

# Annual Report



**2021**

The present document contains sufficient and truthful information with regard to Luz del Sur S.A.A.'s business activities during 2021. Notwithstanding the responsibility of the issuing party, the signers are liable for the contents pursuant to applicable legislation.

A handwritten signature in black ink, appearing to read 'Mile Cacic', written in a cursive style.

Lima, March 30 of 2021

Mile Cacic  
CEO

## LETTER FROM THE CHAIRMAN

To our Shareholders:

On behalf of the Board of Directors that I chair, I am pleased to present for your approval the Annual Report and the Financial Statements for the year ended December 31, 2021.

After the contraction of the economy in 2020 as a result of the COVID-19 pandemic, Peru's GDP grew once again, with an increase of 13.2 %.

No country can grow if the electricity sector does not accompany this growth. For this reason, Luz del Sur has made significant investments in the order of US\$ 123 million, which have increased the 220/60 kV transformation capacity by 100 MVA and the 60/22.9/10 kV transformation capacity by 25 MVA. Likewise, we carried out expansions in the distribution system, installing 84 km of medium voltage (MV) networks, 376 km of low voltage (LV) networks and 199 MV/LV transformation substations.

In order to contribute to citizen safety and highlight the nighttime beauty of our concession area, we have continued to improve public lighting in our zone; to accomplish this, we have replaced more than twenty-one thousand lights with more efficient units and nearly ten thousand luminaires. Likewise, in the province of Cañete we have installed more than five thousand lights with LED technology to replace sodium vapor street luminaires.

Continuing with our good neighbor policy, we have carried out community outreach programs that go beyond our legal obligations, supporting institutions that help the community such as "Aldeas Infantiles SOS Peru" and Teleton, among others. We also contributed with the electrical installations of several oxygen plants that were essential during the COVID-19 pandemic.

Sales amounted to S/ 3,361.9 million, with an operating result of S/ 843.9 million, closing the year with a net profit of S/ 557.9 million.

At the end of the fiscal year, the Company had 1,229,611 clients, which represents an increase of 3.7 % compared to the previous year, confirming long-term growth.

These results show the development potential of the Luz del Sur concession area, which includes the most important residential, commercial and service areas of the capital, which also concentrates a very important amount of industrial activity from various economic sectors.

For Luz del Sur and its shareholders, safety is a priority and for this reason it provides its workers with the proper training and personal protection equipment to carry out the work safely. Thanks to the above-mentioned policies, the Company has achieved better workplace safety indexes than those set by the corporation, which shows the great concern for this issue, as well as the responsibility of the workers of Luz del Sur in carrying out their work while putting safety first.

The Company carried out audits of contractors to verify compliance with current provisions and regulations. These audits included safety aspects and strict compliance with labor regulations, such as the payment of social benefits and insurance, among others.

On the other hand, we must mention that, in November 2021, the tariffs process began and should end in October 2022. The purpose of this process is to set the applicable distribution tariff for the following forty-eight months, as well as its respective update formulas.

Luz del Sur is aware that people form the basis of companies and it will be able to be competitive to the extent that its staff remains competitive as well. For this reason, not only does it carefully select its employees, but after they join the Company, it continues to invest in their training and professional development. That is why in the last year more than 41,000 hours of training were provided. We have trained both company personnel and our contractors, resulting in better quality of service, safety and customer treatment.

I would finally like to thank all the employees of Luz del Sur for their effort and contribution to its growth, as well as the shareholders for the trust placed in our Board and for the determined support that they provide to make Luz del Sur a better company day by day.

Sincerely,

Pingyuan Zhan  
Chairman

## **BOARD**

### **Pingyuan Zhan**

He is a Senior Economist. He obtained PhD in Management from Hohai University (China), and Bachelor's Degree in Economics from Central University of Finance and Economics (China). Before joining China Yangtze Power Co., Ltd in March 2019, he was the CFO of China Three Gorges International Corporation. He is now the CFO and General Counsel of China Yangtze Power Co., Ltd.

### **Ning Xue:**

He is Secretary of the Board of Directors of CYPC and Chairman of CYPI, previously he was Director of the Office of the Board of China Yangtze Power Co., Ltd. (CYPC) and held functions in the General Office of China Three Gorges Corporation (hereinafter, "CTG ") from May 2008 to August 2011. Previously, he worked in the Project Construction Department of the Three Gorges Project.

Ning Xue is an engineer with an EMBA (Executive Master of Business Administration) degree from Peking University and an MBA from Huazhong University of Science and Technology.

### **Long Zhang:**

He is a Senior Engineer. He obtained an MBA from Chongqing University and Bachelor's Degree in Engineering from Wuhan Institute of Chemical Technology. He joined China Yangtze Power Co., Ltd in June 2004 and is now Director of Strategic Investment Department of China Yangtze Power Co., Ltd.

### **Hui Li:**

He is a Senior Engineer /IET Chartered engineer. He obtained Master's Degree in Engineering from Huazhong University of Science and Technology (China). He joined China Yangtze Power Co., Ltd in January 2003 and is now Deputy General Manager of China Three Gorges International Power Operation Co., Ltd. Previously, he was assistant director of Three Gorges Cascade Dispatch & Communication Center of China Yangtze Power Co., Ltd.

### **Kun Yan:**

He is a Senior Engineer. He obtained Master's Degree in Engineering from Chongqing University and Bachelor Degree in Engineering from North China Electric Power University. He joined China Yangtze Power Co., Ltd in July 1998, and is now General Manager of Three Gorges Electric Energy Co., Ltd.

### **Ignacio Herrero Ruiz:**

He obtained a Degree in Economics from Universidad Carlos III (Madrid) in 1997. He is now general manager of China Three Gorges (Europe), and member of the General and Supervisory Board of Energias de Portugal, S.A. Previously, he had worked with Credit Suisse in London and Madrid as responsible for Power sector in Southern

Europe, Deutsche Bank Investment Banking Division in London and Madrid, and Citigroup Investment Bank in Madrid.

**Paulo Jorge Patrão Miraldo:**

He obtained a Degree in Politic Science and International Affairs from Universidade Lusofona (Lisboa, Portugal), Post-Graduation in Political Science and bachelor's degree in Mathematics from University of Coimbra (Portugal). He is now a board member of Energias de Portugal International S.A., a board member of Energias de Portugal Asia, as well as General Manager of Hydro Global Peru S.A.C. Previously, he was Chief of Staff of the Minister of Public Works Transport and Communications, Government of Portugal, and had been appointed to Board Member of Beiragas SA, Director of Galpenergia SGPS and Project Manager in Transgás SA (the Portuguese company of Natural Gas). Other relevant international activity; VP of OME (Mediterranean Energy Organization which include all European and Africa Mediterranean countries); VP chambers of commerce (Portuguese- Spanish; Portuguese-Arabic) and Secretary general of UCCLA (Union of the Portuguese Language Capital Cities).

**Alternate Directors:**

Weihua Qu  
Li Chen  
Sisi Ai  
Yi Wan

**Board Secretary**

Eduardo Benavides Torres

## **MANAGEMENT**

### **Mile Cacic Enríquez**

Appointed Chief Executive Officer in 1999. He holds a degree in Economics from the Universidad del Pacífico in Lima. He obtained an MBA degree at the Katholieke Universiteit Leuven, Belgium and from the Instituto de Estudios Superiores de Administración (IESA) in Caracas, Venezuela. He has specialty studies in Information Technology from Harvard University, Boston, Massachusetts.

### **Hans Berger Sánchez**

Joined the company in 1995 as chief of Commercial Operations; appointed Assistant Manager, Corporate Relations and since 2017 is Corporate Relations VP. Has a degree in Industrial Engineering (C.I.P. N° 51027) from the Universidad de Lima and an MBA from Universidad Politécnica de Madrid.

### **José Luis Godefroy Bonilla**

Joined the Company in 1995 as Financial Analyst. In 1997 he was designated Head of the Financial Analysis Department. In 2010 he was appointed Finance Director and in 2020 promoted to Chief Financial Officer, since November 2021 he is Corporate Financial & Administration Officer. He graduated as Administrative Engineer (C.I.P. N° 93784) from the Universidad Inca Garcilaso de la Vega, and has a Master Degree in Finance from ESAN. He has followed specialization studies in Insurance Management from the Pontificia Universidad Católica del Perú and in Risk Management from the Universidad de Lima.

### **Amparo González Díaz**

Joined Luz del Sur in May 2015, currently holding the position of Human Resources VP. Prior to this, she worked in Tecsur from August 1998, where her last position was assistant manager for the Legal and Human Resources department. She is a lawyer (CAL 25435) who graduated from the faculty of Law and Political Sciences of the Universidad de Lima, with a specialization in Human Resources Management from ESAN.

### **David Volum Ward**

Joined the company in 2006 as Deputy Manager. He worked as Director of Distribution Projects between 2007 and 2011. From 2011 to 2016 he was part of the Development Management Team that constructed Santa Teresa Hydroelectric Power Plant. He was appointed Director of Transmission Engineering and Construction in 2017. In 2020 was promoted as Transmission VP. He is an Electrical Engineer with a degree from the University of Miami.

### **Zoila María Horna Zegarra**

She joined the company in January 2018, as Legal Counsel. She is a lawyer graduated from the Faculty of Law of the Pontificia Universidad Católica del Perú, and has a Master of Law (LLM) Degree in "Commercial and Corporate Law" by The London School of Economics and Political Science, and has postgraduate studies in Electricity, Gas and Energy Law at the Universidad Peruana de Ciencias Aplicadas-UPC.

### **Qiang Lyu**

Joined Luz del Sur in November 2021 as Finance VP. Prior to this, he worked in CTG international as finance senior manager from February 2018. During May 2018 and October 2021, he worked as chief compliance officer then as deputy general manager in Hydro Global Peru.

He is a certified public accountant (CPA), graduated from the Central University of Finance and Economics with economic degree.

### **Luis Miguel Quirós Velásquez**

Joined the company in 1998 as an engineer with the Loss Control section. In 2004 was appointed assistant manager for Customer Service and in 2017 was promoted to Commercial VP. He is an industrial engineer (C.I.P. N° 94478) with a degree from the Universidad de Lima. He also holds a Master's degree in Business Administration from the Catholic University of Peru (Centrum), and Electrical Services Marketing studies from ESAN.

### **Herbert Takayama Nagayama**

Joined the company in 1995 as Projects Chief for the San Juan Service Center. In 2003 he was appointed Assistant Manager, Operations, and in 2008 Assistant Manager, Engineering. Between 2011 and 2016 he was part of the Development Department's managing team that took part in the construction of the Santa Teresa – Ccollpani Grande Hydroelectric Plant. Since January 2017 he holds the position of Distribution VP. He is an electrical engineer (C.I.P. N° 86640) with a degree from the Universidad Nacional de Ingeniería and has an MBA from the Tecnológico de Monterrey (ITESM), as well as graduate studies in Energy Management from ESAN.

## **OWNERSHIP AND CORPORATE OBJECT**

### **Historical summary:**

Luz del Sur (formerly Edelsur) was incorporated in Peru as a private legal entity on January 1, 1994. On August 18, 1994, Ontario Quinta A.V.V. – currently Ontario Quinta S.R.L.- acquired from the Peruvian State, in international public tender, 60 % of the Company's shares.

As the result of a divestment in August 1996, the current Luz del Sur was incorporated, and the electricity distribution concession and related assets were transferred, establishing its domicile in the city of Lima, with the purpose of developing activities of distribution and sale of electricity.

The main office is located at Av. Canaval y Moreyra No. 380, San Isidro. Its constitution is recorded in the Registry of Legal Entities of Lima, in File No. 131719, entry 1A. The Company is constituted with an indefinite duration.

In the same year, 1996, Luz del Sur acquired all the shares of Empresa de Distribución Eléctrica de Cañete (EDECAÑETE SA), from the Peruvian State, and established a subsidiary, which it called Inmobiliaria Luz del Sur SA, in which Luz del Sur has a 100 % interest.

By means of a Public Deed dated June 26, 1998, the Company adapted to the General Law of Companies, adopting the corporate form of a publicly held corporation and consequently its current corporate name became: "Luz del Sur S.A.A."

In April 1999 Sempra Energy became a shareholder of Luz del Sur.

In September 1999, the Peruvian Opportunity Company S.A.C. (POC), acquired 22.46 % of the Company's shares, through a Public Offer of Acquisition (OPA) made through the Lima Stock Exchange.

On April 1, 2004, POC launched a Public Sales Offer that allowed it to sell 9.67 % of the shares of Luz del Sur.

As a consequence of the acquisition by AEI, in December 2007, of PSEG's stake in Luz del Sur, POC launched a takeover bid and acquired 0.056 % of the common stock of Luz del Sur.

In 2010, the Company expanded its corporate purpose to include electricity generation and transmission activities.

In April 2011, the company Sempra Energy acquired the indirect participation that AEI had in Luz del Sur, with which Sempra Energy increased its indirect participation in the company to 75.94 %.

Subsequently, in the month of September 2011, the company Sempra Energy International Holdings NV, in its capacity as partner in the Participation Association Contract signed with Sempra Energy International Chile Holdings IBV, achieved through a takeover bid, on the Lima Stock Exchange, to acquire 18,918,954 shares, approximately 3.89 % of the total shares of Luz del Sur, with which Sempra Energy reached a total indirect participation of 79.83 % of the capital in Luz del Sur.

In December 2013, SEIH transferred its 18,918,954 shares in Luz del Sur (equivalent to approximately 3.89 % of the total shares of Luz del Sur), in favor of POC.

In December 2014, through the Lima Stock Exchange, POC acquired 18,625,594 shares, with which Sempra Energy increased its participation to 83.64 % of Luz del Sur's capital stock.

During 2015, Luz del Sur S.A.A. and Edecañete S.A. agreed to merge, absorbing Luz del Sur S.A.A. to Edecañete S.A. effective as of October 1, 2015.

On September 17, 2015, Luz del Sur SAA incorporated the subsidiary Inland Energy S.A.C. (Inland Energy), in order for said company to engage in activities to develop electric power generation projects, with a capital of S/ 305,362,168.00 to date.

On December 12, 2016, the Shareholders' Meetings of Luz del Sur and Inland Energy approved a simple reorganization process through which Luz del Sur contributed to Inland Energy the assets corresponding to the generation projects Santa Teresa 2, Majes and Garibaldi, formalizing the reorganization on December 14, 2016.

On January 16, 2018, the Shareholders' Meetings of Luz del Sur and Inland Energy approved a simple reorganization process through which Luz del Sur contributed to Inland Energy the assets corresponding to the Santa Teresa Hydroelectric Power Plant, formalizing the reorganization on January 25, 2018.

On September 30, 2019, the acquisition agreement by China Yangtze Power International (Hongkong) Co., Limited of Sempra Energy's stake in Luz del Sur was announced, a transaction that took place on April 24 2020 when Yangtze Andes Holding Co. Limited (YAHCL), a subsidiary of China Yangtze Power International (Hongkong) Co., Limited, acquired the shares that Sempra Energy owned in Luz del Sur and other group companies.

On January 22, 2021, POC launched a takeover bid for 66,622,985 shares with voting rights representing the share capital of Luz del Sur. On February 23, 2021, it was reported that the Board of Directors of China Yangtze Power Co., Limited had accepted the takeover bid for 65,718,458 shares of Luz del Sur at a price of US\$ 8.5346 per share, paying a total of US\$ 560,880,751.65 as consideration, with which YAHCL obtained indirect control of 97.14 % of the shares of Luz del Sur through Andes Bermuda Ltd and POC.

## **Corporate Activity**

The Company's principal corporate activity is, in general terms, power distribution, transmission and generation, its International Standard Industry Code, ISIC, being 4010-4.

Additionally, the Company may engage in any other activities related to or derived from the use, operation and/or disposal of its infrastructure, resources, or assets, along with those related to its core activity.

In order to achieve this objective and carry out its related activities, the Company may perform any and all relevant legal actions and enter into any and all contracts allowed to private companies under Peruvian law.

## **General Information**

- Address: Av. Canaval y Moreyra 380, San Isidro
- Telephone: 271-9000
- Fax: 421-5156
- E-mail: [central@luzdelsur.com.pe](mailto:central@luzdelsur.com.pe)

## **Economic group**

Name of the economic group: China Three Gorges Corporation  
Countries in which it operates: 47

Main line of business: Distribution, generation and sale of energy.

Main shareholders: Ontario Quinta S.R.L. with 61.16 % of the shareholding and Peruvian Opportunity Company S.A.C. with 20.56 % of the shareholders.

Luz del Sur has only issued common shares, the number of which reaches 486,951,371 shares with a par value of S/ 0.68 each, all fully subscribed and fully paid.

At December 31, the company shares were distributed as follows:

Shareholder	Number of shares	Percentage of shares held	Origin*
1 Ontario Quinta S.R.L.	297,796,530	61.16	N
2 Peruvian Opportunity Company S.A.C.	165,834,097	34.06	N
3 Energy Business International S.R.L.	9,387,372	1.93	N
4 Diversos (más de 30 mil accionistas)	13,188,115	2.698	F and N

\* F: Foreign N: National

The following shareholders are part of the of China Three Gorges Corporation economic group:

Shareholder	Number of Shares	Percentage of shares held	Origin
1. Ontario Quinta S.R.L.	297,796,530	61.16	Peruvian
2. Peruvian Opportunity Company S.A.C.	165,834,097	34.06	Peruvian
3. Energy Business International S.R.L.	9,387,372	1.93	Peruvian

Information regarding the securities registered in the Public Registry of Securities as of December 31, 2021.

Location	Type of Security	Amount Registered
In CAVALI	Common Stock	12,501,892
Commercial paper	Common Stock	474,449,479
<b>Total shares in circulation</b>		<b>486, 951,371</b>

## GENERAL INFORMATION AND RELEVANT FACTS

- On January 15, Luz del Sur notified the Superintendency of the Securities Market (SMV) that it had taken notice of the issuance of the Valuation Report prepared by Kallpa Securities Sociedad Agente de Bolsa S.A. for the determination of the minimum price to be taken into account by Yangtze Andes Holding Co., Limited (“YAHCL”) in the Public Acquisition Offer (OPA) on the common shares representing the capital stock issued by Luz del Sur.
- On January 15, Luz del Sur notified the SMV that it had received a communication from the Lima Stock Exchange (“BVL”) informing it that trading at the Lima Stock Exchange had been suspended for the common shares of Luz del Sur (LUSURC1) from 10:01 am until 10:16 a.m., so that these securities would undergo a price formation process until 10:46 a.m. According to said communication, the suspension of trading was ordered considering the information contained in the preceding paragraph on the valuation report prepared by Kallpa Securities Sociedad Agente de Bolsa S.A.
- On January 22, Luz del Sur informed the SMV that, on that date, Peruvian Opportunity Company S.A.C. decided to initiate the Public Offer for the Acquisition of 66,622,985 (sixty-six million, six hundred and twenty-two thousand, nine hundred and eighty-five) shares with voting rights representing the capital stock of Luz del Sur.
- In a meeting held on January 28, the Board of Directors issued and approved the required report in accordance with the provisions of article 15 of the Regulations for the Public Offering of Sales and Purchase of Securities by Exclusion, approved through CONASEV Resolution No. 009-2006-EF. -94.10, referring to the advantages and disadvantages of accepting the Public Offer of Acquisition of 66,622,985 (sixty-six million, six hundred and twenty-two thousand, nine hundred and eighty-five) shares with voting rights representing the capital stock of Luz del Sur that Peruvian Opportunity initiated Company S.A.C. (“Report”). On February 15 and as required by Official Letter No. 581-2021-SMV/11.1 by the SMV, Luz del Sur again issues the Report, including the details requested by said entity.
- On February 22, Luz del Sur notified the SMV that it had taken of the results of the Subsequent Public Acquisition Offer made by Peruvian Opportunity Company S.A.C. for 66,622,985 (sixty-six million, six hundred and twenty-two thousand, nine hundred and eighty-five) common shares with voting rights representing the capital stock of Luz del Sur, by virtue of which 65,718,458 (sixty-five million, seven hundred and eighteen thousand) were awarded. four hundred and fifty-eight) common shares with voting rights representing the capital stock of Luz del Sur, at a price per share of US\$ 8.5346. On February 24, Luz del Sur informed the SMV that it had received a communication from China Yangtze Power Co. Ltd. (“CYPC”) informing of the public communication issued by CYPC related to the result of the aforementioned subsequent Tender Offer.

- On March 4, Luz del Sur called for the Virtual Annual Mandatory Shareholders' Meeting - Emergency Decree No. 018-2021 to be held on March 29, 2021 at 9:00 a.m., with the following agenda:

- Approval of the Annual Report and Financial Statements for the Fiscal Year ended December 31, 2020.

- Application of Profits for the 2020 Fiscal Year.

- Election of the Board of Directors for the period 2021-2022.

- Appointment of external auditors for the 2021 financial year.

- Remuneration of the Board of Directors.

- Dividend Policy.

- Subscription of the Minutes.

- On March 8, Luz del Sur informed the SMV that through an SMV General Intendancy Resolution No. 011-2021-SMV/11.1, it had ordered the exclusion of the securities denominated "Luz del Sur Bonds – Seventh Issue", corresponding to the Second Program for the Issuance of Corporate Bonds and Short-Term Instruments of Luz del Sur SAA of the Public Registry of the Securities Market.

- On March 29, Luz del Sur informed the SMV that through a Virtual Annual Shareholders' Meeting, the following were elected as Regular Directors for the period 2021-2022:

- Pingyuan Zhan

- Ning Xue

- Kun Yan

- Long Zhang

- HuiLi

- Paulo Jorge Patrao Miraldo

- Ignacio Herrero Ruiz

And as alternate directors to the gentlemen:

- Weihua Qu

- Li Chen

- Sissi Ai

- Qiang Lyu

- Yi Wan

- At its meeting on March 31st, the Board approved: (i) the appointment of Pingyuan Zhan as Chairman of the Board and (ii) the appointment of Ning Xue as Vice Chairman of the Board.
- The Board of Directors approved, in its meeting held on May 27, to make a payment of dividends charged to retained earnings for the amount of S/ 124'172,599.61, with a dividend per share of S/ 0.2550.
- The Board of Directors approved, on its session held on September 7, to make a payment of dividends charged to retained earnings for the amount of S/ 132'937,724.28, with a dividend per share of S/ 0.2730.
- At a meeting held on November 30, the Board of Directors approved the resignation of Mr. Qiang Lyu from the position of Alternate Director. Likewise, in the same session, the Board of Directors approved to make a payment of dividends charged to retained earnings for the amount of S/ 133'911,627.03, the dividend per share being S/ 0.2750.

**Share price during the year 2021 (S/)**

<b>Month</b>	<b>Opening</b>	<b>Closing</b>	<b>High</b>	<b>Low</b>	<b>Average</b>
January	25.01	27.40	29.25	25.00	26.42
February	28.00	23.20	29.00	23.18	31.15
March	23.15	14.60	23.15	11.02	12.66
April	14.70	12.50	15.60	11.55	13.85
May	12.50	11.50	13.00	11.00	12.13
June	11.50	11.30	12.50	10.83	11.54
July	11.30	10.50	11.30	10.50	11.01
August	10.50	10.55	10.90	10.30	10.51
September	10.60	11.70	12.00	10.55	11.56
October	11.98	13.50	14.00	11.80	13.20
November	13.90	14.28	14.51	13.50	14.42
December	14.10	14.24	14.51	14.00	14.25

**Price of corporate bonds during the year 2021**

<b>Issue</b>	<b>Month</b>	<b>Opening %</b>	<b>Close %</b>	<b>High %</b>	<b>Low %</b>	<b>Average %</b>
LUSU2BC10U	04	105.3568	105.4789	105.4975	105.3568	105.4303
LUSU2BC10U	05	104.0920	104.0920	104.0920	104.0920	104.0920
LUSU2BC10U	08	103.0146	102.8980	103.0146	102.8980	103.0123
LUSUR2BC6U	04	106.4639	106.4639	106.4639	106.4639	106.4639
LUSUR2BC6U	07	100.2822	100.2816	100.2822	100.2816	100.2819
LUSUR2BC6U	08	103.4286	103.4286	103.4286	103.4286	103.4286
LUSUR2BC6U	09	103.2119	103.2082	103.2119	103.2082	103.2091
LUSUR2BC9U	01	106.0582	105.8105	106.0582	105.8105	105.9516
LUSUR2BC9U	04	104.2346	104.2346	104.2346	104.2346	104.2346
LUSUR2BC9U	06	101.0470	101.0470	101.0470	101.0470	101.0470
LUSUR2BC9U	08	101.9060	101.9060	101.9060	101.9060	101.9060
LUSUR3BC1A	05	110.7867	110.7867	110.7867	110.7867	110.7867
LUSUR3BC1A	07	111.4762	97.0000	111.4762	97.0000	109.2865
LUSUR3BC1A	09	105.2463	103.5177	105.2463	103.5096	104.5353
LUSUR3BC1A	12	102.7299	102.7299	102.7299	102.7299	102.7299
LUSUR3BC2A	09	111.2295	110.7854	111.2295	110.7854	111.0167
LUSUR3BC3A	01	123.2228	122.7952	123.2228	122.7952	123.1375
LUSUR3BC3A	04	105.3533	98.6837	105.3533	98.6837	103.1301
LUSUR3BC4A	02	117.2402	117.2402	117.2402	117.2402	117.2402
LUSUR3BC4A	03	116.3269	116.3269	116.3269	116.3269	116.3269
LUSUR3BC4A	08	107.7976	105.9436	107.7976	105.9436	107.1796
LUSUR3BC4A	09	104.8077	105.1122	117.8892	04.8077	104.8113
LUSUR3BC5A	06	107.1946	107.1946	107.1946	107.1946	107.1946
LUSUR3BC5A	09	104.1344	104.1344	104.1344	104.1344	104.1344
LUSUR3BC5A	11	103.4750	103.4750	103.4750	103.4750	103.4750
LUSUR3BC6A	01	117.3159	117.3159	117.3159	117.3159	117.3159
LUSUR3BC6A	02	115.8859	115.8859	115.8859	115.8859	115.8859
LUSUR3BC6A	05	98.5144	98.5144	98.5144	98.5144	98.5144
LUSUR3BC6A	11	98.2059	98.2059	98.2059	98.2059	98.2059
LUSUR3BC7A	07	97.0000	97.0000	97.0000	97.0000	97.0000
LUSUR3BC7A	08	100.6242	100.3480	100.6242	100.0734	100.2807
LUSUR3BC7A	09	100.6228	100.6228	100.6228	100.6228	100.6228
LUSUR3BC7A	10	101.7186	101.7735	101.7735	101.7186	101.7529
LUSUR3BC8A	03	114.5407	114.5407	114.5407	114.5407	114.5407
LUSUR3BC8A	09	99.9892	99.9892	99.9892	99.9892	99.9892
LUSUR3BC8A	10	98.4664	100.1832	100.1832	98.4664	98.8406
LUSUR4BC1A	08	83.4357	76.8621	83.4357	76.8621	77.3013

## **Concession Area**

Luz del Sur has a concession area of more than 3,500 km<sup>2</sup>, which covers 30 of the most important districts of Metropolitan Lima. As well as districts of the provinces of Cañete and Huarochirí, which together include more than 5 million inhabitants.

It is important to note that the most important commercial, tourist and service activity is concentrated in this area, as well as a significant part of the country's productive companies.

Considering the great availability of resources, these conditions represent an excellent development potential for the Company in the future.

To properly service more than one million customers, the Company has 11 modern branches strategically located in our concession area, so that customers always have a Luz del Sur office nearby.

## **Investments**

During 2021, the Company invested more than US\$ 123 million, mainly in the improvement and expansion of the electrical system and in the modernization and upgrading of public lighting, as well as in the implementation of new IT and telecommunications tools.

## **Additional Information**

In 2021, the main outside variable that affected marketing was the COVID-19 pandemic.

The Peruvian electricity sector is separated into three sectors: generation, transmission and distribution. Luz del Sur participates in the distribution sector with 30 % and in the generation sector with 1.4 %.

Information on "Judicial, administrative or arbitration proceedings" is found in the notes to the audited financial statements.

## COMMERCIAL MANAGEMENT

1. The energy consumption of regulated, free and toll customers was 9,022 GWh, which represents a growth of 6.3 % compared to the previous year and reflects a partial recovery over the reduction in consumption of 9.9 % that occurred in 2020. The annual sale of energy and power was S/ 3,268 million, 8.0 % higher than 2020.
2. The annual energy consumption of the regulated and free customers of Luz del Sur was 5,610 GWh, an amount 0.3 % lower than 2020, with the annual sale of energy and power being S/ 3,049 million, an amount 6.5 % higher than 2020.

On the other hand, the consumption of toll customers was 3,412 GWh, an amount 18.1 % greater compared to the previous year, with the sale of S/ 219 million, an amount higher by 35.2 % than the year 2020.

3. The annual purchase of electricity was S/ 1,954 million, a value 5.6 % higher than the previous year. Said increment is mainly explained by the increase in power and energy prices of the bidding contracts, whose impact was mitigated by the effects of excess contracting of power according to the addenda signed within the framework of Supreme Decree No. 026 -2018-EM.
4. The demand of the regulated market was fully covered with the electricity supply contracts that were awarded in the long-term bidding processes under Law 28832 and that came into force in January 2014 and January 2018.
5. The margin reached between the sale and purchase was S/ 1,314 million, higher by 11.8% compared to the previous year.
6. The regulated rate of December 2021, for residential customers (BT5B), increased by 9.9 % compared to December 2020. This variation is made up of an increase of 5.2 % due to the setting and updating of costs for distribution activities and secondary transmission and an increase of 4.7 % due to adjustments applied by OSINERGMIN in prices at the level of Generation, Main Transmission System, Guaranteed Transmission System and Other Charges associated with Generation.

## IT AND TELECOMMUNICATIONS

Due to the COVID-19 pandemic, the Company had to carry out various activities remotely, for which it was necessary to modify some computer systems in such a way as to facilitate the work of the staff without losing security and efficiency. During the year 2021 the most important tasks in the field of technology were:

1. Installation of a new radio link between the Santa Anita SET and the La Cantuta Relay Station to improve the availability of communications in the eastern area of our concession.
2. Renewal of the radio links between the La Cantuta Relay Station, the Chosica SET and the Huacapune Relay Station, which has improved the availability of communications at each of these sites.
3. Implementation and commissioning of fiber optic links between the Monterrico, Balnearios, San Juan, Ingenieros, Industriales, Progreso SETs and the Chacarilla Headquarters. These links enable the communications of the substations, as well as the communication of the differential protection relays.
4. Renewal of the Telecommunications energy systems of the Canteras, Bujama, Surco SETs, La Molina Relay Station, Manchay Relay Station and the La Unión, El Pueblo and Huaycán SEDs. In this way, the reliability of the telecommunications systems of these sites has been increased.
5. Implementation and start-up of a PoC (Push to Cellular) cellular radio communication system to extend trunked radio communication to cell phones. This solution facilitates communication in areas without trunked radio coverage, through the use of cell phones.
6. Renewal of the intrusion systems of the Morro Solar, La Virgen and La Molina Relay stations, improving the remote monitoring of the stations from the Operations Center.
7. Improvement of the telecommunications towers of the Lurín, Ñaña, Chilca, Canteras SETs and the San Juan Headquarters, Santa Anita Branch, Cañete Branch, Chosica Branch, Ihuanco Relay Station, La Molina Relay Station, Mala Branch and La Unión SED, according to what is stipulated in the ISO standards and according to the Safety, Occupational Health and Environment standards.
8. Implementation of a SCADA for the electrical distribution network. This SCADA allows the monitoring and remote control of distribution substations (SED) and field devices (disconnectors, reclosers, sensors, etc.) installed in distribution networks throughout our concession area using standard protocols such as IEC-60870 -5-104 and DNP, also uses, as a means of communication, the cellular data network. The implementation of an exclusive cellular APN for the distribution equipment and the configuration of point-to-point virtual private networks (VPN) guarantees the security of the operation.
9. Reinforcement of the security levels of the technological platform of Luz del Sur by installing protection software on the servers (anti-malware, virtual patch) which consolidates in a single console the events and alarms coming from both the servers and from the data network as well as the equipment of the end users. The integration and correlation of events from these three platforms, together with the use cases implemented in the new corporate event correlator (SIEM), will allow for comprehensive visibility of the behavior of the technological infrastructure and the

capacity for early detection, investigation and rapid response to malicious events that may jeopardize Company data and operations.

10. Given the increase in cybersecurity threats registered worldwide, we also improved the perimeter protection of the company against possible attacks from the Internet, renewing the perimeter firewalls. The new firewalls have better security features (IPS, WEB filtering, QoS, etc.) and performance to support the greater number of WEB and mobile services offered to our customers, suppliers and contractors.

11. Consolidation of the Teleworking platform, which allows the company's employees to carry out their work either in the company's facilities and in their homes. This facility has also been extended to contractors, who provide their support and maintenance services to the different areas of the company in a safe and controlled manner, minimizing face-to-face activity in our facilities, thus reducing the probability of contagion by COVID-19.

12. Implementation of the Tree Pruning and Registration Module (SIPOCAT), which consists of a mobile application that allows field registration of information on the execution of maintenance activities related to the crossing of trees with high voltage roads and a Web application that allows prioritizing and monitoring the detected cases, improving the availability of information and increasing the operational efficiency of the maintenance carried out in High Voltage.

13. Implementation of the Maneuver Request Module in a mobile version, which allows the virtual authorization and management of requests for maneuvers in electrical circuits, eliminating physical documentation, reducing contact in the field and thus the risk of COVID-19 contagion of specialized personnel, improving the availability of information and increasing the controls in the execution of the programmed works that are executed in the Power Cuts Management System.

14. Implementation of mobile applications in the Low Voltage Maintenance Management Module that expands its scope to allow the execution of registers of switches, connections and grounding, record evidence of the work carried out by the crews in the field and the development of an application web that allows supervisors to assign jobs, consult the information collected and remotely supervise the activities of contractors.

15. Implementation of an export application for the Electrical Distribution Network, which extracts the data from the network registered in our GIS platform and transforms it into the format required by the electrical analysis tools used by the Projects, Planning, Protections and Control center. The application allows them to have updated information for the evaluation of the impacts of reforms in the electrical distribution network, protection studies, calculation of technical losses in low and medium voltage, evaluation of transfers required for scheduled maneuvers and evaluation of optimizations to the electrical system. via simulations of load flow and short circuits.

16. Implementation of the automatic budget module for customer service from the web platform. This implementation allows customers to make requests for connections and reforms, among other works related to low voltage projects from the website and for them to receive the signed budgets through the same channel.

17. Migration of modules from the Projects and Works System (SPO) to the web platform used by administrative personnel (Warehouse Orders, Purchase Orders, Returns, Works Reports, Works Inquiries), which will allow administrative users to carry out the management of materials for works and/or monitoring of works in a faster and

more efficient way and additionally not depend on the use of a virtual machine in Windows XP for the execution of their tasks.

18. Migration of the Connection Maintenance application and integration with the Remote Supervision (SAD) module, which will reduce planning times, facilitate the monitoring and review of connection maintenance work and reduce time losses due to the elimination of the manual system that previously existed to cross-reference the information from the SAD, LV Maintenance and Registry modules.

19. Migration of Service Maintenance (MANSER) and Connection Commissioning (PUSER) applications to the Corporate WEB Platform. Among the improvements introduced in the new versions is the centralization of the algorithms to assign meters to the company's clients, and the aggregation of images or documents during the completion of the MANSER or PUSER orders that support the installation of the connection. These improvements allow a better control of the installations carried out.

20. Implementation of the Accounting Voucher Management application through which the areas send their accounting entries electronically for officialization by the Accounting Department. This will make it possible to dispense with the physical management of accounting receipts, adjusting to what is required to reduce the risk of COVID-19 contagion.

21. Implementation of adjustments in electronic invoicing to comply with the new requirements of SUNAT, referring to the management of forms of payment and expiration dates of electronic documents.

22. Migration of the Provisional Registration application to the Corporate WEB Platform, which will allow users to register their internal payment vouchers with a user-friendly tool and with greater features, reducing the time and costs invested in this process.

## TECHNICAL MANAGEMENT

- In response to our commitment to public safety and service continuity, we have carried out the following main activities:
  - Replacement of 2,923 low voltage poles and 1,522 medium voltage poles.
  - Installation of 4,539 fiberglass-reinforced polyester protectors on low-voltage poles and 698 on medium-voltage poles.
  - Renewal of 128.7 km of medium voltage aerial networks (10 and 22.9 kV).
  - Installation of 65 switches and 29 reclosers in medium voltage networks, with state-of-the-art relays to improve the selectivity of electrical protections and the reliability of the service to our customers.
  - Execution of 2,511 actions in medium voltage energized networks (10 and 22.9 kV) and 7 actions in transmission substations (60 kV) to carry out maintenance and network expansion works, avoiding the interruption of service to users due to execution of these works.
  - Construction and implementation of the Dielectric Testing Room at the San Juan Headquarters, intended to carry out electrical tests on the equipment used for live work.
  
- We renewed more than 21,000 lights and 10,000 public lighting lamps for maintenance.
  
- We treated 50,233 liters of dielectric oil allowing its reuse, thus reducing the generation of waste and preserving the environment.
  
- As of December 2021, more than 1,338,000 electricity meters have been verified, with which we guarantee correct measurement and billing of energy to our customers.
  
- We have provided service to more than 29,000 new clients or load increases to existing clients. It is important to highlight that 44 clients were commercial and industrial with powers greater than 600 kW.
  
- Luz del Sur continued its Mass Electrification Program in marginal urban areas of Greater Lima. For this, we expanded the distribution networks in order to bring well-being and progress to 152 towns that did not have basic electricity service, thus benefiting more than 16,700 families.
  
- In 2021 we carried out network expansions by installing 84 km of medium voltage (MV) networks, 376 km of low voltage (LV) networks and 199 MV/LV transformation substations.
  
- The public works to improve the city with regard to the expansion of roads developed by State entities, Municipalities and Ministries, generated the need to relocate more than 21 km of distribution networks (MT and BT). Among the main projects we have:
  - Improvement of Av. Malecón Grau and Av. Defensores del Morro (formerly Av. Huaylas).
  - Improvement of Av. Las Torres.
  - Creation of roads and sidewalks on Av. Andrés Avelino Cáceres, Huaycan.
  - Creation of roads and sidewalks on Av. Colectora NN2, Santa Clara.
  - Improvement of Av. La Molina, from Av. Melgarejo to Jr. Madre Selva.

- Improvement of slopes and access roads in the risky areas of UCV 217C, 217D and 217F, Huaycan.
- Regarding the improvement of the public lighting network, we have modernized the switching control system for 1,453 substations, using the totalizer meters installed to manage the utilization factors of the distribution transformers.
- In addition, in our Cañete concession area, 5,200 lights with LED technology have been installed to replace sodium vapor lights.
- On the other hand, to continue improving the management of the utilization factors of our distribution transformers, we have increased the remote metering system in 922 additional substations, managing to have 83% of the all the transformers remotely monitored.
- As part of the Luz del Sur Smart Metering Pilot Project, more than 11,000 conventional meters have been replaced by smart meters, out of a total of 16,057 meters approved by OSINERGMIN for our company. Our pilot includes the evaluation of 7 communications technologies in meters to be installed in 10 districts of our concession area and has the participation of 9 international manufacturers. The purpose of the smart metering pilot is to evaluate this new technology and its advantages for the benefit of our customers in the future context of smart grids and energy sustainability.
- We have implemented new digital applications for the preparation of the Preliminary Inspection Act (AIP), Inspection of Transmission Assets, Thermographic Inspections, Maneuver Requests, Registry and tree pruning in Transmission Lines (SIPOCAT), which facilitates the work of the operational workers who will record information from cell phones, optimizing time, improving the management and traceability of information.
- We implemented the Luz del Sur Digital Substation Training Center, which allows the technical development of specialist personnel for the engineering, operation and maintenance of Digital Transmission Substations, where equipment configuration, pre-commissioning tests can be carried out, as well as failure analysis and research for the application of new technologies, such as: the implementation of the Human-Machine Interface (HMI) in the Villa María substation, with its own personnel.
- We have incorporated new predictive maintenance techniques such as the tests of vacuum switches for Medium Voltage breakers, which allows detecting possible failures and the current condition of the equipment, likewise the inspection plan with RPAS (DRONE) was implemented to help identify Non-obvious Faults in Substations and Transmission Lines.
- For the renovation and modernization of the Transmission system, we changed 17 60kV switches, 17 10kV switches, 40 protection relays, 330 60kV polymeric insulators and 3 km of aerial conductors, among others.
- We have implemented the automatic recording of scheduled and unplanned disconnections of transmission lines and transformers in the portal of the supervisory authority (OSINERGMIN), through robotic process automation (RPA).
- We have increased the technical skills of Transmission Operators, managing to certify them as RPAS pilots and thermography inspectors, likewise adaptations

have been developed in remote extraction/insertion robots, which allows us to operate BBC brand switches, avoiding cuts in the Medium Voltage bars and thus increasing the reliability and safety of operations.

- Throughout the year, we carried out various works to expand the electrical infrastructure in the transmission system, aimed at addressing the growth in demand and improving the quality of service, considering high technical and safety standards.
- We increased the total 220/10 kV transformation capacity by 100 MVA: 50 MVA with the construction of the new Progreso transmission substation (SET) and 50 MVA with the expansion of the San Luis SET, where we installed a second transformer.
- Likewise, we increased the total 60/10 kV transformation capacity by 25 MVA: 17.2 MVA with the installation of a second transformer at the Chosica SET, and 7.8 MVA with the replacement of a transformer at the Bujama SET of 17.2 for another 25 MVA one.
- We built the new 220/10kV Progreso Substation, with GIS technology, 50 MVA of 220/10 kV transformation and associated 220 kV transmission lines, with 6.9 km of underground double circuit.
- We improved the capacity and reliability of the 220 kV Transmission System through the construction of an 8.7 km underground line, allowing the creation of an additional 220 kV link between the San Juan and Balnearios SETs.
- 
- The capacity and reliability of the 60 kV Transmission System was improved through the construction of an additional 8.6 km, allowing the creation of 60 kV links between the following SETs:
  - Balnearios and Monterrico.
  - Industriales and Ingenieros.
- We processed 120 power demand requests from large clients, greater than 600kW. These demands were concentrated mainly in the districts of: Ate-Vitarte, Lurigancho-Chosica, Lurín, San Borja, San Isidro and Chilca.

## HUMAN RESOURCES

One of the greatest concerns during 2021 has been to preserve the health of our employees and contractors with biosafety measures to prevent them from being infected with COVID-19. Likewise, we have been focused on maintaining a good workplace environment in which we reward performance and encourage growth, both personal and professional.

The workers' unions SUTEECEA and SUTREL presented their demands individually. On January 25, 2021, the collective agreement was signed with SUTREL and was in force throughout the year 2021. In the case of SUTEECEA, at its request, the collective bargaining was submitted to arbitration.

Additionally, face-to-face and, later, virtual meetings were held with various groups of employees and both unions seeking to emphasize the rights and duties that we have as company workers.

During 2021 we focused on strengthening the learnings acquired in good training practices. We seek to maintain the organization's standards and improve them every day, always focused on the safety and health of workers, optimizing technical knowledge, promoting the improvement of soft skills and caring for our environment.

We promoted the improvement of skills and abilities of our trainers through the Trainer of Trainers Program, we continued with our Soft Skills Improvement Program, Focus, at the Supervisor level. Likewise, the certification and reinforcement of the English language was provided for our professionals according to the demands of their job.

An important aspect has been the promotion of the culture of innovation in the organization, from the strategic perspective focused on Assistant Managers and Department Heads with the Leading Innovation in Action program and the tactical/operational part in an open process of proposals for solutions to daily problems through our first Ideas Hackathon.

We provided 41,284.38 hours of training in both internal and external courses, which we divide by category for a better understanding. These items group content made to measure, in order to meet the needs and specific cases in Luz del Sur:

### Distribution of events, hours and participants by item

ITEM	# EVENTS	TOTAL PARTIC.	TOTAL HOURS	% HOURS
DEVELOPMENT	137	556	7,320.50	18.22%
MANAGEMENT	112	1,972	6,585.33	16.39%
ENVIRONMENT	47	1,700	2,228.00	5.44%
HEALTH	46	2,307	2,481.75	5.97%
SAFETY	396	8,457	15,430.92	38.04%
TECHNICAL	205	1,403	7,237.88	15.95%
<b>General total</b>	<b>943</b>	<b>16,395</b>	<b>41,284.38</b>	<b>100.00%</b>

Another classification used in the training processes is the type, which refers to the various training modalities that are carried out in Luz del Sur.

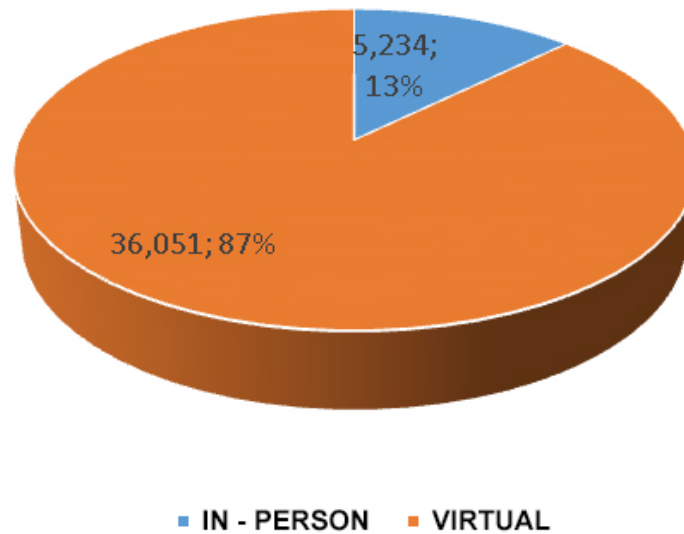
#### Distribution of events, hours and participants by type

ITEM	# EVENTS	TOTAL PARTIC.	TOTAL HOURS	% HOURS
CONFERENCE	49	7,090	7,133.00	17.51 %
CONGRESS	2	6	80.00	0.20 %
COURSE	208	1,339	12,102.25	30.14 %
DIPLOMA	4	4	371.25	0.92 %
TRAINING AT THE TASK	369	2,554	10,243.75	23.45 %
MASTERS DEGREE	1	1	1,207.00	3.00 %
SSMA PROFILE	185	3,385	5,549.17	13.33 %
PROGRAM	114	1,876	4,301.13	10.70 %
SEMINAR	2	2	13.83	0.03 %
WORHSHOP	9	138	283.00	0.70 %
<b>General total</b>	<b>943</b>	<b>16,395</b>	<b>41,284.38</b>	<b>100.00 %</b>

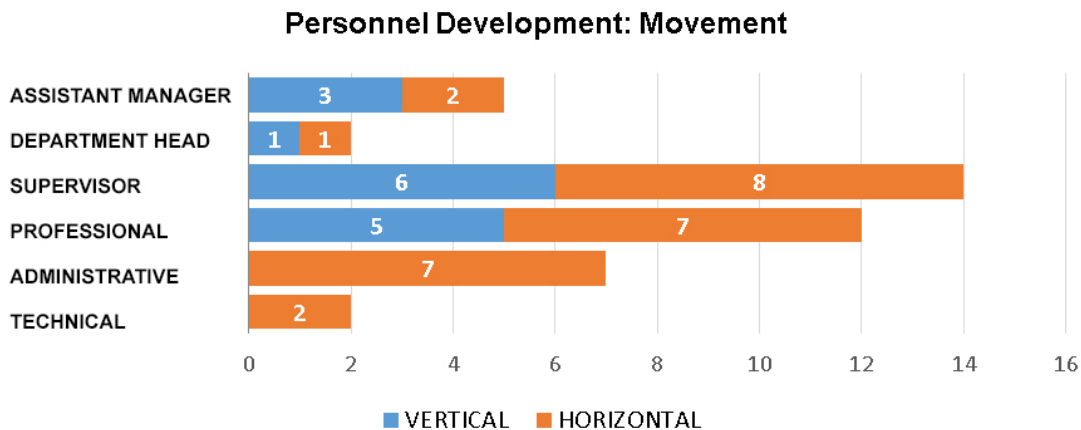
We strengthened the implementation of courses through the virtual system without neglecting the training that should have continued to be face-to-face, complying with the protocols established by our Department of Occupational Health, thus guaranteeing the care of our employees as well as their continuous personal and professional development; below are the details.

System	# of hours	%
IN-PERSON	5,234	13 %
VIRTUAL	36,051	87 %
<b>Total</b>	<b>41,284</b>	<b>100 %</b>

## Training System (Hours; %)



We continue to strengthen our people development process through the promotion of movements in the different management areas, which are carried out through both horizontal (changes of area) and vertical (promotions) changes, having carried out: 15 promotions at different levels and 27 area transfers, the detail specified below:



44 new employees with extensive work experience in various sectors related to the electricity business joined the Company. Among them, 2 deputy managers and 5 heads of the Finance, Legal and Commercial Departments joined the company, as well as 28 professionals and 9 technicians whom we are sure will contribute significantly to the growth of Luz del Sur with their experience and commitment. On the other hand, we want to highlight that 45 % of our hires were former Luz del Sur interns (7 % more than in 2020), in addition 11 % of our vacancies were filled through the internal recruitment process, which highlights our development opportunities.

<b>Management</b>	<b>No. of admissions</b>
Legal Counsel	2
Commercial	14
Distribution	15
Finance	4
Transmission	9
<b>Total</b>	<b>44</b>

Regarding our talent attraction activities, we actively participate in virtual job fairs of various institutions and continue to develop our employability talks, on this occasion sharing testimonies from our current employees and interns in order to share our vision and commitment to our country. We made alliances with eight (8) universities, study groups and one institute, participating in their virtual fairs and presenting our Webinars. As a result, we obtained 3,637 visits to our virtual stands and 1,066 attendees to our talks. We were present at:

UNI - National University of Engineering

UDEP - University of Piura

UTEC – University of Engineering and Technology

USIL – San Ignacio de Loyola University

ULIMA – University of Lima

UCSUR – Scientific University of the South

TECSUP – TECSUP

UNI – IEEE Peru Section

On the other hand, we carry out virtual activities for employees and their families, in order to contribute to personal, family and work well-being, according to the demands of the current situation.

We carry out the virtual Leadership Workshop aimed at young people, children of our employees between 15 and 20 years of age, the Summer Vacation Program aimed at children between 5 and 14 years of age, including a virtual visit to the aquarium in Valencia – Spain, where the participants were educated about caring for the sea and animals, and a virtual camp.

The “Luz del Sur Program Accompanies You”: Permanent Psychological Assistance, is the emotional support that provides tools through the different approaches with workers and families, such as calls to workers who perform face-to-face work and remote work, as well as talks and workshops. for the family.

Telemedicine consultations, virtual consultations with 100 % coverage to facilitate medical care for the worker and family.

Virtual consultations in Nutrition for the care of workers.

Virtual talks and workshops aimed at supporting coexistence as a new family and work experience in times of COVID-19.

- Assertive and effective communication
- Care of the patient suspected of COVID-19
- Deep breathing workshop
- Laughter therapy workshop
- Anti-stress diet
- Strengthening of the immune system
- Self-esteem and self-care

Taking into account the comfort and biosafety protocols to prevent COVID-19, we adapted all the dining rooms for the use of personnel with face-to-face work activity, implementing measures such as: capacity, social distancing, barriers (acrylic on tables), use of masks, use of disposable items, placement of disinfectant gel, fumigations, informative messages, protection protocols, vaccination and nutrition.

Throughout this National Emergency, the Company has continued with its operations, executing the Plan for the Surveillance, Prevention and Control of COVID-19 at Work, with the aim of establishing guidelines, measures and actions in order to guarantee the safety and health of workers who continue to work in person.

Among the main activities of the Surveillance Plan are the identification of symptoms prior to entering the facilities, the monitoring of suspected and/or confirmed cases of COVID-19, awareness-raising regarding the prevention of the spread of COVID-19, procedures for the reincorporation or return to work, among others.

The Human Resources Management, through the Department of Occupational Health, has been carrying out fortnightly screenings among on-site personnel, in order to identify possible COVID-19 cases in a timely manner and thus initiate early treatment to reduce symptoms. The workers are screened, using a molecular and antigen test.

Additionally, we carried out an awareness campaign for Full Vaccination against COVID-19 aimed at all the staff.

The table below shows the evolution of the number of workers between 2016 and 2021:

CONDICIÓN	YEAR		Dec-16		Dec-17		Dec-18		Dec-19		Dec-20		Dec-21	
<b><u>PERMANENT</u></b>														
OFFICERS		27		31		26		26		26		26		28
EMPLOYEES		677		688		680		686		698		698		699
- DEPARTMENT HEADS	44		46		46		47		49		48		48	
- PROFESSIONALS	238		244		248		248		253		270		270	
- TÉCNICAL	304		291		284		289		293		282		282	
- ADMINISTRATIVE	91		107		102		102		103		99		99	
WORKERS		-		-		-		-		-		-		-
<b><u>TEMPORARY</u></b>														
- PROFESSIONALS	6	19	12	21	15	23	12	22	6	15	5	18	5	18
- TÉCNICAL	9		6		5		6		6		9		9	
- ADMINISTRATIVE	4		3		3		4		3		4		4	
<b>TOTAL</b>		723		740		729		734		739		739		745

This new normal has accentuated and accelerated the changes in the various systems of the organization. Not unrelated to this, Safety at Work assumes its role as an agent of change, promoting, motivating and mobilizing the personnel of the different levels of the organization, as well as the personnel of contractor companies, in order to jointly find safe and innovative solutions that guarantee the efficiency of the organization.

The company maintains efforts for the safety and health of employees to deal with SARS-CoV-2 or other dangers that affect their health.

As a result, we have achieved:

- As of December 31, 2021: a total of 13,471,652 man-hours worked without fatal accidents.
- Review of our Safety, Occupational Health and Environment Policy, currently in its sixteenth version, and dissemination to all personnel, aligning it with the requirements of the ISO 45001 standard.
- Carry out a thorough Hazard Identification, Risk Assessment and Control of the tasks we perform annually, that is the basis of the Annual Safety Plan and Program, which is monitored monthly.
- Likewise, in the course of 2021 we carried out 2,283 Field Observations on the work of our own personnel and contractors, which represents an increase of 4% compared to 2020.
- We reviewed and/or developed 141 operational work procedures, which represents an increase of 19 % compared to 2020.
- We reinforced the culture of prevention and awareness of the staff through virtual simultaneous security conferences, posters, security messages, bulletins. These actions are aimed at company personnel and contractor companies, in order to strengthen our safety commitments.
- We reinforced the skills of the operating personnel through Security tutorial videos, placed on the intranet at the disposal of the personnel.
- We updated the training profiles for Luz del Sur staff and contractors.
- We strengthened communications with our contractor companies through monthly virtual meetings, sharing experiences and good practices, as well as improving the culture of prevention in each of them.
- We have incorporated improvements in the process of requesting Personal Protection Equipment, detailing the needs of each worker according to the exposure to risks inherent to the activities carried out.
- The limits established by the organization for 2021 concluded favorably with respect to the corporate accident rate parameters: Recordable, Disabling and Days Lost.

It is important to maintain our facilities in the best way to provide comfort to our workers and customers, which is why:

1. We renewed the sewage collection network of the San Juan Headquarters and implementation of a sewage pumping chamber to drive waste to the public network. This project will allow to maintain a better cleanliness and hygiene of the sanitary facilities of the San Juan Headquarters.

2. We built the New Testing Room, a 150 m<sup>2</sup> building at the San Juan Headquarters where the equipment for live work will be stored, inspected and electrical tests will be carried out.
3. We incorporated the electrical installations of the warehouses at the San Juan Headquarters into the Emergency electrical circuit, to ensure their uninterrupted operation (24/7).
4. We renewed the lights in the San Juan Headquarters warehouses with new LED technology, optimizing the lighting levels of the warehouses as well as making more efficient use of electrical circuits, minimizing failures due to overheating of cables or short circuits. Better-lit warehouses also provide greater security.
5. We completely renovated the electrical installations of the Santa Clara warehouse, achieving optimal conditions for safety, lighting and electricity consumption.
6. We completely renovated the electrical installations at the Santa Anita Branch, achieving optimal safety and lighting conditions.
7. We remodeled the customers' rest rooms at the Chacarilla Branch.
8. We remodeled the medical offices of the Chacarilla and San Juan Headquarters, including each of the rest rooms.
9. We adapted the installations at the San Isidro Headquarters to expand the capacity of the dining rooms while biosecurity measures remain in place.
10. We implemented air purification systems at the San Isidro, Chacarilla and San Juan Headquarters, in work areas whose operation is permanent (24x7).
11. Logistical support for company personnel for the home transfer of computer equipment and office chairs for teleworking.

## ENVIRONMENT

In accordance with its Safety, Health and Environment Policy, Luz del Sur promotes and fosters an environmental culture inside and outside the organization, through awareness of the importance of environmental conservation.

Likewise, it develops its activities within a framework of continuous improvement, through the implementation of preventive activities and controls in its operations, in order to reduce impacts on the environment.

During 2021, more than one million two hundred and forty-nine thousand dollars were allocated to programs and activities related to the Environment. The Public Lighting Improvement and Expansion Programs stand out; these were intended to improve the level of lighting in the concession area and, consequently, the living conditions of the inhabitants. Other programs include the final disposal of solid waste, laboratory tests, and recycling activities, among others.

It should be noted that during 2021, Luz del Sur carried out the chemical destruction of oils contaminated with Polychlorinated Biphenyls (PCBs greater than 50 ppm), totaling 1.8 tonnes. This was achieved through the dechlorination process, which is an alternative disposal system that is environmentally compatible with the activities and resources that Luz del Sur has and that allows it to comply with the Stockholm Convention.

In December, the ISO 14001: 2015 recertification audit was carried out, maintaining the certification granted by SGS Peru. It is very important to highlight that the certified version corresponds to the most recent of the ISO 14001 Standards and with this our continuous commitment to the Environment is evidenced.

Our Audit Plan was also developed, which included 2 audits carried out on the organization and confirmed that our Environmental Management System complies with all legal requirements and allows us to control the possible impacts that may be generated as a result of our operations.

## **SOCIALLY RESPONSIBLE: Our Community and the Environment**

Luz del Sur is aware of the needs of its stakeholders and is committed to supporting them as managers of their own progress. Our role continues to be to promote the development of the skills of those who make up the community, as well as its sustainable growth, mainly in the sectors that are within our concession area. We establish goals, policies and actions. Through coordination and open dialogue, we guarantee shared value: Community and Company.

We voluntarily comply with responsibilities that go beyond our financial interests and compliance with labor and environmental regulations, which for us means only the starting point. We care about our ethical and moral responsibilities to workers and the community, as well as our environmental impact. We promote by example sustainable practices and consumption in the different areas of influence. Likewise, as part of our strategic plan, we carry out actions aimed at maintaining a healthy and safe work environment for everyone.

Despite the restrictions given in the face of the state of emergency by COVID-19, we have continued to work tirelessly to improve the quality of life of our compatriots, through the continuous improvement of our service, in this way we bring development and well-being to millions of families from our concession area.

Among the main activities that we have carried out during 2021, we can mention the following:

As it did in previous years, Luz del Sur supported the Fundación Teletón San Juan de Dios through Teletón 2021. Our commitment to children and young people remained firm so that their recovery does not stop. Nearly 2,089 children and young people are treated at the San Juan de Dios clinics in Lima, Chiclayo, Cusco, Arequipa, Iquitos, and Piura, making the dreams of thousands of families come true. In this way, we contribute to promoting inclusion and respect for the rights of people with disabilities in Peru.

Luz del Sur promotes an environmental culture in the development of its activities, maintaining good environmental practices and implementing preventive and control actions in its operations, in order to reduce environmental impacts. With our "Eco-Responsible South Light" program, we seek to create social awareness among workers about the importance of recycling and other responsible practices for reducing our ecological footprint and conserving the environment.

In 2021, we were able to resume our recycling program, after the interruption we suffered due to the state of emergency measures arising from COVID-19. Until February 2021, we maintained cooperation with the association Ayudando Abrigando and Fundación Oli, collecting 352.33 kg of plastic, with which shelter was provided to populations in areas affected by poverty, those in which there is no access to basic needs or protection against the arrival of frost and cold that threatens the health of the inhabitants. The plastic that we donated was transformed into textile fiber, raw material for the production of blankets that were distributed to people in need in different parts of our country. For the fourth consecutive year, we were considered one of the largest contributors in the donation of PET and PAD plastic.

Since June 2021, we have carried out our plastic recycling program, through a collaboration agreement, with Aldeas Infantiles S.O.S. Peru and Piero SAC in the "Dale

la Vuelta" campaign, managing to collect more than 330.70 kg of plastic. We also continue with our paper and cardboard recycling campaign, achieving very positive results in the S.O.S. Peru in alliance with Kimberly-Clark, collecting approximately 13.90 tons of paper and 41 kg of cardboard. Thanks to the recycling of plastic, paper and cardboard with Aldeas Infantiles S.O.S. Peru, we covered more than three thousands lunches for children from Aldeas Infantiles S.O.S. Peru. In addition, we generated an environmental benefit of 236 trees saved and savings of 1,112 m3 in water, 94,520 kWh in energy and 48.65 kg of CO2. We obtained fifth place in the ranking of the companies that recycle the most in Metropolitan Lima, for the amount of paper, cardboard and plastic donated in 2021.

We continue to be efficient with our consumption and responsible with the Environment.

In the same way, we collaborate with the Asociación Enlace Solidario in its "Plato Fuerte" program, offering orphans and abandoned minors the opportunity to integrate into the community as good people. It benefits 2 shelters where 222 children at risk live.

We continue with our Óscar Bailetti Scholarship Fund, created in 2001 as a tribute to the person who was president of the Luz del Sur board of directors in life. These scholarships allow university or technical training for underprivileged young students with superior academic performance, giving them the opportunity to study careers such as Administration, Electrical Engineering, Electrical Mechanical Engineering, Industrial Engineering and Industrial Electrotechnics. The support and accompaniment are provided throughout the career, and in this way we contribute to the education of our country.

During 2021, the Luz del Sur Corporate Outreach Committee ("LdS Outreach") continued to work for the community. We continue with our program adapted to the new reality in the COVID-19 framework just as we did in 2020. Nothing was an obstacle for us to continue bringing help to those who need us, especially in these times when the consequences of the pandemic hit mainly to the most vulnerable sectors of our country. Today more than ever, our country needs everyone!

#### FEBRUARY 2021: "LET'S HELP HELP"

We are all aware of the dramatic situation that our country has been experiencing due to the pandemic, one of the main problems being the lack of oxygen. Thousands of compatriots lost the battle against COVID-19 for not being able to have access to an oxygen cylinder.

Father Omar Sánchez, Director of the Association of the Beatitudes and General Secretary of Cáritas Lurín, worked tirelessly on the installation of oxygen plants, built thanks to the generosity of many Peruvians. We join this network of love with our corporate outreach campaign "Help Help". Thanks to donations from Luz del Sur workers, we made it possible to continue equipping the plants, with the aim of increasing the number of people benefited, and thereby saving more lives.

#### WINTER 2021: "WE bring MORE THAN LIGHT AND MORE THAN WARMTH 2021"

Like every year, with the arrival of winter it is our brothers who live in a state of vulnerability who are the hardest hit. Within the Luz del Sur concession area, there are areas that are located on hillsides, where the temperature can drop to 8 °C, with a humidity level of 100% in the air (according to SENAHMI), where entire families have to

withstand a greater intensity of cold. Due to the precarious housing, our countrymen in these communities cannot adequately protect themselves from the cold, which causes respiratory diseases, especially in children and the elderly (population at risk).

This winter 2021 we once again had the opportunity to show our solidarity. In alliance with the NGO PROA, thanks to the donations of the workers, we were able to bring help through the delivery of shelter and security packs against COVID-19, which were made up of fleece blankets, fabric masks and gel alcohol. 410 ml. The 400 g blankets were made of sublimated RPET Pail fabric and the masks, made of PE fabric, both purchased from KHANA, a social enterprise that empowers women entrepreneurs from the most vulnerable places in our country through recycling, generating economic, social and environmental benefits.

We benefited the San Antonio de Lurín Human Settlement (shanty town), San José de Lurín UPIS, Villa Alejandro de Lurín, Lurín December 1st and Committee 100 of Villa María del Triunfo with shelter and security packs, bringing shelter to more than 655 families in poverty and extreme poverty.

#### DECEMBER 2021: "UNITED FOR EDUCATION"

Children and teenagers in our country need to return to school for different reasons, such as recovering learning and meeting up with their classmates and teachers again. Direct communication between teachers and students reinforces trust. Another important factor is that not all students have the same access to technology or enough connectivity to properly carry out their classes. On the other hand, each student learns differently, and through remote classes it is very difficult to provide personalized support.

As we know, many public schools are not suitable for reopening, because they do not meet the required maintenance and safety conditions. A quick response is needed from those of us who firmly believe that education is the future of society.

Working in an alliance with Entrepreneurs for Education, we were able to make possible the painting, cleaning, disinfection, signage and general maintenance of some of the schools selected by the Regional Directorate of Education of Metropolitan Lima (DRELM) for the resumption of semi face-to face classes in 2022. Thanks to the donation of the employees of Luz del Sur, we managed to cover the following Educational Institutions (IIEE) of Ate Vitarte: IE 0034, IE 167, IE Ricardo Palma, IE 0033 Virgilio Espinoza Barrios and IE 134. We benefited about three thousand children and adolescents, offering them an appropriate and safe return to the classroom.

**Analysis and Discussion of the Administration about the Results of the  
Operations and the Financial Situation**

**Comparison between the years ended December 31, 2021  
and December 31, 2020  
Consolidated Financial Information**

**OPERATING RESULTS**

**Operating income**

During 2021, operating income amounted to S/ 3,433.3 million, a figure 8.88 % higher than in 2020.

	<b>For the years ended December 31:</b>		
	<b>2021</b>	<b>2020</b>	<b>Percentage variation</b>
Income from energy distribution S/ m)	3,361.9	3,091.7	8.74 %
Income from power generation (S/ m)	68.6	58.8	16.67 %
Income from rentals (S/ m)	2.8	2.7	3.70 %
<b>Total operating income (S/ m)</b>	<b>3,433.3</b>	<b>3,153.2</b>	<b>8.88 %</b>

- *Income from electricity sales*

	<b>For the years ended December 31:</b>		
	<b>2021</b>	<b>2020</b>	<b>Percentage variation</b>
Income from electricity sales (S/ m)	3,274.2	3,029.0	8.10 %
Electricity sold (GWh)	9,021.7	8,484.3	6.33 %
Average sales price for energy (S/ per kWh)	0.3629	0.3570	1.65 %
Complementary services (S/ m)	87.7	62.7	39.87 %
<b>Total income from energy distribution (S/ m)</b>	<b>3,361.9</b>	<b>3,091.7</b>	<b>8.74 %</b>

As of December 31, 2021, income from electricity sales reached S/ 3,274.2 million, 8.10 % higher than the sales of the previous year. This was due to the 1.65 % increase in the average price of energy sales, and the 6.33 % increase in the total sales by volume of energy.

Income from complementary services, which include the construction of new connections, maintenance and installation of meters, charges for disconnection and reconnection, damages and miscellaneous income, increased by 39.87 %, going from S/ 62.7 million during the year 2020 to S/ 87.7 million in 2021. This is mainly due to higher income from connections, which were S/ 21.7 million higher than those registered in 2020.

### *Income from electricity generation*

	<b>For the years ended December 31:</b>		
	<b>2021</b>	<b>2020</b>	<b>Percentage variation</b>
Electricity sold (GWh)	691.7	637.0	8.59 %
Average sales price for energy (S/ por kWh)	0.0992	0.0923	7.48 %
Total income from power generation (S/ m)	68.6	58.8	16.67 %

As of December 31, 2021, income from power generation sales reached S/ 68.6 million, 16.67 % higher than what was sold the previous year. This was due to an increase of 7.48 % in the average price of energy sales, and greater energy sales by volume of 8.59 %.

### *Income from the sale and rental of offices*

During the years 2021 and 2020, no income was recorded from the sale of offices. In relation to rentals, in fiscal year 2021 an income of S/ 2.8 million was obtained, a figure 3.70 % higher than that of the previous year, which was S/ 2.7 million.

### *Distribution customers*

The number of clients increased by 3.73 %, reaching a total of 1,229,611 at the end of 2021.

	<b>2021</b>	<b>2020</b>	<b>Percentage variation</b>
Number of clients	1'229,611	1'185,388	3.73 %

### **Operating Costs and Expenses**

Total operating costs and expenses during 2021 amounted to S/ 2,393.4 million, 7.37 % higher than the S/ 2,229.2 million obtained in 2020.

### *Energy purchases*

Energy purchases increased by 5.77 %, going from S/ 1,845.2 million in 2020 to S/ 1,951.6 million in 2021, as shown below:

	<b>For the years ended December 31:</b>		
	<b>2021</b>	<b>2020</b>	<b>Percentag e variation</b>
Energy purchases (S/ m)	1,951.6	1,845.2	5.77 %
Energy purchases (GWh)	6,134.7	6,105.9	0.47 %
Average cost of purchased energy (S/ per kWh)	0.3181	0.3022	5.26 %
Distribution and generation expenses (S/ m)	441.8	384.0	15.05 %
Total energy distribution and generation costs (S/ m)	2,393.4	2,229.2	7.37 %

In fiscal year 2021, energy purchases were higher by S/ 106.4 million due to the increase in the average cost of electricity purchased by 5.26 % (from S/ 0.3022 per kWh in 2020 to S/ 0.3181 per kWh in 2021) , and the 0.47 % increase in energy purchases by volume, going from 6,105.9 GWh in 2020 to 6,134.7 GWh in 2021. It is important to indicate that the cost of electricity purchased is transferred through the fees charged to customers, so such changes do not normally affect operating margins.

#### *Marketing expenses*

During 2021, marketing expenses reached an amount of S/ 70.6 million, a figure 11.89 % higher than that registered in 2020, which was S/ 63.1 million. This increase is explained by higher costs from services provided by third parties (S/ 4.5 million).

#### *Administrative expenses*

In 2021, administrative expenses decreased by S/ 10.1 million, going from S/ 120.8 million in 2020 to S/ 110.7 million in 2020, representing a decrease of 8.36 %. This change is mainly explained by lower personnel expenses (S/ 9.8 million).

#### *Depreciation and amortization expenses*

During 2021, expenses for depreciation and amortization reached an amount of S/ 145.9 million, a figure higher than the S/ 135.2 million recorded in 2020.

#### *Other operating income and expenses*

Other operating income reached an amount of S/ 36.6 million, a figure lower than that registered in 2020, which was S/ 47.1 million, mainly due to the decrease in income from rights granted (S/ 20.8 million).

Other operating expenses increased by S/ 1.1 million in 2021, mainly due to pole support expenses (S/ 2.0 million).

### **Operating Profit**

Based on what was explained above, the operating profit achieved in 2021 was 13.70 % higher than that registered in 2020, going from S/ 779.7 million to S/ 886.5 million.

### **Financial income**

During the year 2021, financial income reached an amount of S/ 31.0 million, a figure 14.39 % higher than the S/ 27.1 million registered in the year 2020. This increase is mainly explained by a higher gain from exchange difference (S/ 13.8 million), offset by lower income from past due interest (S/ 8.5 million).

#### Financial expenses

Financial expenses registered an increase of 7.94 %, going from S/ 117.2 million in 2020 to S/ 126.5 million in 2021. This increase is explained by a lower capitalization of financial expenses (S/ 10.5 million), resulting from a greater loss in exchange difference (S/ 9.6 million). On the other hand, interests, commissions and other financial expenses decreased by S/ 11.2 million.

## Net income

The profit before income tax in the year 2021 was S/ 791.0 million, presenting an increase of 14.69 % compared to that registered at the end of the year 2020, which was S/ 689.7 million. Net income in 2021 amounted to S/ 554.4 million, a figure 14.62 % higher than that of 2020, which reached S/ 483.7 million.

<b>Profit (in S/ 000)</b>	<b>2021</b>	<b>2020</b>
Before income tax	790,989	689,673
Income tax	(236,571)	(205,964)
Net profit from January 1 to December 31	554,418	483,709
Per share (Soles)	1.139	0.993

## FINANCIAL SITUATION

### Statement of Financial Position

#### *Current assets*

These amounted to S/ 661.1 million, which represented a decrease of 7.20 % compared to the end of 2020, which was S/ 712.4 million. As of December 31, 2021, a liquidity ratio of 0.37 times was recorded. Available funds in cash and cash equivalents at the end of fiscal year 2021 covered 4.25 % of short-term obligations. Cash surpluses are temporarily invested in short-term operations that generate interest at market rates, with soles being the primary currency.

The balance of the cash and cash equivalents account was S/ 75.8 million, representing a decrease of S/ 8.8 million compared to the end of 2020, which was S/ 84.6 million.

#### *Fixed assets*

The disbursement for investments in fixed assets during fiscal year 2021 amounted to S/ 483.6 million, which were invested in expanding the capacity and improvements of the electric power grid, and in the purchase of machinery and equipment in accordance with the comprehensive plan of the company to maintain an operating level in accordance with the latest technologies and increase productivity and efficiency in the use of its assets, as well as investments made in the Santa Teresa Hydroelectric Power Plant. At the end of fiscal year 2021, the net fixed assets including real estate investment were S/ 6,877.7 million.

#### *Working capital*

At the end of 2021, working capital was negative by S/ 1,123.9 million, less than the negative result of S/ 702.6 million obtained at the end of 2020, due to the increase in financial obligations, that increased by S/ 386.1 million.

### *Current and long-term liabilities*

The total liabilities of Luz del Sur and subsidiaries reached the sum of S/ 4,068.0 million, with 43.88 % participating in current liabilities, composed mainly of financial obligations (S/ 1,236.5 million), trade accounts payable (S/ 376.6 million ), and other accounts payable (S/ 94.9 million), which together represented 95.69 % of current commitments.

Non-current liabilities represented 64.60 % of net worth, with long-term financial obligations (S/ 1,472.3 million) and deferred tax liabilities (S/ 761.2 million) being its main components, with a participation of 64.49 % and 33.34 %, respectively. Likewise, long-term debts, without considering deferred tax liabilities, represented 43.06 % of net equity.

### *Financial obligations*

The long-term debts of Luz del Sur and subsidiaries (including their current portion) increased from S/ 2,511.8 million at the end of 2020 to S/ 2,708.8 million at the end of 2021, which represents an increase of 7.84 %. The balance corresponding to long-term financial obligations at the end of fiscal year 2021 was S/ 1,472.3 million, an amount lower by 11.38 % than the S/ 1,661.4 million registered at the end of fiscal year 2020. Said balance is made up of financial obligations with the banking sector and for the corporate bonds issued under the framework of the Second Program, the Third Program and the Fourth Program of Corporate Bonds and Short-Term Instruments of Luz del Sur SAA.

### *Equity*

As of December 31, 2021, it amounted to S/ 3,534.2 million, composed to a greater extent by the accumulated profit (S/ 1,948.6 million) and by the net revaluation surplus (S/ 1,104.8 million). The capital stock was S/ 331.1 million (corresponding to 486,951,371 shares), which represented 9.37 % of the equity. The net return on equity at the end of the 2021 financial year was 15.69 % and the book value of the share reached a figure of S/ 7.26.

## **BOOK VALUE OF ASSETS AND LIABILITIES**

The book value of assets and liabilities is recorded in accordance with Generally Accepted Accounting Principles and the regulations issued by the Superintendence of the Securities Market.

**Analysis and Discussion of the Administration about the Results of the  
Operations and the Financial Situation**

**Comparison between the years ended December 31, 2021 and December 31, 2020  
Individual Financial Information**

**OPERATING RESULTS**

**Operating income**

During 2021, operating income reached S/ 3,361.9 million, a figure 8.74 % higher than the income obtained in 2020.

	<b>For the years ended December 31:</b>		
	<b>2021</b>	<b>2020</b>	<b>Percentage variation</b>
Income from energy distribution (S/m)	3,361.9	3,091.7	8.74 %
Total operating income (S/m)	3,361.9	3,091.7	8.74 %

*Income from energy distribution*

	<b>For the years ended December 31:</b>		
	<b>2021</b>	<b>2020</b>	<b>Percentage variation</b>
Income from sale of electricity (S/m)	3,274.2	3,029.0	8.10 %
Electricity sold (GWh)	9,021.7	8,484.3	6.33 %
Average Price for sale of energy (S/ per kWh)	0.3629	0.3570	1.65 %
Complementary services (S/m)	87.7	62.7	39.87 %
Total income for energy distribution (S/ m)	3,361.9	3,091.7	8.74 %

As of December 31, 2021, income from electricity sales amounted to S/ 3,274.2 million, 8.10 % higher than what was sold in the previous year. This was due to the 1.65 % increase in the average price of energy sales, and the 6.33 % increase in the total physical volume of energy sold.

The highest percentage growth in sales by volume occurred in the group of free customers (+25.18 %), toll customers (+18.07 %), and public lighting (+8.91 %). Sales by volume in the industrial, commercial and residential categories decreased by 2.11 %, 1.25 % and 0.52 % respectively.

Toll customers correspond to energy consumption billed by suppliers other than Luz del Sur. The company receives an income for the use of its grids, which is called a toll.

	2021		2020		Percentage Variation
	GWh	%	GWh	%	
Residential	3,010.1	33.37	3,025.8	35.66	-0.52 %
Commercial	1,732.0	19.20	1,753.9	20.67	-1.25 %
Industrial	353.3	3.92	360.9	4.25	-2.11 %
Public lighting	360.5	4.00	331.0	3.90	8.91 %
Free clients	154.1	1.71	123.1	1.45	25.18 %
<b>Subtotal</b>	<b>5,610.0</b>	<b>62.18</b>	<b>5,594.7</b>	<b>65.94</b>	<b>0.27 %</b>
Toll clients	3,411.7	37.82	2,889.6	34.06	18.07 %
<b>Total</b>	<b>9,021.7</b>	<b>100.00</b>	<b>8,484.3</b>	<b>100.00</b>	<b>6.33 %</b>

Income from complementary services, which include the construction of new connections, maintenance and installation of meters, charges for disconnection and reconnection million during the year 2020 to S/ 87.7 million in 2021. This is mainly due to higher income from connections, which were S/ 21.7 million higher than those registered in 2020., damages and miscellaneous income, increased by 39.87 %, going from S/ 62.7

### Costs and Operating Expenses

The energy distribution costs during the year 2021 amounted to S/ 2,366.8 million, 7.29 % higher than those registered in the year 2020.

#### Energy Purchases

Energy purchases increased by 5.63 %, going from S/ 1,850.0 million in 2020, to S/ 1,954.2 million in 2021, as shown below:

	For the years ended December 31:		
	2021	2020	Percentage Variation
Energy purchases (S/ m)	1,954.2	1,850.0	5.63 %
Energy purchases (GWh)	6,134.7	6,105.9	0.47 %
Average Price of energy purchased (S/ per kWh)	0.3185	0.3030	5.12 %
Distribution expenses (S/m)	412.6	355.9	15.93 %
Total operating costs (S/ m)	2,366.8	2,205.9	7.29 %

The increase in the cost of energy purchases was due to the increase in the average cost of purchased electricity by 5.12 % (from S/ 0.3030 per kWh in 2020 to S/ 0.3185 per kWh in 2021), and an increase of 0.47% in the energy purchases by volume (from 6,105.9 GWh in the year 2020 to 6,134.7 GWh in the year 2021). It is important to point out that the cost of purchased electricity is transferred through the rates charged to customers, so such changes do not normally affect operating margins.

#### Marketing expenses

During 2021, marketing expenses reached an amount of S/ 70.1 million, a figure 12.16 % higher than that registered in 2020, which was S/ 62.5 million. This increase is mainly explained by services provided by third parties, which increased by S/ 4.5 million.

### *Administrative expenses*

In fiscal year 2021, administrative expenses decreased by S/ 9.9 million, going from S/ 114.9 million in 2020 to S/ 105.0 million in 2021, representing a reduction of 8.62 %. This decrease is mainly explained by lower personnel expenses (S/ 9.1 million) and lower miscellaneous management charges (S/ 2.7 million).

### *Depreciation and amortization expenses*

During the year 2021, expenses for depreciation and amortization reached an amount of S/ 133.3 million, a figure higher than the S/ 122.3 million registered in the year 2020.

### *Other operating income and expenses*

Other operating income reached an amount of S/ 32.4 million, a figure lower than that registered in 2020, which was S/ 48.8 million. This decrease is mainly explained by lower income from rights granted for S/ 20.8 million.

Other operating expenses increased by S/ 1.0 million, mainly due to higher spending on pole support.

### **Operating Profit**

Based on what was explained above, the operating profit achieved in 2021 was 12.57 % higher than that registered in 2020, going from S/ 749.7 million to S/ 843.9 million.

### **Financial income**

During the year 2021, financial income reached an amount of S/ 53.6 million, a figure 112.70 % higher than the S/ 25.2 million registered in the year 2020. This increase is mainly explained by the dividends received from subsidiaries (S/ 30.5 million) .

### **Financial expenses**

Financial expenses increased by 8.06 %, going from S/ 105.5 million in 2020 to S/ 114.0 million in 2021. This increase is mainly due to a lower capitalization of financial expenses (S/ 10.5 million), resulting from a greater loss due to exchange difference (S/ 5.6 million). On the other hand, expenses for interest, commissions and other financial expenses decreased by S/ 8.1 million.

### **Net income**

The profit before income tax in 2021 was S/ 783.5 million, showing an increase of 17.05 % compared to that registered at the end of 2020, which was S/ 669.4 million. Net income in 2021 amounted to S/ 557.9 million, a figure 18.88% higher than that of 2020, which reached S/ 469.3 million.

<b>Profit (in S/ 000)</b>	<b>2021</b>	<b>2020</b>
Before income tax	783,511	669,407
Income tax	(225,565)	(200,083)
Net profit from January December 31	557,946	469,324
Per share (Soles)	1.146	0.964

## **FINANCIAL SITUATION**

### **Statement of Financial Position**

#### *Current assets*

It amounted to S/ 583.2 million, representing a decrease of 8.99 % compared to the end of 2020, which was S/ 640.8 million. As of December 31, 2021, a liquidity ratio of 0.37 times was recorded. Available funds in cash and cash equivalents at the end of fiscal year 2021 covered 0.88 % of short-term obligations. Cash surpluses are temporarily invested in short-term operations that generate interest at market rates, with Soles being the primary currency.

The balance of the cash and cash equivalents account was S/ 13.6 million, which represents a decrease of S/ 19.9 million compared to the end of 2020, which closed at S/ 33.5 million.

#### *Fixed assets*

The disbursement for investments in fixed assets during fiscal year 2021 reached S/ 481.2 million, which were invested in expanding the capacity and improvements of the electrical power grid, and in the purchase of machinery and equipment according to the comprehensive plan of the company to maintain an operating level consistent with the latest technologies and increase productivity and efficiency in the use of its assets. At the end of fiscal year 2021, net fixed assets including real estate investment were S/ 6,254.4 million.

#### *Working Capital*

At the end of 2021, working capital was negative by S/ 974.7 million, less than the negative result of S/ 579.9 million obtained at the end of 2020, due to the increase in financial obligations that increased by S/ 359.3 million.

### *Current and long-term liabilities*

The total liabilities of Luz del Sur reached the sum of S/ 3,724.4 million, with 41.83 % participating in current liabilities, composed mainly of financial obligations (S/ 1,020.6 million), trade accounts payable (S/ 369.4 million), and others accounts payable (S/ 93.4 million), which together represented 95.22 % of current commitments.

Non-current liabilities represented 49.93 % of net equity, with long-term financial obligations (S/ 1,472.3 million) and deferred tax liabilities (S/ 646.6 million) being its main components, with a participation of 67.96 % and 29.85 %, respectively. Likewise, long-term debts, without considering deferred tax liabilities, represented 35.03 % of net equity.

### *Financial obligations*

The Company's financial obligations (including its current portion) increased from S/ 2,295.7 million at the end of 2020 to S/ 2,492.9 million at the end of 2021, which represents an increase of 8.59 %. The balance corresponding to long-term financial obligations at the end of fiscal year 2021 was S/ 1,472.3 million, an amount lower by 9.92 % than the S/ 1,634.4 million registered at the end of fiscal year 2020. Said balance is made up of financial obligations with the banking sector and for the corporate bonds issued under the framework of the Second Program, the Third Program and the Fourth Program of Corporate Bonds and Short-Term Instruments of Luz del Sur SAA.

### *Equity*

As of December 31, 2021, it amounted to S/ 4,338.9 million, composed to a greater extent by the accumulated profit (S/ 1,877.7 million) and by the net revaluation surplus (S/ 1,090.4 million). The capital stock was S/ 331.1 million (corresponding to 486,951,371 shares), which represented 7.63 % of the equity. The net return on equity at the end of the 2021 financial year was 12.86 % and the book value of the share reached a figure of S/ 8.91.

## **BOOK VALUE OF ASSETS AND LIABILITIES**

The book value of assets and liabilities is recorded in accordance with Generally Accepted Accounting Principles and the regulations issued by the Superintendence of the Securities Market.

# Financial Statements



**Annual Report 2021**

**Luz del Sur S.A.A. and Subsidiaries**

**Independent Auditor's Report**

**Consolidated Financial Statements**

For the years ended  
December 31, 2021 and 2020



# LUZ DEL SUR S.A.A. AND SUBSIDIARIES

## TABLE OF CONTENTS

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	<b>Pages</b>
INDEPENDENT AUDITOR'S REPORT	1-2
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Profit or loss and Other Comprehensive Income	4
Consolidated Statements of Changes in Equity	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7-74



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of  
**Luz del Sur S.A.A.**

1. We have audited the accompanying consolidated financial statements of **Luz del Sur S.A.A. and Subsidiaries** (a subsidiary of Ontario Quinta S.R.L.), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing, approved by the Board of Deans of the Peruvian Associations of Public Accountants for their application in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

6. In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Luz del Sur S.A.A. and Subsidiaries** as of December 31, 2021 and 2020, and their consolidated financial performance and consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Other matters

7. The accompanying consolidated financial statements have been translated into English for the convenience of English-speaking readers.

*Velásquez, Mazuelos y Asociados S. Cnit. de P. L.*

Countersigned by:

*Marco Roca Peña* (Partner)

Marco Roca Peña  
CPC Registration No. 33204

February 22, 2022

**LUZ DEL SUR S.A.A. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2021 AND 2020  
(In thousands of S/)**

	<u>Notes</u>	<u>2021</u>	<u>2020</u>		<u>Notes</u>	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>				<b>LIABILITIES AND EQUITY</b>			
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	8	75,797	84,564	Other financial liabilities	16	1,236,526	850,404
Trade accounts receivable (net)	9	516,143	529,119	Trade accounts payable	17	376,637	382,323
Other accounts receivable (net)	10	20,994	46,416	Other accounts payable	18	94,948	100,942
Accounts receivable from related entities	11	7,320	1,797	Liability for employee benefits	19	55,682	51,677
Inventories (net)	12	36,929	39,427	Other provisions	20	6,495	4,628
Other non-financial assets		<u>3,928</u>	<u>11,100</u>	Income tax liability	29 (c)	<u>14,729</u>	<u>25,014</u>
Total current assets		<u>661,111</u>	<u>712,423</u>	Total current liabilities		<u>1,785,017</u>	<u>1,414,988</u>
NON-CURRENT ASSETS:				NON-CURRENT LIABILITIES:			
Other accounts receivable	10	1,090	1,090	Other financial liabilities	16	1,472,275	1,661,425
Investment properties	13	84,401	76,354	Deferred income tax liabilities	30	761,240	749,702
Property, plant and equipment (net)	14	6,793,337	6,460,388	Liability for employee benefits	19	10,011	-
Intangible assets (net)	15	60,837	51,648	Other accounts payable	18	34,425	29,800
Right of use (net)		<u>1,393</u>	<u>1,714</u>	Other provisions	20	<u>5,045</u>	<u>4,395</u>
Total non-current assets		<u>6,941,058</u>	<u>6,591,194</u>	Total non-current liabilities		<u>2,282,996</u>	<u>2,445,322</u>
				Total liabilities		<u>4,068,013</u>	<u>3,860,310</u>
TOTAL				EQUITY:			
		<u>7,602,169</u>	<u>7,303,617</u>	Capital stock	21 (a)	331,127	331,127
				Other capital reserves	21 (b)	149,660	143,321
				Other equity reserves	21 (c)	1,104,810	1,125,416
				Retained earnings	21 (d)	<u>1,948,559</u>	<u>1,843,443</u>
				Total equity		<u>3,534,156</u>	<u>3,443,307</u>
				TOTAL		<u>7,602,169</u>	<u>7,303,617</u>

The accompanying notes are an integral part of these consolidated financial statements.



## LUZ DEL SUR S.A.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In thousands of S/)

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
INCOME FROM ORDINARY ACTIVITIES:			
Energy distribution	22	3,361,903	3,091,701
Energy and power generation	22	68,567	58,830
Leases		<u>2,776</u>	<u>2,683</u>
Total income from ordinary activities		3,433,246	3,153,214
COST OF SALES:			
Energy distribution	23	(2,341,919)	(2,187,354)
Energy and power generation	23	(51,048)	(41,341)
Leases	23	<u>(452)</u>	<u>(511)</u>
Total cost of sales		<u>(2,393,419)</u>	<u>(2,229,206)</u>
GROSS PROFIT		<u>1,039,827</u>	<u>924,008</u>
Selling and distribution expenses	24	(70,581)	(63,120)
Administrative expenses	25	(110,749)	(120,772)
Other operating income	26	36,587	47,074
Other operating expenses	26	<u>(8,623)</u>	<u>(7,480)</u>
OPERATING PROFIT		<u>886,461</u>	<u>779,710</u>
Financial income	27	31,048	27,130
Financial expenses	28	<u>(126,520)</u>	<u>(117,167)</u>
Profit before income tax		790,989	689,673
Income tax expense	29	<u>(236,571)</u>	<u>(205,964)</u>
<b>Net profit for the year</b>		554,418	483,709
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income, net of income tax</b>		<u><u>554,418</u></u>	<u><u>483,709</u></u>
Net earnings per share:			
Basic and diluted (in soles)	31	<u><u>1.139</u></u>	<u><u>0.993</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**LUZ DEL SUR S.A.A. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
(In thousands of S/)**

	Issued capital stock	Other capital reserves	Net revaluation surplus	Other equity reserves	Retained earnings	Total equity
	Note 21 (a)	Note 21 (b)	Note 21 (c)	Note 21 (d)	Note 21 (d)	
<b>Balance as of January 1, 2020</b>	331,127	143,321	1,146,009		1,679,033	3,299,490
<b>Changes in equity:</b>						
Comprehensive income:						
Net profit for the year	-	-	-		483,709	483,709
Transfer of revaluation surplus for depreciation and disposal of property, plant and equipment	-	-	(20,593)		20,593	-
Dividends declared in cash	-	-	-		(339,892)	(339,892)
<b>Balance as of December 31, 2020</b>	331,127	143,321	1,125,416		1,843,443	3,443,307
<b>Changes in equity:</b>						
Comprehensive income:						
Net profit for the year	-	-	-		554,418	554,418
Transfer of revaluation surplus for depreciation and disposal of property, plant and equipment	-	-	(20,606)		20,606	-
Transfer of uncollected expired dividends	-	6,339	-		-	6,339
Dividends declared in cash	-	-	-		(469,908)	(469,908)
<b>Balance as of December 31, 2021</b>	331,127	149,660	1,104,810		1,948,559	3,534,156

The accompanying notes are an integral part of these consolidated financial statements.

**LUZ DEL SUR S.A.A. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
(In thousands of S/)**

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES:			
Collection from:			
Sale of energy		4,032,197	3,669,123
Interests received		12,055	21,731
Other cash inflows related to operating activities		240,710	198,744
Payments for/to:			
Energy suppliers		(2,730,382)	(2,525,467)
Employees		(192,916)	(204,342)
Income tax		(243,376)	(222,869)
Interests paid		(112,477)	(284,053)
Other cash payments related to operating activities		(265,675)	(111,377)
Net cash and cash equivalents provided by operating activities		<u>740,136</u>	<u>541,490</u>
INVESTMENT ACTIVITIES:			
Collection from:			
Sale of property, plant and equipment		920	294
Payments for:			
Purchase of property, plant and equipment	34	(468,379)	(483,752)
Purchase of intangible assets	34	(7,098)	(5,020)
Net cash and cash equivalents used in investment activities		<u>(474,557)</u>	<u>(488,478)</u>
FINANCING ACTIVITIES:			
Collection from:			
Bank overdrafts and loans, net	16	308,400	412,750
Return of dividends	11	3,165	1,691
Payments for:			
Amortization of loans for rural electrification		(3,731)	(4,980)
Payment of leases		(2,170)	(357)
Payment of corporate bonds	16	(110,670)	(77,100)
Dividends paid	11 y 34	(469,340)	(338,733)
Net cash and cash equivalents used in financing activities		<u>(274,346)</u>	<u>(6,729)</u>
NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS		(8,767)	46,283
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>84,564</u>	<u>38,281</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u><u>75,797</u></u>	<u><u>84,564</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

## LUZ DEL SUR S.A.A. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In thousands of soles, unless otherwise indicated)

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#### 1. INCORPORATION AND ECONOMIC ACTIVITY, CONSOLIDATED FINANCIAL STATEMENTS, APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS, AND OTHERS

##### *(a) Incorporation and economic activity*

Luz del Sur S.A.A. (hereinafter “the Company”), a subsidiary of Ontario Quinta S.R.L., owner of 61.16% of shares of the capital stock issued by the Company, was incorporated on August 24, 1996 in Lima, Peru.

As of December 31, 2021, Peruvian Opportunity Company S.A.C. (hereinafter “POC”), owns directly and indirectly 97.14% (83.64% as of December 31, 2020) of shares of the Company and prepares its consolidated financial statements with those of the Company.

On February 22, 2021, as a result of the Initial Public Offering (IPO) called by its shareholder, POC was awarded with 65,718,458 common voting shares of the capital stock of the Company for US\$8.5346 (equivalent to S/31.17) per share.

On April 24, 2020, Yangtze Andes Holding Co, Limited, whose majority shareholder is China Three Gorges Corporation, completed the purchase agreement from Sempra Energy (United States) for 100% of shares of Peruvian Opportunity Company S.A. (ultimate parent of the Company in Peru). Consequently, China Three Gorges Corporation (CTG) is the ultimate parent of the Company.

The Company is mainly engaged in providing public services of energy distribution in an assigned area according to an indefinite concession agreement. The assigned area is 3,500 km<sup>2</sup> long, and includes 30 of the most important municipalities of Metropolitan Lima and the province of Cañete, with approximately 4 million inhabitants.

The Company’s legal address, where its administrative offices are located, is Av. Canaval y Moreyra 380, San Isidro, Lima, Peru.

##### *(b) Consolidated financial statements*

The accompanying consolidated financial statements are presented consolidated with those of its subsidiaries: Inmobiliaria Luz del Sur S.A. and Inland Energy S.A.C. (hereinafter “the Company and Subsidiaries”), whose relationship, economic activity, address, equity interest of the Company and consolidation principles are described in Note 3 (b).

##### *(c) Approval of the consolidated financial statements*

The accompanying consolidated financial statements for the year ended December 31, 2021 were issued on January 15, 2022, as authorized by the Company’s Management, and will be submitted to the Board of Directors for approval. These consolidated financial statements will be submitted to the Annual Mandatory Shareholders’ Meeting for approval within the terms

established by law. Management believes that these consolidated financial statements will be approved as presented.

The accompanying consolidated financial statements for the year ended December 31, 2020 were approved by the Annual Mandatory Shareholders' Meeting held on March 29, 2021, as presented.

**(d) Others**

**COVID-19**

In December 2020, authorities of the city of Wuhan in China reported about a new strain of Coronavirus (COVID-19). From that time on, COVID-19 spread to several countries around the world, including Peru, which caused the World Health Organization (WHO) to classify COVID-19 as a pandemic.

In Peru, as consequence of the outbreak of COVID-19, pursuant to Supreme Decree No. 008-2020-SA dated March 11, 2020, the Peruvian government declared a health emergency in Peruvian territory; also pursuant to Supreme Decree No. 044-2020-PCM dated March 15, 2020, the state of national emergency was declared, also, during such period, the government issued a number of provisions to safeguard the welfare of Peruvian population. Both states of emergency were extended until September and February 2022, respectively. In addition, the energy sector, where the Company performs its activities, did not suspended its operations during the effective term of mobility restrictions between March 16 and June 30, 2020.

Also, through Emergency Decree No. 035-2020 dated April 3, 2020, the continuity of the public electricity service for the vulnerable population is guaranteed.

The Company and Subsidiaries have not interrupted its operations during the state of national emergency. The measures taken by the government to address the COVID-19 pandemic have had an impact on the consolidated financial statements as follows:

- Decrease of 3% of revenue and 11% of gross profit, as compared to 2019, due to a reduction of sales by 9%. This effect was compensated by increasing the fee in 2020.
- During the year ended December 31, 2021, the Company and Subsidiaries achieved its recovery as a result of the increase of 9% and 13% of revenue and gross profit, respectively, as compared to 2020.

In the case of subsidiaries, there was no significant impact.

Additionally, the Company's Management is still monitoring the measures taken by the government that allow it continuing with the normal course of operations.

***Explanation added for the translation into the English language of the original consolidated financial statements issued in Spanish***

The translation of the accompanying consolidated financial statements has been made solely for the convenience of English-speaking readers, and has been derived from the consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish language version shall prevail.

## 2. TARIFFS, OPERATIONS AND LEGAL AND OPERATING REGULATIONS RELATED TO THE ELECTRICAL SECTOR

### *Tariffs*

Tariffs to final users of the Public Electricity Service include the Tariffs at Generation Level, fees for transmission systems and Value-Added Distribution. The Tariffs at Generation Level are determined as the weighted average of prices of all electricity supply agreements from generation companies to distribution companies within National Interconnected Electrical System (SEIN for its acronym in Spanish), mainly comprised by contracts resulting from tender processes and contracts resulting from bilateral negotiation. The transmission fees are determined based on efficient investment and maintenance costs, resulting from tender processes or standard costs determined by the Supervisory Entity of Investment in Energy and Mining (OSINERGMIN). Value-Added Distribution is based on an efficient business model and considers user-related costs, standard distribution losses and standard distribution costs.

These tariffs seek to provide profitability on investments and cover costs incurred for the development of generation, transmission and distribution activities.

### *Operations*

As of December 31, 2021, energy distribution revenue is provided by approximately 1,228,717 regulated customers (1,184,603 in 2020) and 110 free customers (78 in 2020), which represent 99% and 1% of this revenue for both years. Generation revenue is provided by 127 free customers (123 as of December 31, 2020).

The *Ley de Concesiones Eléctricas* (Electrical Concessions Law) requires all electrical distribution concessionaires to have contracts in force with generation companies to guarantee their power and energy requirements for at least the next 24 months. As of December 31, 2021, the Company has entered into 60 energy supply agreements with 18 generation companies, which guarantee total contracted power of 2,210 MW (59 agreements with 18 companies and a contracted power of 2,061 MW in 2020). Those 60 agreements above include 47 agreements in force (operating) with total contracted power of 1,810 MW (59 agreements with 47 agreements in force and a total contracted power of 1,810 MW in 2020); and 13 agreements with total contracted power of 400 MW (12 agreements with a contracted power of 399 MW in 2020), with energy deliveries from January 1, 2022, and maturing on December 31, 2038 in both years.

For the agreements in force (operating), 44 new addenda have been executed with total contracted power of 479 MW, with energy deliveries from January 1, 2024, and maturing on December 31, 2030.

By virtue of Resolution No. 216-2018-OS/CD dated December 28, 2018 and pursuant to Supreme Decree No. 022-2018-EM, amended by Supreme Decree No. 026-2018-EM dated September 30, 2018, the OSINERGMIN authorized the Company to incorporate 479 MW of contracted power for the supply of its regulated market from January 1, 2024 to December 31, 2030, through addendas to the agreements that commenced on January 1, 2014 and January 1, 2018.

### ***Legal and operating regulations related to electrical activities***

Main legal and operating regulations related to the electrical sector, where the Company and its subsidiary Inland Energy S.A.C. conduct their activities, are the following:

#### ***(a) Electrical Concessions Law***

The economic activity of the Company and Subsidiary Inland Energy S.A.C. is governed by Decree Law No. 25844, Electrical Concessions Law (hereinafter “Concessions Law”) and its amendments, and its regulations approved by Supreme Decree No. 009-93-EM (hereinafter “the Regulations”) and its amendments, by virtue of the electrical energy distribution concession granted to the Company for an indefinite term, under an agreement entered into with the Ministry of Energy and Mines, as established in Section 6 of the Concessions Law and in accordance with Supreme Resolution No. 107-96-EM dated November 28, 1996.

Pursuant to the Concessions Law, the Peruvian electrical sector is divided into three large segments: generation, transmission and distribution. As from October 2000, the Peruvian electrical system comprises only one National Interconnected Electrical System (SEIN), and some isolated systems. Nowadays, the Company and Subsidiary perform their operations within the electrical energy distribution segment, both as part of SEIN.

#### ***(b) Compensatory mechanism – SEIN***

The compensatory mechanism among SEIN users was created by article 29<sup>o</sup> of Law No. 28832 so that the Price at the generation level (PGL) is unique, except the losses and traffic of transmission systems. This mechanism is regulated by Supreme Decree No. 019-2007-EM.

The PGL is calculated as the weighted average of prices of contracts without tenders and contracts derived from electrical supply tenders. This calculation affects final public electricity consumers connected to the SEIN. For this reason, cash compensations are performed every month between distribution companies established by Osinergmin, which could result in an amount in favor of or against the application of PGL on consumers.

#### ***(c) Law to ensure the efficient development of electrical generation***

Law No. 28832 was issued on July 23, 2006, which amends several sections of the Concessions Law. This Law establishes as its main objectives: (a) to ensure sufficient and efficient energy generation to reduce the exposure of the Peruvian electrical system to price instability, reduce energy shortage risks, and ensure more competitive rates for final consumers; (b) to reduce administrative intervention in determining generation prices through market solutions; and (c) to promote an effective competition in the generation market.

#### ***(d) Supervisory Entity of Investment in Energy and Mining***

By virtue of Law No. 26734, published on December 27, 1996, amended by Law No. 28964, published on January 24, 2007, the Supervisory Entity of Investment in Energy and Mining (OSINERGMIN) was created, with the purpose of supervising the activities of companies in electrical, hydrocarbons and mining subsectors, to ensure the quality and efficiency of the service provided to the user, and supervise the compliance with obligations contracted by concessionaries in concession agreements, as well as the current legal regulations and technical standards, including those related to environmental protection and preservation. Additionally, this entity should supervise the compliance with investment commitments as established in pertinent concession agreements.

The tariffs to final users of the public electrical service are included in a regulated price system. The *Gerencia Adjunta de Regularización Tarifaria – GART* (Deputy Management of Tariff Regulation) (a technical agency of OSINERGMIN) is in charge of establishing electrical energy rates, under the criteria established by the Concessions Law, its Regulations and the Law to ensure the efficient development of electrical generation.

***(e) Technical Quality Standard for Electrical Services***

The Technical Quality Standard for Electrical Services (NTCSE in Spanish) was approved by virtue of Supreme Decree No. 020-97-EM. This regulation establishes minimum quality levels of electrical services, including public lighting, and the obligations of electrical companies and clients that operate within the framework of the Concessions Law.

The NTCSE and its amendments provide measurement procedures and tolerances and assign the responsibility for its implementation and application to OSINERGMIN, as well as the imposition of penalties and compensations to both electrical companies and customers in cases of non-compliance with the parameters established therein.

Currently, the third stage of NTCSE is being performed. The application period according to such standard is indefinite.

***(f) Anti-monopoly and Anti-oligopoly Law in the Electrical Sector***

The Anti-monopoly and Anti-oligopoly Law in the Electrical Sector, Law No. 26876, was published on November 18, 1997. This Law establishes that vertical integration equal to or higher than 5%, or horizontal integration equal to or higher than 15%, occurring in electrical energy generation, transmission and distribution activities, will be subject to a previous authorization procedure in order to prevent integrations that affect free competition.

A previous authorization is no longer required to be provided by the Free Competition Committee of INDECOPI in the following cases:

- (a) If integration implies, in an act or series of acts, the direct or indirect acquisition of productive assets with a value less than 5% of total value of productive assets of the acquirer, calculated according to the criteria set forth in the Regulations of this Law, considering the influence and competition conditions in the market.
- (b) If integration implies, in an act or series of acts, the direct or indirect accumulation by the acquirer of less than 10% of total shares or interests with voting rights in another company. Notwithstanding the foregoing, such authorization will be required in case the integration act allows acquiring direct or indirect control of the company that performs any of the electrical activities mentioned above.

The Company and Subsidiary's Management considers that they have complied with applicable laws and regulations, and no contingencies would arise regarding the compliance with these laws.

***(g) Environmental Protection in Electrical Activities***

Supreme Decree No. 014-2019-EM allows: (i) to reduce uncertainty in investments by guaranteeing legal security in electrical activities; (ii) reduce costs and promote sustainable

private investment in the subsector; (iii) facilitate compliance with environmental regulations and the processing of environmental assessment procedures.

The Company and Subsidiaries' Management consider that they have complied with applicable laws and regulations, and no contingencies will arise regarding the compliance with these laws.

### 3. SIGNIFICANT ACCOUNTING POLICIES

Main significant accounting policies used by the Company and Subsidiaries for the preparation and presentation of their consolidated financial statements are summarized as follows:

#### ***(a) Statement of compliance and basis of preparation and presentation***

The accompanying consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), effective as of December 31, 2021 and 2020, including International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or by the former Standing Interpretations Committee (SIC), adopted by the IASB.

Historical cost basis was applied for these purposes, except for investment properties, and property, plant and equipment measured at appraisal values or fair value, as further explained in the paragraphs (f) and (g). Historical cost is generally based on fair value of the consideration given by asset exchange.

Fair value is the price that would be received when selling an asset, or paid when transferring a liability in an organized transaction between market participants at a measurement date, regardless of the fact that such price is directly observable or estimable through another valuation technique. When estimating the fair value of an asset or liability, the Company and Subsidiaries consider the characteristics of such asset or liability in the event that market participants would want to consider them when setting a price at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such basis, except lease transactions, and measurements somehow similar to fair value, but are not fair value, such as net realizable value in IAS 2, or value in use in IAS 36.

Additionally, for financial reporting purposes, fair value measurements are categorized in three levels: 1, 2 or 3; depending on the degree in which the information for fair value measurements are observable, and their significance to fair value measurement in its entirety, as described below:

Level 1: Input is quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company and Subsidiaries may access to at the measurement date.

Level 2: Input is different from quoted prices included in Level 1, which are observable for the asset or liability, whether directly or indirectly.

Level 3: Input is not observable for the asset or liability.

During the preparation of the accompanying consolidated financial statements, Management considered the requirements for the presentation of financial information in force in Peru, based on IFRS, for entities supervised by the Superintendencia of the Securities Market since the

Company is issuer with securities registered in the Public Registry of the Securities Market (RPMV, for its acronym in Spanish).

**(b) Basis of consolidation and consolidated subsidiaries**

The accompanying consolidated financial statements include the accounts of the Company and of those entities controlled by the Company (Subsidiaries). The Company considers that control of an entity is achieved when the Company has the power to govern their financial and operating policies in order to obtain benefits from their activities.

As of December 31, 2021 and 2020, the consolidated financial statements include the consolidated accounts of Luz del Sur S.A.A. and its subsidiaries, as follows:

<u>Subsidiary</u>	<u>Interest in ownership</u> %	<u>Domicile</u>	<u>Economic Activity</u>
Inmobiliaria Luz del Sur S.A.	99.99	San Isidro, Lima, Peru	Property and real estate activities.
Inland Energy S.A.C.	99.99	San Isidro, Lima, Peru	Electrical energy generation, transmission and distribution activities.

All significant intercompany transactions have been eliminated in consolidation. When necessary, adjustments are made to the financial statements of certain Subsidiaries to bring their accounting policies into line with those used by other members of the group.

Profit and loss of subsidiaries acquired or disposed during the year are included in the consolidated statement of profit or loss as from the effective date of acquisition or up to the effective date of disposal, as applicable. Total comprehensive income of those subsidiaries is attributed to the Company's shareholders and to the non-controlling owners of these subsidiaries even in cases when these interests result in a deficit balance.

Changes in the group's interest in its subsidiaries that do not correspond to a loss of control over them are accounted for as equity transactions. The carrying amounts of interest of the shareholders of the Company and the non-controlling owners of these subsidiaries are adjusted to reflect the changes in their interest. Any difference between these amounts and the fair value of the consideration paid or received is directly attributed to equity of shareholders of the Company.

***Inmobiliaria Luz del Sur S.A.***

This Subsidiary is engaged in the development of property and real estate activities in general, including the purchase-sale, lease and construction of properties.

***Inland Energy S.A.C.***

This Subsidiary is engaged in energy generation through Hydroelectric Power Plant of Santa Teresa, located nearby the community of Ccollpani, district of Machupicchu, province of Urubamba, department of Cusco. The Company is also involved in the development of energy generation projects.



**(c) Functional and presentation currency**

The Company and Subsidiaries prepare and present their consolidated financial statements in soles, their functional currency. The functional currency is the currency of the main economic environment in which an entity operates, which influences selling prices of services provided, among other factors.

**(d) Financial instruments**

Financial instruments are defined as any contract that simultaneously gives rise to a financial asset in a company and a financial liability or equity instrument in another company. Financial assets and liabilities are recognized when the Company and Subsidiaries become part of the contractual agreements of the corresponding instrument.

Financial assets and liabilities are initially measured at fair value plus transaction costs directly attributable to their acquisition or issuance, except for those classified at fair value through profit or loss, which are initially recognized at fair value and whose transaction costs directly attributable to their acquisition or issuance are recognized immediately in profit or loss for the year.

**Financial assets**

Initial recognition and measurement: Financial assets are classified at initial recognition as financial assets at fair value (through profit or loss or other comprehensive income) or assets measured at amortized cost. All financial assets are initially recognized at fair value plus, in case of financial assets that are not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement: The Company and Subsidiaries classify their financial assets in the following measurement categories: those subsequently measured at fair value (either through other comprehensive income or profit or loss) and those measured at amortized cost.

The classification depends on the business model of the Company and Subsidiaries and the contractual terms and conditions of cash flows. We provide the details regarding the accounting policy adopted for each category as follows:

*Financial assets measured at fair value through other comprehensive income*

A financial asset is measured at fair value through other comprehensive income if the following conditions are met: (i) the financial asset is within a business model whose objective is achieved by obtaining contractual cash flows and selling financial assets, and (ii) the contractual conditions of the financial asset give rise, in specified dates, to cash flows that are solely payments of principal and interest in other comprehensive income.

These assets are subsequently measured at fair value. Interest income calculated under the effective interest method, profits and losses due to the translation of foreign currency and impairment are recognized in profit or loss. Other net profits and losses are recognized in other comprehensive income. At the time of derecognition, profits and losses accumulated in other comprehensive income are reclassified in profit or loss.

The Company and Subsidiaries have not designated any financial asset in this classification as of December 31, 2021 and 2020.

### *Financial assets measured at fair value through profit or loss*

All financial assets that are not classified as measured at amortized cost or at fair value through other comprehensive income are measured at fair value through profit or loss. This includes all derivative financial assets. At initial recognition, the Company and Subsidiaries may irrevocably designate a financial asset at fair value through other comprehensive income as at fair value through profit or loss if, by doing so, it eliminates or reduces significantly a measurement or recognition inconsistency that would otherwise occur.

The Company and Subsidiaries have not designated any financial asset in this classification as of December 31, 2021 and 2020.

### *Financial assets measured at amortized cost*

A financial asset is measured at amortized cost if the following conditions are met and if it is not measured at fair value through profit or loss: (i) the financial asset is within a business model whose objective is to maintain financial assets in order to obtain contractual cash flows, and (ii) the contractual conditions of the financial asset give rise, in specified dates, to cash flows that are solely payments of principal and interests on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, and net profits and losses are recognized in profit or loss. Any derecognized profit or loss is recognized in profit or loss.

Financial assets are not reclassified after initial recognition, except if the Company and Subsidiaries change their business model to arrange financial assets, in which case affected financial assets are reclassified on the first day of the first reporting period after the change in the business model.

This category includes cash and cash equivalents, trade accounts receivable (net), accounts receivable from related entities and other accounts receivable (net) (Note 6(a)).

### ***Impairment of financial assets***

The Company and Subsidiaries evaluate the expected credit losses (ECL) associated with their debt instruments recorded at amortized cost. The Company and Subsidiaries have divided their customer portfolio based on similar risks they share. On the other hand, the roll rate approach has been used in order to determine ECL. This approach establishes the determination of the historical loss ratio through the balances of monthly accounts receivable, which were structured based on their maturities (5 years have been considered as historical basis). In addition, the Company and Subsidiaries have identified prospective information, that is, certain macroeconomic variables that affect the credit risk of the customer portfolio. Finally, ECL were determined with this approach, which did not have a material impact on the accounts receivable presented in the consolidated financial statements.

In addition, the Company is required to attend any regulated customer who requests energy supply within its concession area, provided that such customer does not have any debts for other supplies and pays the connection acquisition cost. According to Law, the Company and Subsidiaries may continue to provide such service for up to two unpaid invoices to maturity before suspending the service, and according to the Electrical Concessions Law, the Company may withdraw the power meter as from the eighth month of maturity, and change the status from active to withdrawn customer. Between the eighth and twelfth month, the ratio of

approved reconnections is significant, and at that time, unpaid balances are collected from withdrawn customers (Note 26) together with the reconnection service.

On the other hand, in order to estimate the expected losses of loans granted to related entities, the Company and Subsidiaries apply the general approach that implies estimating 12-month expected losses or on the total term of the instrument, depending on whether there is a significant increase of the credit risk (except in cases where the Company and Subsidiaries consider that it is a loan with a low credit risk and 12-month expected losses are always estimated).

When determining if the credit risk of a financial asset has increased significantly since initial recognition when estimating the expected credit losses, the Company and Subsidiaries consider fair and sustainable information that is relevant and available with no inadequate costs or efforts.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### ***Derecognition of financial assets***

The Company and Subsidiaries derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company and Subsidiaries neither transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company and Subsidiaries recognize their retained interest in the asset and an associated liability for amounts they may have to pay. If the Company and Subsidiaries retain substantially all the risks and rewards of ownership of a transferred financial asset, the Company and Subsidiaries continue to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

When a financial asset measured at amortized cost is derecognized, the difference between the carrying amount of the asset and the addition of the received and receivable consideration is recognized in profit or loss.

#### ***Financial liabilities***

Initial recognition and measurement: Under the scope of IFRS 9, financial liabilities are classified as financial liabilities at fair value through profit or loss, or at amortized cost, as applicable. The Company and Subsidiaries determine the classification of financial liabilities at initial recognition.

All financial liabilities are initially recognized at fair value plus, in case of loans and accounts payable recorded at amortized cost, directly attributable transaction costs.

Subsequent measurement: The subsequent measurement of financial liabilities depends on their classification, as follows:

Liabilities classified at “amortized cost” are measured using the effective interest rate method. Profits and losses are recognized in the consolidated statement of comprehensive income when liabilities are derecognized, as well as through the amortization process according to the effective interest rate method.

The amortized cost is calculated considering any discount or premium in the acquisition and commissions or costs that are part of the effective interest rate. According to the effective interest method, the amortization is recognized as financial cost in the consolidated statement of comprehensive income.

As of December 31, 2021 and 2020, the Company and Subsidiaries hold other financial liabilities, trade accounts payable and accounts payable to related entities in this category (Note 6(a)).

Liabilities classified at “fair value through profit or loss”: A financial liability is classified at fair value through profit or loss when it is a financial liability that is classified as held for trading or as at fair value through profit or loss. As of December 31, 2021 and 2020, the Company and Subsidiaries did not present financial liabilities under this classification.

A financial liability is derecognized when the pertinent obligation has been paid or cancelled or has expired. When an existing financial liability is replaced by another liability provided by the same lender under substantially different conditions, or if the conditions of an existing liability are modified substantially, such swap or change is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the pertinent carrying amounts is recognized in the consolidated statement of comprehensive income.

Financial liabilities and equity instruments are classified in accordance with the content of the contractual arrangements entered into and the economic substance of the contract. An equity instrument is any contract that evidences a residual interest in the Company and Subsidiaries' equity once all their liabilities are deducted.

#### ***(e) Inventories***

Inventories are valued at the lower of cost or net realizable value.

Cost of inventories comprises all costs derived from their acquisition, such as the sales price, import duties and other taxes (that are not recoverable subsequently from tax authorities), other costs directly attributable to the acquisition, as well as other costs incurred to place them in their current conditions and location. The cost is determined using the weighted-average method. The cost of inventories in transit is determined using the specific cost method.

Net realizable value is the estimated sales price of an asset in the normal course of operations, less the estimated costs required to perform their sale.

The obsolescence estimate is determined when the cost of inventories may not be recoverable if they are damaged, or if they have become obsolete partially or fully, or whether their market prices have decreased, and is charged to profit or loss of the year when such condition is identified. Inventories are presented net of the obsolescence estimate.

The application of this policy is shown in Note 12.

#### ***(f) Investment properties***

Investment properties (land and buildings, entirely or partially considered, or both), held to obtain revenue, goodwill or both, are initially measured at cost, including costs associated with the transaction. After initial recognition, these investment properties are measured at fair value. Profit or loss derived from the change in fair value of an investment property is included in net profit or loss for the period when produced.

An investment property is derecognized at disposal or when the investment property is permanently unused and no future economic benefits are expected to be received from such sale. Any profit or loss arising from such derecognition (calculated as the difference between net income from sale and the carrying amount of the asset) is included in profit and loss of the period when such property is derecognized.

The Company and Subsidiaries' Management hires external qualified appraisers to establish appropriate valuation techniques and indicators for the model. The information about valuation techniques, the indicators used when determining fair value and their application are disclosed in Note 13.

***(g) Property, plant and equipment***

Property, plant and equipment, except for those under construction or acquisition, are presented at their revalued amount determined by independent appraisers, whose changes in revalued amount is carried against equity accounts, and are presented net of accumulated depreciation and any recognized impairment loss, unless a revaluation decrease is reversed for the same asset previously recognized as expense, in which case the increase is credited to profit to the extent of the previously spent decrease. A decrease of the carrying amount arising from the revaluation is charged as an expense provided it exceeds the balance, if any, held in the property revaluation reserve regarding a previous revaluation of such asset. Revaluations are performed regularly enough to ensure that the carrying amount, at all times, does not differ materially from such carrying amount that would be determined using fair value at the end of the reporting period.

The depreciation of revalued property, plant and equipment is recognized in profit or loss. In the subsequent sale or disposal of a revalued property, the attributable revaluation surplus held in the property revaluation reserve is directly transferred to retained profits. Part of the surplus is transferred to retained profits provided the asset is used by an entity. The transferred surplus amount is the difference between the depreciation based on the revalued carrying amount of the asset and the depreciation based on the original cost of the asset. Transfers of the revaluation surplus to retained profits are not made through profit or loss.

The initial cost of property, plant and equipment comprises their purchase price (including non-reimbursable purchase duties and taxes) and any directly attributable cost to place and put the asset in usage and operation conditions. The initial estimate of disassembly cost, man hours and the cost incurred to replace parts of the asset are also included in the cost, provided the recognition criteria are met, and the borrowing cost for the construction of qualifying assets until commissioning. Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as property, plant and equipment.

Costs incurred after property, plant and equipment were placed in operation are recognized as asset if: (i) Management estimates that future economic benefits will be obtained from the asset, and (ii) the cost of the asset can be valued reliably. Disbursements for maintenance and repairs are recognized as expenses in the period when incurred. Profit or loss arising from the sale or disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, which is recognized in profit or loss for the period when the sale is considered performed.

Property, plant and equipment under construction or acquisition are presented at cost, less any recognized impairment loss. The cost of these assets in process includes professional fees and,

for qualifying assets, borrowing costs, as long as they will probably produce future economic benefits for the entity and they can be measured reliably. Those assets are subsequently classified to their category of property, plant and equipment once the construction or acquisition process is complete and they are ready for their intended use. Those assets are depreciated from that moment, similarly to the rest of property, plant and equipment.

Annual depreciation of the asset is recognized as expense and is determined separately for components with significant cost, using the straight-line method on the estimated useful life of several assets, according to the following table, considering that land over which buildings and other constructions are built has an indefinite useful life and, therefore, is not depreciated:

	<u>Years</u>
Buildings and other constructions	20, 50, 80 – 100
Machinery and equipment	10 – 60
Vehicles	5 – 8
Furniture and fixtures	10
Sundry equipment	10, 15 and 20
Tools and replacement units	10 – 20

Estimates on useful lives, residual values and depreciation methods are regularly reviewed at the end of each reporting period to evaluate possible material changes in previous expectations or the expected consumption pattern of future economic benefits inherent to the assets, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made.

The application of this policy is shown in Note 14.

***(h) Intangible assets***

Intangible assets with finite useful lives separately acquired are reported at cost less accumulated amortization and any recognized accumulated impairment loss. Amortization is calculated using the straight-line method based on useful lives estimated by the Company and Subsidiaries. Estimates on useful lives and amortization methods are reviewed at the end of each reporting period to evaluate possible material changes in previous expectations or the expected consumption pattern of future economic benefits inherent to those assets, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made. The application of this policy is shown in Note 15.

Intangible assets with indefinite useful lives are not amortized and are reviewed every year in order to identify whether there is any impairment indication according to item (j) below.

***(i) Reimbursable contributions***

Reimbursable contributions correspond to contributions received from customers and the cost assigned to works built by service users, which, after the execution of an agreement, are transferred to the Company and Subsidiary. These contributions are recorded as property, plant and equipment, and other long-term accounts payable, accrue interests and are reimbursable to customers in accordance with the Concessions Law and its regulations. The application of this policy is shown in Notes 14 and 18.



***(j) Review of impairment of long-term assets***

The Company and Subsidiaries regularly review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the scope of the impairment loss (if any). If it is not possible to estimate the recoverable amount of an individual asset, the Company and Subsidiaries estimate the recoverable amount of the cash-generating unit to which the asset belongs. If a reasonable and consistent distribution basis can be identified, corporate assets are also distributed to individual cash-generating units, or otherwise, to the smallest group of cash-generating units for which a reasonable and consistent distribution basis is identified.

The recoverable amount is the highest of fair value less costs to sell and value in use. Value in use is determined based on future estimated cash flows discounted to their present value, using a discount rate before taxes that reflects current market valuations related to the time value of money and the specific risks of the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognized as expense, unless the corresponding asset is held at revalued amounts, in which case the impairment loss is recognized primarily as a reduction of the revaluation surplus.

An impairment loss can be subsequently reversed and recognized as revenue in profit for the period, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized for the asset (cash-generating unit) in previous years. The application of this policy is shown in Notes 14.

***(k) Other provisions***

Other provisions are recognized when the Company and Subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that the Company and Subsidiaries will have to dispose of resources that provide economic benefits in order to settle the obligation, and a reliable estimate of the obligation amount can be made.

The amount recognized as provision corresponds to the best estimate of the necessary disbursement to settle the present obligation at the date of the consolidated statement of financial position, considering the risks and uncertainties surrounding most of the events and circumstances concurrent to its valuation. If the provision amount is measured using estimated cash flows to settle the obligation, the carrying amount is the present value of corresponding disbursements. When the discount is made, the increase in the provision due to the passing of time is recognized as a financial cost in the separate statement of profit or loss and other comprehensive income.

In case it is expected that a part or the total disbursement necessary to settle the provision may be reimbursed by a third party, the portion receivable is recognized as an asset when its recovery is virtually certain, and the amount of such portion can be determined reliably. The application of this policy is shown in Note 20.

***(l) Contingent assets and liabilities***

Contingent liabilities are not recognized in the consolidated financial statements, but are only disclosed in a note thereto. When the possibility of an outflow of resources to cover a contingent liability is remote, such disclosure is not required.

Contingent assets are not recognized in the consolidated financial statements, but are only disclosed in a note to the consolidated financial statements when it is probable that an inflow of resources will occur.

Items previously treated as contingent liabilities will be recognized in the consolidated financial statements in the period when a change in probabilities occurs, that is, when it is determined that an outflow of resources is probable to occur to cover such liability. Items previously treated as contingent assets will be recognized in the consolidated financial statements in the period when it is determined that an inflow of resources is virtually certain to occur. The application of this policy is shown in Note 35.

***(m) Provision for employee benefits***

The provision for employee benefits include, among others, short-term benefits, such as wages, salaries and social security contributions, annual paid leaves, paid sick leaves and profit-sharing and incentives, if paid within twelve months following the end of the period. These benefits are recognized against profit or loss for the period when employees have provided the service that entitles them to receive these benefits. Corresponding obligations are presented as provision for employee benefits. The application of this policy is shown in Note 19.

The liabilities recognized regarding other long-term employee benefits are measured at the present value of future cash flows that the Company and Subsidiaries are expected to make in relation to those services provided by employees at the reporting date.

***(n) Borrowing costs***

Borrowing costs are recognized as expense in the period when incurred. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes considerable time to be ready for its sale or intended use (qualifying asset) are capitalized as part of the cost of such asset. Capitalization begins when necessary activities to prepare the qualifying asset for its intended use take place and disbursements and borrowing costs are being incurred. Capitalization ends when all necessary activities to prepare the qualifying asset for its intended use have been substantially completed. The application of this policy is shown in Notes 14 and 28.

***(o) Provision for disposal of assets***

The asset and liability for the disposal of assets are recognized when the Company and Subsidiaries have a present obligation related to the disassembly and disposal of assets, and the amount of such obligations can be estimated reliably.

The initial amount of the recognized asset and liability is the present value of estimated future disbursements to meet those obligations.

Subsequently, the liability is adjusted in each subsequent period to reflect the passing of time of the discounted amount recognized at the beginning. Such liability increase is recognized as a financial expense. The asset is depreciated based on its estimated useful life, represented by

equivalent depreciation rates. The depreciation is recognized as expense. The application of this policy is shown in Note 20.

#### ***(p) Leases***

Leases are based on the essence of the agreement at the execution date, provided it is determined whether a contract is or contains a lease. The compliance of the agreement depends on the use of a specific asset or if the right of use of the asset is granted, even if such right is not identified explicitly.

The Company and Subsidiaries apply only one recognition and measurement method for all lease agreements, except for short-term leases (lease term of 12 months or less) and leases of low-value assets. The Company and Subsidiaries recognize payments to make for leases as lease liabilities, and underlying assets as right-of-use assets. The application of this policy is shown in Note 32.

#### **The Company and its subsidiary Inland Energy as lessee**

##### ***Right-of-use asset***

The Company and its Subsidiary recognize right-of-use assets at the commencement date of the lease agreement (that is, the date when the underlying asset is ready to be used). Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses, and are adjusted by any update of lease liabilities. The cost of right-of-use assets include the quantity of lease liabilities recognized, initial direct costs incurred, and lease payments made or from the commencement date, less lease incentives received. Right-of-use assets are depreciated on a straight-line basis according to the shorter period between the lease term and the estimate useful life of assets, unless the lease transfers the ownership of the underlying asset to the lessee when the lease term ends or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, in which case the lessee depreciates the right-of-use asset from the commencement date of the lease until the end of the useful life of the underlying asset.

Right-of-use assets are subject to impairment testing if impairment indicators arise.

##### ***Lease liabilities***

At the commencement date of the lease, the Company and Subsidiary recognize lease liabilities measured at the present value of pending payments at that date. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentive receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Lease payments also include the price to exercise a purchase option if the Company and Subsidiary are certain to exercise that option, and penalties for terminating the lease, if the lease term reflects the Company and Subsidiary exercising an option to terminate the lease. Variable lease payments that do not depend on an index or rate are recognized as expenses in the year when the event or condition that triggers the payment occurs.

When calculating the present value of lease payments, the Company and Subsidiary mainly use the interest rate indicated in the agreement and apply it at the beginning of the lease. After the commencement date, the amount of lease liabilities increases to reflect the accrual of interests, and decreases for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification due to changes in the lease term, in the evaluation of a

purchase option, in expected amounts payable related to a residual value guarantee and in future payments resulting from a change in an index or a rate.

The Company and Subsidiaries' lease liabilities are included in the consolidated statement of financial position (Note 18).

#### ***Short-term leases and leases of low-value assets***

The Company and Subsidiaries apply the recognition exemption for short-term leases (that is, those leases that have a lease term of 12 months or less from the commencement date of the lease and do not contain a purchase option). They also apply the recognition exemption for low-value assets on leases of offices and computer equipment, which are considered of low value. The payments of short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term.

#### **The Company and its subsidiary Inmobiliaria Luz del Sur as lessors**

Leases for which the Company and its Subsidiary are lessors are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

#### ***(q) Recognition of revenue, costs and expenses***

Revenue is measured by using the fair value of the consideration received or receivable, derived therefrom. This revenue is reduced by estimates such as refunds from customers, discounts and other similar items.

***Electrical energy distribution service, and energy and power generation service:*** Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for goods or services, considering the following five steps:

- Step 1: Identify the contract with the customer.
- Step 2: Identify the consolidated performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies the obligations of the contract.

Electrical energy distribution services are billed every month based on cyclical readings, and are recognized as revenue in the period when the service is provided. Revenue from energy provided but not billed for the period between the latest cyclical reading and the end of the month is included in next month's billing, but is recognized as revenue during the month energy was provided, based on estimated energy consumed by the service user during the period referred to above.

The energy and power generation service generated by CHST to free customers and to the spot market within Peruvian territory is recognized every month based on cyclical readings and is entirely recognized in the period when the service is provided.

Consequently, revenue is recognized when energy supply services are provided, and the amount of the consideration reflects the right to change those services, and the characteristics of services provided to the customer are received and consumed at the same time. This allows concluding that the only performance obligation related to these services is satisfied over time and includes a number of substantially similar services with the same transfer pattern to customers. Revenue is recognized using the output method since the value of delivery of electricity, generation and sale of energy and power to the customer can be measured directly, based on delivered units (kW/h).

***Lease of properties:*** revenue provided by lease agreements is recognized every month pursuant to those agreements.

***Sale of properties:*** this revenue is recognized when the property has been delivered and the risks and benefits inherent to the property have been transferred to the buyer, and when it is probable that economic benefits related to transaction will flow to the Subsidiary.

***Late-payment interests:*** late-payment interests are calculated on the overdue uncollected billing amount, are accumulated regularly based on effective yield in proportion to the time elapsed and are included in account “financial income” in the period when accrued.

***Interests:*** revenue from interests is recognized when it is probable that economic benefits related to the transaction will flow to the Company and Subsidiaries, and the revenue amount can be measured reliably. Such revenue is accumulated on a regular basis, taking the outstanding principal balance and the applicable effective interest rate as reference.

Regarding incremental costs for obtaining an agreement with a customer, the Company has evaluated and determined that there is no impact since the Company does not have agreements with these characteristics. Furthermore, the Company has not granted guarantees to its customers.

Energy distribution and generation costs are recognized when they occur; other income and expenses are recognized when incurred.

The application of this policy is shown in Note 22.

***(r) Operating profit***

Operating profit is determined as total revenue less total selling costs for energy distribution, selling and distribution expenses, administrative expenses, and other operating expenses and income, excluding financial income and expenses.

***(s) Foreign currency transactions***

Transactions in currencies other than the Peruvian sol are considered as “foreign currency” and are recognized using the exchange rates effective at the date of transactions. At the end of each reporting period, balances of monetary items in foreign currency are translated at the exchange rates effective at that date.

Balances of non-monetary items recorded at fair value in foreign currency are translated using exchange rates effective at the date when fair value was determined. Balances of non-monetary items that are recognized in terms of historical cost in foreign currency are translated using the exchange rates effective at the date of transactions.

Exchange differences arising from monetary items are recognized in net profit or loss in the period they arise (Notes 27 and 28).

**(t) Income tax**

Income tax expense comprises estimated current income tax payable plus deferred income tax.

Current income tax is determined by applying the tax rate established under effective tax laws on net taxable profit of the year.

Deferred income tax corresponds to the tax amount expected to be recovered or paid on temporary differences between reported carrying amounts of assets and liabilities, and their corresponding tax bases. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are generally recognized for all deductible temporary differences and tax credits, discounts and unused tax losses, to the extent that it is probable that the Company and Subsidiaries will have sufficient future tax profit to make them effective. Those assets and liabilities are not recognized if temporary differences proceed from goodwill or initial recognition (except in a business combination) of other assets and liabilities in a transaction that does not affect tax or accounting profit/loss.

In order to measure deferred income tax liabilities and deferred income tax assets for investments properties that are measured using the fair value method, the carrying amount of those properties are assumed to be recovered completely through their sale, unless such presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to substantially consume all economic benefits arising from the investment property in time and not through its sale. Management reviewed the portfolio of investment properties and concluded that neither of their investment properties are held within a business model whose objective is to substantially consume all economic benefits arising from investment properties in time. Therefore, Management has determined that the sale presumption referred to in the Amendments to IAS 12 is not rebutted. Consequently, the Company and its subsidiary Inmobiliaria Luz del Sur S.A. have recognized a deferred tax in changes of fair value of the investment property.

Deferred income tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except in cases where the parent is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that temporary differences will reverse in the foreseeable future and that taxable profit will be available against which those temporary differences can be used.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period, and reduced to the extent that it is not probable that the Company and Subsidiaries obtain sufficient future taxable profit to recover the entirety, or part, of those assets.

Deferred income tax assets and liabilities are measured at tax rates expected to be applied when the asset is realized or the liability is settled, based on approved rates and tax laws, or

whose approval process is virtually completed at the end of the reporting period. The measurement of those deferred taxes reflects tax consequences that would derive from the manner the Company and Subsidiaries expect, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

Current and deferred income taxes are recognized as expense or income, and are included in the determination of net profit or loss for the period, except if those taxes are related to items recognized in other comprehensive income or directly in equity, in which case, current or deferred income taxes are also recognized in other comprehensive income or directly in equity, respectively.

The application of this policy is shown in Note 29(b).

***(u) Earnings per share***

Basic earnings per common share has been calculated by dividing net profit of the period attributable to common shareholders by the weighted average number of outstanding common shares during such period. Since there are no diluted potential common shares, that is, financial instruments or other contracts that allow obtaining common shares, basic and diluted earnings per share are the same. The application of this policy is shown in Note 31.

***(v) Cash and cash equivalents***

Cash and cash equivalents comprise cash in banks and investments in term deposits with maturities of less than three (3) months. The application of this policy is shown in Note 8.

***(w) Operating segments***

The Company and Subsidiaries report financial and descriptive information about their reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. The application of this policy is shown in Note 33.

**4. MANAGEMENT'S RESPONSIBILITY, CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES FOR THE ESTIMATE OF UNCERTAINTIES**

***Management's responsibility***

The Company and Subsidiaries' Management is responsible for the information contained in these consolidated financial statements, which expressly confirms that all principles and criteria established in IFRS issued by the IASB, effective at each year-end, have been applied in their preparation.

***Critical accounting judgments and key sources for the estimate of uncertainties***

In the application of the accounting policies of the Company and Subsidiaries, certain estimates have been used to quantify some assets, liabilities, revenues, expenses and commitments

recorded therein, based on experience and other relevant factors. Final results may differ from those estimates.

These estimates are reviewed on an ongoing basis. Changes in accounting estimates are prospectively recognized by recording the effects of changes in the corresponding profit or loss accounts for the year when those changes are made.

The most important estimates considered for the preparation of the consolidated financial statements of the Company and Subsidiaries refer to:

- Determination of functional currency (Notes 3(c) and 3(s)).
- Appraisal value and fair value of property, plant and equipment, and investment properties (Note 7 y 13).
- Useful life of property, plant and equipment and intangibles assets (Notes 3(g), 3(h), 14 and 15).
- Fair values, classification and risk of financial assets and liabilities (Notes 3(d) and 6).
- Income tax (Notes 3(t) and 29).
- Estimate of revenue from energy delivered but not billed (Note 3(q)).
- Provision for the purchase of energy received but not billed and for disposal of assets (Notes 23 and 20).
- Probability of contingencies (Notes 20 and 35).

Significant sources of uncertainty in estimates considered for the preparation of the consolidated financial statements of the Company and Subsidiaries refer to:

- Inputs of appraisal of property, plant and equipment (Note 7).
- Inputs of the fair value of investment properties (Notes 3(f) and Note 7).
- Economic useful life for the depreciation of long-term assets (Note 3(g)).
- Tax criteria considered for the calculation of income tax (Notes 3(t) and Note 29).
- Criteria considered for the determination of probabilities of contingencies (Notes 3(k) and 3(l)).

## 5. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS INTERNATIONALLY ISSUED

### ***(a) New IFRSs, interpretations and amendments issued that did not significantly affect reported amounts and their disclosures in the current year***

The following standards, interpretations and amendments to current standards were published with mandatory application for accounting periods beginning on or after January 1, 2021, but were not relevant for the operations of the Company and Subsidiaries:

#### ***- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) – Phase 2***

These amendments change specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the uncertainty period before the hedge of items or instruments affected by the current interest rate benchmark is modified as a result of the interest rate benchmark reform.

These amendments also introduce a new disclosure requirement for IFRS 7 for hedging relationships that are not subject to the exceptions introduced by the amendments to IFRS 9.

- ***COVID-19-Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16)***

The IASB published the amendments to IFRS 16 in May 2020, in which the lessee was permitted to apply the practical expedient of the rent concession for any reduction in lease payments affecting only payments originally due on or before June 30, 2021. Due to the nature of the COVID-19 pandemic, the modification contained a practical expedient to apply those payments originally on or before June 30, 2022.

In March 2021, the IASB issued COVID-19-Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16).

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) Any reduction in lease payments affects only payments originally due on or before June 30, 2022 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2022 and increased lease payments that extend beyond June 30, 2022); and
- (c) There is no substantive change to other terms and conditions of the lease.

***(b) New IFRSs, interpretations and amendments issued applicable after the presentation date of the consolidated financial statements***

The following standards and interpretations have been published for application to periods beginning after the presentation date of these consolidated financial statements:

- ***IFRS 17 Insurance contracts.*** Effective for annual periods beginning on or after January 1, 2023.

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 Insurance contracts.

IFRS 17 describes a general model, which is modified for insurance contracts with direct participation features and is described as the variable fee approach. The general model is simplified if certain criteria are met when measuring the liability of remaining coverage under the premium allocation approach.

The general model will use the current assumptions to estimate the amount, timing and uncertainty of future cash flows and will explicitly measure the cost of such uncertainty, considering the interest rates of the market and the impact of options and guarantees of insured parties.

Management considers that this standard will not have a material impact on the consolidated financial statements since it does not perform this type of operations.

- ***Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*** The IASB has not determined the effective date of the amendments yet; however, their early application is permitted.

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, these amendments state that profits or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, profits and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Management considers that these amendments are not applicable to the Company and Subsidiaries since they do not perform this type of operations.

- ***Amendments to IAS 1 – Classification of Liabilities as Current or Non-current.*** Effective for annual periods beginning on or after January 1, 2023; however, their early application is permitted.

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenant are complied with at the end of the reporting period, and introduce a definition of "settlement" to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

Management considers that these modifications will not have an impact on the Company and Subsidiaries.

- ***Amendments to IFRS 3 – Reference to the Conceptual Framework.*** Effective for annual periods beginning on or after January 1, 2022.

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Management considers that these modifications will not have an impact on the Company and Subsidiaries.

- ***Amendments to IAS 16 – Property, Plant and Equipment - Proceeds before Intended Use.*** Effective for annual periods beginning on or after January 1, 2022; however, their early application is permitted.

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of “testing whether an asset is functioning properly”. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity’s ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the Company first applies the amendments.

The Company shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

Management considers that these modifications will not have an impact on the Company and Subsidiaries.

- ***Amendments to IAS 37 – Onerous Contracts - Cost of Fulfilling a Contract.*** Effective for annual periods beginning on or after January 1, 2022; however, their early application is permitted.

The amendments specify that the “cost of fulfilling” a contract comprises the “costs that relate directly to the contract”. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the Company has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the Company first applies the amendments. Comparatives are not restated. Instead, the Company shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

Management considers that these amendments are not applicable to the Company and Subsidiaries since they do not perform this type of operations.

- ***Annual Improvements to IFRS Standards 2018–2020***. Effective for annual periods beginning on or after January 1, 2022, with early application permitted.

The Annual Improvements include amendments to four standards.

#### IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief for a subsidiary that adopts them for the first time after its parent regarding the accounting for cumulative translation differences. As a result of the amendments, a subsidiary applies paragraph D16(a) of IFRS 1 and chooses to measure the cumulative effects of the translation of foreign operations at carrying amount, which is included in the consolidated financial statements of the parent based on the parent's date of transition to IFRS, if there were no adjustments for consolidation procedures and the effects of business combination in which the parent acquired the subsidiary. A similar choice is available for an associate or joint venture that applies the exemption in D16(a) of IFRS 1.

#### IFRS 9 Financial Instruments

The amendment clarifies that in applying the "10 per cent" test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

#### IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements.

As the amendments to IFRS 16 only regard an illustrative example, no effective date is stated.

#### IAS 41 Agriculture

The amendment removes the requirement of IAS 41 for entities to exclude taxation cash flows when measuring fair value. This aligns the valuation of fair value in IAS 41 to the requirements of IFRS 13 Fair Value Measurement to be consistent with cash flows and discount rates. This also allows preparers to determine whether cash flows or discount

rates are used before or after taxes, the way it is more appropriate to estimate the fair value.

Management considers that these modifications will not have an impact on the Company and Subsidiaries.

- ***Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements – Disclosure of Accounting Policies***

The amendments change the requirements of IAS 1 regarding the disclosure of accounting policies. The amendments replace the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial.

To support the amendments, the IASB has added guidance and examples to explain and show the application of its “four-step materiality process” as described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. They are applied prospectively. The amendments to IFRS Practice Statement 2 do not have an effective date nor transition requirements.

Management is evaluating the possible impact that these amendments may have on the Company and Subsidiaries.

- ***Amendments to IAS 8 Definition of Accounting Estimates***

The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.

The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error.
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The IASB added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the standard. The IASB deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after January 1, 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period. Earlier application is permitted.

Management is evaluating the possible impact that these amendments may have on the Company and Subsidiaries.

- ***Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction.*** Effective for annual periods beginning on or after January 1, 2023, with early application permitted.

The amendments provided a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 Leases at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria.

The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied.

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period, an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities.
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset.
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Management considers that these amendments will not have an impact on the Company and Subsidiaries.

## 6. FINANCIAL INSTRUMENTS AND RISKS

### (a) *Categories of financial instruments*

The financial assets and liabilities of the Company and Subsidiaries comprise the following:

	<u>2021</u>	<u>2020</u>
<b>Financial assets:</b>		
At amortized cost:		
Cash and cash equivalents	75,797	84,564
Trade accounts receivable (net)	516,143	529,119
Other accounts receivable (net)	12,778	34,262
Accounts receivable from related entities	<u>7,320</u>	<u>1,797</u>
	<u>612,038</u>	<u>649,742</u>
<b>Financial liabilities:</b>		
At amortized cost:		
Other financial liabilities	2,708,801	2,511,829
Trade accounts payable	376,637	382,323
Other accounts payable	<u>71,895</u>	<u>64,532</u>
	<u>3,157,333</u>	<u>2,958,684</u>

### (b) *Financial risks*

The Company and Subsidiaries are constantly exposed to market risks, liquidity risks and credit risks arising from the variation of exchange rates, interest rates and prices. These risks are managed through specific policies and procedures established by the Financial Management Department. The Financial Management Department is responsible for risk management, which identifies, assesses and covers financial risks. Compared to 2020, there have not been changes in the exposure of the Company and Subsidiaries to market risks or the manner in which those risks are managed and measured.

Risk management policies of the Company and Subsidiaries are determined in order to identify and analyze risks addressed by the Company and Subsidiaries, establish appropriate risk limits and controls, and monitor risks and the compliance with those limits. Risk management systems and policies are reviewed in order to reflect changes in market conditions and the activities of the Company and Subsidiaries.

#### (i) *Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument vary due to changes in market prices.

The Company and Subsidiaries' activities expose them mainly to financial risks of variations in exchange rates, interest rates and prices, as detailed below. There have been no changes in the Company and Subsidiaries' exposure to market risks or the way these risks are managed and valued. The main financial instruments affected by market risk include cash and cash equivalents, trade accounts receivable and loans.

### **Exchange rate risk**

Exchange rate risk is the risk that the fair value or future cash flows of a financial instrument vary due to changes in exchange rates. The exposure of the Company and Subsidiaries to the exchange rate risk is mainly related to the operating activities of the Company and Subsidiaries (when income or expenses are denominated in a different currency than the functional currency of the Company and Subsidiaries).

The Company and Subsidiaries are exposed to the risk of fluctuations in exchange rate due to their position in trade accounts payable mainly. Financial Management is in charge of addressing this risk. The Company and Subsidiaries do not cover their exposure to exchange rate risk since they do not have a significant position of financial instruments in foreign currency. The result of having balances in foreign currency for the Company and Subsidiaries as of December 31, 2021 and 2020 was a net profit of S/4,314 and S/140, respectively, which is presented in item "Financial income and expenses" in the consolidated statement of profit or loss.

As of December 31, 2021, balances of financial assets and liabilities in foreign currency correspond to balances in U.S. dollars and are expressed in Peruvian soles at the supply and demand exchange rates published by the *Superintendencia de Banca, Seguros y AFP – SBS* (Superintendence of Banking, Insurance and Private Pension Fund Administrators), effective at that date, which were S/3.998 for selling and S/3.975 for buying (S/3.624 for selling and S/3.618 for buying as of December 31, 2020) per US\$1.00, as shown in the following table:

	<u>2021</u> US\$000	<u>2020</u> US\$000
<b>Assets:</b>		
Cash and cash equivalents	6,714	4,438
Trade accounts receivable (net)	-	6
Accounts receivable from related entities	194	77
Other accounts receivable	1,790	2,181
	<u>8,698</u>	<u>6,702</u>
<b>Liabilities:</b>		
Trade accounts payable	2,959	5,318
Other accounts payable	2,702	2,934
Accounts payable to related entities	1,072	1,450
	<u>6,733</u>	<u>9,702</u>
Asset (liability) position, net	<u>1,965</u>	<u>(3,000)</u>

### *Sensitivity to exchange rates*

The following table shows the sensitivity to a reasonably possible change in exchange rates of the U.S. dollar, considering all other variables constant, of profit of the Company and Subsidiaries before income tax:

	<u>Increase/ decrease in exchange rate</u>	<u>Effect on profit before income tax</u>
<b>2021</b>		
U.S. dollars	+10%	766
U.S. dollars	-10%	(766)
<b>2020</b>		
U.S. dollars	+10%	(1,091)
U.S. dollars	-10%	1,091

### ***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument vary due to changes in interest rates in the market. This risk is addressed by the Company and Subsidiaries' Management through a conservative debt policy, which mainly establishes obtaining debts at fixed interest rates.

The Company and Subsidiaries do not have significant assets that accrue interests. Revenue and operating cash flows of the Company and Subsidiaries are independent of changes in interest rates in the market. The exposure of the Company and Subsidiaries to this risk is mainly created by their financial obligations.

Short-term and long-term debts at fixed rates represent all financial debts as of December 31, 2021 and 2020.

On the other hand, debts at fixed rates could expose the Company and Subsidiary Inland Energy S.A.C. to interest rate risk on the fair value of their financial liabilities. In this regard, the Company and Subsidiary Inland Energy S.A.C. consider that this risk is immaterial since the interest rates of their financing agreements do not significantly differ from interest rates in the market.

Based on the foregoing, the Company and Subsidiary are not exposed to a significant risk due to the variation of interest rates as of December 31, 2021 and 2020.

### ***Price risk***

The Company and Subsidiary are not exposed to significant commercial risks arising from changes in energy purchase prices since the agreements entered into by them establish prices and contracted energy. Energy sale prices are not expected to fluctuate significantly because revenue is mainly earned in a regulated market. Variations in the cost of purchased energy are transferred through fees collected from customers.

**(ii) Credit risk**

Credit risk arises from the possibility that counterparties fail to meet their contractual obligations, which causes a financial loss for the Company and Subsidiaries. Financial instruments that partially expose the Company and Subsidiaries to credit risk concentrations mainly consist of cash and cash equivalents, and trade accounts receivable.

In order to mitigate credit risk exposure in cash and cash equivalents, the Company and Subsidiaries have adopted the policy of performing transactions with highly credit-rated entities in the domestic and international market. Credit risk on liquid funds is limited due to the fact that the counterparties are highly credit-rated banks classified by credit-rating entities.

Credit risk concentrations with regard to trade accounts receivable are limited because of the large number of customers of the Company and Subsidiaries. As of December 31, 2021 and 2020, the Company and Subsidiaries did not hold credit risk concentrations greater than 5%.

The Company and Subsidiaries have the policy of continuously assessing the credit records of their customers as well as their financial conditions to meet their obligations, recording impairment estimates if necessary. The need to record an impairment estimate is analyzed at each date of the reporting period, which is aligned to the policy of the Company and Subsidiaries described in Note 3(d) Impairment of financial assets. The Company maintains credit risk with regard to other accounts receivable, for which they have considered the assessment conducted by legal advisors in order to estimate the impairment of those accounts.

The Company and Subsidiaries do not hold any collateral or any other credit extension to cover credit risks related to their financial assets.

The maximum exposure to credit risk at the date of the consolidated financial statements is the carrying amount presented in items cash and cash equivalents and trade accounts receivable, net, which are shown in notes 8 and 9, respectively, in the consolidated statement of financial position.

**(iii) Liquidity risk**

Management is aware that the liquidity risk implies having sufficient cash and the possibility of engaging and/or having engaged loans through several credit sources. The Company has appropriate cash levels and available credit lines.

Management is mainly responsible for addressing liquidity risk, and has established policies and procedures for short, medium and long-term debts. Management manage liquidity risk through financial facilities and appropriate loans and by monitoring cash flows and the maturity of their financial assets and liabilities.

As of December 31, 2021 and 2020, the contractual maturity of financial assets is current.

As of December 31, 2021 and 2020, the contractual maturity of non-derivative financial liabilities of the Company and Subsidiaries is detailed below. This table shows the cash flows that have not been discounted from financial liabilities based on the date when the Company and Subsidiaries should make the pertinent payments. These amounts do not include interests to be accrued:

	<u>Less than 1 year</u>	<u>1 – 2 years</u>	<u>2 – 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
<b>As of December 31, 2021:</b>					
Other financial liabilities	1,236,526	364,450	384,225	723,600	2,708,801
Trade accounts payable	376,637	-	-	-	376,637
Other accounts payable	37,470	23,585	443	10,397	71,895
Total	<u>1,650,633</u>	<u>388,035</u>	<u>384,668</u>	<u>733,997</u>	<u>3,157,333</u>
<b>As of December 31, 2020:</b>					
Other financial liabilities	850,404	189,150	667,500	804,775	2,511,829
Trade accounts payable	382,323	-	-	-	382,323
Other accounts payable	34,732	19,773	424	9,603	64,532
Total	<u>1,267,459</u>	<u>208,923</u>	<u>667,924</u>	<u>814,378</u>	<u>2,958,684</u>

The contractual maturity of current financial liabilities is shown below:

	<u>First quarter</u>	<u>Second quarter</u>	<u>Third quarter</u>	<u>Fourth quarter</u>	<u>Total</u>
<b>As of December 31, 2021:</b>					
Other financial liabilities	223,946	200,000	362,000	450,580	1,236,526
Trade accounts payable	376,637	-	-	-	376,637
Other accounts payable	36,217	1,155	41	57	37,470
Total	<u>636,800</u>	<u>201,155</u>	<u>362,041</u>	<u>450,637</u>	<u>1,650,633</u>
<b>As of December 31, 2020:</b>					
Other financial liabilities	28,734	280,000	63,000	478,670	850,404
Trade accounts payable	382,323	-	-	-	382,323
Other accounts payable	34,649	33	35	15	34,732
Total	<u>445,706</u>	<u>280,033</u>	<u>63,035</u>	<u>478,685</u>	<u>1,267,459</u>

As of December 31, 2021 and 2020, the Company and Subsidiaries have negative working capital of S/1,123,906 and S/702,565, respectively. In that regard, the Company and Subsidiaries have access to financial facilities for S/2,309 million (S/2,057 million as of December 31, 2020). From this amount, S/998 million is available at the end of the period (S/1,060 million as of December 31, 2020). The Company and Subsidiaries expect to meet their obligations with cash flows derived from operations and the outcomes upon the maturity of financial assets.

**(iv) Capital risk management**

The Company and Subsidiaries manage their capital to ensure that the entity can continue as going concern, while maximizing returns for its shareholders through optimization of debt and equity balances. This strategy has not changed compared to 2020.

The capital structure of the Company and Subsidiaries comprises net debt (loans less cash and cash equivalents, and other financial assets) and equity attributed to shareholders.

**Net debt ratio**

Net debt ratio comprises the following:

	<u>2021</u>	<u>2020</u>
Other financial liabilities	2,708,801	2,511,829
Cash and cash equivalents	<u>(75,797)</u>	<u>(84,564)</u>
Total net debt	<u>2,633,004</u>	<u>2,427,265</u>
Total equity	<u>3,534,156</u>	<u>3,443,307</u>
Net debt ratio	<u>0.75</u>	<u>0.70</u>

**(c) Fair value of financial instruments**

The Company and Subsidiaries' Management estimates that the carrying amount of those financial instruments recorded at amortized cost is similar to their fair value due to their short-term maturity, except for corporate bonds whose fair value as of December 31, 2021 is S/1,411 million (S/1,766 million as of December 31, 2020) and long-term loans whose fair value as of December 31, 2021 is S/222 million (S/221 million as of December 31, 2020).

For the calculation of fair value, Management has projected each one of the long-term debts of the Company and Subsidiary Inland Energy S.A.C. according to the terms and conditions agreed as of the contracting date, and has applied effective market rates taking into account the following factors: type of facility, amortization program, equivalent terms, credit risk of the Company and Subsidiary, country where it was paid, among others. Market rates have been obtained from a combination of public sources as well as recent bank quotations received by the Company and Subsidiary. These fair values would be considered as level 2 because the measurement corresponds to variables based on observable market data, whether directly or indirectly, different from quoted prices included in level 1.

**7. FAIR VALUE MEASUREMENTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

Certain assets of the Company and Subsidiaries are measured at fair value for the purposes of these consolidated financial statements. The Financial Management Department of the Company and Subsidiaries determines proper measurement techniques and relevant information for fair value measurements.

When estimating the fair value of an asset or a liability, the Company and Subsidiaries use input observable in the market if available. When Level 1 input is not available, the Company and Subsidiaries hire qualified independent consultants and/or appraisers to perform the valuation. Management works together with external appraisers in order to establish more appropriate measurement techniques and input to the model.

The following table provides an analysis, as of December 31, 2021 and 2020, of assets measured at fair value after initial recognition, categorized in levels 1 to 3, depending on the degree in which fair value is observable.

	<u>Level 1</u> S/000	<u>Level 2</u> S/000	<u>Level 3</u> S/000	<u>Total</u> S/000
<b>As of December 31, 2021:</b>				
<b>Assets:</b>				
Investment properties	-	84,401	-	84,401
Property, plant and equipment	-	6,793,337	-	6,793,337
	<u>-</u>	<u>6,877,738</u>	<u>-</u>	<u>6,877,738</u>
<b>As of December 31, 2020:</b>				
<b>Assets:</b>				
Investment properties	-	76,354	-	76,354
Property, plant and equipment	-	6,460,388	-	6,460,388
	<u>-</u>	<u>6,536,742</u>	<u>-</u>	<u>6,536,742</u>

No transfers have occurred between levels during the year. The current use has been considered as the highest and best use when estimating the fair value of investment properties, and property, plant and equipment. Valuation techniques have not varied during the year.

Significant assumptions used in the determination of fair values of the aforementioned assets and liabilities are described in the corresponding notes to the consolidated financial statements, as follows:

- Investment properties – Note 13
- Property, plant and equipment (net) – Note 14

## 8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	<u>2021</u>	<u>2020</u>
Petty cash and cash in banks (a)	47,972	70,572
Term deposit (b)	27,825	13,992
	<u>75,797</u>	<u>84,564</u>

- (a) This item mainly comprises petty cash and checking accounts and correspond to balances held in local banks, in Peruvian soles and U.S. dollars, and are freely available.

As of December 31, 2021 and 2020, checking accounts include accounts in Fiduciaria S.A., an overdraft for (in thousands) S/304 and a balance for S/4,628, respectively, in relation to

a trust agreement entered into on September 30, 2008. These funds do not accrue interests and are exclusively used to pay energy suppliers and taxes.

- (b) As of December 31, 2021, this item includes deposits in Banco de Crédito del Perú in U.S. dollars, which accrue an annual interest of 0.21%, and in Subsidiaries Inmobiliaria Luz del Sur S.A. and Inland Energy S.A., maturing in January 2022. As of December 31, 2020, this item includes deposits in Banco de Crédito del Perú, which accrue interests as follows: in the Company, in U.S. dollars, at an annual interest of 0.05%, and in Subsidiary Inmobiliaria Luz del Sur S.A., in Peruvian soles and U.S. dollars, at an annual interest of 0.15% and 0.07%, respectively; both matured in January 2021.

## 9. TRADE ACCOUNTS RECEIVABLE (NET)

Trade accounts receivable (net) comprise the following:

	<u>2021</u>	<u>2020</u>
Receipts and installments	395,53	399,157
Electricity bonus	-	22,302
Energy delivered but not billed	128,051	107,413
Compensatory mechanism among users of SEIN	-	3,791
	<u>523,584</u>	<u>532,663</u>
Impairment estimate of accounts receivable	(7,441)	(3,544)
Total	<u><u>516,143</u></u>	<u><u>529,119</u></u>

Within the scope of Emergency Decree No. 035-2020 dated April 3, 2020, which established supplementary measures to reduce the impact of the pandemic on domestic economy due to COVID-19, the Company granted payment by instalments up to in 12 months to a group of users for outstanding debts with their receipts that were issued in March 2020 or that imply any consumption during the national state of emergency until June 2020. As of December 31, 2020, the balance for payments by instalments amounted to S/5,666 and was collected in August 2021.

In accordance with article 3 of Emergency Decree No. 074-2020, published on June 27, 2020, the Company applied the “Electricity bonus” to a group of focused users according to such Emergency Decree. This bonus is intended to cover the amounts of the receipts of the public electricity services, which comprise outstanding debts issued in the period from March 2020 to December 2020, up to the amount of (in soles) S/160 per customer. As of December 31, 2020, the Company recorded an amount of S/22,302 for this concept, which was collected in January and February 2021.

As of December 31, 2021 and 2020, late-payment interests have been calculated on outstanding uncollected invoices for S/10.8 and S/19.3 million, respectively, which are included in item “financial income” in the consolidated statement of profit or loss (Note 27).

As of December 31, 2021 and 2020, trade accounts receivable include not-impaired overdue balances, which is due to a behavior in the recovery market in the short term. The Company and Subsidiaries do not have guarantees on these uncollected balances.

The age of these balances is summarized as follows:

	<u>2021</u>	<u>2020</u>
Within maturity terms	248,247	240,873
Overdue up to 30 days	110,518	98,841
Overdue for more than 30 days up to 60 days	15,898	20,319
Overdue for more than 60 days up to 180 days	6,855	21,027
Overdue for more than 180 days up to 360 days	4,808	12,392
Overdue for more than 360 days	9,207	5,705
	<u>395,533</u>	<u>399,157</u>

The movement of the impairment estimate of accounts receivable was as follows:

	<u>2021</u>	<u>2020</u>
Opening balance	3,544	1,121
Increase	7,879	4,638
Transfers or disposals	<u>(3,982)</u>	<u>(2,215)</u>
Total	<u>7,441</u>	<u>3,544</u>

The impairment estimate of accounts receivable is determined according to policies established by Management (Note 3(d)). The estimate amount is recognized and charged to (increase) profit or loss for the year (Notes 24 and 28). Transfers correspond to the transfer of balances from active customers to withdrawn customers.

The Company and Subsidiaries' Management considers that the impairment estimate for accounts receivable is sufficient as of December 31, 2021 and 2020.

## 10. OTHER ACCOUNTS RECEIVABLE (NET)

Other accounts receivable (net) comprise the following:

	Current		Non-current	
	2021	2020	2021	2020
<b>Financial assets:</b>				
Claims to SUNAT (a)	-	4,803	-	-
Option contracts (b)	-	12,763	-	-
Loans granted to personnel	3,153	2,028	-	-
Lamppost network support	4,184	4,640	-	-
Network relocation service	1,474	5,812	-	-
Personnel subsidy	1,047	584	-	-
Sundry items	4,291	5,003	-	-
Impairment estimate of other accounts receivable	(1,371)	(1,371)	-	-
Subtotal	12,778	34,262		
<b>Non-financial assets:</b>				
Miscellaneous claims	3,253	3,253	-	-
Claims to OSINERGMIN	680	742	1,090	1,090
Judicial deposits	1,840	1,924	-	-
COES-SINAC	2,283	1,821	-	-
Electrical Social Compensation Fund (FOSE)	160	4,414	-	-
Total	20,994	46,416	1,090	1,090

- (a) Claims to SUNAT corresponded to: (i) seizures for coercive collection of income tax 2001 and 2002 for S/595; (ii) interests on payments in advance of income tax 2002 for S/2,032, and (iii) estimated interests in relation to incorrect payments to SUNAT for S/2,176. These claims were collected in December 2021.
- (b) Option contracts corresponded to the right granted by the Company to generation companies to modify the electrical energy supply agreement entered into by the parties in relation to the market supply between 2024 and 2030 (Note 2).

These contracts established the right of generation companies as of December 31, 2021, after making the pertinent payments, to allow them making the adjustment mentioned above.

## 11. BALANCES AND TRANSACTIONS WITH RELATED ENTITIES

The Company's main shareholder is Ontario Quinta S.R.L., which belongs to the group of subsidiaries owned by China Three Gorges Corporation (China), ultimate parent of the group. During the years ended December 31, 2021 and 2020, the Company carried out the following significant transactions with related entities, during the normal course of operations:

### December 2021

	<u>Dividend distribution</u>	<u>Construction and installation of property, plant and equipment</u>	<u>Expenses for supplementary services and rentals</u>	<u>Maintenance expenses of machinery and equipment</u>	<u>Provision of services and fines</u>	<u>Sundry leases</u>	<u>Sale of waste and materials</u>	<u>Total</u>
Tecsur S.A.	-	356,291	61,504	21,445	1,449	658	26	441,373
Los Andes Servicios Corporativos S.A.C.	-	11,330	1,873	8,607	143	-	-	21,953
Grupo de Contratistas Internacionales	-	-	-	-	61	-	-	61
Ontario Quinta S.R.L.	287,374	-	-	-	116	-	-	287,490
Peruvian Opportunity Company S.A.C.	160,030	-	-	-	116	-	-	160,146
Energy Business International	9,059	-	-	-	23	-	-	9,082
<b>Total</b>	<b>456,463</b>	<b>367,621</b>	<b>63,377</b>	<b>30,052</b>	<b>1,908</b>	<b>658</b>	<b>26</b>	<b>920,105</b>

### December 2020

	<u>Dividend distribution</u>	<u>Construction and installation of property, plant and equipment</u>	<u>Expenses for supplementary services and rentals</u>	<u>Maintenance expenses of machinery and equipment</u>	<u>Provision of services and fines</u>	<u>Sundry leases</u>	<u>Sale of fixed assets and materials</u>	<u>Total</u>
Tecsur S.A.	-	353,752	35,563	17,184	1,306	624	14	408,443
Los Andes Servicios Corporativos S.A.C.	-	9,235	2,063	6,950	137	-	-	18,385
Grupo de Contratistas Internacionales	-	-	-	-	57	-	-	57
Ontario Quinta S.R.L.	207,862	-	-	-	105	-	-	207,967
Peruvian Opportunity Company S.A.C.	69,881	-	-	-	105	-	-	69,986
Energy Business International	6,552	-	-	-	21	-	-	6,573
<b>Total</b>	<b>284,295</b>	<b>362,987</b>	<b>37,626</b>	<b>24,134</b>	<b>1,731</b>	<b>624</b>	<b>14</b>	<b>711,411</b>

These transactions, and others less relevant, resulted in the following balances receivable and payable:

	<u>2021</u>	<u>2020</u>
<b>Non-trade accounts receivable:</b>		
Tecsur S.A. (2) (b)	5,714	1,108
Peruvian Opportunity Company S.A.C. (2)	248	31
Inversiones en Servicios Eléctricos S.R.L. (2)	233	232
Peruvian Services Company S.R.L.(2)	117	115
Ontario Quinta S.R.L. (1)	105	11
Los Andes Servicios Corporativos S.A.C. (2)	30	58
China Yangtze Power International (2)	778	135
Other minors (2)	95	107
	<u>7,320</u>	<u>1,797</u>
<b>Trade accounts payable (Note 17):</b>		
Tecsur S.A. (2)	98,468	86,688
Los Andes Servicios Corporativos S.A. (2)	5,317	3,696
	<u>103,785</u>	<u>90,384</u>

(1) Subsidiary

(2) Related entity

(a) The Company has entered into certain agreements with Tecsur S.A. under which the following services are provided: supply, storage and purchase of materials as required, vehicle rentals, maintenance of public lighting and electric networks, construction of electrical connections, electrical energy cut off and reconnections. Disbursements made for these services are recorded in items “energy distribution costs” and “property, plant and equipment”, as applicable.

(b) As of December 31, 2021, non-trade accounts receivable include advances to Tecsur S.A. for S/5,000, which will be discounted in the first months of the following year. As of December 31, 2020, no advances were granted and accounts receivable correspond to penalties imposed on Tecsur.

During the years ended December 31, 2021 and 2020, dividends were paid for S/469,340 and S/338,731, respectively; also, dividends were provided by bank institutions and Cavali, which were distributed but not collected by minority shareholders 120 days after the date of delivery for S/3,165 and S/1,691, respectively.

Receivable and payable balances from/to related entities have current maturities, do not bear interests and do not have specific guarantees.

As of December 31, 2021 and 2020, accounts receivable from related entities will be collected in the short term, so the Company does not require an impairment estimate for them.

As of December 31, 2021 and 2020, the Company has not granted any guarantee on behalf of related entities.

Salaries paid to key personnel during the years ended December 31, 2021 and 2020 amount to S/47,400 and S/78,665, respectively, which correspond to S/46,693 for short-term benefits

(S/65,795 in 2020) and S/707 for termination benefits (S/12,870 in 2020). In addition, as of December 31, 2021, the Company has recorded retention bonuses for S/10,011 as long-term benefits (no long-term benefits were recorded in 2020). The Company does not grant post-employment benefits, long-term benefits nor share-based payments.

Salaries paid to Directors during the years ended December 31, 2021 and 2020 amount to S/367 and S/7, respectively.

## 12. INVENTORIES (NET)

Inventories (net) comprise the following:

	<u>2021</u>	<u>2020</u>
Sundry supplies	37,718	40,578
Properties for sale	807	807
Inventory in transit	24	3
Obsolescence estimate	<u>(1,620)</u>	<u>(1,961)</u>
Total	<u><u>36,929</u></u>	<u><u>39,427</u></u>

The movement of the obsolescence estimate for inventories was as follows:

	<u>2021</u>	<u>2020</u>
Opening balance	1,961	1,961
Recoveries (Note 26)	<u>(341)</u>	<u>-</u>
Closing balance	<u><u>1,620</u></u>	<u><u>1,961</u></u>

Obsolescence has been determined according to the assessment of operating areas, which provide in detail the materials that are not in good conditions or are partially obsolete due to a slow turnover. Management believes that this estimate properly covers obsolescence risk as of December 31, 2021 and 2020.

### 13. INVESTMENT PROPERTIES

Investment properties comprise offices, commercial facilities and parking lots in Torre Siglo XXI building, leased to third parties, and land leased to a related entity.

	<u>Land</u>	<u>Buildings and other constructions</u>	<u>Total</u>
<b>Fair value:</b>			
Balance as of January 1, 2020 and as of December 31, 2020	43,568	32,786	76,354
Change in fair value (Note 26)	<u>4,692</u>	<u>3,355</u>	<u>8,047</u>
Balance as of December 31, 2021	<u>48,260</u>	<u>36,141</u>	<u>84,401</u>

Fair values of investment properties have been determined by an independent appraiser registered in the Colegio de Ingenieros del Peru (Peruvian Professional Association of Engineers), whose recent experience involves similar appraisals. The method applied to the commercial assessment was direct valuation, which refers to the calculation of the value of land plus the value of buildings and improvements, complementary works and fixed and permanent facilities, in accordance with the National Regulation for Appraisals in Peru, approved by Ministry's Resolution No. 126-2007-vivienda dated May 7, 2007. Fair value was obtained by applying the comparable market approach according to recent prices, without making any significant adjustment to market observable data. The last appraisals were carried out in 2019, with no significant changes to them in 2021 and 2020.

Revenue from leases and their costs are presented in the consolidated statements of profit or loss as of December 31, 2021 and 2020. There are no direct operating expenses related to investment properties, other than municipal taxes, since these expenses are assumed by lessees.

In accordance with the policies established by Management, as of December 31, 2021, the Company and Subsidiary Inmobiliaria Luz del Sur S.A. hired an all-risk insurance policy for properties considered as real estate investment, for an amount up to (in thousands) US\$12,146. Management considers that this insurance policy meets the standard used in these cases by equivalent companies in the industry, and covers appropriately the risk of possible losses for any damages that may be caused, considering the type of assets owned by the Company and Subsidiary.

As of December 31, 2021 and 2020, there are no restrictions on the realization of investment properties or collections of leases derived therefrom.

There are no contractual obligations for the acquisition, construction or implementation of investment properties or for repairs, maintenance or improvements to them.

## 14. PROPERTY, PLANT AND EQUIPMENT (NET)

The movement in cost plus revaluation and in accumulated depreciation of property, plant and equipment was as follows:

	Land	Buildings and other constructions	Machinery and equipment	Vehicles	Furniture and fixtures	Sundry equipment	Tools and replacement units	Works in progress	Total
<b>Cost:</b>									
Balance as of January 1, 2020	637,346	868,710	6,337,901	7,438	8,333	115,598	65,713	352,889	8,393,928
Additions	-	-	-	-	-	-	-	516,512	516,512
Disposals or sales	-	(6)	(8,925)	(844)	-	(162)	(53)	-	(9,990)
Other changes and transfers	15,369	29,502	311,010	300	263	7,160	1,022	(371,643)	(7,017)
Balance as of December 31, 2020	652,715	898,206	6,639,986	6,894	8,596	122,596	66,682	497,758	8,893,433
Additions	-	-	-	-	-	-	-	483,610	483,610
Disposals or sales	(302)	(33)	(14,676)	(816)	(39)	(289)	(48)	-	(16,203)
Revaluation	154	850	-	-	-	-	-	-	1,004
Other changes and transfers	347	82,428	528,764	307	846	8,177	1,826	(627,938)	(5,303)
Balance as of December 31, 2021	652,914	981,451	7,154,074	6,385	9,403	130,424	68,460	353,430	9,356,541
<b>Accumulated depreciation:</b>									
Balance as of January 1, 2020	-	80,162	2,084,279	4,031	7,133	84,451	49,902	-	2,309,148
Additions	-	11,915	112,363	564	230	5,428	1,258	-	131,758
Disposals	-	(2)	(6,807)	(844)	-	(159)	(49)	-	(7,861)
Balance as of December 31, 2020	-	92,075	2,189,835	3,751	7,363	89,720	50,301	-	2,433,045
Additions	-	12,807	120,880	538	248	5,560	1,263	-	141,296
Disposals	-	(7)	(9,996)	(771)	(35)	(283)	(45)	-	(11,137)
Other changes and transfers	-	-	-	-	368	(368)	-	-	-
Balance as of December 31, 2021	-	104,875	2,300,719	3,518	7,944	94,629	51,519	-	2,563,204
<b>Net cost:</b>									
As of December 31, 2021	652,914	876,576	4,853,355	2,867	1,459	35,795	16,941	353,430	6,793,337
As of December 31, 2020	652,715	806,131	4,450,151	3,143	1,233	32,876	16,381	497,758	6,460,388
<b>Net historical cost:</b>									
As of December 31, 2021	136,286	746,978	3,933,534	2,734	1,348	33,056	14,733	353,431	5,222,100
As of December 31, 2020	136,176	675,832	3,503,580	2,964	1,118	29,550	13,949	497,759	4,860,928

- As of December 31, 2021, the Company is completing the registration of certain properties in accordance with Supreme Decrees 02-95-PCM and 03-95-PCM dated January 26, 1996, which establish the procedure to register the ownership of assets of companies included in privatization processes.
- Property, plant and equipment include borrowing costs related to the construction of works in progress. During the year ended December 31, 2021, interests have been capitalized for S/8,153, using an average rate of 4.85% (S/18,605 with an average rate of 5.60% for the year ended December 31, 2020).
- The Company and Subsidiaries do not have properties, plant or equipment guaranteeing the compliance with obligations, nor are they engaged in commitments for the acquisition of property, plant and equipment.
- As of December 31, 2021, additions of works in progress mainly correspond to the San Juan – Balnearios transmission line, the corrective replacement of public lighting, medium and low-voltage networks, and attention to customers with less than 600kW, which are expected to be completed in the short and medium term. Transfers of works in progress mainly correspond to the completion of extension, renewal, equipment, construction and improvement works of projects SET Pachacutec and associated 220/60kV transmission lines, SET Progreso and 220/22,9/10kV transmission lines, and the corrective replacement of the medium-voltage network.

As of December 31, 2020, additions of works in progress mainly correspond to SET Pachacutec and associated 220/60kV transmission lines, SET Progreso and associated 220/10K transmission lines, and attention of customers with less than 600kW. Transfers of works in progress mainly correspond to the completion of extension, renewal, equipment, construction and improvement works of project SET Los Sauces and associated lines, attention of customers with less than 600kW and 60kV Balnearios – Barranco transmission lines.

- As of December 31, 2021, works in progress include additions for reimbursable contributions for S/6,473 (S/4,547 as of December 31, 2020). Property, machinery and equipment were transferred for S/4,313 as of December 31, 2021 (no transfers were made as of December 31, 2020).
- As part of their revaluation policy, in 2019, the Company and Subsidiaries recorded a higher value for revaluations through appraisals conducted by independent professionals, members of the Peruvian Professional Association of Engineers, whose recent experience involves similar appraisals. The method applied was: (a) market value for land and properties; and (b) replacement values for machinery, equipment, computer equipment and other items. Fair value was obtained by applying the comparable market approach according to recent prices, without making any significant change to observable data in the market.

- Higher values determined were charged to the equity account "Other equity reserves- Revaluation surplus", net of deferred income tax, as detailed below (in millions of Peruvian soles):

<u>Revaluation date</u>	<u>At cost</u>	<u>Higher assigned value accumulated depreciation</u>	<u>Deferred income tax</u>	<u>Revaluation surplus</u>
July 2004	398	(103)	(89)	206
January 2009	163	(36)	(39)	88
January 2010	43	(22)	(6)	15
January 2013	198	(5)	(58)	135
January 2016	821	(249)	(169)	403
June 2019	831	(243)	(174)	414

The movement of revaluation surplus as of December 31, 2021 is as follows (in millions of Peruvian soles):

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Deferred income tax (Note 30)</u>	<u>Revaluation surplus (Note 21(c.1))</u>
Opening balance	2,442	(845)	(471)	1,125
Depreciation and disposals of revalued assets	-	(29)	9	(20)
Closing balance	<u>2,442</u>	<u>(874)</u>	<u>(463)</u>	<u>1,105</u>

- The Company and Subsidiaries have hired insurance policies to cover possible risks that certain items of property, plant and equipment are subject to, as well as possible claims that may arise due the activities carried out by them. Management considers that insurance policies meet the standard used by equivalent companies of the industry and cover appropriately the risk of possible losses for any damages that may be caused, considering the type of assets owned by the Company and Subsidiaries.
- The Company and Subsidiary Inland Energy S.A.C. have contracted environmental and social commitments established in the Environmental Impact Assessment (EIA), as part of the installation and operation of Hydroelectric Power Plant of Santa Teresa. The most relevant are the following:
  - Regular quality monitoring of water, air and flora of all areas near the project in order to verify that project activities do not affect the environment.
  - Improvement of the rural electrification system in the community of Ccollpani.
  - Regular medical campaigns in all areas of influence and implementation of libraries in the community of Ccollpani.

- The charge for the depreciation of property, plant and equipment for the years ended December 31, 2021 and 2020 has been distributed as follows:

	<u>2021</u>	<u>2020</u>
Electrical energy distribution cost (Note 23)	125,355	115,714
Electrical energy generation cost (Note 23)	11,568	11,770
Lease cost (Note 23)	261	337
Selling expenses (Note 24)	1,674	1,716
Administrative expenses (Note 25)	<u>2,438</u>	<u>2,221</u>
Total	<u>141,296</u>	<u>131,758</u>

- The Company and Subsidiaries' Management considers that there are no situations indicating that the value of their property, plant and equipment may be impaired.

## 15. INTANGIBLE ASSETS (NET)

The movement in cost and accumulated amortization of intangible assets was as follows:

	<u>Software for computer equipment</u>	<u>Concession</u>	<u>Development projects</u>	<u>Total</u>
<b>Cost:</b>				
Balance as of January 1, 2020	38,062	6,896	30,636	75,594
Additions	<u>7,106</u>	<u>-</u>	<u>5,020</u>	<u>12,126</u>
Balance as of December 31, 2020	<u>45,168</u>	<u>6,896</u>	<u>35,656</u>	<u>87,720</u>
Additions	<u>5,304</u>	<u>-</u>	<u>7,098</u>	<u>12,402</u>
Balance as of December 31, 2021	<u>50,472</u>	<u>6,896</u>	<u>42,754</u>	<u>100,122</u>
<b>Accumulated amortization:</b>				
Balance as of January 1, 2020	34,015	-	-	34,015
Additions	<u>2,057</u>	<u>-</u>	<u>-</u>	<u>2,057</u>
Balance as of December 31, 2020	36,072			
Additions	<u>3,213</u>	<u>-</u>	<u>-</u>	<u>3,213</u>
Balance as of December 31, 2021	<u>39,285</u>	<u>-</u>	<u>-</u>	<u>39,285</u>
<b>Net cost:</b>				
As of December 31, 2021	<u>11,187</u>	<u>6,896</u>	<u>42,754</u>	<u>60,837</u>
As of December 31, 2020	<u>9,096</u>	<u>6,896</u>	<u>35,656</u>	<u>51,648</u>

## 16. OTHER FINANCIAL LIABILITIES

Other financial liabilities of the Company and Subsidiary Inland Energy S.A.C. comprise the following:

	<u>2021</u>	<u>2020</u>
<b>Capital</b>		
Bank overdraft	10,400	-
Bank loans	1,238,000	940,000
Corporate bonds	<u>1,432,425</u>	<u>1,543,095</u>
Total capital	<u>2,680,825</u>	<u>2,483,095</u>
<b>Interests</b>		
Bank loans	4,532	4,699
Corporate bonds	<u>23,444</u>	<u>24,035</u>
Total interests	<u>27,976</u>	<u>28,734</u>
Total	2,708,801	2,511,829
Current portion	<u>(1,236,526)</u>	<u>(850,404)</u>
Non-current portion	<u><u>1,472,275</u></u>	<u><u>1,661,425</u></u>

### ***Bank overdraft***

As of December 31, 2021, this item comprises a bank overdraft in Scotiabank at an annual interest rate of 3.04%, which matured on January 1, 2022.

## Bank loans

<u>Banks</u>	<u>Issue date</u>	<u>Maturity date</u>	<u>Interest rate (%)</u>	<u>2021</u>	<u>2020</u>
Crédito	24.03.2021	18.03.2022	0.60	50,000	-
Crédito	18.06.2020	11.06.2021	1.85	-	50,000
Crédito	24.03.2021	18.03.2022	0.60	51,000	-
Crédito	18.06.2020	11.06.2021	1.85	-	51,000
Crédito	18.06.2020	11.06.2021	1.85	-	49,000
Crédito	09.12.2020	03.12.2021	0.60	-	41,000
Crédito	09.12.2020	03.12.2021	0.60	-	37,000
Crédito	23.12.2020	17.12.2021	0.45	-	32,000
Crédito	23.12.2020	17.12.2021	0.45	-	28,000
Crédito	11.10.2021	06.10.2022	1.99	41,000	-
Crédito	11.10.2021	06.10.2022	1.99	37,000	-
Crédito	11.10.2021	06.10.2022	1.99	32,000	-
Crédito	11.10.2021	06.10.2022	1.99	28,000	-
Crédito	11.10.2021	06.10.2022	1.99	50,000	-
Crédito	13.12.2021	07.12.2022	2.70	36,000	-
Crédito	13.12.2021	07.12.2022	2.70	54,000	-
Crédito	13.12.2021	07.12.2022	2.70	55,000	-
Crédito (a)	11.09.2020	11.09.2023	3.40	40,000	40,000
Crédito (a)	11.09.2020	11.09.2023	3.40	35,000	35,000
Crédito (a)	11.09.2020	11.09.2023	3.40	25,000	25,000
Banbif	17.06.2020	11.06.2021	1.80	-	45,000
Banbif	24.03.2021	14.06.2022	0.60	45,000	-
Banbif (a)	17.08.2020	17.08.2023	2.85	30,000	30,000
Interbank	02.12.2020	30.06.2021	0.60	-	20,000
Interbank	06.10.2021	30.09.2022	1.99	45,000	-
Continental (a)	31.08.2020	28.08.2023	3.85	32,000	32,000
Continental (a)	31.08.2020	28.08.2023	3.85	40,000	40,000
Continental	10.11.2021	04.11.2022	2.16	40,000	-
Continental	14.05.2021	09.05.2022	0.40	45,000	-
Citibank	26.06.2020	21.06.2021	1.55	-	25,000
Citibank	03.12.2020	01.06.2021	0.60	-	40,000
Citibank	26.08.2021	21.08.2022	0.80	52,000	-
Citibank	26.08.2021	21.08.2022	0.80	50,000	-
Scotiabank	03.12.2020	26.11.2021	0.60	-	45,000
Scotiabank	23.12.2020	17.12.2021	0.45	-	31,000
Scotiabank	23.12.2020	17.12.2021	0.45	-	29,000
Scotiabank	24.06.2021	20.06.2022	0.95	35,000	-
Scotiabank	24.06.2021	20.06.2022	0.95	37,000	-
Scotiabank	24.06.2021	20.06.2022	0.95	38,000	-
Scotiabank (b)	16.07.2021	11.07.2022	1.00	32,000	-
Scotiabank (b)	13.08.2020	09.08.2021	1.90	-	32,000
Scotiabank (b)	19.07.2021	18.07.2022	1.00	31,000	-
Continental (b)	07.08.2020	02.08.2021	1.94	-	31,000
Crédito (b)	28.09.2021	23.09.2022	2.55	44,000	-
Crédito (b)	09.10.2020	04.10.2021	2.54	-	44,000
Crédito (b)	28.09.2021	23.09.2022	2.55	43,000	-
Crédito (b)	09.10.2020	04.10.2021	2.54	-	43,000
Interbank (b)	23.07.2021	18.07.2022	1.00	38,000	-
Crédito (b)	09.10.2020	04.10.2021	2.54	-	38,000
Crédito (a),(b)	11.09.2020	12.09.2022	3.30	27,000	27,000
				1,238,000	940,000
Accrued interests				4,532	4,699
Total				1,242,532	944,699

(a) Bank loans held as financial safeguard, a debt ratio less than 1.7, among other obligations specified in the agreements entered into the Company with pertinent banks. As of

December 31, 2021 and 2020, the Company maintains a debt ratio of 0.87 and 0.84, respectively.

- (b) As of December 31, 2021 and 2020, bank loans for S/215 million correspond to Subsidiary Inland Energy S.A.C.

### Corporate bonds

As approved by the Shareholders' Meeting of the Company, the maximum outstanding amount of the Second and Third Program is US\$350 million each one, and the Fourth Program is US\$500 million, or their equivalent in local currency for all programs.

As of December 31, 2021 and 2020, corporate bonds to be redeemed, their corresponding issue and redemption dates and applicable interest rates are detailed below:

Program	Issue /serial	Date of		Placed bonds	Nominal value	Carrying amount		Interest rate %
		Issue	Redemption			2021	2020	
SECOND	2-UNIQUE	26.10.2011	26.10.2021	5,442	5,000	-	27,210	7.09375
SECOND	6-UNIQUE	29.10.2012	29.10.2022	15,516	5,000	77,580	77,580	5.25000
SECOND	9-UNIQUE	20.12.2013	20.12.2021	16,692	5,000	-	83,460	7.03125
SECOND	10-UNIQUE	12.02.2014	12.02.2022	16,914	5,000	84,570	84,570	7.40625
THIRD	1-UNIQUE	05.06.2014	05.06.2024	27,790	5,000	138,950	138,950	6.68750
THIRD	2-UNIQUE	03.09.2015	03.09.2026	16,235	5,000	81,175	81,175	8.75000
THIRD	3-UNIQUE	22.09.2014	22.09.2029	28,630	5,000	143,150	143,150	6.87500
THIRD	4-UNIQUE	14.07.2016	14.07.2025	32,820	5,000	164,100	164,100	6.50000
THIRD	5-UNIQUE	07.02.2017	07.02.2023	32,490	5,000	162,450	162,450	6.37500
THIRD	6-UNIQUE	14.12.2017	14.12.2027	32,360	5,000	161,800	161,800	5.93750
THIRD	7-UNIQUE	30.10.2018	30.10.2028	33,470	5,000	167,350	167,350	7.00000
THIRD	8-UNIQUE	03.04.2019	03.04.2026	16,560	5,000	82,800	82,800	5.75000
FOURTH	1-UNIQUE	17.10.2019	18.10.2034	33,700	5,000	168,500	168,500	5.21875
Subtotal capital						1,432,425	1,543,095	
Accrued interests						23,444	24,035	
Total						<u>1,455,869</u>	<u>1,567,130</u>	

These bonds are registered in the *Registro Público del Mercado de Valores de Lima* (Public Registry of the Stock Market of Lima), are secured with the equity of the Company and accrue interests at a fixed nominal rate. Interests are paid every six months, counted as from the issue date of each serial.

The *Contrato Marco de la Emisión de Bonos Corporativos e Instrumentos de Corto Plazo* (Master Agreement for the Issuance of Corporate Bonds and Short-Term Instruments) establishes the following:

Second Program of Corporate Bonds:

- To maintain the debt ratio lower than 1.7.
- No guarantees or deposits can be granted to third parties.
- No significant changes can be made to their main economic activities and nature of its business, unless approved by the shareholders' meeting.
- Not able to be part of a merger, reorganization, capital restructuring or acquisition of companies (including its Subsidiaries), regardless of their activities, unless approved by the shareholders' meeting.

- Transactions between (i) the Company and Subsidiaries, and (ii) the Company and/or Subsidiaries and third parties, shall be performed in equally beneficial terms and conditions than those that could have been agreed upon, if applicable, with other entities, which include, but are not limited to, the fact that the arranged price may be the market price.

Third Program of Corporate Bonds:

- No significant changes can be made to their main economic activities and nature of its business, unless approved by the shareholders' meeting.
- No guarantees or deposits can be granted to third parties, unless approved by the shareholders' meeting.
- Not able to be involved, without the authorization of the shareholders' meeting, in transformation, corporate reorganization, acquisition, merger or spin-off processes, when those operations can reasonably give rise to a noncompliance event or substantially adverse changes or effects for the Company and Subsidiaries.
- Transactions between (i) the Company and Subsidiaries, and (ii) the Company and/or Subsidiaries and third parties, shall be performed in equally beneficial terms and conditions than those that could have been agreed upon, if applicable, with other entities, which include, but are not limited to, the fact that the arranged price may be the market price.

Fourth Program of Corporate Bonds:

- No significant changes can be made to their main economic activities and nature of its business.
- No guarantees or deposits can be granted to third parties, unless approved by the shareholders' meeting.
- Not able to be involved, without the authorization of the shareholders' meeting, in transformation, corporate reorganization, acquisition, merger or spin-off processes, when those operations can reasonably give rise to a noncompliance event or substantially adverse changes or effects for the Company.
- Transactions between (i) the Company and Subsidiaries, and (ii) the Company and/or Subsidiaries and third parties, shall be performed in equally beneficial terms and conditions than those that could have been agreed upon, if applicable, with other entities, which include, but are not limited to, the fact that the arranged price may be the market price.

Management believes that, as of December 31, 2021 and 2020, the Company has complied with the conditions mentioned above.

## 17. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprise the following:

	<u>2021</u>	<u>2020</u>
Electrical energy suppliers:		
Kallpa Generación S.A.	42,113	45,638
Fenix Power Peru S.A.	34,853	37,442
Engie Energía Perú S.A.	33,268	35,894
Enel Generación Perú S.A.A.	26,007	27,892
Empresa de Generación Eléctrica Arequipa S.A.	11,751	12,619
Termoselva S.R.L.	11,285	12,241
Orazul Energy Egenor S. en C. por A.	9,400	10,197
Electroperú S.A.	8,855	9,332
Hidroeléctrica Huanchor S.A.C.	428	7,769
Termochilca S.A.	7,845	8,481
Chinango S.A.C.	5,281	5,664
Empresa de Generación Eléctrica del Sur S.A.	3,961	4,253
Enel Generación Piura S.A.	3,321	3,491
Empresa de Generación Eléctrica San Gaban S.A.	930	1,003
Related entities (Note 11)	103,785	90,384
Other commercial suppliers	73,554	70,023
	<u>376,637</u>	<u>382,323</u>
Total	<u>376,637</u>	<u>382,323</u>

Trade accounts payable are within their maturity terms.

## 18. OTHER ACCOUNTS PAYABLE

Other accounts payable comprise the following:

	Current		Non-current	
	2021	2020	2021	2020
<b>Financial liabilities:</b>				
Reimbursable contributions	-	511	23,397	18,506
Leases (Note 32)	178	148	11,028	10,182
Loan for rural electrification works	1,113	3,731	-	1,112
Dividends	16,075	19,351	-	-
Creditors of the External Transfer Program – FOSE	9,971	7,821	-	-
Compensatory mechanism among users of SEIN	6,246	-	-	-
Withholdings	1,605	1,111	-	-
Sundry items	2,282	2,059	-	-
Subtotal	37,470	34,732	34,425	29,800
<b>Non-financial liabilities:</b>				
Taxes and contributions	38,413	41,103	-	-
Received advances	4,550	10,207	-	-
Contribution as per Rural Electrification Law	13,692	14,209	-	-
Electrical Social Inclusion Fund (FISE)	823	691	-	-
Total	94,948	100,942	34,425	29,800

Other accounts payable are within their maturity terms.

### *Dividends*

As of December 31, 2021, expired dividends for an amount of S/6,339 were transferred to other capital reserves (Note 21(b)).

### *Advances received*

As of December 31, 2021, this item includes the Regional Government of Lima for S/1,946, Invermet for S/811 and Rutas de Lima for S/634. As of December 31, 2020, this item includes the Regional Government of Lima for S/6,499 and the Metropolitan Municipality of Lima for S/2,062. Received advances correspond to the services for the relocation of networks.

### *Loans for Rural Electrification Works*

This item corresponds to loans granted under agreements entered into with the Ministry of Energy and Mines for rural electrification works within their concession area.

Agreement	Date	%	Amount	Payment	Balance	Maturity
Agreement 1	Sep-10	3.77	6,025	(6,025)	-	10 years
Agreement 2	Dec-10	3.78	5,985	(5,985)	-	10 years
Agreement 3	Sep-11	4.59	9,463	(9,463)	-	10 years
Agreement 4	Sep-11	4.59	3,937	(3,937)	-	10 years
Agreement 5	Oct-11	4.58	4,403	(4,403)	-	10 years
Agreement 6	May-12	4.46	9,219	(8,106)	1,113	10 years
Agreement Edecañete	Oct-11	4.61	4,158	(4,158)	-	10 years
Total			43,190	(42,077)	1,113	

## 19. PROVISION FOR EMPLOYEE BENEFITS

The provision for employee benefits comprises the following:

	<u>2021</u>	<u>2020</u>
<b>Current:</b>		
Employee profit-sharing	40,710	38,266
Salaries	10,059	8,551
ESSALUD and EPS	1,281	1,433
Severance or seniority indemnities	2,065	1,891
Voluntary retirement program with incentives	8	449
Pension Fund Administration	1,084	1,008
Other items	475	79
	<u>55,682</u>	<u>51,677</u>
<b>Non-current:</b>		
Provision for retention bonus	<u>10,011</u>	<u>-</u>

## 20. OTHER PROVISIONS

Other provisions comprise the following:

	<u>Current</u>		<u>Non-current</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Provision for lawsuits:				
Tax	6,000	3,880	-	-
Administrative	495	565	-	-
Others	-	183	-	-
Provision for disposal of assets	-	-	5,045	4,395
	<u>6,495</u>	<u>4,628</u>	<u>5,045</u>	<u>4,395</u>

Other provisions correspond to the best estimate as of December 31, 2021 and 2020 of situations derived from uncertainties, whose nature is described in Note 35. At the date of the consolidated statement of financial position, the Company is not certain of the opportunity of outflow of economic benefits nor expects potential related reimbursements.

The movement of these provisions as of December 31, 2021 and 2020 was as follows:

	<u>Provision for lawsuits</u>	<u>Provision for disposal of assets</u>	<u>Total</u>
As of January 1, 2020	2,428	3,664	6,092
Provision for the year	3,107	-	3,107
Interests	-	495	495
Exchange difference	-	236	236
Payments	(907)	-	(907)
As of December 31, 2020	4,628	4,395	9,023
Provision for the year	3,361	-	3,361
Interests	-	192	192
Exchange difference	-	458	458
Payments	(1,494)	-	(1,494)
As of December 31, 2021	<u>6,495</u>	<u>5,045</u>	<u>11,540</u>

## 21. EQUITY

### (a) Capital stock

As of December 31, 2021 and 2020, capital stock is represented by 486,951,371 common voting shares with a face value of S/0.68 per share, duly subscribed and paid. All shares confer their pertinent holders the same rights and obligations.

The Company's common shares are listed in the Lima Stock Exchange. As of December 31, 2021, their market value was S/14.24 per share (S/25.50 as of December 31, 2020).

The equity interest structure of the Company as of December 31, 2021 was as follows:

<b>Individual equity interest (%):</b>	<u>Shareholders N°</u>	<u>Interest %</u>
Up to 1	34,810	3
From 1.01 to 20.00	1	2
From 20.01 to 60.00	1	34
From 60.01 to 70.00	1	61
	<u>34,813</u>	<u>100</u>

### (b) Other capital reserves

This item comprises the following:

- (i) Legal reserve: pursuant to the General Business Law, legal reserve is established by transferring a minimum of 10% of net profit from each period, after deducting

accumulated losses, until it achieves an amount equivalent to the fifth part of capital. The excess of this limit does not have the condition of legal reserve. In the absence of undistributed profit or freely available reserves, the legal reserve shall be applied to offset losses, and must be replaced. The legal reserve can be capitalized but shall also be replaced. As of December 31, 2021 and 2020, the balance of this account amounts to S/66,225, and has already reached the limit established by the General Business Law.

- (ii) Excess of legal reserve with regard to the limit established by the General Business Law (GBL), resulting from capital reductions. Pursuant to this Law, such excess is considered as a freely-available reserve. As of December 31, 2021 and 2020, this account amounts to S/40,564.

As of December 31, 2021, the increase for the transfer of expired dividends amounts to S/6,339. According to the GBL, the expiry term of the right to collect dividends is 10 years from the date the payment is enforceable as per the dividend allocation agreement. Dividends whose collection has expired increase the legal reserve; however, if it has reached the fifth part of capital, expired dividends constitute the freely-available reserve according to the GBL.

- (iii) Balance of transferred reserves at the date of the spin-off that created the Company, less the higher value paid during the acquisition of shares of its own stock and the regularization conducted in 2000 relating to the payment of a debt to FONAVI (National Housing Fund). As of December 31, 2021 and 2020, this account amounts to S/36,532.

**(c) Other equity reserves**

Other equity reserves comprise the revaluation surplus that the Company and Subsidiaries recorded for a higher value for revaluations of property, plant and equipment through appraisals conducted by independent professionals. Those higher values were charged to the equity account "Other equity reserves – Revaluation surplus", net of deferred income tax. As the underlying asset is depreciated, disposed of, or sold, revaluation surplus is transferred to retained earnings.

**(d) Retained earnings**

**(d.1) Regulatory framework**

In accordance with the provisions set forth in Legislative Decree No. 945, dated December 23, 2003, which amended the Income Tax Law, domiciled legal entities that distribute dividends or any other form of profit distribution, shall withhold the applicable rate indicated in Note 29 (a(i)) of the amount to be distributed, except when it is distributed to domiciled legal entities.

There are no restrictions for dividend remittance or capital repatriation to foreign investors.

***(d.2) Dividend distribution***

During the year ended December 31, 2021, the Company agreed to distribute dividends for S/469,908, equivalent to S/0.965 per share (S/339,982, equivalent to S/0.698 per share in 2020), as shown below:

<b>Date of agreement of the Board of Directors or the Annual Mandatory Shareholders' Meeting</b>	<b>Period</b>	<b>Total dividends</b>	<b>Dividend per common share S/</b>
<b>2021:</b>			
November 30	On account of retained earnings	133,912	0.275
November 7	On account of retained earnings	132,937	0.273
May 27	On account of retained earnings	124,173	0.255
March 29	2020	<u>78,886</u>	<u>0.162</u>
Total		<u>469,908</u>	<u>0.965</u>
<b>2020:</b>			
November 30	On account of retained earnings	169,946	0.349
August 27	On account of retained earnings	<u>169,946</u>	<u>0.349</u>
Total		<u>339,892</u>	<u>0.698</u>

**22. REVENUE**

***Electrical energy distribution***

Electrical energy distribution revenue comprises the following:

	<b>2021</b>	<b>2020</b>
Low voltage customers	2,602,788	2,406,794
Medium voltage customers	427,392	423,320
Toll service customers	233,136	172,712
Free customers	46,591	38,244
Compensatory mechanism among SEIN users	(33,830)	(4,735)
Fees for secondary transmission systems	(22,509)	(20,469)
Energy billed but not delivered	20,638	13,126
Supplementary services	<u>87,697</u>	<u>62,709</u>
Total	<u>3,361,903</u>	<u>3,091,701</u>

### ***Energy and power generation***

Energy and power generation revenue comprises the following:

	<u>2021</u>	<u>2020</u>
Free customers	65,192	56,560
Short-term market	<u>3,375</u>	<u>2,270</u>
Total	<u><u>68,567</u></u>	<u><u>58,830</u></u>

## **23. ELECTRICAL ENERGY DISTRIBUTION COSTS**

### ***Electrical energy distribution***

Electrical energy distribution costs comprise the following:

	<u>2021</u>	<u>2020</u>
Purchase of electrical energy	2,068,075	1,958,119
Option agreements (Note 2)	<u>(138,803)</u>	<u>(126,639)</u>
Subtotal	1,929,272	1,831,480
Services provided by third parties	112,198	76,691
Personnel expenses	103,329	100,055
Other provisions for the year:		
Depreciation (Note 14)	125,355	115,714
Others	6,703	6,014
Sundry management charges	23,472	19,626
Consumption of inventories – supplies	6,400	4,439
Taxes	<u>35,190</u>	<u>33,335</u>
Total	<u><u>2,341,919</u></u>	<u><u>2,187,354</u></u>

### ***Electrical energy and power generation***

Electrical energy and power generation costs comprise the following:

	<u>2021</u>	<u>2020</u>
Purchase of electrical energy – fee	22,359	13,684
Services provided by third parties	3,387	3,125
Personnel expenses	6,260	6,204
Other provisions for the year:		
Depreciation (Note 14)	11,568	11,770
Others	337	324
Sundry management charges	4,580	3,965
Consumption of inventories – supplies	245	221
Taxes	<u>2,312</u>	<u>2,048</u>
Total	<u><u>51,048</u></u>	<u><u>41,341</u></u>

The purchase of electrical energy for the years ended December 31, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Kallpa Generación S.A.	406,826	387,886
Fenix Power Perú S.A.	342,016	323,775
Engie Energía Perú S.A.	320,273	304,978
Enel Generación Perú S.A.A.	249,081	234,067
Empresa de Generación Arequipa S.A. (Egasa)	112,817	107,592
Termoselva S.R.L.	108,893	103,856
Orazul Energy Egenor S. en C. por A.	91,030	86,673
Electroperú S.A.	89,217	83,443
Termochilca S.A.	69,405	66,108
Chinango S.A.C.	50,805	47,680
Empresa de Generación Eléctrica del Sur S.A.	40,963	38,851
Enel Generación Piura S.A.	32,020	29,553
Transferencia COES	22,944	16,693
Empresa de Generación Eléctrica San Gabán S.A.	9,954	9,244
Hidroelectrica Huanchor S.A.C.	4,425	4,192
Empresa de Generación Eléctrica Machu Picchu (EGEMSA)	690	424
Toll	272	149
Total	<u>1,951,631</u>	<u>1,845,164</u>

***Lease-related expenses***

	<u>2021</u>	<u>2020</u>
Taxes	159	141
Sundry management charges	32	33
Depreciation (Note 14)	261	337
Total	<u>452</u>	<u>511</u>

**24. SELLING AND DISTRIBUTION EXPENSES**

Selling and distribution expenses comprise the following:

	<u>2021</u>	<u>2020</u>
Personnel expenses	41,835	41,662
Services provided by third parties	16,456	11,909
Other provisions for the year:		
Depreciation (Note 14)	1,674	1,716
Impairment estimate for accounts receivable	6,739	4,035
Others	2,929	2,485
Sundry management charges	525	484
Consumption of inventories – supplies	150	203
Value-added distribution	231	559
Main transmission system	14	47
Taxes	28	20
Total	<u>70,581</u>	<u>63,120</u>

## 25. ADMINISTRATIVE EXPENSES

Administrative expenses comprise the following:

	<u>2021</u>	<u>2020</u>
Personnel expenses	74,682	84,495
Services provided by third parties	23,478	21,209
Taxes	3,021	3,396
Sundry management charges	2,041	4,676
Other provisions for the year:		
Depreciation (Note 14)	2,438	2,221
Others	4,656	4,491
Consumption of inventories – supplies	433	284
Total	<u>110,749</u>	<u>120,772</u>

## 26. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses comprise the following:

	<u>2021</u>	<u>2020</u>
<b>Other operating income:</b>		
Granted rights	-	20,760
Support for light poles	9,442	7,971
Recovery of energy consumption without meter readings	7,046	3,309
Reversal of other provisions	595	6,555
Fair value of real estate investment (Note 13)	8,047	-
Recovery of damages of facilities	232	1,086
Recovery of withdrawn customers	2,169	1,471
Recovery for obsolescence of inventories (Note 12)	341	-
Fines imposed on contractors	2,857	1,605
Disposal of goods	921	294
Sale of supplies	43	18
Leases of equipment	31	31
Other services	4,863	3,974
Total	<u>36,587</u>	<u>47,074</u>
<b>Other operating expenses:</b>		
Provision for contingencies	3,361	3,107
Administrative sanctions	2,446	2,338
Cost for sale of supplies	78	68
Support for light poles	2,027	-
Cost for disposal of goods	374	-
Other operating expenses	337	1,967
Total	<u>8,623</u>	<u>7,480</u>

## 27. FINANCIAL INCOME

Financial income comprises the following:

	<u>2021</u>	<u>2020</u>
Interests on wrongful payments	449	-
Late-payment interests (Note 9)	10,790	19,286
Exchange difference gain (Note 6 (b)(i))	18,698	4,933
Interests on bank deposits	609	2,614
Other financial income	502	297
	<u>31,048</u>	<u>27,130</u>

## 28. FINANCIAL EXPENSES

Financial expenses comprise the following:

	<u>2021</u>	<u>2020</u>
Interests, commissions and other financial expenses	119,149	130,376
Capitalization of financial expenses	(8,153)	(18,605)
Impairment estimate of accounts receivable for late-payment interests	1,140	603
Exchange difference losses (Note 6 (b)(i))	14,384	4,793
Total	<u>126,520</u>	<u>117,167</u>

## 29. INCOME TAX

### (a) *Income tax regime*

#### (i) *Tax rates*

The income tax rate for legal entities domiciled in Peru shall be determined by applying the rate of 29.5% on their net income.

Legal entities domiciled in Peru are subject to an additional rate of 5% on any amount that may be considered as indirect disposal of profit, including amounts charged to expenses and unreported income; that is, expenses which may have benefited shareholders, interest holders, among others; other expenses not related to the business; expenses of shareholders, interest holders, among others, which are assumed by the legal entity.

#### (ii) *Transfer pricing*

The following new standards have been established:

- Comparable uncontrolled price (CUP) for commodities: It is confirmed that, for import or export of commodities, the market value will be provided by quotation (it was established before for operations with intermediaries or from, through or to tax havens). The detail of this standard is included in the regulations.

- New formal obligations: The Transfer Pricing Technical Study is no longer be submitted and new tax returns are included:

<u>Tax return</u>	<u>Minimum annual income</u>	<u>Assumption</u>	<u>Details</u>	<u>Effective from</u>
Local report	S/10,120 (US\$2,531)	Operations with related entities	Transactions that give rise to taxable income or deductible expense	2016
Master report	S/88,000 (US\$22,011)	Taxpayers that are part of a Group	Organizational structure, description of the business, transfer pricing policies, financial and tax position	2017
Report per country	Not applicable	Taxpayers that are part of a Multinational Group	Global revenue distribution, paid taxes and activities of each entity of the multinational group	2017

The Company and Subsidiaries prepared the report per country, and the Company and Subsidiary Inland Energy S.A.C. prepared the local and master reports for 2020. Management believes that no significant liabilities will arise for the consolidated financial statements as of December 31, 2021 and 2020, with regard to transfer pricing.

***(iii) Significant changes to Income Tax regime in Peru***

After December 31, 2021, no significant changes have been made to the income tax regime in Peru, which may affect these consolidated financial statements. The standards and interpretations effective as of December 31, 2021 have been considered by Management when preparing these consolidated financial statements.

Below we present the amendments that will be applicable as from 2021:

Deductibility of interests according to EBITDA

Pursuant to Legislative Decree No. 1424, until December 31, 2020, the undercapitalization standard was applied for the calculation of income tax, for which only the interests on debts that do not exceed the coefficient of 3:1 of net equity of companies were deductible. The limit of 30% of EBITDA from the previous year will be applied as from 2021, in which the excess of interests is carried forward for the following four years.

By virtue of Supreme Decree No. 402-2021-EF, published on December 30, 2021, it has been established that, exceptionally, in order to determine the EBITDA corresponding to 2020 that will be applied to calculate the restriction of taxable period 2021, after offsetting losses, the amount of deducted interests to establish net income should be added to such net income, besides the amount of the pertinent depreciation and amortization, and the income from taxable interests should be deducted in such period.



#### Tax benefits that will still be applied in 2022

- Exemption of capital gain for the transfer of securities in the Stock Market.
- The treatment of income tax applicable to transfer for the contribution of real estate to FIRBI and the withholding rate applicable to income from leases or assignment in use of real estate attributed for those funds.
- The additional deduction for expenses of scientific research, technological development and technological innovation projects of 50%, 75% or 115%, depending on whether the expenses are incurred directly by the taxpayer or through research centers domiciled in the country or not. The additional deduction cannot exceed the annual limit of 500 UIT in each case.

#### Tax stability agreements

Pursuant to Legislative Decree No. 1516, it has been established that the companies receiving investments that enter into tax stability agreements by virtue of Legislative Decrees 662 and 757 will increase the corporate income tax rate that is in force at the execution date of the agreement by 2 percentage points.

#### *(iv) Tax situation*

Income tax returns from 2017 to 2020 of the Company and Subsidiaries, and those to be submitted for 2021 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

Due to possible interpretations that tax authorities may have on current applicable regulations each year, it is not possible to determine to date whether liabilities for the Company and Subsidiaries will arise or not from the reviews to be conducted. Therefore, any high tax or charge that may result from such tax reviews would be applied to profit or loss for the year when determined. However, Management believes that any additional tax payment would not be significant for the consolidated financial statements as of December 31, 2021 and 2020.

(b) Income tax expense comprises the following:

	<u>2021</u>	<u>2020</u>
Current income tax	225,033	207,816
Deferred income tax	11,538	(1,852)
Total	<u>236,571</u>	<u>205,964</u>

The expense for current income tax corresponds to the tax to be paid, calculated by applying a 29.5% rate on taxable income, after deducting 5% of profit-sharing of employees as per legislative Decree No. 892.

During the years ended December 31, 2021 and 2020, the effective rate of income tax expense is different from the tax rate applicable to profit before taxes. The nature of this



difference is due to certain items related to the determination of taxable income, whose effects on the applicable tax rate are presented below (in percentages on profit before taxes):

	<u>2021</u>		<u>2020</u>	
		<u>%</u>		<u>%</u>
Profit before income tax	<u>790,989</u>	<u>100.00</u>	<u>689,673</u>	<u>100.00</u>
Income tax calculated as per tax rate	233,342	29.50	203,454	29.50
Tax effect on additions and (deductions):				
Non-deductible expenses	3,968	0.50	3,031	0.44
Non-taxable income	(968)	(0.12)	(427)	(0.06)
Adjustment for income tax from previous year	514	0.06	(279)	(0.04)
Other adjustments	<u>(285)</u>	<u>(0.04)</u>	<u>185</u>	<u>0.03</u>
Current and deferred income tax recorded as per effective rate	<u><u>236,571</u></u>	<u><u>29.90</u></u>	<u><u>205,964</u></u>	<u><u>29.87</u></u>

(c) Income tax liability

Balances payable to the Tax Administration, related to income tax, are presented below:

	<u>2021</u>	<u>2020</u>
<b>PAYABLE:</b>		
Income tax liability	<u><u>14,729</u></u>	<u><u>25,014</u></u>



### 30. DEFERRED INCOME TAX LIABILITY

The movement in net deferred income tax liability and the temporary differences that generated them is shown below:

	Opening balance for the year	Additions (deductions) Profit or loss for the year	Closing balance for the year
<b>As of December 31, 2021</b>			
Liability:			
Fair value of investment properties	15,648	2,915	18,563
Depreciation of long-term assets	276,921	24,960	301,881
Revaluation of property, plant and equipment	471,918	(8,614)	463,304
Exempted interests	670	(670)	-
Asset:			
Compensatory mechanism of energy prices	336	(1,344)	(1,008)
Provision for vacations	(2,467)	(188)	(2,655)
Provision for reimbursable contributions	(5,062)	(1,466)	(6,528)
Obsolescence estimate of inventories	(578)	100	(478)
Voluntary retirement program with incentives	(152)	120	(32)
Provision for contingencies with OSINERGMIN	(220)	-	(220)
Provision for contingencies	(1,174)	(720)	(1,894)
Provision for disposal of assets	(1,297)	(191)	(1,488)
Others	(4,841)	(3,364)	(8,205)
Net deferred liability	<u>749,702</u>	<u>11,538</u>	<u>761,240</u>

	Opening balance for the year	Additions (deductions) Profit or loss for the year	Other changes	Closing balance for the year
<b>As of December 31, 2020</b>				
Liability:				
Fair value of investment properties	15,402	246	-	15,648
Depreciation of long-term assets	271,299	5,622	-	276,921
Revaluation of property, plant and equipment	480,524	(8,606)	-	471,918
Exempted interests	670	-	-	670
Asset:				
Compensatory mechanism of energy prices	(136)	472	-	336
Provision for vacations	(4,429)	1,962	-	(2,467)
Provision for reimbursable contributions	(4,625)	(437)	-	(5,062)
Obsolescence estimate of inventories	(578)	-	-	(578)
Voluntary retirement program with incentives	(266)	114	-	(152)
Provision for contingencies with OSINERGMIN	(220)	-	-	(220)
Provision for contingencies	(479)	(695)	-	(1,174)
Provision for disposal of assets	(1,081)	(216)	-	(1,297)
Others	(4,474)	(314)	(53)	(4,841)
Net deferred liability	<u>751,607</u>	<u>(1,852)</u>	<u>(53)</u>	<u>749,702</u>

### 31. NET EARNINGS PER SHARE

The calculation of net basic and diluted earnings per share as of December 31, 2021 and 2020 is presented below:

	<u>Earnings (numerator)</u>	<u>Number of shares (denominator)</u>	<u>Earnings per share</u>
Basic and diluted earnings per common shares			
As of December 31, 2021	<u>554,418</u>	<u>486,951,371</u>	<u>1.139</u>
As of December 31, 2020	<u>483,709</u>	<u>486,951,371</u>	<u>0.993</u>

### 32. LEASES

#### *(a) Leases, the Company and Subsidiary as lessees*

The Company assigned to Subsidiary Inland Energy S.A. certain lease agreements for buildings, machinery and equipment with a term of 30 years, maturing in 2041 and 2045. The assets involved in these agreements are recorded as property, plant and equipment.

Those leases have been arranged at fixed interest rates at the date of agreements between 12% and 6.4%.

Additionally, the Company and Subsidiary Inland Energy S.A.C. have entered into an operating lease agreement for offices and vehicles, which are recorded as right of use.

Obligations for finance leases comprise the following:

	<u>2021</u>	<u>2020</u>
Less than one (1) year (Note 8)	178	148
Between one (1) and five (5) years (Note 8)	633	579
More than five (5) years (Note 8)	<u>10,395</u>	<u>9,603</u>
	<u>11,206</u>	<u>10,330</u>

#### *(b) Leases, the Company and Subsidiary as lessors*

Income from leases as of December 31, 2021 and 2020 is presented in the consolidated statement of profit or loss.

Properties under operating leases are subject to lease commitments ranging between one (1) and ten (10) years, and price increases have been agreed upon between two and three percent as from the second lease year.

Management of the Company and Subsidiary estimates that agreements in force as of December 31, 2021 will be renewed automatically at maturity.

As of December 31, 2021 and 2020, the Company and Subsidiary Inmobiliaria Luz del Sur S.A. have arranged the following minimum lease installments with lessees:

	<u>2021</u>	<u>2020</u>
Less than one (1) year	1,932	1,851
Between one (1) and five (5) years	<u>2,897</u>	<u>2,967</u>
Total	<u><u>4,829</u></u>	<u><u>4,818</u></u>

The Company and Subsidiary Inmobiliaria Luz del Sur S.A. have not agreed upon any contingent operating lease installments.

### 33. BUSINESS SEGMENT INFORMATION

The Company and Subsidiaries carry out two operating activities that correspond to their reporting segments. There are different ways to operate these activities and they are managed separately since they require different technologies. The following summary describes the operations of each reporting segment.

Electrical energy distribution – Public service for the distribution and commercialization of electrical energy.

Electrical energy generation – Electricity production using hydroelectrical energy and the sale of electrical power and energy.

The lease segment is shown within other segment.

Income and costs for energy distribution and generation are presented in the consolidated statement of profit or loss and Notes 22 and 23, and other significant items are presented as follows:

<b>2021</b>	<u>Distribution S/000</u>	<u>Generation S/000</u>	<u>Other segment S/000</u>	<u>Total S/000</u>
Personnel expenses (Notes 24 and 25)	(112,365)	(4,152)	-	(116,517)
Other provisions for the year (Notes 24 and 25)				
Depreciation	(4,039)	(73)	-	(4,112)
Impairment estimate for accounts receivable	(6,461)	(278)	-	(6,739)
Others	(7,432)	(153)	-	(7,585)
Other operating income (Note 26)	30,383	112	6,092	36,587
Other operating expenses (Note 26)	(8,510)	(113)	-	(8,623)
Financial income (Note 27)				
Late-payment interests	10,497	293	-	10,790
Financial expenses (Note 28)				
Interests, commissions and other financial expenses	(112,481)	(6,668)	-	(119,149)
Capitalization of financial expenses	8,153	-	-	8,153
Income tax expense	(225,565)	(2,437)	(8,569)	(236,571)

Distribution	Generation	Other segment	Total
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2020	S/000	S/000	S/000	S/000
Personnel expenses (Notes 24 and 25)	(121,317)	(4,840)	-	(126,157)
Other provisions for the year (Notes 24 and 25)				
Depreciation	(3,867)	(70)	-	(3,937)
Impairment estimate for accounts receivable	(4,035)	-	-	(4,035)
Others	(6,709)	(267)	-	(6,976)
Other operating income (Note 26)	46,974	100	-	47,074
Other operating expenses (Note 26)	(7,473)	(7)	-	(7,480)
Financial income (Note 27)				
Late-payment interests	18,821	465	-	19,286
Financial expenses (Note 28)				
Interests, commissions and other financial expenses	(120,584)	(9,792)	-	(130,376)
Capitalization of financial expenses	18,605	-	-	18,605
Income tax expense	(200,083)	(5,400)	(481)	(205,964)

The assets and liabilities per segments are classified as follows:

	2021	2020
Assets per segments:		
Distribution	6,820,883	6,533,849
Generation	685,382	685,509
Total assets per segments	7,506,265	7,219,358
Assets not assigned to specific segments	95,904	84,259
Total assets	7,602,169	7,303,617
Liabilities per segments:		
Distribution	3,705,401	3,511,913
Generation	347,626	335,634
Total liabilities per segments	4,053,027	3,847,547
Liabilities not assigned to specific segments	14,986	12,763
Total liabilities	4,068,013	3,860,310

### 34. NON-MONETARY TRANSACTIONS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

Investment and financing activities that did not result in cash disbursements, but affected assets and liabilities for the years ended December 31, 2021 and 2020, are summarized below:

	<u>2021</u>	<u>2020</u>
Purchase of property, plant and equipment	141,798	129,667
Purchase of intangible assets	5,304	7,106
Transfer of inventories	1,148	28,695
Dividends compensated with accounts receivable	44	374
Machinery and equipment received as reimbursable contributions	-	511
Transfer of expenses to machinery and equipment	4,631	2,129
Increase for transfer of expired dividends	6,339	-
Increase of real estate investments due to change in fair value	8,047	-

### 35. COMMITMENTS AND CONTINGENCIES

#### **Guarantees granted:**

Subsidiary Inland Energy S.A.C. has granted guarantees to third parties through letters of guarantee to secure investment commitments for S/6.2 million and US\$14.1 million (equivalent to S/56.6 million).

#### **Contingencies:**

##### ***Tax***

The Company has filed certain claims due to Determination and Fine Resolutions issued for observations made by the Tax Administration regarding the tax reviews of years 2000, 2001 and from 2005 to 2010 for a total amount of S/11.6 million. These observations refer to alleged omissions of income tax and value-added tax. In Note 20, the Company has recorded the provision for probable losses estimated by Management as of December 31, 2021 and 2020. Management and its legal advisors believe that the Company may obtain a positive result from these claims for non-recorded balances.

##### ***Labor***

Unions and several former employees have filed lawsuits against the Company for an amount of S/14.6 million. These lawsuits refer to matters such as nullity of dismissal, reimbursement for higher productivity, profit-sharing and payment of social benefits. Management and its legal advisors believe that the Company may obtain a positive result from these claims.

##### ***Administrative***

The Company has appealed several Administrative Resolutions issued by OSINERGMIN for an amount of S/7.5 million mainly related to power supply outage and alleged debts for contributions; and other claims filed with municipalities and housing associations for reimbursable contributions and contentious-civil proceedings with a compensation for S/35.9 million. In Note 20, the Company has recorded the provision for probable losses estimated by

Management as of December 31, 2021 and 2020. Management and its legal advisors believe that the Company may obtain a positive result from these claims.

### ***Others***

The Company has appealed several lawsuits for S/6.2 million. These lawsuits refer to civil proceedings, reimbursement for overbilling, among others. In 2021, the aforementioned lawsuits were concluded to the satisfaction of the parties.

## **36. ENVIRONMENTAL REGULATIONS**

By virtue of Supreme Decree No. 029-94-EM, the Company submits the environmental report every year, in compliance with pertinent environmental regulations. The Company implemented in previous years its Environmental Management and Adaptation Program (PAMA), which was previously approved by competent authorities. On August 3, 2004, the Company received the Technical Compliance Report of the Environmental Management and Adaptation Program for Electrical Concessionaires, under which the Safety and Environmental Area of OSINERGMIN concludes that the Company has complied with the schedule of activities of its PAMA within established terms.

During the year ended December 31, 2021, the Company and Subsidiary Inland Energy S.A.C. have made disbursements for S/4,892 and S/1,754, respectively, in order to implement environmental improvement programs. The Company and Subsidiary's Management considers that no significant contingent liabilities will arise with regard to environmental management.

## **37. SUBSEQUENT EVENTS**

We are not aware of any subsequent event that has occurred between the closing date of the consolidated financial statements and the issue date of this report, which may significantly affect them.

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**Luz del Sur S.A.A.**

**Independent Auditor's Report**

**Separate Financial Statements**

For the years ended

December 31, 2021 and 2020



## INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors and Shareholders of  
**Luz del Sur S.A.A.**

1. We have audited the accompanying separate financial statements of **Luz del Sur S.A.A.** (a subsidiary of Ontario Quinta S.R.L.), which comprise the separate statements of financial position as of December 31, 2021 and 2020, and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Separate Financial Statements

2. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

3. Our responsibility is to express an opinion on these separate financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing, approved by the Board of Deans of the Peruvian Associations of Public Accountants for their application in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the separate financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion


6. In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Luz del Sur S.A.A. as of December 31, 2021 and 2020, and its financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Emphasis on separate information

7. The separate financial statements of Luz del Sur S.A.A. have been prepared to comply with the legal requirements in force in Peru for the presentation of financial information. These separate financial statements reflect the value of its investments in its subsidiaries under the fair value method (Note 13) rather than on a consolidated basis, so they should be read together with the consolidated financial statements of Luz del Sur S.A.A. and Subsidiaries, which are presented separately, on which in our opinion dated February 22, 2022, we issued an unqualified opinion.
8. The accompanying separate financial statements have been translated into English for the convenience of English-speaking readers.

*Velásquez, Mazuelos y Asociados S. Civil. de R. L.*

Countersigned by:

 (Partner)  
Marco Roca Peña  
CPC Registration No. 33204

February 22, 2022

**LUZ DEL SUR S.A.A.**

**SEPARATE STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2021 AND 2020  
(In thousands of soles S/)**

	Notes	2021	2020		Notes	2021	2020
<b>ASSETS</b>				<b>LIABILITIES AND EQUITY</b>			
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	8	13,640	33,522	Other financial liabilities	16	1,020,606	661,304
Trade accounts receivable (net)	9	503,961	514,517	Trade accounts payable	17	369,353	372,370
Other accounts receivable (net)	10	19,430	45,117	Other accounts payable	18	93,448	97,908
Accounts receivable from related entities	11	7,465	1,906	Accounts payable to related entities	11	94	87
Inventories (net)	12	36,016	37,538	Liability for employee benefits	19	53,869	50,494
Other non-financial assets		<u>2,658</u>	<u>8,157</u>	Other provisions	20	6,495	4,628
Total current assets		<u>583,170</u>	<u>640,757</u>	Income tax liability	29 (c)	<u>14,035</u>	<u>33,868</u>
				Total current liabilities		<u>1,557,900</u>	<u>1,220,659</u>
NON-CURRENT ASSETS:				NON-CURRENT LIABILITIES:			
Other accounts receivable	10	1,090	1,090	Other financial liabilities	16	1,472,275	1,634,425
Investment in subsidiaries	13	1,210,694	1,175,519	Deferred income tax liability	30	646,609	640,416
Investment properties	14	36,906	33,947	Other accounts payable	18	24,510	20,982
Property, plant and equipment (net)	15	6,217,504	5,875,661	Accounts payable to related entities	11	9,168	9,258
Intangible assets (net)		11,309	9,212	Liability for employee benefits	19	8,845	-
Rights of use (net)		<u>2,596</u>	<u>3,314</u>	Other provisions	20	<u>5,045</u>	<u>4,395</u>
Total non-current assets		<u>7,480,099</u>	<u>7,098,743</u>	Total non-current liabilities		<u>2,166,452</u>	<u>2,309,476</u>
				Total liabilities		<u>3,724,352</u>	<u>3,530,135</u>
				EQUITY:			
				Issued capital stock	21 (a)	331,127	331,127
				Other capital reserves	21 (b)	149,660	143,321
				Other equity reserves	21 (c)	1,980,471	1,965,453
				Retained earnings	21 (d)	<u>1,877,659</u>	<u>1,769,464</u>
				Total equity		<u>4,338,917</u>	<u>4,209,365</u>
TOTAL		<u><u>8,063,269</u></u>	<u><u>7,739,500</u></u>	TOTAL		<u><u>8,063,269</u></u>	<u><u>7,739,500</u></u>

The accompanying notes are an integral part of these separate financial statements.

**LUZ DEL SUR S.A.A.**

**SEPARATE STATEMENTS OF PROFIT OR LOSS AND OF OTHER COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
(In thousands of soles S/)**

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Energy distribution revenue	22	3,361,903	3,091,701
Energy distribution costs	23	<u>(2,366,839)</u>	<u>(2,205,919)</u>
Gross profit		<u>995,064</u>	<u>885,782</u>
Selling and distribution expenses	24	(70,057)	(62,514)
Administrative expenses	25	(104,965)	(114,892)
Other operating income	26	32,372	48,783
Other operating expenses	26	<u>(8,511)</u>	<u>(7,471)</u>
Operating profit		843,903	749,688
Financial income	27	53,570	25,204
Financial expenses	28	<u>(113,962)</u>	<u>(105,485)</u>
Profit before income tax		783,511	669,407
Income tax expense	29 (b)	<u>(225,565)</u>	<u>(200,083)</u>
<b>Net profit for the year</b>		557,946	469,324
<b>Items that will be reclassified subsequently in the statement of profit or loss:</b>			
Fair value of financial investments		<u>35,175</u>	<u>55,873</u>
Total other comprehensive income		<u>35,175</u>	<u>55,873</u>
<b>Total comprehensive income, net of income tax</b>		<u>593,121</u>	<u>525,197</u>
Net earnings per share:			
Basic and diluted (in soles)	31	<u>1.146</u>	<u>0.964</u>

The accompanying notes are an integral part of these separate financial statements.

**LUZ DEL SUR S.A.A.**

**SEPARATE STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

(In thousands of soles S/)

	<u>Other equity reserves</u>					<u>Total equity</u>
	<u>Issued capital stock</u> Note 21 (a)	<u>Other capital reserves</u> Note 21 (b)	<u>Profit for investments in equity instruments measured at fair value</u> Note 21 (c)	<u>Net revaluation surplus</u> Note 21 (c)	<u>Retained earnings</u> Note 21 (d)	
<b>Balance as of January 1, 2020</b>	331,127	143,321	799,026	1,130,702	1,619,884	4,024,060
Comprehensive income						
Net profit for the year	-	-	-	-	469,324	469,324
Other comprehensive income for the year, net of taxes	-	-	55,873	-	-	55,873
Total comprehensive income for the year	-	-	55,873	-	469,324	525,197
Transfer of revaluation surplus for depreciation and disposal of fixed assets	-	-	-	(20,148)	20,148	-
Dividends declared in cash	-	-	-	-	(339,892)	(339,892)
<b>Balance as of December 31, 2020</b>	<u>331,127</u>	<u>143,321</u>	<u>854,899</u>	<u>1,110,554</u>	<u>1,769,464</u>	<u>4,209,365</u>
Comprehensive income						
Net profit for the year	-	-	-	-	557,946	557,946
Other comprehensive income for the year, net of taxes	-	-	35,175	-	-	35,175
Total comprehensive income for the year	-	-	35,175	-	557,946	593,121
Transfer of revaluation surplus for depreciation and disposal of fixed assets	-	-	-	(20,157)	20,157	-
Transfer of uncollected expired dividends	-	6,339	-	-	-	6,339
Dividends declared in cash	-	-	-	-	(469,908)	(469,908)
<b>Balance as of December 31, 2021</b>	<u>331,127</u>	<u>149,660</u>	<u>890,074</u>	<u>1,090,397</u>	<u>1,877,659</u>	<u>4,338,917</u>

The accompanying notes are an integral part of these separate financial statements.

**LUZ DEL SUR S.A.A.****SEPARATE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
(In thousands of soles S/)**

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES:			
Collection from:			
Sale of energy		3,985,768	3,631,822
Interests and yields received		11,341	21,387
Other cash collections related to operating activities		230,623	197,609
Payments for:			
Energy suppliers		(2,762,574)	(2,551,850)
Employees		(180,819)	(194,091)
Income tax		(239,205)	(217,171)
Interests paid		(107,488)	(104,494)
Other cash payments related to operating activities		(250,765)	(273,018)
Net cash and cash equivalents provided by operating activities		<u>686,881</u>	<u>510,194</u>
INVESTMENT ACTIVITIES:			
Collection from:			
Dividends received		30,536	-
Sale of property, plant and equipment		819	294
Payments for:			
Purchase of property, plant and equipment	15 and 33	<u>(465,942)</u>	<u>(481,390)</u>
Net cash and cash equivalents used in investment activities		<u>(434,587)</u>	<u>(481,096)</u>
FINANCING ACTIVITIES:			
Increase corresponding to:			
Obtaining bank overdrafts and loans, net	16	308,400	412,750
Return of dividends	11	3,165	1,691
Decrease corresponding to:			
Payment of corporate bonds		(110,670)	(77,100)
Amortization of loans for rural electrification		(3,731)	(4,980)
Dividends paid	11 and 33	<u>(469,340)</u>	<u>(338,731)</u>
Net cash and cash equivalents used in financing activities		<u>(272,176)</u>	<u>(6,370)</u>
NET (DECREASE) INCREASE OF CASH AND CASH EQUIVALENTS		(19,882)	22,728
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		33,522	10,794
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u>13,640</u>	<u>33,522</u>

The accompanying notes are an integral part of these separate financial statements.

**Inmobiliaria Luz del Sur S.A.**

**Independent Auditor's Report**

**Financial Statements**

For the years ended  
December 31, 2021 and 2020



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of  
**Inmobiliaria Luz del Sur S.A.**

1. We have audited the accompanying financial statements of **Inmobiliaria Luz del Sur S.A.** (a subsidiary of Luz del Sur S.A.A.), which comprise the statements of financial position as of December 31, 2021 and 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing, approved by the Board of Deans of the Peruvian Associations of Public Accountants for their application in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

6. In our opinion, the financial statements present fairly, in all material respects, the financial position of Inmobiliaria Luz del Sur S.A. as of December 31, 2021 and 2020, and its financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Other matters

7. The accompanying financial statements have been translated into English for the convenience of English-speaking readers.

*Velásquez, Maguelos y Asociados S. Civil. de R. L.*

Countersigned by:

 (Partner)

Marco Roca Peña .

CPC Registration No. 33204

February 21, 2022

**INMOBILIARIA LUZ DEL SUR S.A.****STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2021 AND 2020  
(In thousands of S/)**

	<u>Notes</u>	<u>2021</u>	<u>2020</u>		<u>Notes</u>	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>				<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
Cash and cash equivalents	7	7,861	5,477	Other accounts payable	12	770	632
Trade accounts receivable, net		18	20	Accounts payable to related entities	8	60	58
Other accounts receivable, net		157	199	Income tax payable	15	144	61
Accounts receivable from related entities	8	3	57	Total current liabilities		<u>974</u>	<u>751</u>
Inventories, net	9	807	807	<b>NON-CURRENT LIABILITIES</b>			
Prepaid expenses		<u>-</u>	<u>32</u>	Deferred income tax liability	16	<u>14,072</u>	<u>12,024</u>
Total current assets		<u>8,846</u>	<u>6,592</u>	Total non-current liabilities		<u>14,072</u>	<u>12,024</u>
<b>NON-CURRENT ASSETS</b>				Total liabilities		<u>15,046</u>	<u>12,775</u>
Investment properties	10	61,614	55,521	<b>EQUITY</b>			
Facilities and equipment, net	11	<u>2,662</u>	<u>2,923</u>	Issued capital stock	13	6,857	6,857
Total non-current assets		<u>64,276</u>	<u>58,444</u>	Legal reserve	13	1,371	1,371
				Other equity reserves		117	134
				Retained earnings	13	<u>49,731</u>	<u>43,899</u>
				Total equity		<u>58,076</u>	<u>52,261</u>
TOTAL		<u>73,122</u>	<u>65,036</u>	TOTAL		<u>73,122</u>	<u>65,036</u>

The accompanying notes are an integral part of these financial statements.

## INMOBILIARIA LUZ DEL SUR S.A.

### STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(In thousands of S/)

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Income from leases	17	2,652	2,406
Lease-related expenses	14	(452)	(511)
<b>Net profit from leases</b>		2,200	1,895
Change in fair value of investment properties	10	6,093	-
Administrative expenses		(384)	(365)
Financial income, net		24	33
Exchange difference, net		319	73
<b>Profit before income tax</b>		8,252	1,636
Income tax expense	15	(2,437)	(481)
<b>Net profit for the year</b>		5,815	1,155
Other comprehensive income for the year		-	-
<b>Total comprehensive income, net of income tax</b>		<u>5,815</u>	<u>1,155</u>

The accompanying notes are an integral part of these financial statements.

**INMOBILIARIA LUZ DEL SUR S.A.**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
(In thousands of S/)**

	Issued capital stock	Legal reserve	Other equity reserve: Net revaluation surplus	Retained earnings	Total equity
<b>Balance as of January 1, 2020</b>	6,857	1,371	161	42,717	51,106
Comprehensive income:					
Net profit for the year	-	-	-	1,155	1,155
Transfer of revaluation surplus for depreciation and disposal of facilities and equipment	-	-	(27)	27	-
<b>Balance as of December 31, 2020</b>	6,857	1,371	134	43,899	52,261
Comprehensive income:					
Net profit for the year	-	-	-	5,815	5,815
Transfer of revaluation surplus for depreciation and disposal of facilities and equipment	-	-	(17)	17	-
<b>Balance as of December 31, 2021</b>	6,857	1,371	117	49,731	58,076

The accompanying notes are an integral part of these financial statements.

**INMOBILIARIA LUZ DEL SUR S.A.**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
(In thousands of S/)**

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES:		
Collection from:		
Customers	2,833	2,324
Interests and yields received	25	32
Payments for:		
Suppliers	(427)	(435)
Income tax	(257)	(215)
Other cash collections	210	211
<b>Net cash and cash equivalents provided by operating activities</b>	<u>2,384</u>	<u>1,917</u>
INVESTMENT ACTIVITIES:		
Payments for:		
Purchase of facilities and equipment	-	(228)
<b>Cash and cash equivalents used in investment activities</b>	<u>-</u>	<u>(228)</u>
INCREASE OF CASH AND CASH EQUIVALENTS	2,384	1,689
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>5,477</u>	<u>3,788</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>7,861</u></u>	<u><u>5,477</u></u>

The accompanying notes are an integral part of these financial statements.

**Inland Energy S.A.C.**

**Independent Auditor's Report**

**Financial Statements**

For the years ended  
December 31, 2021 and 2020



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of  
**Inland Energy S.A.C.**

1. We have audited the accompanying financial statements of **Inland Energy S.A.C.** (a subsidiary of Luz del Sur S.A.A.), which comprise the statements of financial position as of December 31, 2021 and 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing, approved by the Board of Deans of the Peruvian Associations of Public Accountants for their application in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

6. In our opinion, the financial statements present fairly, in all material respects, the financial position of Inland Energy S.A.C. as of December 31, 2021 and 2020, and its financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Other matters

7. The accompanying financial statements have been translated into English for the convenience of English-speaking readers.

*Velásquez, Mazuelos y Asociados J. Cm. de P. L.*

Countersigned by:

 (Partner)

Marco Roca Peña  
CPC Registration No. 33204

February 21, 2022

**INLAND ENERGY S.A.C.**

**STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2021 AND 2020  
(In thousands of S/)**

	<u>Notes</u>	<u>2021</u>	<u>2020</u>		<u>Notes</u>	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>				<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
Cash and cash equivalents	8	54,296	45,564	Financial obligations	15	215,920	189,100
Trade accounts receivable (net)	9	18,005	19,534	Trade accounts payable	16	13,148	14,804
Other accounts receivable	10	2,200	1,101	Other accounts payable	17	2,887	3,609
Accounts receivable from related entities	11	90	81	Accounts payable to related entities	11	9	27
Inventories	12	106	1,082	Liability for employee benefits	18	1,813	1,183
Prepaid expenses		1,270	2,911	Income tax liability	27 (c)	549	-
Income tax asset	27 (c)	-	8,915				
Total current assets		<u>75,967</u>	<u>79,188</u>	Total current liabilities		<u>234,326</u>	<u>208,723</u>
<b>NON-CURRENT ASSETS</b>				<b>NON-CURRENT LIABILITIES</b>			
Accounts receivable from related entities	11	9,168	9,258	Financial obligations	15	-	27,000
Property, plant and equipment (net)	13	566,402	576,040	Deferred income tax liabilities	28	102,639	99,342
Right of use (net)		4,146	4,829	Liability for employee benefits	18	1,166	-
Intangible assets (net)	14	<u>49,735</u>	<u>42,642</u>	Other accounts payable	17	<u>15,269</u>	<u>14,735</u>
Total non-current assets		<u>629,451</u>	<u>632,769</u>	Total non-current liabilities		<u>119,074</u>	<u>141,077</u>
				Total liabilities		<u>353,400</u>	<u>349,800</u>
				<b>EQUITY</b>			
				Issued capital stock	19	305,362	305,362
				Legal reserve	19	7,677	6,417
				Other equity reserves	19	14,082	14,514
				Retained earnings	19	<u>24,897</u>	<u>35,864</u>
				Total equity		<u>352,018</u>	<u>362,157</u>
TOTAL		<u>705,418</u>	<u>711,957</u>	TOTAL		<u>705,418</u>	<u>711,957</u>

The accompanying notes are an integral part of these financial statements.



**INLAND ENERGY S.A.C.****STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
(In thousands of soles S/)**

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Revenue from energy generation	20	93,487	77,395
Cost for energy generation	21	<u>(51,043)</u>	<u>(41,341)</u>
Gross profit		<u>42,444</u>	<u>36,054</u>
Commercialization expenses	22	(523)	(606)
Administrative expenses	23	(6,741)	(6,805)
Other income	24	112	101
Other expenses	24	<u>(113)</u>	<u>(7)</u>
Operating profit		<u>35,179</u>	<u>28,737</u>
Financial income	25	6,787	1,273
Financial expenses	26	<u>(13,001)</u>	<u>(12,015)</u>
<b>Profit before income tax</b>		28,965	17,995
Income tax expense	27 (b)	<u>(8,568)</u>	<u>(5,400)</u>
<b>Net profit for the year</b>		20,397	12,595
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income, net of income tax</b>		<u><u>20,397</u></u>	<u><u>12,595</u></u>

The accompanying notes are an integral part of these financial statements.

**INLAND ENERGY S.A.C.**

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
(In thousands of soles S/)**

	<b>Issued capital stock</b>	<b>Legal reserve</b>	<b>Net revaluation surplus</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>(Note 19)</b>	<b>(Note 19)</b>	<b>(Note 19)</b>	<b>(Note 19)</b>	
<b>Balance as of January 1, 2020</b>	<u>305,362</u>	<u>4,488</u>	<u>14,932</u>	<u>24,780</u>	<u>349,562</u>
Comprehensive income					
Net profit for the year	-	-	-	12,595	12,595
Transfer of revaluation surplus for depreciation and disposal of fixed assets	-	-	(418)	418	-
Legal reserve	-	<u>1,929</u>	-	<u>(1,929)</u>	-
<b>Balance as of December 31, 2020</b>	<u>305,362</u>	<u>6,417</u>	<u>14,514</u>	<u>35,864</u>	<u>362,157</u>
Comprehensive income					
Net profit for the year	-	-	-	20,397	20,397
Transfer of revaluation surplus for depreciation and disposal of fixed assets	-	-	(432)	432	-
Legal reserve	-	<u>1,260</u>	-	<u>(1,260)</u>	-
Dividends declared in cash	-	-	-	<u>(30,536)</u>	<u>(30,536)</u>
<b>Balance as of December 31, 2021</b>	<u>305,362</u>	<u>7,677</u>	<u>14,082</u>	<u>24,897</u>	<u>352,018</u>

The accompanying notes are an integral part of these financial statements.



## INLAND ENERGY S.A.C.

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In thousands of soles S/)

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES:		
Collection from:		
Sale of energy	96,811	79,861
Other cash collections	8,090	-
Interests and yields received	689	312
Payments for:		
Suppliers	(18,190)	(13,795)
Employees	(12,097)	(10,251)
Income tax and other cash payments	(18,515)	(15,792)
Interests	(4,989)	(8,576)
Net cash and cash equivalents provided by operating activities	<u>51,799</u>	<u>31,759</u>
INVESTMENT ACTIVITIES:		
Collection from:		
Sale of land and vehicles	102	-
Payments for:		
Purchase of properties, plant and equipment	(2,437)	(2,134)
Increase of intangibles	(7,098)	(5,020)
Net cash and cash equivalents used in investment activities	<u>(9,433)</u>	<u>(7,154)</u>
FINANCING ACTIVITIES:		
Collection from:		
Obtaining bank overdrafts and loans	188,000	152,000
Payments for:		
Bank overdrafts and loans	(188,000)	(152,000)
Leases and interests	(3,098)	(2,740)
Dividends	(30,536)	-
Net cash and cash equivalents used in financing activities	<u>(33,634)</u>	<u>(2,740)</u>
INCREASE OF CASH AND CASH EQUIVALENTS	8,732	21,865
CASH AT THE BEGINNING OF THE YEAR	<u>45,564</u>	<u>23,699</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>54,296</u></u>	<u><u>45,564</u></u>

The accompanying notes are an integral part of these financial statements.