	545
Estimates of the period:		
Depreciation	237	216
Amortization	42	37
Impairment estimate of accounts receivable, net	145	2,983
Employee severance indemnities	98	110
Total	5,099	7,417

Financial Expenses

	Q12018	Q12017
Interests - bonds	7,734	1,124
Interests - related parties	2,461	5,856
Withholding tax	1,401	673
Financial cost - Corporate bonds	211	-
Interests - Syndicate loan	-	5,434
Other financial expenses	39	77
Total	11,846	13,164

Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017
(In thousands of dollars US$000)

	Q12018	Q12017
OPERATING ACTIVITIES:		
Collection from:		
Sale of energy and electrical energy transmission services	40,269	52,030
Sale of hydrocarbons	7,282	616
Interests and returns	14	18
Other operating activities	1,211	1,057
Payments for/to:		
Royalties	(3,428)	(2,717)
Suppliers of goods and services	(19,681)	(22,237)
Income tax	(3,832)	(5,884)
Employees and social benefits	(5,950)	(7,949)
Fuel prices stabilization fund	(188)	(406)
Taxes other than income	(210)	(424)
Other operating activities	(232)	(2,134)
Net cash and cash equivalents provided by operating activities	15,255	11,970
INVESTMENT ACTIVITIES:		
Collection from:		
Sale of property, plant and equipment	190	-
Dividends	1,049	-
Payments for:		
Purchase of property, plant and equipment	(245)	(319)
Purchase of intangibles assets	-	(17)
Purchase of gas investments	(378)	(2,626)
Net cash and cash equivalents provided by (used in) investment activities	616	(2,962)
FINANCING ACTIVITIES:		
Payments for:		
Capital Reduction	(17,197)	-
Loans to related entities	-	(21,400)
Interests	-	(1,140)
Net cash and cash equivalents used in financing activities	(17,197)	(22,540)
NET (DECREASE) INCREASE OF CASH AND CASH EQUIVALENTS	(1,326)	(13,532)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	23,429	85,213
CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD	22,103	71,681

Key Operating Information

		Q1 2018	Q1 2017
Energy Demand Growth	%	1.6%	3.2%
Spot Price	$/MWh	13.8	9.0
Hydro Generation	GWh	719.8	697.8
Thermal generation	GWh	65.6	39.8
PPA Energy volumes	Gwh	476.1	591.3
Spot Volumes, net	Gwh	298.6	140.5
W.Avg PPA price	$/MWh	43.1	45.3
LPG sales	bbl	36,462	44,025
Natural Gasoline sales	bbl	65,053	67,075
Effective capacity at end of period	MW	12,479.5	12,134.1
LPG Production	bbl	41,321	44,105
Natural Gasoline production	bbl	67,108	69,920
Gasoline price	$/bbl	61.3	37.7
LPG Price	$/bbl	52.9	56.1
WTI	$/bbl	62.5	51.9