(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Gaveglio Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.
Av. Santo Toribio 143, Piso 7, San Isidro, Lima Perú, T: +51 (1) 919 - 292001 pe_mesadepartes@pwc.com
www.pwc.pe

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PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

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US$ = United States dollar
S/ = Peruvian sol
EUR = Euro
JPY = Japanese yen

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors
Petróleos del Perú - PETROPERÚ S.A.

We have audited the financial statements of **Petróleos del Perú - PETROPERÚ S.A.** (hereinafter the Company) which comprise the statement of financial position at December 31, 2022, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, as well as the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Company at December 31, 2022, its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) approved for its application in Peru by the Board of Deans of the Institutes of Peruvian Certified Public Accountants. Our responsibilities, under those standards, are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code of Ethics) and the ethical requirements, which are relevant for our audit of the financial statements in Peru, and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code of Ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were the most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters	How the matter was addressed in our audit

Impairment test of the Talara Refinery Modernization Project (PMRT) (Note 2.7 and Note 11 to the financial statements)

At December 31, 2022 the balance of the Property, plant and equipment item presented in the statement of financial position includes the cost of the investment made by the Company in the Talara Refinery Modernization Project (hereinafter “PMRT”), whose construction and implementation is, at that date, in progress. This investment amounts to US$5,994,673 thousand.

Management has determined that the assets related to the PMRT should be subject to a recoverability assessment of the invested values, because it is still in the construction phase and for certain particular factors ocurred in 2022, such as the increases in the investment budget and some variations in the execution and start-up schedule.

It is required to recognize an impairment loss for impairment when the carrying amount of an asset (or a group of assets that make up a cash-generating unit - CGU) exceeds its recoverable amount, which is determined as the higher of fair value of the asset less costs of disposal and value in use. The Company has determined the recoverable amount of the CGU corresponding to the PMRT based on its value in use. To estimate the value in use, Management uses the discounted cash flow methodology, under the income approach, which requires a high degree of judgment to estimate significant assumptions such as: projected operating margin, discount rate, growth rate of income and long-term growth rate. Changes in these assumptions could have a significant impact on the determination of value in use.

We consider the impairment test of the PMRT as a key audit matter due to:

(i) the relevance of the carrying amount of the investment made in the PMRT in the statement of financial position,

(ii) the high degree of judgment applied to estimate the assumptions used in determining recoverable amount, and

(iii) the effort in the execution of audit procedures that includes the involvement of the auditor's experts in valuations.

The audit procedures that we carried out in relation to this matter have been, among others, the following:

(i) We obtained the understanding of the process for the elaboration of the estimates and criteria applied in the determination of the value in use of the PMRT.

(ii) With the involvement of our experts in valuation models:

- We evaluated that the calculation methodology used by the Company is in accordance with the practices and methodologies accepted by IFRS,
- We tested the reasonableness of the significant variables and assumptions used in the calculation,
- We tested the mathematical accuracy of the valuation model for the determination of value in use, and
- We evaluated the reasonableness of the discount rate and the discrete discount factor used by the Company, comparing them with the calculations of these two variables that we have determined independently.

(iii) We carried out sensitivity calculations on the significant assumptions used by Management in determining the value in use.

(iv) We reviewed the accuracy of the amount and the items included in the carrying amount of the CGU considered by the Company in its impairment test.

(v) We compare the carrying amount of the PMRT and its respective recoverable amount, to identify the existence or not of impairment.

(vi) We evaluated the adequacy of the information disclosed in notes to the financial statements with respect to this matter.

Key audit matters	*How the matter was addressed in our audit*
Risk of Management override of controls in the procurement processes for goods, services and works carried out (Note 1-f)	
During 2021, 2022 and 2023, Company's Management became aware of possible irregularities, alleged favors and/or conflicts of interest related to the procurement processes for goods, services and works carried out by the Company and ongoing investigations by the Prosecutor's Office against officials and former officials. In this regard, Management, together with external experts hired for such purposes, executed certain actions to mitigate the risk and identify the potential impact of these situations on the financial statements of the Company. Some of the actions carried out by the Company are summarized as follows: - An evaluation, with the support of an external expert, of the risk of the fuel purchase process, focused on the transactions carried out in previous years with the suppliers Gunvor S.A. and Gunvor International B.V. (hereinafter Gunvor), of which the Company has become aware of irregular acts in contracts made between said companies with other counterparties. - The execution of “forensic due diligence” procedures with the support of an external expert, through which it has analyzed the procurement processes of goods, services and works in which intervened some former officials (former Management) who were in charge of certain Company’s managerial positions. - The execution of “forensic due diligence” procedures with the support of an external expert, on the procurement processes in which an official who was in charge of the Management of the Logistics Department. - The evaluation of the impact on the financial statements of the reports issued by external experts and the reports of the Comptroller General of the Republic of Peru and Institutional Control Body, related to these aspects.	The audit procedures that we carried out related to these matters, to determine any impact that they could have generated in the financial statements, have been, among others, the following: (i) We obtained an understanding of the scope of the procedures executed by Management, which included the hiring of external experts, internal reviews, reviews of the Comptroller General of the Republic of Peru and reviews of its Institutional Control Body related to the assessment of the procurement processes of goods, services and works carried out and evidence of transactions and preventive and corrective measures. (ii) We obtained an understanding of the contracting modalities and levels of contract approvals. (iii) We verified that the information used in the execution of the different procedures carried out by the Company is complete. (iv) For purchase transactions identified with indications of irregularities, we reviewed, selectively, that they correspond to real transactions, verifying that, as appropriate, the good has been received or that the service has been performed. (v) We reviewed that there are no hydrocarbon purchase transactions with Gunvor during 2022. (vi) We selectively reviewed the complaints reported on the Company's Integrity Line. (vii) We evaluated, together with our experts in forensic audits, the result of the work carried out by the external experts and Management itself, as well as the conclusions of Management and the impact on our audit procedures.

Key audit matters	*How the matter was addressed in our audit*
- The evaluation, together with legal experts, of the degree of responsibility to which the Company is exposed in reference to the investigations of the Prosecutor's Office against an official and former officials. We consider the risk of Management override of controls in the procurement processes for goods, services and works carried out, as a key audit matter, due to: (i) The possible impact of this risk that could affect the financial statements as a whole, including its explanatory notes; and (ii) The effort in the execution of audit procedures that leads us to increase the scope of our work in the procurement processes for goods, services and works carried out and includes the involvement of experts in forensic audits and legal matters.	(viii) We evaluated the result of the work carried out by the Comptroller General of the Republic of Peru and Institutional Control Body, and the conclusions of Management in this regard, as well as the impact on our audit procedures. (ix) We evaluated, together with our legal experts, the conclusions of Management and its external legal advisors regarding the degree of responsibility to which the Company is exposed in reference to the investigations by the Prosecutor's Office against an official and former officials of the Company. (x) We evaluated the adequacy of the information disclosed in notes to the financial statements with respect to this matter.

Other information

Management is responsible for the other information. The other information comprises the annual report for the year ended December 31, 2022 required by the Peruvian companies and securities regulator (“Superintendencia del Mercado de Valores - SMV”), which is not part of the financial statements or our auditor’s report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion on that other information.

Regarding our audit of the financial statements, our responsibility is to read the other information indicated above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or if it appears that there is a material misstatement in the other information for some other reason.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

Responsibilities of management and those charged with Corporate Governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with Corporate Governance of the Company are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs, approved for its application in Peru, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, approved for its application in Peru, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with Corporate Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with Corporate Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with Corporate Governance of the Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Lima, Peru

August 31, 2023

Gaveglio Aparicio y Asociados

Countersigned by

--------------------------------------(partner)
Daniel Oliva
Peruvian Public Accountant
Registration No.27882

(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	At December 31, 2022 US$000	2021 US$000
Current assets			
Cash and cash equivalents	7	88,746	239,557
Trade receivables	8	471,673	302,091
Other receivables	9	491,076	273,910
Inventories	10	1,032,909	641,323
Other assets		9,065	2,012
Total current assets		2,093,469	1,458,893
Non-current assets			
Other receivables	9	714,931	567,702
Property, plant and equipment	11	7,050,239	6,579,422
Investment properties	12	9,535	9,545
Intangible assets and others	2.5	44,351	43,758
Right-of-use assets	13	29,073	26,216
Total non-current assets		7,848,129	7,226,643
TOTAL ASSETS		9,941,598	8,685,536

LIABILITIES AND EQUITY	Note	At December 31, 2022 US$000	2021 US$000
Current liabilities			
Other financial liabilities	14	867,741	824,511
Trade payables	15	1,101,922	1,352,831
Payables to related entities	16	134,591	-
Other payables	17	91,260	95,793
Provisions	18	51,273	16,282
Lease liabilities	13	18,500	12,004
Total current liabilities		2,265,287	2,301,421
Non-current liabilities			
Other financial liabilities	14	4,099,706	4,240,973
Payables to related entities	16	751,297	-
Provisions	18	12,574	13,464
Deferred income tax liabilities	19	149,465	206,600
Lease liabilities	13	10,946	14,159
Total non-current liabilities		5,023,988	4,475,196
Total liabilities		7,289,275	6,776,617
Equity	20		
Share capital		1,660,586	1,599,443
Additional capital		1,014,623	-
Legal reserve		8,724	1,930
Retained earnings		(31,610)	307,546
Total equity		2,652,323	1,908,919
TOTAL LIABILITIES AND EQUITY		9,941,598	8,685,536

The attached notes from pages 12 to 89 form part of the financial statements.

(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended December 31, 2022 US$000	2021 US$000
Revenue from ordinary activities	21	5,517,240	4,156,414
Other operating income	22	63,648	65,840
Total revenue		5,580,888	4,222,254
Cost of sales	23	(5,539,945)	(3,764,406)
Gross profit		40,943	457,848
Selling and distribution expenses	24	(70,556)	(61,681)
Administrative expenses	25	(177,942)	(180,049)
Other income	27	18,070	44,604
Other expenses	27	(39,918)	(398)
Operating expenses, net		(270,346)	(197,524)
(Loss) profit from operating activities		(229,403)	260,324
Finance income	28	3,346	1,081
Finance expenses	28	(155,299)	(22,584)
Exchange difference, net	3.1 (a)(i)	57,028	(65,723)
(Loss) profit before income tax		(324,328)	173,098
Income tax	29	53,109	(105,161)
Net result and comprehensive income for the year		(271,219)	67,937
Basic and diluted (loss) earning per share	31	(0.045)	0.012

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PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Number of shares	Share capital US$000	Additional capital US$000	Legal reserve US$000	Retained earnings US$000	Total equity US$000
Balances at January 1, 2021	5,368,412,525	1,599,443	-	69,210	172,329	1,840,982
Net result and comprehensive income for the year	-	-	-	-	67,937	67,937
Transactions with shareholders:						
- Transfer to retained earnings	-	-	-	(67,280)	67,280	-
Balance at December 31, 2021	5,368,412,525	1,599,443	-	1,930	307,546	1,908,919
Balances at January 1, 2022	5,368,412,525	1,599,443	-	1,930	307,546	1,908,919
Net result and comprehensive income for the year	-	-	-	-	(271,219)	(271,219)
Transactions with shareholders:						
- Capital contribution	-	-	1,014,623	-	-	1,014,623
- Transfer to additional capital and legal reserve	-	-	61,143	6,794	(67,937)	-
- Transfer from additional capital to share capital	203,755,475	61,143	(61,143)	-	-	-
Total transactions with shareholders	203,755,475	61,143	1,014,623	6,794	(67,937)	1,014,623
Balances at December 31, 2022	5,572,168,000	1,660,586	1,014,623	8,724	(31,610)	2,652,323

The attached notes from pages 12 to 89 form part of the financial statements.

(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF CASH FLOWS

	Note	For the year ended December 31, 2022 US$000	2021 US$000
OPERATING ACTIVITIES			
Net cash provided by operating activities		(1,165,280)	382,419
Interest payment	13 and 14	(49,146)	(5,036)
Income tax payment		(46,696)	(14,440)
Net cash (applied to) provided by operating activities		(1,261,122)	362,943
INVESTING ACTIVITIES			
VAT early refund related to investing activities	9	-	16,392
VAT related to investing activities	9	(71,873)	(45,507)
Payment for purchase of property, plant and equipment		(407,004)	(586,077)
Capitalized interest payment	14	(175,654)	(208,289)
Payment for purchase of intangible assets		(1,292)	(1,833)
Retirement of invesment in fixed term deposits		-	400,000
Invesment in fixed term deposits		-	(400,000)
Net cash applied to investing activities		(655,823)	(825,314)
FINANCING ACTIVITIES			
Loans from financial institutions	14	2,560,501	1,868,315
Loan received from related entity	16 (a)	750,000	-
Loans received from a related entity due to cancellation documents	16	157,295	-
Shareholder cash contribution	20	1,014,623	-
Issuance of bonds	14	-	1,000,000
Disbursement received for bonds issued over par	14	-	147,180
Disbursement received for loan CESCE		-	9,084
Payment of loans to a related entity due to cancellation documents	16	(24,721)	-
Payment of loans to financial institutions	14	(2,670,449)	(2,380,969)
Payment of transactional costs	14	-	(2,000)
Payment of lease liability	13	(13,576)	(12,760)
Net cash provided by financing activities		1,773,673	628,850
Net (decrease) increase in cash and cash equivalents		(143,272)	166,479
Effect of changes in exchange rate on cash		(7,539)	(11,740)
Cash and cash equivalents at beginning of year		239,557	84,818
Cash and cash equivalents at end of year		88,746	239,557
NON-CASH TRANSACTIONS FROM FINANCING AND INVESTMENT ACTIVITIES			
- Reclassification of Property, plant and equipment to intangible assets	11	-	6,843
- Increase of right-of-use assets and lease liabilities	13	16,659	35,726
- Unpaid accrued interest	14	14,695	5,961
- Work in progress payable		18,307	37,527

The attached notes from pages 12 to 89 form part of the financial statements.

(Free translation from the original in Spanish)
PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF CASH FLOWS (Continued)

	Note	For the year ended December 31, 2022 US$000	2021 US$000
Net result and comprehensive income for the year		(271,219)	67,937
Adjustments to reconcile the net result the year to cash from operating activities:			
Impairment of inventories	10	247	232
Provision for contingencies	18	1,446	2,247
Provision for plugging and environmental remediation	18	39,619	-
Depreciation of property, plant and equipment and investment properties	11 y 12	90,179	53,186
Impairment of trade receivables	8	662	-
Amortization		3,150	2,483
Depreciation of right-of-use assets	13	10,383	10,995
Disposal and adjustments of property, plant and equipment and investment properties	27	299	398
Deferred income tax	19	(57,135)	105,161
Income from donation of assets	27	-	(16,813)
Effect on adjustment of unrealizable exchange gains and losses		7,539	11,740
		(174,830)	237,566
Net changes in operating assets and liabilities:			
Trade receivables		(170,244)	(14,238)
Other receivables		(292,521)	(229,492)
Inventories		(391,833)	(223,943)
Other assets		(7,053)	1,674
Trade payables		(231,689)	548,902
Other payables and provisions		102,890	61,950
Net cash (applied to) provided by operating activities		(1,165,280)	382,419

The attached notes from pages 12 to 89 form part of the financial statements.

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PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

1 BACKGROUND AND ECONOMIC ACTIVITY

a) Background -

Petróleos del Perú - PETROPERÚ S.A. (hereinafter, the Company) was incorporated on July 24, 1969 under Decree Law No.17753.

The Company is a government-owned company under private law operating in the hydrocarbons subsector within the Energy and Mining Industry. The Company was organized and incorporated as a stock company, under the provisions of Legislative Decree No.043, *Ley de la Empresa Petróleos del Perú - PETROPERÚ S.A.*, published on March 4, 1981, as amended, by which the Peruvian Government holds the Company's total share capital. The Company is also subject to the provisions of article 12 of the rules for application of Law No.28840 – *"Ley de Fortalecimiento y Modernización de la Empresa de Petróleos del Perú - PETROPERÚ S.A."* (Law No.28840), setting forth that each member of the General Shareholders' Meeting shall represent the number of equity shares of the Company resulting from dividing the total number of shares by the number of members designated to act on behalf of the Peruvian Government.

The Company is registered with the Peruvian companies and securities regulator (Superintendencia de Mercados de Valores - SMV).

The legal address of the Company is Enrique Canaval y Moreyra Avenue No.150, San Isidro, Lima, Peru.

Under the provisions of Law No.28840, the Company was expressly excluded from the scope of the governmental agency that provides financing to government-owned companies, ("Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado - FONAFE) and the public investment system ("Sistema Nacional de Inversión Pública - SNIP"). Further, by means of the second final provision of Law No.28840, the Supreme Resolution No.290-92-PCM - by which the Company was included within the scope of the process of private investment promotion, and any other regulation opposing Law No.28840 was superseded.

The Company's activities are governed by its Organic Law approved under Legislative Decree No. 043, its Bylaws, Law No.28840 (and its internal rules, approved under Supreme Decree No.012-2013-EM dated April 27, 2013); it is also governed by the Peruvian Corporate Law on a supplementary basis and is under the oversight of the Peruvian Comptroller's Office ("Contraloría General de la República (CGR)), supervisory entities such as the SMV and regulatory entities (OSINERGMIN, OEFA, SUNAT, SUNAFIL, among others).

Also, under the third final provisions of Legislative Decree No. 1031, by which the efficiency of the government-run companies is promoted, dated June 23, 2008, the Company is subject to subsection 9.3, article 9 and article 12 of Legislative Decree No. 1031. With respect to subsection 9.3, article 9, the Company's financial statements are audited, on an annual basis, by external independent auditors who are designated at the General Shareholders' Meeting and and with respect to article 12, under decision at the General Shareholders' Meeting the minimum level of capital stock to be registered with the Peruvian Securities Stock Market is to be determined in adherence to the regulations issued by the SMV.

Other applicable laws and regulations are the provisions of the legislation stating the need for the modernization of the Talara Oil Refinery, Law No.30130 enacted on December 18, 2013 (originally called “Ley que declara de necesidad pública e interés nacional la prioritaria ejecución de la modernización de la Refinería de Talara para asegurar la preservación de la calidad del aire y la salud pública y adopta medidas para fortalecer el Gobierno Corporativo de Petróleos del Perú - PETROPERU S.A.” (hereinafter the PMRT), as well as its rules for application, as approved under Supreme Decree No.008-2014-EM, published on March 24, 2014. According with the article 5 “Approval of granting guarantees” of the Law No.30130 , it was approved the grant by the Peruvian Government of up to US$200 million per year and up to a cumulative total of US$1,000 million to secure the financial obligations derived from the financing to be contracted by the Company to execute the PMRT, in the event the Company is not able to obtain the necessary resources to honor its obligations. At December 31, 2022 and 2021, there has been no need to use those guarantees.

In this regard, it should be noted that the new Talara refinery that arises from the aforementioned PMRT has been built under international standards with the objective that allow it to produce gasoline, diesel and LPG, with a maximum sulfur content of 50 parts per million. Likewise, it will be able to process heavy crudes such as those extracted from the Peruvian jungle, which could not be done in the previous refinery, as well as carry out the deep conversion of residuals to products such as diesel, gasoline and LPG and low-octane gasoline to high octane gasoline, due to its new flexicoking and catalytic reforming units, licensed by Exxon Mobil and Axens, respectively; which establishes a key factor for its profitability. In this regard, the auxiliary units have been licensed to specialized companies for a period of 10 to 20 years.

Additionally, on December 30, 2016 Legislative Decree No.1292 was enacted declaring of public need and national interest the safe operation of “Oleoducto Norperuano” and stipulating the re-organization and improvement of the Corporate Governance of the Company (Note 1-h). By means of Law No. 30993 enacted on August 15, 2019, the development and execution of the Project for the Strengthening and Modernization of the Peruvian northern oil pipeline was declared of national interest, in order to guarantee its operation and efficient maintenance, expand its extension, as well as increase its transportation capacity and profitability. This Law also seeks to safeguard the conservation of the environment and complement the Talara Refinery Modernization Project, as well as guaranteeing adequate participation for taxes, canon and royalties in favor of the Peruvian Government.

b) Economic activity -

By means of Law No.28244 enacted on June 2, 2004, the Company is authorized to enter into contracts with PERUPETRO S.A. for exploration and exploitation operations as well as petroleum-related services as permitted by law.

As established under the Law of “Fortalecimiento y Modernización de Petroperú S.A.”, the Company has economic, financial and administrative autonomy in accordance with its annual and five-year business objectives approved by the Ministry of Energy and Mines (MEM, the Spanish acronym). The agreements and contracts entered into in order to achieve its business purpose are subject to the guidelines established under i) Legislative Decree No. 043, as amended; ii) its Bylaws; iii) its internal rules; iv) Board agreements; v) the Standards of the National Control System; and vi) the standards and regulations specific to the Company.

The Company’s foreign trade transactions are governed by the generally accepted practices and uses of international trade and International Law standards as well as the generally accepted practices in the hydrocarbon and energy industry.

As part of its core business purpose, the Company carries out activities in accordance with the Peruvian Hydrocarbons Law (*Ley Orgánica de Hidrocarburos*) - Law No.26221. These activities consist of all oil industry phases, such as oil trade, including its by-products, basic petrochemicals and other forms of energy.

By means of Law No.29970 - law for the strengthening of the energy supply continuity throughout the Southern Region in Perú (“Ley que afianza la Seguridad Energética y promueve el desarrollo del Polo Petroquímico en el Sur del País”) the Company shall take part, individually or jointly, in the petrochemical development described in the above-mentioned law.

Pursuant to Law No.30130 the Company is authorized to sell or issue shares to be placed in the Securities Market. In this process, the Peruvian Government is allowed to incorporate a private stake of up to 49% of its share capital outstanding. Also, the Company is allowed to carry out investment activities and projects as long as no current or future firm or contingent liabilities are incurred by the Company, do not affect the guarantees for the Talara Refinery Modernization Project (PMRT the Spanish acronym); and no Public Treasury resources are required; which is not restrictive of those ongoing projects that enable the Company to be operational at the effective date of this law. These restrictions will cease to exist whenever the Company generates sufficient cash flows to be able to secure repayment of the borrowings contracted to invest in implementing the PMRT and a private stake of at least 40% has been incorporated in its outstanding share capital.

Pursuant to Law No. 30357, enacted on November 6, 2015, the Fourth Complementary Final Provision was incorporated into Law No. 0130, authorizing PERUPETRO S.A. to, after evaluation and through direct negotiation, sign the hydrocarbon exploitation contract of block 192 with the Company.

By means of Supreme Decree No.031-2016-MEM dated December 1, 2016, approved the assignment of contractual position in the License Agreement for the Hydrocarbons Exploration and Exploitation on Block 64, from the Company to Geopark Perú S.A.C.; the latter now being designated as the Operator of the License Agreement. On December 2, 2016 the relevant public deed of the referred assignment was signed. In August 2020, the Company accepted the assignment of the 75% interest in the License Agreement for Block 64, held by Geopark Perú S.A.C., because in July 2020, notified the Company that it decided to withdraw from the License Agreement. On September 28, 2021 Supreme Decree No.024-2021-EM was released in the Peruvian Gazette “El Peruano”, which approved the transfer of Geopark Perú S.A.C.'s interest in Block 64 in favor of the Company. Thus, the Company assumed 100% of the rights and obligations of the exploration and exploitation of hydrocarbons.

Pursuant to Legislative Decree No.1292, issued on December 30, 2016, the safe operation of the Peruvian northern oil pipeline (“Oleoducto Norperuano”) was declared of public need and national interest; in this sense, the Company was ordered to re-organize and enhance its corporate governance, authorizing a period of 720 days for that purpose, to come due on December 30, 2018, to prepare a plan to govern, among others: the contracting and amending of agreements/contracts as well as service agreements relating to the Company’s business units; the participation of the Company in contracts of hydrocarbon exploration and exploitation; the possibility for the Company to take part in social responsibility actions under the mechanism of work in exchange for taxes; using the capital increase referred to in subsection 8.1, article 8, Law No. 29970 to implement the PMRT and the amendment of article 4 and Complementary Provision to Law No 28840 – “Ley de Fortalecimiento y Modernización de la Empresa de Petróleos del Perú - PETROPERÚ S.A.” to implement the Legislative Decree No. 1292” approved by the Board of Directors.

Pursuant to Board of Directors agreement No.067-2018-PP dated August 6, 2018, the Company's reorganization and modernization Plan was approved in accordance with the provisions of Legislative Decree No.1292. In this regard, the Company has been making disbursements for remediation work, crude oil recovery, soil monitoring and other services related to spills, on which the planning area has been monitoring and reporting to the General Management.

Pursuant to Supreme Decree No. 003-2021-EM, enacted on December 25, 2021, the Temporary License Agreement signed between the Company and PERUPETRO S.A. for the Exploitation of Hydrocarbons in Block I was approved, for a period of 22 months; therefore, the Company assumed operations on December 27, 2021. At December 31, 2022, the Company has been carrying out production activities that allow it to maintain optimal and sustained production of oil and natural gas, reaching average controlled production flows of 533 barrels of oil per day and 2.89 million cubic feet of natural gas per day (MMPCD).

c) Regulatory framework governing the Company's selling prices -

In accordance with article 77 of the Organic Hydrocarbon Law, the activities and prices of crude oil and by-products are governed by supply and demand.

- The fuel pricing policy of the Company approved by the Board establishes that:

  - Pricing of liquid and specialty fuels is determined on a supply-and-demand services in compliance with the provisions of the Peruvian Law of Hydrocarbons ("Ley Orgánica de Hidrocarburos") and regulations that modify or replace it.

  - The price listing of liquid and specialty fuels will be approved by the Executive Committee of Prices ("Comité Ejecutivo de Precios") led by the General Management comprising Corporate Finance Management, Supply Chain Corporate Management, Corporate Operating Management and Commercial Corporate Management, or those who fulfill those functions.

  - Setting the prices of liquid and specialty fuels sold by the Company in the local market will consider the cost-opportunity basis and will be set at prices that allow the Company to compete in the market and at the same time achieve its strategic and budgetary goals. In the case of liquid fuels, the opportunity cost comprises the Import Parity Price ("Precio de Paridad de Importación - PPI") calculated with the methodology defined by the Company in its guidelines.

  - The Company's price lists of liquid fuels should be competitive in relation with other economic agents - manufacturers and importers – at the Sales Plants nationwide in which sales are conducted, provided that economic benefits are obtained.

  - In case international market events or circumstances have an adverse impact on prices of liquid and specialty fuels up or down, that negatively affect the Company's reputation or put it in an economic condition of potential risk, the Price Executive Committee may decide to progressively transfer those events to customers or ignore those price variances specific to a current economic juncture until the local or international market stabilizes, taking into account the financial sustainability of the Company.

- Price Stabilization Fund of Petroleum Derived Fuels (hereinafter, Price Stabilization Fund).

  The Price Stabilization Fund was established by the Peruvian Government under Emergency Decree No. 010-2004, relevant rules standards and amendments. Pursuant to this piece of legislation the Peruvian Government establishes a contingency fund to prevent the volatility of the hydrocarbon prices being transferred to the final consumers; however, the MEM will compensate the Company for the pricing differences that are not transferred to its clients.

  Under the above-mentioned regulations, the National Hydrocarbons Office ("Dirección General de Hidrocarburos - DGH") within the MEM sets a price range per each fuel product sold in Peru. Article 6 of Supreme Decree No.133-2010-EF (dated June 23, 2010) stipulates that OSINERGMIN shall update and publish every two months in the Peruvian official gazette "El Peruano", the price ranges ("bandas de precios") per each product the last Thursday of the second month, computed from the effective date of the last price update.

  On a weekly basis, OSINERGMIN publishes a reference price per each fuel product sold in Perú known as "Import parity price ("Precio de paridad de importación - PPI"). Whenever the PPI is higher than to the upper range, the difference is the Compensation factor and whenever the PPI is lower than the lower range, the difference is the Contribution factor.

At the beginning of 2021, the Fuel Price Stabilization Fund (FEPC, for its acronym in Spanish) applied only to industrial oil 6. Between March and November 2021, with Supreme Decrees No. 006-2021-EM, No. 015-2021-EM and No. 025-2021-EM, Diesel for vehicular use was included as a product subject to the FEPC. Likewise, in September 2021, through Supreme Decree No. 023-2021-EM, GLP-E was incorporated. Subsequently, pursuant to Supreme Decree No. 002-2022-EM, enacted on March 28, 2022, 84 and 90 octane Gasoline, 84 octane Gasohol, and Liquefied Petroleum Gas intended for bulk (GLP- G) and Diesel 2 for vehicular use.

In 2022, said fund represented 2.87% (compensation) of the Company's revenue. In 2021, said fund represented 0.61% (compensation) of the Company's revenue.

d) Covid-19 in Peru -

Pursuant to Supreme Decree No. 044-2020-PCM dated March 15, 2020, a state of national emergency was declared in Peru for an initial period of fifteen calendar days as a result of the outbreak of COVID-19, which was classified as a pandemic by the World Health Organization (hereinafter WHO). The states of national emergency were extended on different occasions, through supreme decrees, until October 27, 2022, in which the state of national emergency was annulled due to the favorable evolution of the country's health situation. On May 5, 2023 the WHO declared the end of the public health emergency of international emergency for COVID-19.

Since the beginning of the COVID-19 outbreak, the Peruvian Government established certain measures that, in order to prevent the spread of the virus, restricted the economic activity of different industries, which affected the normal functioning of the economy. Since 2021, a recovery of the adverse effects generated by the pandemic has been observed and Management considers that at December 31, 2022 its effects on the Company's operations are not significant. However, the risk of possible outbreaks and government actions in response to it still remains. Due to the foregoing, Management plans to continue monitoring the evolution of the pandemic and its implications for its economic activities.

e) Operating results -

During 2022, the hydrocarbons sector registered an important recovery after the crisis of the COVID-19 pandemic. However, despite the reversal of the adverse effects of the pandemic, in 2022, the Company's results show a loss of US$271,219 thousand, mainly due to the reduction in sales in the local market by 10 MBDC (82 MBDC in 2022 compared to 92 MBDC in 2021) caused by the lack of inventory availability due to the liquidity problems that the Company faced during 2022 (Note 3.1-c), as well as by the higher import costs originated mainly by the conflict between Russia and Ukraine, the non-optimized operation of the New Talara Refinery (PMRT) and the net losses of the North Peruvian Pipeline business unit, which had its operation limited, mainly due to events caused by third parties (Note 18-a).

f) Evaluation of possible irregularities, alleged favors and/or conflicts of interest related to the processes of procurement of goods, services and works carried out by the Company and ongoing investigations by the Prosecutor's Office against officials and former officials -

During 2021, 2022 and 2023, the Company became aware of alleged irregularities related to the procurement processes for goods, services and works, performed certain actions or evaluations in response to them to mitigate the risk and identify the potential impact of these situations on the financial statements. These situations are summarized as follows:

i) In April 2021, the Company became aware, through a journalistic complaint in the international media, of possible irregular acts in contracts made between Petroecuador and the hydrocarbon suppliers Gunvor S.A. and Gunvor International B.V. (hereinafter Gunvor). In May 2021, Management ended the commercial relationship with such suppliers and hired an external expert to carry out a diagnostic investigation on the risks associated with the hydrocarbon purchase process, focused on transactions carried out in previous years with such suppliers.

ii) In December 2021, the Company became aware, through the local media, of the alleged irregular purchase of biodiesel from the company Heaven Petroleum Operators, which potentially involved the former General Manager and the former Supply Chain, Hydrocarbons Purchasing and Distribution Managers who held said positions between October 2021 and on April 5, 2022. This fact generated investigations and criminal complaints by the Prosecutor's Office, to the aforementioned former managers and Company personnel related to the case.

    In this regard, until April 5, 2022, the Board of Directors separated of the former General Manager and the former Manager of Supply Chain and Hydrocarbons Purchase, and withdrew trust from the former Distribution Manager. In 2022 and 2023, it hired the services of Deloitte Corporate Finance S.A.C. (hereinafter DTT) for the “review and analysis of the bidding and award processes to third parties by the Company” from October to December 2021 and from January 1 to April 5, 2022, respectively, under a “Forensic Due Diligence” approach with the objective of identifying possible irregularities, presumed favors and/or conflicts of interest, in the aforementioned processes of contracting goods, services and works carried out by the Company, specifically in the pre-contractual phase from October to December 2021 and in the pre-contractual phase, of reception and conformity of the good or service from January 1 to April 5, 2022.

iii) In July 2023, due to a complaint made in a television media, the Company became aware of a complaint about alleged irregularities in hiring in which the Manager of the Logistics Department would have participated. Since July 3, 2023 the aforementioned official no longer carried out work in said Management. At August 5, 2023 it was assigned to the Training and Labor Relations Headquarters of the Corporate Human Resources Management, while the corresponding investigations were carried out.

    Also, August 2023, the Company contracted the services of DTT for the review and analysis of the contracting processes in which the Management of the Logistics Department has participated between January 1, 2022 and July 12, 2023, under a “Forensic Due Diligence” approach to identify possible irregularities, presumed favors and/or conflicts of interest, in the aforementioned processes of contracting goods, services and works carried out by the Company.

In addition to the work performed by its external experts, the Company executed other review mechanisms, such as:

- verified compliance in the provision of services, goods or works; for purchase transactions identified with signs of irregularities, in the reports issued by external experts;
- evaluated the reports issued by the Comptroller General of the Republic of Peru from January 2021 to date;
- evaluated the reports issued by the Institutional Control Body from January 2021 to date;
- evaluated the complaints received by the Company's Integrity Line; and
- evaluated, along with legal experts, the degree of responsibility to which the Company is exposed in reference to the investigations by the Prosecutor's Office against an official and former officials.

As a result of the actions carried out, improvement situations were identified in the procurement procedures, including hydrocarbon purchases, the application of the table of approval levels for contracting, know-your-customer procedures, and improvements to anti-corruption risk prevention and management systems, among others. The Board of Directors, through the Audit and Control Committee, will monitor and/or supervise the action plans that the Company's Management will design with the participation of the Corporate Management of Processes and Risks. The action plans include reviewing and/or updating the risk matrices of the processes involved; as well as design and implement changes to the internal processes that cover the identified improvement opportunities for improvement to minimize or avoid adverse situations as well as improve and/or strengthen the Company's processes, for the fulfillment of its strategic objectives.

The Board of Directors has approved the reports on the prevention and detection of fraud and errors and compliance with laws and regulations prepared and endorsed by the General Management, the Corporate Finance Management, the Corporate Legal Management, the Corporate Human Resources Management, the Corporate Administration Management and the Corporate Management of Processes and Risks. Said reports allow the Board of Directors and Management to conclude that, to the best of their knowledge and understanding, the situations identified have not had a significant impact on the Company's financial statements.

g) Going concern and working capital –

The financial statements have been prepared under the going concern assumption; that is, the Company will be able to continue its activities normally in the foreseeable future.

Under this assumption, the Company will be able to honor its financial obligations disclosed in Note 14 and 16.

In 2022 the Company has reported a loss of US$271,219 thousand and at December 31, 2022, current liabilities exceed its current assets by US$171,819 thousand (US$842,528 thousand at December 31, 2021), which primarily reflects the increase in payables to related parties by US$134,591 thousand as a result of the loan for working capital received from the Ministry of Economy and Finance, in May 2022, for US$750,000 thousand and the issuance of Cancellation Documents - Public Treasury for up to S/500,000 thousand, both to meet the payment of its short-term obligations (Note 16).

The Company monitor cash flow projections carried out on the basis of the liquidity requirements of the Company to ensure sufficient cash to cover the operating needs, while maintaining sufficient headroom on its credit facilities. In this sense, the Company considers that revolving credit lines with local and foreign banks for a total of US$3,070,513 thousand and cash flows of its operating activities, with the start-up of the PMRT. The most relevant benefits are the possibility of refining heavy crude oils that cannot be processed with current technology, increasing refining capacity, improving the hydrocarbon trade balance, reducing the risk of fuel shortages due to fuel production independent of external factors, and business sustainability, among others. This will allow it to increase its profit margins and maintain enough cash to meet its obligations and reverse the current negative working capital in the medium term.

h) Restructuring plan -

On December 30, 2016 Legislative Decree No.1292 was enacted declaring of public need and national interest the safe operation of "Oleoducto Norperuano" and stipulating the re-organization and improvement of the corporate governance of the Company. In this regard, on July 31, 2023 the Company's Board of Directors approved the Company's Restructuring Plan carried out by the international specialized consultant Arthur D. Little LLC, together with Columbus HB Latam Inc., which was informed to the General Shareholders' Meeting, within the term established in Emergency Decree No. 023-2022 – "*Decreto de Urgencia que establece medidas en materia económica y financiera destinadas a evitar el desabastecimiento de combustible a nivel nacional*".

This Restructuring Plan aims to strengthen the governance of the Company, as well as ensure its financial sustainability and its operations at national level. As part of the work carried out, the consultant developed a comprehensive diagnosis of the company, including its strengths, weaknesses and key success factors. Likewise, the consortium identified the best operating and strategic practices in the industry, suggesting alternatives for improvement and solutions that allow Company's sustainability goals to be met, including its administrative reorganization.

The work carried out between January and July 2023 also contemplated the analysis of the hydrocarbon market and the competitive position of Company, describing its performance and perspectives under the new energy transition approach. Likewise, it considers an Implementation Plan with milestones, execution deadlines, responsible parties and indicators to carry out the respective control.

According to Emergency Decree No. 023-2022, the Company will modify its bylaws and other corporate instruments to reinforce the principles of good corporate governance, in accordance with the guidelines of the governmental agency that provides financing to government-owned companies, ("Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado - FONAFE). Likewise, it should present the valuation of the Company and the preparatory actions for a public offering of shares, within the framework of Law No. 30130, previously described in this note.

The progress of these actions that are being implemented in the Company are reported to the General Shareholders' Meeting and to the Comptroller General of the Republic, in compliance with the provisions of the Executive.

i) Approval of the financial statements -

The financial statements at December 31,2022 have been issued with the authorization of General Management on August 31,2023 and approved by the Board of Directors on the same date, and then, they will be submitted to the consideration of the General Shareholders for final approval. The financial statements at December 31, 2021 were approved for the Board of Directors at September 14, 2022, and for the General Shareholders at September 23, 2022.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation and presentation -

i) Compliance with IFRS -

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (hereinafter IFRS) issued by the International Accounting Standards Board ("IASB"), effective at the date of the financial statements. The information contained in these financial statements is the responsibility of the Company's Management, which expressly states that in preparing them it has applied all accounting principles and criteria required under the IFRS issued by the IASB. These financial statements are approved by the Board of Directors.

ii) Basis of measurement -

The financial statements of the Company have been prepared under the historical cost convention, except for derivative financial instruments recorded at fair value. The financial statements are presented in thousands of U.S. dollars, unless a different monetary expression is indicated.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

iii) New standards, amendments and interpretations in force for the financial statements for annual periods beginning on or after January 1, 2022 that have been evaluated and applied by the Company.

Within the framework of IFRS, certain accounting changes have been issued that are effective at January 1, 2022. These changes have been considered by the Company for the preparation of the 2022 financial statements. However, they have not had a significant impact for the current year, nor are they expected to have one in future periods. These accounting changes are summarized as follows:

- Amendments to IAS 16, 'Property, Plant and Equipment': Proceeds before Intended Use. This amendment modifies the treatment of income that an entity can obtain when it is still in the process of having the necessary location and condition to operate in the manner intended by Management. By this modification, an entity should recognize any income from the sale of products and its costs of production associated, in profit or loss.

  It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

  The amount of income and costs related to items that are not the result of the ordinary activities of the entity must be disclosed separately.

- Amendments to IFRS 3 'Business Combinations' - Reference to the Conceptual Framework, by which minor amendments to IFRS 3 were made to update certain references to the new Conceptual Framework and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies.

- Onerous Contracts – Cost of Fulfilling a Contract - Amendments to IAS 37. This amendment specifies the cost that an entity must consider when assessing whether a contract is onerous or loss-making. Defining the cost of fulfilling a contract includes both the incremental costs of fulfilling the contract and an allocation of other costs directly related to such fulfillment.

- Annual Improvements to IFRS Standards 2018–2020 cycle: IFRS 9, Financial Instruments clarifies which fees should be included in the 10% test for derecognition of financial liabilities. Also, certain limited changes to IFRS 16, 'Leases', to IFRS 1, 'First-time Adoption of International Financial Reporting Standards' and to IAS 41, 'Agriculture'.

A number of standards and amendments to standards have been released which are of mandatory adoption for 2023 or later and which have not been early adopted by the Company.

- Classification of Liabilities as Current or Non-current - Amendments to IAS 1. In 2020, an amendment to IAS 1 was issued in which it is clarified that liabilities should be classified as current or non-current depending on the existing rights at the date of the financial statements. The classification should not be affected by the entity's expectations or by events occurring after the date of the financial statements, for example, the receipt of a waiver from the financial entity following the breach of a contractual commitment (covenants).

  In 2022, another amendment to IAS 1 was issued that complements the previous one in relation to waivers received from a financial entity and specifies that covenants that an entity should comply with after the date of the financial statements do not influence the classification of a debt as current or non-current at the date of the financial statements.

  The amendments could affect the classification of liabilities, particularly for those entities that previously considered management's intentions in determining the classification and for some liabilities that may be converted to equity.

- Definition of Accounting Estimates - Amendments to IAS 8. This amendment clarifies how to distinguish changes in accounting policies from changes in accounting estimates. This amendment is effective from January 1, 2023.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12. This amendment provides those deferred taxes arising from a single transaction that, on initial recognition, gives rise to taxable and deductible temporary differences of the same value should be recognized. This will generally apply to transactions such as leases (for lessees) and decommissioning or remediation obligations, where deferred tax assets and liabilities will be required to be recognized. Currently, there were different approaches to these types of transactions. Some companies recognized deferred taxes and others did not. The Group has been recognizing the deferred tax of temporary differences arising from its lease contracts, so it does not expect this change to impact it. This amendment is effective from January 1, 2023.

The Company will evaluate during 2023 and 2024, upon entry into force, the impact that the amendments may have in their current practices.

Likewise, other effective amendments for future years have been published, for which the Company will evaluate their impact during 2023:

- IFRS 17, “Insurance Contacts”.
- Classification of Liabilities as Current or Non-current - Amendments to IAS 1 “Presentation of Financial Statements”.
- Lease Liability in a Sale and Leaseback - Amendment to IFRS 16 “Leases”
- Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”.

2.2 Trade receivables -

Trade receivables are amounts owed to the Company by customers for items sold or services rendered in the ordinary course of business. If collection of these accounts is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are initially recognized at their fair value and are subsequently measured at their amortized cost using the effective interest method, less the provision for impairment.

2.3 Inventories -

Inventories are stated at the lower of cost and net realizable value. The cost includes direct material costs, direct labor related production overheads (based on normal operating capacity). It excludes borrowing costs and exchange differences and includes costs incurred in transferring inventories to their actual location and conditions. The cost of crude oil and acquired by-products/derived products is determined using the first-in / first-out method. Refined products in process and finished products are determined at average production cost. Material and supplies at weighted average cost. In-transit inventories are stated at specific cost of acquisition. The volume of crude oil acquired and kept in the oil pipeline (“Oleoducto”) is accounted for at the cost of acquisition.

The provision for impairment of inventories of in-process refined products, finished products and by-products acquired is applied directly to the carrying amount of inventories, with a charge to cost of sales; the carrying amount of these inventories is reduced to their net realizable value in the same year. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

With respect to supplies, Management makes a periodic provision for obsolescence based on a technical study or considering those items with no movement for more than two years; said estimated provision is recognized with a charge to results of the period they relate to.

2.4 Property, plant and equipment -

The property, plant and equipment are recorded at acquisition cost, less their accumulated depreciation and accumulated amount of any impairment loss. The cost of an element of property, plant and equipment comprises its purchase price or construction or manufacturing cost, including customs duties and non-reimbursable purchase taxes, as well as any necessary cost, the initial estimate of the obligation to dismantle the asset and, for assets that require substantial time to be ready for their intended use (qualifying assets), borrowing costs (note 2.11). The purchase price or construction cost comprises the total amount paid, and the fair value of any other consideration given to purchase the asset. The elements of property, plant and equipment are recognized at a major component level.

Costs incurred to replace a component of an item or element of property, plant and equipment are capitalized separately if the qualifying criterion is met and the carrying amount of the component being replaced is written down.

Subsequent costs attributable to an item of fixed assets are capitalized, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably, otherwise they are accounted for as expenses.

Assets under construction are capitalized as a separate component. Recognition of costs will cease when the item is ready for use as expected by Management and from that date those items are depreciated. When the items are ready for their intended use, they are transferred to their final category.

The cost of the items of property, plant and equipment, net of their residual value is depreciated over their estimated useful lives. Depreciation of assets is recognized as cost or expense depending on their function.

Land is not depreciated. Depreciation is calculated using the straight-line method over the estimated useful life of each asset, as follows:

	Years
Buildings and other constructions	Between 6 and 25
Machinery and equipment	Between 2 and 40
Containers and returnable containers	20
Vehicles	Between 5 and 15
Other equipment	Between 3 and 10
Computer equipment	Between 3 and 5
Furniture and fixtures	Between 5 and 10

The assets' residual values, useful lives and depreciation method applied are reviewed, and adjusted if appropriate, at the date of each statement of financial position. Any change in these estimates is prospectively adjusted.

Items of property, plant and equipment are written off when they are disposed of or when economic benefits are no longer expected from their use or subsequent sale.

The carrying amount of property, plant and equipment is written-down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount according to with is described in note 2.7.

Gains or losses on disposal are determined considering the difference between the proceeds and carrying amount of the assets. These are included in statement of comprehensive income.

The accounting treatment of the capitalization of interest on qualifying assets is described in note 2.11.

Assets received by donation or assignment are recorded at their fair value as part of the asset, under Other income in the statement of comprehensive income (Note 27).

2.5 Intangible assets and other -

Software -

Intangible assets include acquired computer software licenses and software, which are capitalized based on costs incurred to acquire and put the specific software to use. These costs are amortized over their estimated useful lives (between three and ten years).

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product.
- it can be demonstrated that the software product will generate probable future economic benefits.
- adequate technical, financial and other resources are available to complete the development and to use or sell the software product and the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of the corresponding overheads.

Hydrocarbon exploration activities -

Exploration costs such as seismic lines and exploratory drilling of wells are capitalized until the technical and commercial feasibility of extracting the resources in the area is demonstrated.

If the exploration and evaluation activities are not expected to be successful, such assets are charged to profit or loss recognizing an impairment loss in the statement of comprehensive income. In the event feasible reserves are identified, exploration and evaluation assets are re-classified from said category as development costs after evaluating their recoverability. Depreciation is not recognized during the exploration and evaluation phase.

If events or circumstances indicate a possible impairment of resource exploration and evaluation assets has occurred, their recoverability is assessed by grouping assets at the lowest levels for which there are separately identifiable cash flows, cash-generating units, based on considerations such as geographical and geological features, common use of facilities and contractual terms and conditions. Such events and circumstances include the interpretation of seismic data, return requirements of areas, drilling results, remaining period to comply with the exploration commitment period, remaining capital investment plans and political and market conditions.

The hydrocarbons exploration activity comprises the Project for the Exploration and Exploitation of Hydrocarbons in Block 64 (“Proyecto de Exploración y Explotación de Hidrocarburos en el Lote 64”), which consists of the implementation of the project called “Desarrollo y explotación del yacimiento Situche Central Lote 64”, to bring to production the crude oil reserves discovered in Block 64.

The Company has contracted the company ERM Perú for the service for the preparation and approval of the environmental impact study-EIA for the development of Block 64 (“Servicio de elaboración y aprobación del estudio de impacto ambiental-EIA para el desarrollo del Lote 64”) and resumed activities in the Morona camp in February 2023.

At December 31, 2022 exploration costs associated with Block 64 amounted to US$30,725 thousand (US$29,814 thousand at December 31, 2021) and are recorded under intangible assets.

2.6 Investment properties -

Investment properties consists of land and buildings owned by the Company, that are held to obtain cash from terms over a long term and are not used by the Company. Investment properties are shown at cost less accumulated depreciation and impairment losses, if any. Subsequent costs attributable to investment properties are capitalized only if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of these assets can be measured reliably; if not, they are recognized as expenses when incurred.

Repair and maintenance expenses are recognized in profit and loss when they are incurred. A property's carrying amount is written down immediately to its recoverable amount when the property's carrying amount is greater than its estimated recoverable amount.

Cost and accumulated depreciation of properties sold or retired are eliminated from their respective accounts and any profit or loss is recognized in the income statement. Depreciation of these assets is determined under the straight-line method at a rate considered sufficient to absorb the carrying amount of assets at the end of their useful lives and considering their major components with substantially different useful lives (each component is accounted for separately for depreciation purposes over its individual useful life).

Land is not depreciated. Depreciation of buildings and constructions is calculated using the straight-line method over the estimated useful life of 25 years.

2.7 Impairment of non-financial assets of indefinite useful lives -

The Company conducts an impairment test under the provisions of International Accounting Standard 36 "Impairment of assets" and performs annual tests of impairment of its items of property, plant and equipment, intangible assets, investment properties and right-of-use assets to determine whether there are indications that said items are impaired. If there is any indication of impairment, Management calculates the recoverable amount in order to determine the extent of the impairment loss (if any). If the recoverable amount of an individual asset item cannot be determined, the Company calculates the recoverable amount of the respective CGU to which the asset belongs. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Provided that consistent and reasonable criteria of asset allocation are used, common assets are also allocated to individual CGUs; or otherwise to the smallest groups of CGUs identified on a consistent and reasonable basis.

The recoverable amount is the higher of the asset's value in use or fair value less costs of disposal. For purposes of calculating the recoverable amount, the Company determines the value in use of its assets subject to impairment testing. Value in use corresponds to the present value of the estimated future cash flows discounted to current value using a pre-tax discount rate that reflects the current market conditions and the specific risks associated with each asset or CGU.

Impairment losses, calculated with reference to the value in use of the assets, recognized in previous years, are reversed if there is a change in the estimates used when an impairment loss was last recognized.

Impairment losses of assets are recognized in the statement of comprehensive income in the categories of expenses corresponding to the nature of the impaired asset.

2.8 Financial liabilities -

The Company classifies its financial liabilities into the following categories: i) financial liabilities at fair value through profit or loss and ii) other financial liabilities at amortized cost. The classification depends on the purpose for which the liabilities were assumed and the way in which they are managed. The Company determines the classification of its financial liabilities at the date of initial recognition.

At December 31, 2022 and 2021 the Company only holds liabilities in “other financial liabilities at amortized cost”, which are measured at amortized cost using the effective interest rate method. Profits and losses are recognized in the statement of comprehensive income when liabilities are derecognized, as well as through the amortization process of the effective interest rate.

Amortized cost is calculated taking into account any discount or premium in the acquisition and fees or costs that are an integral part of the effective interest rate. The amortization of the effective interest rate is recognized in the statement of comprehensive income as finance income.

At December 31, 2022 and 2021 the Company maintains within the category of “other financial liabilities measured at amortized cost” the (i) corporate bonds, (ii) unsecured bank loans, (iii) CESCE loan, (iv) trade payables, (v) payables to related parties, (vi) some items included in other payables and (vi) lease liabilities.

In addition, the Company has liabilities for derivative financial instruments that are measured and classified at fair value with changes in profit or loss (note 2.26).

In the case of financial liabilities measured at fair value through profit or loss, changes in the fair value of these liabilities are recognized as gains or losses through profit or loss and shown within “financial income or expenses” in the period in which changes occur.

2.9 Trade payables -

Trade payables are payment obligations for goods or services acquired from suppliers in the normal course of business. Payables are classified as current liabilities if payment must be made within one year or less (or in the normal operating cycle of the business if it is greater), otherwise, they are presented as non-current liabilities.

Payables are initially recognized at their fair value and subsequently, if the time value of money is relevant, they are remeasured at amortized cost using the effective interest method, otherwise they are shown at their nominal value.

2.10 Borrowings -

Borrowings consist of loans obtained from financial institutions and related parties, including unsecured short-term, which are used for working capital and capital expenditures in the PMRT, corporate bonds and CESCE loan, loan received from the Ministry of Economy and Finance and cancellation documents. Borrowings are classified based on the terms and conditions of the agreements signed and considering the economic substance of the agreement.

Loans maintained by the Company are initially recognized at their fair value, net of transaction costs incurred. These loans are subsequently recorded at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the loan using the effective interest method. The Company presents borrowings within other financial liabilities and payables to related entities.

Fees and commissions paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case transaction costs are deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as payments for services to obtain liquidity and are recognized in the statement of income over the period of the facility to which it relates.

Borrowings are derecognized from the statement of financial position when the obligation specified in the contract is settled or expires. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the paid consideration, including non-cash transferred or the liabilities assumed are recognized in profit or loss within other finance income or finance costs.

Borrowings are classified as current liabilities unless the Company obtains the unconditional right to defer the payment of the obligation by no less than 12 months from the statement of financial position date.

2.11 Borrowing costs -

General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale (qualifying assets), are added to the cost of those assets. Capitalization starts when activities are being carried out to bring the qualifying asset to its expected condition for use and costs are being incurred, as well as borrowing costs; capitalization ends when all the activities required to prepare the asset for its expected use have been completed. The Company has defined that a substantial period is one year or more, to capitalize borrowing costs on qualifying assets.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are recognized in the statement of income.

2.12 Leases -

The Company mainly leases property, shipping units and other equipment. These lease contracts do not give rise to any other performance obligation apart from guarantee on the lease assets that are held by the lessor. The lease assets cannot be used to guarantee a borrowing.

Leases are recognized as a right-of-use assets and a lease liability at the date the leased asset is ready for use by the Company.

Assets and liabilities arising from a lease contract are initially measured at present value. The amount of the initial measurement of the lease liability is made on the basis of fixed payments.

Rights-of-use assets are usually depreciated under the straight-line basis over the shorter of the asset’s useful life and lease term. If the Company has reasonable certainty that a purchase option will be exercised, the right-of-use asset is depreciated over the useful life of the underlying leased asset.

Short-term lease payments and low-value leases are recognized under the straight-line method as expenses in profit or loss. Short-term leases are leases of 12 months or less. Low-value assets consists of IT equipment and small office furniture fixtures.

Lease payments to be made under renewal options with reasonable certainty to be exercised are also included in the measurement of the liability.

Lease payments are discounted using an interest rate implicit in the lease contract, if determinable, or otherwise the Company’s incremental borrowing rate, the rate a lessee would have to pay on borrowings to obtain the required cash to obtain a similar right-of-use asset in an similar economic environment under similar terms and conditions.

In determining the incremental borrowing rate, the Company uses the rate used on recent financing obtained from third parties as a starting point and adjusts it to reflect changes in circumstances from the date those borrowings were obtained.

The Company is exposed to future possible lease variable payments linked to an index or rate, which are not included in the lease liability until they become effective. When index-linked payments come in effect, the lease liability is re-assessed and adjusted to the right-of-use asset.

Each lease payment is allocated between the liability and the finance charges. The finance cost is recognized in profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

In determining the lease term, Management considers all facts and circumstances that lead the Company to exercise the option to renew or early terminate the lease contract. Renewals options (post-termination extensions) are only included in the terms of the contracts if it is reasonably certain that the lease contract will be extended (or not terminated).

Accounting policy as lessor -

A lessor will classify each of its leases as an operating lease or a finance lease.

A lease is classified as a finance lease when it transfers significantly all the risks and benefits inherent to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer significantly all the risks and benefits inherent to ownership of an underlying asset.

Revenue from leases in which the Company is a lessor is recognized in profit or loss under the straight-line method. Initial costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and are expressed over the lease term under the same basis as the revenue from leases. The leased assets are stated in the statement of financial position based on their nature.

The Company maintains properties that it leases to third parties, which are classified as operating leases and are presented in the statement of financial position under investment properties. Revenues from these leases are presented in the statement of comprehensive income under other operating income in the statement of comprehensive income.

2.13 Employee benefits -

a) Statutory bonuses -

The Company recognizes an expense for statutory bonuses and related liability in accordance with laws and regulations currently in force. Statutory bonuses consist of two one-month salaries per year paid every July and December, respectively. Statutory bonuses are recognized proportionally to the time during which a worker has provided the services that entitle him/her to said benefit.

b) Employees' severance indemnities -

Employees' severance indemnities for time of service of the Company's personnel correspond to their indemnification rights, calculated in accordance with the regulations in force in Peru, which has to be credited to the bank accounts designated by the workers in May and November every year. Personnel severance indemnity is equivalent to one-half of a one-month salary prevailing at the date of deposit, which is recognized in profit or loss as accrued. The Company does not have additional payment obligations once the annual deposits of the funds that the worker is entitled to are made.

c) Vacations leave -

Personnel's annual vacation leave is recognized on an accrual basis. The provision for the estimated obligation for annual vacations of personnel resulting from services provided by the employees is recognized at the date of the statement of financial position. The annual leave to which the employee is entitled is 30 days.

d) Workers' profit sharing -

The Company recognizes a liability and an expense for the workers' profit sharing in accordance with laws and regulations currently in force. Workers' profit sharing is calculated applying the rate of 10% to the taxable income determined by the Company in accordance with current income tax legislation.

2.14 Provisions -

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are reviewed at each period-end. When the effect of the time value of money is significant, provisions are discounted using a pre-tax rate that reflects, when appropriate, the risks specific to the obligation. The reversal of the discount due to the passage of time gives rise to an increase of the obligation recognized with a charge to the statement of comprehensive income as finance cost. Provisions are not recognized for future operating losses.

Provision for environmental remediation and plugging wells of privatized units -

The obligation to be incurred in environment remediation and plugging wells arises from the operating units transferred by the Peruvian Government to the private sector and from a specific mandate, respectively. The Peruvian Government, through the Company assumed these obligations. In this respect, the Peruvian Government will refund all expenses incurred by the Company in meeting these obligations. The obligation assumed by the Peruvian Government was recognized with a charge to prior-year profit or loss. The amount of the provision at that date is adjusted at each year-end.

The Company recognizes a provision for environmental remediation and plugging of wells as part of its legal obligations to remediate the environment at the end of operation of these wells and in adherence to a specific legal mandate. At the date of initial recognition of the liability arising from this obligation, as measured at its fair value discounted to its present value, the same amount is simultaneously charged to the statement of comprehensive income. Subsequently, the liability amount is reviewed and increased in each period, if applicable. In settling this liability, the Company recognizes any resulting profit or loss. Changes in the estimated fair value of the initial obligation and the interest rates are recognized in the statement of comprehensive income.

2.15 Contingent liabilities and assets -

A contingent liability is disclosed when the existence of an obligation will only be confirmed by future events or when the amount of the obligation cannot be measured with sufficient reliability. The contingent assets are not recognized but are disclosed when it is probable that there will be an entry of economic benefits for the Company.

Given their nature, contingencies are only resolved when one or more events occur or not. Determining contingencies inherently involves the exercise of judgment in the calculation of estimates of the results of future events.

2.16 Current and deferred income tax -

The income tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized directly in the statement of other comprehensive income or in equity. In this case tax is also recognized in the statement of other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position. The Company periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using the tax rates (and tax laws) enacted at the date of the statement of financial position and expected to be applicable when the deferred income tax is realized or settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority.

For the recognition and measurement of current and deferred income tax, the Company has evaluated the existence of probable uncertain tax positions assumed by the Company; however, the Company has not identified significant uncertain tax positions that need to be accounted for.

2.17 Capital -

Subscribed and paid-in common shares are classified as equity. Shareholder cash capital contributions and profit capitalization for which shares remain to be subscribed and issued are recognized as additional capital when they occur and are approved by shareholders.

2.18 Revenue recognition -

a) Revenue from sales of refined products -

The Company sells refined products principally in the local market, but a smaller portion is exported. Revenue from sales of products is recognized when control of goods is transferred, which occurs, when the product is delivered to the customer and there are no performance obligations to be satisfied that may make customer not to accept the goods. A product is considered to be delivered, for products sold in the local market, when the goods are delivered in the Company's plants and sales terminals; for exported goods, it all depends on the export contractual conditions, which mainly occurs when the goods are delivered to the port of shipment.

Income from these sales is recognized based on the price list to which the contract refers, net of the estimated volume discounts. In certain cases, products are sold applying discounts by retroactive volumes, based on cumulative sales for a period of 12 months. Historical information is used to estimate and record discounts recognizing revenue only to the extent it is highly probable that no significant reversal will occur in the future. Discounts are stated net of the balance of trade receivables at the estimated volume discounts that are expected to be offset against customer sales billings. There was no need to separate any financing component because sales are agreed at a term no exceeding 45 days, which is consistent with the practice in the local market.

b) Revenue from the fuel price stabilization fund (Note 1-c) -

Revenue derived from the fuel price stabilization fund are recognized simultaneously with the revenue from sales to customers of the refined products comprising the Fuel Price Stabilization Fund, for which the General Direction of Hydrocarbons (DGH) of the MEM sets a price range. The Company's price-setting policy is using as a reference the Import Price Parity (PPI); nevertheless, the price billed to customers must be within the price ranges set for the products within the scope of the Fund.

In accordance with the provisions of Emergency Decree No. 010-2004, whenever the Company's price is above the upper price range threshold, the Company records revenue and the respective receivable from the MEM, for the amount equivalent to the difference between the price billed to customers and the upper price range threshold, since this is a compensating factor; whenever the Company's price is below the lower price range threshold, the Company recognizes a reduction in revenue and the receivables from MEM, for the amount equivalent to the difference between the price billed to customers and the lower price range threshold, since this is a contribution factor.

Revenue from the Price Stabilization Fund is recognized as part of revenue from ordinary activities. Balances receivable from the MEM are accounted for as described in note 2.5.

c) Revenue from sales of services -

The Company provides services at fixed prices in accordance with contractual terms.

Revenue from services rendered are recognized when control over service is transferred to the customer. For the services of operating terminals, freight, supply, and use of hydrocarbons, the transfer of control occurs when the service is completed and there are no other performance obligations remaining to be satisfied that may affect the customers' acceptance of the service (revenue recognized at a point in time). For the services of transport of crude oil and other services, transfer of control occurs over time, because the relevant performance obligations are satisfied to the extent the service is being rendered.

d) Interest income -

Interest income is recognized on a time-proportion basis using the effective interest method.

2.19 Earnings (loss) per share -

Earnings (loss) per share are calculated by dividing the profit or loss attributable to the Company's shareholders, by the weighted average number of shares outstanding during the year.

2.20 Recognition of selling costs and expenses -

The cost of sales of products and services is recorded in profit or loss when the products are delivered or the services are rendered, simultaneously with the recognition of income in accordance with the accounting policies described in Note 2.18. Distribution costs are present in selling cost.

Selling and administrative expenses and other expenses are recognized as they are accrued, regardless of when they are paid and are recorded in the periods to which they relate.

2.21 Derivative financial instruments -

Derivative financial instruments such as futures contracts (forwards) are used to hedge foreign currency risks (U.S. dollar). These derivative financial instruments are initially recognized at their fair values on the date the derivative contract is entered into, and are subsequently remeasured at their fair value. Derivatives are accounted for as financial assets when their fair value is positive, and as financial liabilities when their fair value is negative. The variation in fair value is recognized in the item "Financial income or expenses" in the statement of comprehensive income.

2.22 Segment reporting (Note 5) -

Segment information is presented in a manner consistent with the internal information provided to the Board of Directors, which is the Company's chief decision maker, which allocates resources and monitors the performance of operating segments.

An operating segment is defined as a component of an entity over which there is consolidated financial information, and it is continuously evaluated.

3 FINANCIAL RISK MANAGEMENT

Management is responsible for establishing and supervising the risk management structure. Corporate Finance Management is responsible for risk management. Management identifies, evaluates and manages financial risks.

The Company's financial risk management policies are established to identify and assess the risks to which the Company is exposed and set adequate risk limits and controls and monitor risks and compliance of limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and entity-specific operations.

The Company seeks to develop a disciplined and constructive control environment through its risk management standards and procedures in which all personnel fully understands their functions and duties.

3.1 Financial risk factors -

The Company's activities expose it to a variety of financial risks: market risk (principally foreign exchange risk, interest rate risk and price risk of crude oil), credit risk and liquidity risk.

a) Market risk -

The most relevant market risks for the Company's activities are explained below:

i) Foreign exchange risk -

Transactions in currencies other than the functional currency (foreign currencies) are mainly agreed in Peruvian soles, euros and yen. The Company is exposed to the risk of severe fluctuations in the exchange rate of said currencies.

The Company manages the foreign exchange risk, seeking a balance between assets and liabilities in foreign currency and using forward exchange contracts to mitigate its exposure to fluctuations in foreign exchange rates in the short term, mainly resulting from billing of sales in the local market and working capital financing. While, for the uncovered portion, the Company takes the exchange rate risk, which has significantly impacted the net exchange difference for 2022 and 2021, due to exchange rate volatility caused by internal and external economic factors and the past global health crisis caused by Covid-19.

At December 31, assets and liabilities related to transactions in foreign currency, as well as the net position exposed to exchange risk, are summarized as follows (expressed in thousands and in the corresponding currencies):

	2022 S/000	2022 EUR000	2022 JPY000	2021 S/000	2021 EUR000	2021 JPY000
Assets:						
Cash and cash equivalent	191,472	1,031	-	293,686	1,033	-
Trade receivables	1,661,797	-	-	857,351	-	-
Other receivables	4,704,706	-	-	3,297,220	-	-
	6,557,975	1,031	-	4,448,257	1,033	-
Portion hedged with forward contracts	-	-	-	(300,320)	-	-
	6,557,975	1,031	-	4,147,937	1,033	-
Liabilities:						
Other liabilities	(276,879)	-	-	(298,350)	-	-
Trade payables	(303,259)	(2,525)	(180,106)	(286,493)	(1,258)	(783)
Payables to related entities	(3,384,094)	-	-	-	-	-
Other payables	(512,645)	-	-	(389,758)	-	-
Lease liabilities	(12,649)	-	-	(10,639)	-	-
Other provisions	(143,914)	-	-	(13,972)	-	-
	(4,633,440)	(2,525)	(180,106)	(999,212)	(1,258)	(783)
Net asset (liability) exposition	1,924,535	(1,494)	(180,106)	3,148,725	(225)	(783)

These items were translated into its functional currency using the exchange rates published by the Peruvian banking, insurance and pension plan regulator ("Superintendencia de Banca y Seguros y AFP- SBS"). The following exchange rates were used per each foreign currency:

	Exchange rate at December 31	
	2022	**2021**
S/	0.262	0.250
EUR	1.141	1.212
JPY	0.009	0.011

For the year ended December 31, 2022 and 2021, the Company recognized a net exchange gain of US$57,028 thousand and a net exchange loss of US$65,723 thousand, respectively, as stated in "Exchange difference, net" in the statement of comprehensive income.

Sensitivity analysis -

If the U.S. dollar had strengthened/weakened against the Peruvian soles by 5% (the currency that has the most exposure), with all other variables held constant, it would have affected profit before income tax as follows:

	Movement of the year	**Effect on profit and loss before taxes**	
		Revaluation US$000	**Devaluation US$000**
Year 2022			
S/	5%	25,190	(25,190)
Year 2021			
S/	5%	39,359	(39,359)

At December 31, 2022 and 2021 if the U.S. dollar had strengthened/weakened against the euros and yens by 5% with all other variables held constant, it would not have affected profit before income tax.

ii) Interest rate risk -

The Company maintains some assets that accrue interest at fixed market rates.

The Company's interest rate risk arises from short-term and long-term borrowings. Borrowings at variable rates expose the Company to cash flow interest rate risk. Borrowings at fixed rates expose the Company to fair value interest rate risk on t its borrowings. Management's policy is to maintain financing mainly at fixed interest rates. The Company considers that the interest rate risk on the fair value of its short-term loans is not material because the interest rates of its financing contracts are similar to those available to the Company in the market for similar financial instruments; in the case of long-term borrowings, the Company assumes this risk.

At December 31, 2022 and 2021 the Company maintains all of its debt to finance its operations and for the completion of the construction of the PMRT project at fixed rates according to the following: i) bullet bonds, interest are paid on a semi-annual basis from December 2017 at rates of 4.750% and 5.625% and maturity in 2032 and 2047, respectively; ii) CESCE loan at a rate of 3.285%, interest is payable on a semi-annual basis from May 2019 and maturity in 2031; (iii) bank loans without short-term guarantees in U.S. dollars at rates between 2.60% and 8.85% and Peruvian soles at rates between 5.89% and 9.95%. (iv) Peruvian Government loan according to emergency decree No.010-2022 in Peruvian soles at rates between 5% and 6.75%

iii) Price risk of crude oil or commodities -

Selling prices of the products traded by the Company are exposed to commercial risks inherent to the volatility of international prices. Prices invoiced by the Company are modified according to the variations in international prices (Note 1-c).

As explained in Note 1-c, prices in the local market are determined considering the international prices of crude oil and by-products. Prices are expressed in soles at the effective exchange rate, taking into consideration the legal requirements issued in prior years, according to which, under the regime established for the "Price Stabilization Fund" the Peruvian Government can make compensating payments or receive contributions to stabilize the price of certain products for final consumers. This mechanism mitigates the effect of changes in the prices of some products, which are not transferred to the final consumer.

Note 9 shows the net balance of compensations and contributions made by the Peruvian Government at December 31, 2022 and 2021.

b) Credit risk -

Credit risk arises from the cash and cash equivalents, time deposits with banks as well as the exposure to wholesale and retail credit customers, that is reflected by the balances of trade receivables.

i) Risk management -

Credit risk is the risk that a counterparty is unable not meet its borrowings in relation to a financial instrument or sales contract, generating a financial loss. The Company's financial assets potentially exposed to credit risk concentrations, mainly comprise bank deposits, trade receivables and some items included in other receivables.

With respect to bank deposits, the Company reduces the probability of significant concentrations of credit risk by distributing its excess funds in prestigious financial institutions and sets limits on the amounts of credit risk exposure with any of these financial institutions.

For trade receivables, credit risk concentration mostly relates to wholesale customers, which are nation-wide prestigious prime-rated companies. The Company has policies in place to make sure that sales of goods are made to wholesale customers with an adequate credit history and guarantees. Such policies comprise, among others, approving credit limits on a customer-by-customer basis, monitoring procedures and continuous follow-up of payment behavior. With respect to agreements signed with Government entities (Peruvian Armed Forces and National Police Force), a due date for payment has been set at 25 days. The Company does not foresee significant losses arising from its counterparties.

ii) Impairment of financial assets -

The Company has the following types of financial assets that are subject to models to determine the expected credit loss:

- Cash and cash equivalents and certain items of other receivables,
- Trade receivables for sales of products and services.

For cash and cash equivalents and certain items of other receivables, the Company considers any credit loss as immaterial.

For trade receivables, the Company applies the simplified approach according to IFRS 9 to measure expected credit losses, which uses expected losses over the life of the asset.

To measure the expected credit losses, trade receivables are grouped based on common risk characteristics that reflect the payment capacity of each segment of customers for the amounts owed and the number of days past due. The Company has grouped its customers into (i) Trade, (ii) Armed Forces, (iii) Industrial and (iv) Wholesale.

For 2022 and 2021, The rates of expected credit losses are based on the payment profiles of over a 12-month period before December 31, 2022 and 2021, respectively, and the historical credit losses are adjusted to reflect the current and prospective information about macroeconomic factors that affect customers' ability to settle the Company's trade accounts receivable. The expected credit loss is shown in Note 8.

c) Liquidity risk -

Prudent liquidity risk management involves maintaining sufficient cash and cash equivalents, the availability of financing through an adequate number of sources of committed credit facilities and the capacity to close positions in the market. In this sense, the Company does not regularly present liquidity risks since the cash flows from its operations have enabled it to maintain sufficient cash to meet its obligations. The Company maintains negative working capital; however, the Company considers that it does not represent a risk as stated in Note 1-g).

The Company manages its liquidity risk by ensuring that sufficient committed lines of credit are available at all times and meeting its working capital needs with the cash flows obtained from operating activities and in exceptional cases, it has the financial support of its shareholder on Peruvian Government. Likewise, the Company is implementing a restructuring plan to ensure financial sustainability and its operations (Note 1-h).

During 2022, the Company presented liquidity limitations as a result of the delay in the return of the amounts owed by the Fuel Price Stabilization Fund, which represented less liquidity to continue with the inventory replacement cycle through the imports of crude oil and products, the acquisition of crude stock for the progressive start-up of the PMRT, and the investment made in the PMRT. At December 31, 2022 the Company maintains short-term revolving credit lines with local and foreign banks until approximately US$3,097,000 thousand, of which US$1,397,000 thousand are used in operations to purchase crude oil and refined products in the local territory and in foreign markets and other obligations related to working capital. These credit limits involve no maintenance costs or collateral requirements.

The Company's Corporate Finance Management supervises the cash flow projections carried out based on its liquidity requirements to ensure that there is sufficient cash to cover the operating needs while maintaining sufficient headroom on its undrawn committed borrowing facilities, so that the Company does not breach borrowing limits or covenants, where applicable, on any of its borrowing facilities. Cash surpluses and balances above what is required for the administration of working capital are profitable in interest-bearing products and are immediately available.

The table below analyzes the Company's financial liabilities into relevant maturity groupings based on the period remaining at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the undiscounted cash flows:

	Carrying amount US$000	Undiscounted Cash flows US$000	Less than 1 year US$000	More than 1 year US$000	More than 2 years US$000
2022					
Other financial liabilities	4,967,447	8,052,839	1,060,468	332,097	6,660,274
Trade payables	1,101,922	1,101,922	1,101,922	-	-
Lease liabilities	29,446	28,603	18,250	8,213	2,140
Payables to related parties	885,888	941,186	442,089	499,097	-
Other payables (*)	33,579	33,579	33,579	-	-
	7,018,282	10,158,129	2,656,308	839,407	6,662,414
2021					
Other financial liabilities	5,065,484	8,548,933	1,022,208	341,627	7,185,098
Trade payables	1,352,831	1,352,831	1,352,831	-	-
Lease liabilities	26,163	26,163	12,004	13,713	446
Other payables (*)	31,200	31,200	31,200	-	-
	6,475,678	9,959,127	2,418,243	355,340	7,185,544

(*) Other payables do not include liabilities for taxes, advances, or labor liabilities.

3.2 Capital risk -

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings) and payables to related parties, without including lease liabilities less cash and cash equivalent. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

At December 31, 2022 the Apoyo & Asociados risk rating agency maintains the "CP-1 (pe)" rating for the First Program of Short-Term Instruments and "AA-(pe)" for the Company's Long-Term Obligations, and the stable outlook. For its part, the Pacific Credit Ratings (PCR) risk rating agency maintains the PE1 rating for the Company's First Program of Short-Term Instruments and PEAA for financial solvency with a stable outlook.

The S&P Global Ratings risk rating agency maintains the BB rating for long-term debt in foreign currency, with a stable outlook, while Fitch Ratings maintains the BB+ rating for long-term debt in foreign currency with a negative observation.

At December 31, gearing ratios were as follows:

	2022 US$000	2021 US$000
Other financial liabilities (*)	4,967,447	5,065,484
Payables to related parties	885,888	-
Cash and cash equivalents	(88,746)	(239,557)
Net debt (A)	5,764,589	4,825,927
Total equity (B)	2,652,323	1,908,919
Total capital (A)+(B)	8,416,912	6,734,846
Ratio (A/(A+B)	0.68	0.72

(*) Not including lease liabilities.

3.3 Estimation of fair value -

The information used by the Company to estimate the fair value is classified as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs generally based on the Company's internal estimates and assumptions).

At December 31, 2022 and 2021 the Company has only measured at fair value its forward foreign exchange contracts. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each remeasurement date. Derivatives are recorded as financial assets, under other receivables, when their fair value is positive, and as financial liabilities, under other payables, when their fair value is negative. The fair value of forward foreign exchange contracts is estimated discounting the future contractual cash flows, net, comparing the contractually agreed foreign exchange rate against a forward foreign exchange rate applicable at the date of measurement. Discounting is performed using a market interest rate that is available to the Company for similar financial instruments, and the inputs of which used in fair value measurement have been classified in Level 2.

In determining the fair value of bonds (measured at the amortized cost), Management uses observable market inputs (Bloomberg), that are classified in Level 1. The fair value of unsecured borrowings, for disclosure purposes, is estimated by discounting the contractual future cash flows using a current market interest rate that is available to the Company for similar financial instruments and the inputs of which have been classified in Level 2; while for the CESCE loan and payables to related entities, the Company has discounted the contractual cash flows at the Company's average borrowing rate at mid- and long-term plus a spread, information that is classified in level 3.

The carrying amount of cash and cash equivalents corresponds to their fair value. The Company considers that the carrying amount of receivables and payables (including borrowings and payables to related parties) are similar to their fair values due to their short-term maturity and the impact of the discount is not significant.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Estimates and critical accounting criteria -

The Company makes estimates and assumptions concerning the future. The accounting estimates will, by definition, seldom equal the related actual results. The estimates and criteria that have a significant risk of causing a material adjustment to the carrying amounts of the reported assets and liabilities are addressed below:

- Useful life and depreciation of property, plant and equipment -

  Depreciation begins when the asset is available for use, that is, when it is in the location and condition necessary to operate by Management and is calculated under the straight-line method over the estimated useful life of the asset. This results in depreciation charges that are proportional to the estimated wear and tear of the assets as measured in number of years. The useful life of the assets is assessed on the basis of: i) the expected physical wear and tear and ii) the expected use of the asset. These calculations require estimates and assumptions to be made regarding the market demand for the Company's production and the capital disbursements that will be required in the future.

- Provisions and contingencies -

  The Company is subject to a number of laws and regulations as well as business practices effective in Peru. In this sense, Management makes judgement and estimates in recording environmental matters and seeking to meet the technical standards issued by the local regulatory authorities. Actual costs may differ from estimates for a number of reasons, such as changes in the assumptions and differing interpretations of laws, opinions and assessments in determining the amount of losses.

  The Company updates the provision for remediation of privatized and own units as well as the provision of plug-back costs to reflect new events, changes in circumstances and any other relevant information available to determine the costs that it will incur to cover these items (Note 18). Changes in the variables used to establish the amount of the environmental obligation and plugging wells costs may give rise to major adjustments to the balance of the obligation. Also, the Company determines the provisions required for the environmental remediation obligation arising from oil spills derived from the events that occurred on the Northern Peruvian Oil Pipeline ("Oleoducto Norperuano"), considering the contracts remaining to be implemented and currently in the contracting process.

  Furthermore, in the ordinary course of business, the Company is exposed to certain contingent liabilities relating to existing or potential claims, litigation and other actions brought against it, including some involving taxes.

  A provision is recorded for contingencies when it is probable that an obligation has been incurred and the amount of the loss can be estimated reliably. The Company's estimates are based on projections that are updated considering the results of the above-mentioned litigation or other actions and the previous experience of its technical staff and legal counsel both internal and external to address and resolve legal, labor-related and tax claims. To the extent the amount of obligations is being more clearly defined or further information become available, the Company may change its future cost estimates, which may have a significant effect on the results of its operations and its financial position or liquidity.

- Taxes -

  Determination of tax expenses and obligations requires interpretation of the Peruvian tax laws. The Company seeks professional advice in tax matters before making tax-related decisions. Management considers that these estimates are reasonable and appropriate at the reporting date; however, it considers that a particular interpretation of a point of tax laws by the Peruvian tax authorities, that becomes known later, may eventually result in additional taxes payable in the future. The Company recognizes liabilities for the observations resulting from tax audits when additional taxes become payable; any differences have an impact on the balances of current income tax for the fiscal period in which those observations are determined.

Deferred income tax asset is reviewed at each reporting date to determine its recoverability.

The current income tax determination is performed by the Company following applicable laws and regulations and the experience of previous tax examinations. Accordingly, no sensitivity analysis has been considered necessary to be included to simulate variances in calculation, because Management considers that no significant differences will arise that may have a material impact on its financial statements.

- Review of carrying amounts and impairment provision -

  The Company performs an assessment of whether a provision for impairment is required following the accounting policy described in Note 2.12. This determination requires the Company to exercise judgment in analyzing evidence of impairment and determining the recoverable amount. In determining the latter, judgment is required to calculate the expected future cash flows, including Management's projections of the Company operations in the future, projections of economic factors that may affect the Company's expected revenue and costs as well as determining the discount rate to be applied to those cash flows.

  For the estimates used in determining the recoverable amount of assets consider prior-year events, current operations, future expectations as well as changes in the Company's business strategy. These considerations were relevant in estimating the expected future cash flows and are taken into account in the cash flow estimates in the coming years.

  The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

  The Company groups its assets into three CGUs: (i) Production and trading; (ii) Oil Pipeline operations and (Note 11) (iii) Assets under construction (PMRT) y (iv) Leased and privatized Units.

  - Impairment test of assets subject to amortization or depreciation (CGUs) -

    Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

    The Company has considered internal and external information and has considered appropriate to carry out the impairment test of the CGU, Oil Pipeline Operations (Note 11), CGUs for Production and trading and rented and privatized units and it has not identified any evidence that would lead to an impairment test.

  - Impairment test of PMRT assets in process of construction -

    PMRT assets in the process of construction are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The Company has considered internal and external information and has considered appropriate to carry out the impairment test of the PMRT (Note 11). Impairment losses are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

- Expected loss of trade receivables -

  The Company has recognized a correction in the amount of the provision based on the expected credit losses on its financial assets applying the simplified approach. Under IFRS 9, impairment of a financial asset has to be estimated based on the expected of the portfolio credit losses rather than incurred losses.

4.2 Critical judgments in the application of accounting policies -

Determination of functional currency - Note 2.2 - a) -

Under IAS 21, "The Effects of Changes in Foreign Exchange Rates", an entity must define its functional currency as the currency of the primary economic environment in which the Company operates. As part of its assessment, an entity analyzes primary indicators (those associated with the economic forces that mainly influence sales prices and costs); when the primary indicators are not conclusive, it analyzes secondary indicators (those associated with the currency in which funds from financing activities are generated and in which cash surpluses are maintained). After this evaluation, the determination of the functional currency may not be evident, in which case, Management should exercise judgment to determine its functional currency as the currency that most faithfully reflects the economic effects of the Company's underlying transactions.

The Company sells its products and services mostly in the Peruvian market; selling prices of crude are influenced by the international market and by the local market and regulations. Most of the costs correspond to the import of crude, this cost is denominated in U.S. dollars and is mainly influenced by the international markets, most Note by the United States market.

In 2022 and 2021, Management has not observed any relevant change in the circumstances prevailing until 2016. However, from 2017, borrowings are mostly held in U.S. dollars as a result of the issuance of bonds in foreign markets for US$2,000,000 thousand; this circumstance gave rise to a change in the financing structure existing until previous years. In addition, in 2018 the Company obtained a long-term loan with CESCE for US$1,236,717 thousand, which increased in 2020 by US$54,199 thousand and in 2021, US$9,084 thousand; in addition to a new issuance of bond, carried out in February 2021, via the reopening of Bonds 2047 for US$1,000,000 thousand. Likewise, as of December 31, 2022, the financing structure has not changed significantly, maintaining the predominance of the US dollar (Note 14).

The financing structure and the notable prevalence of the U.S. dollar lead the Company to define this currency as its functional currency, accordingly, the financial statements are to be expressed in the currency in which most of the underlying transactions are denominated.

At December 31, 2022 and 2021 according to Company's critical judgment, the functional currency is the U.S. dollar.

5 SEGMENT INFORMATION

a) Description of business segments and core activities -

The Company's chief decision-maker (Board of Directors) evaluates the Company's performance in its three divisions that are considered reportable segments. These divisions offer different products and services and are managed separately since they required different sales and financial business strategies.

The Company's operating segments are assessed by the activities of the following business units: (i) Production and trading, (ii) Oil Pipeline operations and (iii) Leased and privatized units.

As set forth under IFRS 8, the reportable operating segment based on its level of revenue is: ‘Production and trading’. However, the Company has voluntarily decided to report on all its operating segments as detailed in this Note.

The following summary describes the operations of each reportable segment:

Reportable segment	Operations
Production and trading	Refining and commercialization of petroleum products.
Oil Pipeline operations	Service of transfer and custody of crudes from the Northern jungle of Peru.
Leased and privatized units	Assets that originate cash inflows derived from rentals.

Company’s Board of Directors reviews the internal management reports of each segment on a quarterly basis.

There are several levels of transactions between the Production and trading segments and Oil Pipeline operations. These transactions include oil transfers or some transportation products and services, respectively.

b) Statement of financial position by segments -

	Production and trading (*)	**Oil Pipeline operations**	**Leased and privatized units**	**Total**
	US$000	**US$000**	**US$000**	**US$000**
At December 31, 2022				
Assets:				
Current	2,033,003	25,132	35,334	2,093,469
Non-current	7,399,836	245,882	202,411	7,848,129
	9,432,839	271,014	237,745	9,941,598
Liabilities:				
Current	2,040,350	110,526	114,411	2,265,287
Non-current	4,957,398	66,590	-	5,023,988
	6,997,748	177,116	114,411	7,289,275
At December 31, 2021				
Assets:				
Current	1,175,195	262,895	20,803	1,458,893
Non-current	6,751,994	270,737	203,912	7,226,643
	7,927,189	533,632	224,715	8,685,536
Liabilities:				
Current	2,141,238	106,800	53,383	2,301,421
Non-current	4,457,821	17,375	-	4,475,196
	6,599,059	124,175	53,383	6,776,617

(*) Include refineries, a gas station, commercial area, main office and block I.

c) Statement of income by segments -

	Production and trading (*) US$000	Oil Pipeline operations US$000	Leased and privatized units US$000	Total US$000
For the year ended December 31, 2022				
Revenue from ordinary activities	5,516,955	285	-	5,517,240
Other operating income	39,371	16	24,261	63,648
Total revenue	5,556,326	301	24,261	5,580,888
Cost of sales	(5,483,488)	(51,080)	(5,377)	(5,539,945)
Transfers	(16,171)	16,171	-	-
Gross profit (loss)	56,667	(34,608)	18,884	40,943
Selling and distribution expenses	(64,123)	(1)	(6,432)	(70,556)
Administrative expenses	(165,180)	(12,762)	-	(177,942)
Other income and expenses	14,609	(36,457)	-	(21,848)
(Loss) profit from operating activities	(158,027)	(83,828)	12,452	(229,403)
Financial (expenses) income	(97,726)	1,090	1,711	(94,925)
(Loss) profit before income tax	(255,753)	(82,738)	14,163	(324,328)
Income tax	54,740	(1,967)	336	53,109
Net result and comprehensive income of the year	(201,013)	(84,705)	14,499	(271,219)
For the year ended December 31, 2021				
Revenue from ordinary activities	4,156,237	177	-	4,156,414
Other operating income	28,061	9,668	24,301	62,030
Total revenue	4,184,298	9,845	24,301	4,218,444
Cost of sales	(3,716,973)	(42,055)	(5,378)	(3,764,406)
Transfers	(8,175)	8,175	-	-
Gross profit (loss)	459,150	(24,035)	18,923	454,038
Selling and distribution expenses	(53,613)	-	(8,068)	(61,681)
Administrative expenses	(133,506)	(11,543)	(35,000)	(180,049)
Other income and expenses	45,834	2,182	-	48,016
Profit (loss) from operating activities	317,865	(33,396)	(24,145)	260,324
Financial (expenses) income	(82,397)	(2,855)	(1,974)	(87,226)
Profit (loss) before income tax	235,468	(36,251)	(26,119)	173,098
Income tax expense	(105,322)	(42)	(119)	(105,161)
Net result and comprehensive income of the year	130,146	(36,209)	(26,000)	67,937

(*) Include refineries, a gas station, commercial area, main office and block I.

d) Other information -

The revenue by segments on the customers' geographical location are as follows:

	2022 US$000	2021 US$000
Peru	4,952,613	3,866,703
Other countries	628,275	355,551
	5,580,888	4,222,254

The information on revenue broken down by type of product is described in Note 21.

Regarding the concentration of sales in specific customers, in 2022 sales to two customers represented 41% and 12%, respectively, of sales revenue for the year (in 2021, sales to these customers represented 12% and 10%, respectively).

6 FINANCIAL INSTRUMENTS

6.1 Financial instruments per category -

The classification of financial assets and liabilities per category is as follows:

	At December 31,	
	2022	2021
	US$000	US$000
Financial assets as per the statement of financial position:		
Financial assets at amortized cost:		
- Cash and cash equivalents (Note 7)	88,746	239,557
- Trade receivables (Note 8)	471,673	302,091
- Other receivables (*) (Note 9)	51,367	39,265
	611,786	580,913
Other assets measured at fair value through profit and loss:		
- Derivative financial instruments (Note 9)	494	6,759
	612,280	587,672
Financial liabilities as per the statement of financial position:		
Other financial liabilities at amortized cost:		
- Other financial liabilities (Note 14)	4,967,447	5,065,484
- Trade payables (Note 15)	1,101,922	1,352,831
- Payables to related parties (Note 16)	885,888	-
- Lease liabilities (Note 13)	29,446	26,163
- Other payables (*) (Note 17)	33,579	31,155
	7,018,282	6,475,633
Other liabilities measured at fair value with changes in profit and loss:		
- Derivative financial instruments (Note 17)	-	45
	7,018,282	6,475,678

(*) Not including taxes, labor liabilities nor advances.

6.2 Credit quality of financial assets -

The credit quality of financial assets is shown in Note 3.1.b).

According to the information provided by Apoyo & Asociados Internacionales S.A.C. (Fitch Ratings representative), the credit quality of the financial institutions in which cash is maintained in checking accounts, liquidity funds and term deposits is broken down as follows:

	At December 31,	
	2022	2021
	US$000	US$000
Cash and cash equivalent -		
Checking accounts:		
A+	49,074	220,512
A	39,660	19,026
	88,734	239,538

Risk ratings "A" and "A+" in the above table represent high quality ratings. For banks in Peru, risk ratings are obtained from the credit rating agencies authorized by the Peruvian banking regulator “Superintendencia de Banca, Seguros y AFP” (SBS).

Customers’ credit quality is assessed in three categories (internal ranking):

A: new customers / related parties (less than six months),
B: existing customers / related parties (more than six months) with no history of default,
C: existing customers / related parties (more than six months) with some history of default in the past.

	At December 31,	
	2022	**2021**
	US$000	**US$000**
Trade receivables (Note 8)		
A	-	624
B	210,882	245,450
C	260,791	56,017
	471,673	302,091

Other receivables (Note 9) -

Counterparties without external credit rating (excluding tax credit, advances, on-account payments, other taxes, derivatives and impaired accounts).

	At December 31,	
	2022	**2021**
	US$000	**US$000**
A	1,124	1,306
B	28,319	15,836
C	21,924	22,123
	51,367	39,265

The total balance of these accounts is in compliance with contract terms and conditions; none of them have been re-negotiated.

7 CASH AND CASH EQUIVALENTS

This item comprises:

	At December 31,	
	2022	**2021**
	US$000	**US$000**
Checking accounts	88,734	239,538
Fixed funds	12	19
	88,746	239,557

The Company maintains cash in checking accounts in local and foreign currency with financial institutions. These funds are freely available and accrue interest rates, which are 6.50% in Peruvian soles and 1.58% in U.S. dollars during 2022 (2.15% and 0.58%, respectively, in 2021).

The decrease in checking accounts mainly comprise the use of funds received from the bond issuance made in 2021. These funds were used in payments of PMRT work progress during 2022.

8 TRADE RECEIVABLES

This item comprises:

	At December 31,	
	2022	2021
	US$000	US$000
Wholesalers	119,690	171,520
Mining industry	54,087	35,976
Fuel traders	20,158	16,025
Oil companies	25,462	22,460
External market	13,162	12,201
Aviation business	10,355	2,552
Armed Forces and National Police Force	8,933	4,570
Fishing industry	2,329	4,391
Transport industry	921	1,389
Construction industry	775	771
Electric power industry	710	179
Industrial industry	480	459
Other customers	1,225	1,087
Doubtful accounts from different customers	13,109	11,989
	271,396	285,569
Price Stabilization Fund – Peruvian Ministry of Energy and Mines - MEM (Note 1-c)	213,386	28,511
	484,782	314,080
Less: Expected loss of trade receivables	(13,109)	(11,989)
	471,673	302,091

Trade receivables -

The balances of trade receivables are invoices in Peruvian soles and U.S. dollars mainly originated by sales of refined products. For the Armed Forces and National Police Force, receivables fall due after 45 days; for wholesalers and other customers, from 7 to 45 days. Following internal policies, receivables are mostly secured by a performance bond and other instruments of the Peruvian financial system in accordance with the credit policy approved by the Board of Directors.

Price Stabilization Fund - Peruvian Ministry of Energy and Mines (MEM) -

At December 31, 2022 and 2021 the total amount receivable from the general hydrocarbons agency (Dirección General de Hidrocarburos - DGH) amounted to US$228,576 thousand and US$43,025 thousand, respectively, generated from compensation and contribution transactions (Note 2.23-b). These balances include a legal recourse (“Demanda de Amparo”) recorded in a Claims account for US$15,190 thousand at December 31, 2022 (US$14,514 thousand at December 31, 2021), classified as other long-term receivables (Note 9).

The increase in balances receivable from the Fuel Price Stabilization Fund is mainly due to the fact that the MEM, pursuant to Supreme Decree No. 002-2022-EM enacted on March 28, 2022, included within the scope of the aforementioned fund 84 and 90 octane Gasoline, 84 octane Gasohol, bulk Liquefied Petroleum Gas (GLP-G) and Diesel 2 for vehicular use. These products were excluded from the Fuel Price Stabilization Fund since April 2020.

The annual movement of the total balance of the item Price Stabilization Fund is explained as follows:

	2022 US$000	2021 US$000
Opening balance receivable (payable)	28,511	(255)
Price compensation	165,405	28,473
Price contribution	(23,335)	(3,174)
Net charged to revenue from ordinary activities (Note 21)	142,070	25,299
Compensation generated by imported products (Note 1-c)	105,176	4,626
Contribution generated by import of products	(9,709)	(926)
Collection of compensation and contribution payments	(54,538)	145
Exchange difference	1,876	(378)
Closing balance receivable	213,386	28,511

Expected loss of trade receivables -

To measure the expected credit losses, the Company has classified its customers based on common risk characteristics that reflect the payment capacity of each segment of customers considering the amounts owed. This classification was performed considering the segments that represent specific risks: wholesale, industrial, trade and armed forces segments.

The rates of expected credit losses are based on the payment profiles of sales over a 12-month period before December 31, 2022 and the historical credit losses are adjusted to reflect the current and prospective information about macroeconomic factors that affect customers' ability to settle the Company's trade receivables. The Company has identified the growth rate of hydrocarbon Gross Domestic Product (GDP) and the variation in real minimum vital remuneration as the most relevant factors and, consequently, adjusts the historical loss rates based on the expected changes in these factors.

Based on that information, the provision for losses at December 31, 2022 and 2021 was determined as follows:

	2022			2021		
	Expected loss rate %	Gross carrying amount US$000	Expected loss US$000	Expected loss rate %	Gross carrying amount US$000	Expected loss US$000
Current	0.09	236,496	203	0.001	273,507	4
From 1 to 30 days	2.75	5,595	154	2.74	-	-
From 31 to 60 days	3.17	16,171	513	3.10	-	-
From 61 to 360 days	18.18	11	2	99.36	22	22
More than 360 days	93.25	13,123	12,237	99.36	12,040	11,963
Total (*)		271,396	13,109		285,569	11,989

(*) Not including the Price Stabilization Fund.

The movement in the provision for expected loss of trade receivables is as follows:

	2022 US$000	2021 US$000
Opening balance	11,989	13,673
Expected loss (Note 24)	662	-
Exchange difference	468	(1,635)
Recoveries	(10)	(49)
Closing balance	13,109	11,989

Management considers that the provision for the expected loss recognized in the financial statements and guarantees required are sufficient to cover any eventual risk of collection of trade receivables at the date of the statement of financial position.

Trade receivables that have reached maturity, on which no losses are expected, are related to independent customers maintaining performance bonds and/or whose debt is reconciled and is expected to be collected in the short term; therefore, Management has not estimated an expected loss for these accounts.

The provision for expected loss for trade receivables is included in selling and distribution expenses in the statement of comprehensive income (Note 24).

9 OTHER RECEIVABLES

This item comprises:

	At December 31,	
	2022	2021
	US$000	US$000
Current		
Tax credit - VAT (a)	347,586	165,380
Tax credit - Income tax (b)	61,270	56,725
Advances granted to suppliers	53,192	27,598
Funds subject to restriction	16,516	3,094
Association investment with GeoPark	3,501	3,522
Loans to personnel	3,619	3,242
Loans to third parties	2,022	2,166
Assets for derivative financial instruments	494	6,759
Others	2,876	5,424
Doubtful accounts	33,466	32,824
	524,542	306,734
Uncollectible loss of other receivables (f)	(33,466)	(32,824)
Current portion	491,076	273,910
Non-current		
Tax credit - VAT, long-term (c)	685,561	539,364
Price Stabilization Fund Claims – Peruvian Ministry of Energy and Mines – MEM (Note 1(c)), Note 8) and d)	15,190	14,514
Claims against Peruvian tax authorities (e)	7,643	7,303
Other long-term taxes	6,537	6,521
Non-current portion	714,931	567,702

(a) Tax credit - Value added tax (VAT), short-term -

At December 31, 2022 it corresponds to the Value Added Tax (IGV in Peru) credit of operations for S/281,935 thousand (equivalent to US$73,805 thousand), Value Added Tax of the PMRT for S/309,298 thousand (equivalent to US$80,968 thousand) and tax credit for excise tax (ISC) for S/723,672 thousand (equivalent to US$189,443 thousand), which will be recovered in the short term from operations.

During 2022, Peruvian tax and customs authorities (“Superintendencia Nacional de Aduanas y Administración Tributaria – SUNAT”) made the return of VAT tax credit for S/475,586 thousand (equivalent to US$122,959 thousand) and during 2021, SUNAT made the return of VAT tax credit for S/168,805 thousand (equivalent to US$42,352 thousand), which was requested by the Company through the return of the balance in favor of the exporter's benefit.

At December 31, 2021 it corresponds to the Value Added Tax credit of operations for S/11,249 thousand (equivalent to US$2,824 thousand), Value Added Tax of the PMRT for S/195,064 thousand (equivalent to US$48,790 thousand) and tax credit for excise tax (ISC) for S/454,825 thousand (equivalent to US$113,763 thousand), which were estimated to be recovered in the short term from operations and under the VAT anticipated recovery regime.

(b) Tax credit - Income tax, short-term -

At December 31, 2022 it corresponds to income tax on-account payments accumulated for S/234,444 (equivalent to US$61,270 thousand), which will be recovered in the short term with the tax payable from operations.

At December 31, 2021 it corresponds to the tax credit for income tax on-account payments for S/226,789 (equivalent to US$56,725 thousand), which were estimated to be recovered in the short term through income tax payable from their operations. In 2022, there was a partial recovery of these balances.

(c) Tax credit - Value added tax, long-term -

At December 31, 2022 it corresponds to the Value Added Tax credit paid for the acquisition of goods and services mainly related to the PMRT amounting to S/1,303,812 thousand (equivalent to US$341,312 thousand) and the VAT for operations amounting to S/1,315,030 thousand (equivalent to US$344,249 thousand).

At December 31, 2021 it corresponds to the Value Added Tax credit paid for the acquisition of goods and services mainly related to the PMRT amounting to S/1,205,917 thousand (equivalent to US$301,624 thousand) and the VAT for operations amounting to S/950,506 thousand (equivalent to US$237,740 thousand).

This credit balance of tax credit has no expiration period. The Company expects to recover this tax credit through its operations in the long-term.

(d) Price Stabilization Fund Claims to the Peruvian Ministry of Energy and Mines -

In April 2010, the DGH issued Resolution 075-2010-EM/DG, by which the producers and importers of fuel are required to amend the weekly statements presented since August 2008 and apply, on a retroactive basis, the reference values established in said Resolution. The Company, based on the opinion of Management and legal counsel, has filed an Action seeking constitutional protection with the second constitutional court in Lima, on the grounds that this resolution was unconstitutional. This action was assigned with the File No.21022-2010-0-1801-JR-CI-02.

On November 28, 2018, a Sentence was issued through Resolution No.16, by which the claim was decided to be groundless. Pursuant to Resolution No.17, the appeal of said judgment was granted, filed by the Company.

Pursuant to Resolution No. 19, enacted on October 28, 2020, the court of first instance required:

a. That the defendant complies with submitting a comparative table specifying the contribution and compensation factors that would eventually have corresponded from August 19, 2008 to April 23, 2019.
b. Also, that the claimant complies with proving factually and/or legally why it considers that Resolution No. 075-2010-EM/DGH is not retroactively applicable.

On December 17, 2020, by means of a Sentence contained in Resolution No.5, the Third Civil Courtroom (“Tercera Sala Civil”) declared Resolution No.16 null and void, which decided the claim was groundless and ordered that the Judge of First Instance issue a new resolution in accordance with the aforementioned.

Pursuant to Resolution No. 20, enacted on March 4, 2021, the Company complies with accrediting the reasons why it is considered that Resolution No. 075-2010-EM/DGH is not retroactively applicable, as requested by Resolution No. 19. At December 31, 2022 and 2021 the Second Constitutional Court of Lima ("Segundo Juzgado Constitucional de Lima") is pending to issue a judgment.

Management considers that, based on the reports of its external legal advisors, once the court proceedings are completed, the outcome is expected to be favorable to the Company and it will enable it to recover the whole account receivable recorded those amounts to US$15,190 thousand at December 31, 2022 (US$14,514 thousand at December 31, 2021).

(e) Claims to the Peruvian tax and customs authorities ("Superintendencia Nacional de Aduanas y Administración Tributaria – SUNAT") -

At December 31, 2022 and 2021 this item only includes File No.17806-2012, which mainly comprises claims against tax assessments involving the Turbo A-1 (fuel intended only for aviation activities) resulting from the provisions of Supreme Decree No.186-2002-EF, which stipulated the sales of product Turbo A1 intended for general aviation activities were not subject to Excise Tax (ISC in Peru). In this regard, the Company considers it illegal to restrict the tax to sales conducted by profit-making entities since they were finally directed to aviation entities by virtue of private contracts.

The Company's legal advisors consider that the sales of Turbo A - 1 were carried out according to law, therefore, on February 4, 2022, Management filed a Contentious-Administrative Lawsuit against Resolution No. 09743- 4-2021, which is processed before the 22nd Contentious-Administrative Court ("22° Juzgado Contencioso Administrativo"), Tax Subspecialty (File No. 0744-2022-0-1801-JR-CA-22).

In November 2012, the Company paid a total US$8,651 thousand (equivalent to S/29,197 thousand), in respect of a number of tax determination and tax penalty resolutions involving allegedly unpaid excise tax (ISC) and VAT (IGV) comprisig sales of Turbo A - 1 for fiscal 2007. At December 31, 2022 this action remains to be resolved by Courtroom 4 of the Peruvian Tax Tribunal, under File No. 17806-2012. The expectation of the Company and its external legal advisors is that the probability of recovering the claim is high, based on the resolution of other similar claims that were favorable to the claimants.

(f) Uncollectible loss of other receivables -

This loss is mainly related to ongoing claims submitted to municipalities involving property taxes and municipal taxes; the probability of a favorable outcome is low.

With respect to the other items of other receivables, the Company considers that the credit risk of counterparties is low. Therefore, the Company has not registered an expected loss for these accounts as it is not significant.

The annual movement of the uncollectible loss is as follows:

	2022 US$000	2021 US$000
Opening balance	32,824	34,521
Exchange difference	652	(1,487)
Recovery	(10)	-
Write-offs	-	(210)
Closing balance	33,466	32,824

10 INVENTORIES

This item comprises:

	At December 31,	
	2022	2021
	US$000	US$000
Crude oil	311,086	210,379
Refined products:		
- In-process	188,589	53,096
- Finished	220,710	165,567
- Acquired refined products	233,971	150,538
In-transit inventories	29,534	27,682
Supplies	53,161	38,312
	1,037,051	645,574
Less - Provision for impairment of supplies	(4,142)	(4,251)
	1,032,909	641,323

In 2022, the cost of inventories recognized as expenses and included in the cost of sales amounted to US$5,211,361 thousand (US$3,506,281 thousand in 2021) which are equivalent to cost of sales excluding operating expenses of production (Note 23).

At December 31, 2022 the crude oil price had a rising trend, with a closing price of US$80.26 per barrel (US$76.99 per barrel at December 31, 2021). The average price during December 2022 was USUS76.49 per barrel (US$71.53 per barrel in December 2021). At December 31, 2022 the crude oil inventory is made up of 3,876 MBC (2,733 MBC at December 31, 2021).

The annual movement of the provision for impairment of supplies is explained as follows:

	2022	2021
	US$000	US$000
Opening balance	(4,251)	(4,419)
Impairment of supplies	(247)	(232)
Recovery	356	400
Closing balance	(4,142)	(4,251)

This provision was recognized as a result of analyzing the net realizable value of inventories, taking into account the expectations of obtaining net cash flows from consumption and considering their physical condition. At December 31, 2022 and 2021 the Company considers that the amount of the provision adequately reflects the risk of impairment of all its inventories both by physical obsolescence and net realizable value.

11 PROPERTY, PLANT AND EQUIPMENT

Changes on this item for the years 2022 and 2021 are as follow:

	Land US$000	Buildings and others constructions US$000	Machinery and equipment US$000	Vehicles US$000	Furniture and fixtures US$000	Other and computer equipment US$000	Equipment not in use US$000	Work in progress US$000	Additional investments US$000	Total US$000
Balances at January 1, 2021										
Cost	204,162	206,329	890,959	43,517	6,276	62,992	5,547	5,054,380	40,666	6,514,828
Accumulated depreciation	-	(104,602)	(443,448)	(18,751)	(4,708)	(34,116)	(5,223)	-	-	(610,848)
Accumulated impairment	-	-	(309)	-	-	-	(324)	(71,446)	-	(72,079)
	204,162	101,727	447,202	24,766	1,568	28,876	-	4,982,934	40,666	5,831,901
Year 2021										
Net cost as of January 1, 2021	204,162	101,727	447,202	24,766	1,568	28,876	-	4,982,934	40,666	5,831,901
Additions	6,261	46	12,029	-	-	167	-	770,719	18,714	807,936
Transfers	-	6,591	149,336	5,837	190	5,017	-	(120,111)	(46,860)	-
Disposals	-	-	(3,098)	(1,028)	-	(39)	(380)	-	-	(4,545)
Reclassification to equipment out of use	-	-	(3,488)	(108)	(17)	(738)	4,351	-	-	-
Reclassifications to intangible assets	-	-	-	-	-	-	-	(6,843)	-	(6,843)
Adjustments	-	-	-	-	-	(2)	-	2	-	-
Depreciation for the year	-	(5,612)	(40,696)	(2,862)	(470)	(3,535)	-	-	-	(53,175)
Depreciation of disposals	-	-	3,098	1,028	-	39	380	-	-	4,545
Transfer of depreciation	-	-	3,124	102	17	711	(3,954)	-	-	-
Disposal of equipment out of use	-	-	-	-	-	-	(397)	-	-	(397)
Net cost as of December 31, 2021	210,423	102,752	567,507	27,735	1,288	30,496	-	5,626,701	12,520	6,579,422
Balances at December 31, 2021										
Cost	210,423	212,966	1,045,738	48,218	6,449	67,397	9,518	5,698,147	12,520	7,311,376
Accumulated depreciation	-	(110,214)	(477,922)	(20,483)	(5,161)	(36,901)	(9,518)	-	-	(660,199)
Accumulated impairment	-	-	(309)	-	-	-	-	(71,446)	-	(71,755)
	210,423	102,752	567,507	27,735	1,288	30,496	-	5,626,701	12,520	6,579,422
Year 2022										
Net cost as of January 1, 2022	210,423	102,752	567,507	27,735	1,288	30,496	-	5,626,701	12,520	6,579,422)
Additions	-	-	-	28	-	-	-	553,374	9,747	563,149)
Transfers	-	290,506	1,006,321	-	157	81,482	-	(1,362,770)	(15,697)	-
Disposals	-	(3,854)	(223)	(4)	(6)	-	-	-	-	(4,087)
Reclassification to equipment out of use	-	-	(481)	(135)	(29)	(555)	1,200	-	-	-
Reclassifications	588	-	-	-	-	-	-	(2,453)	-	(1,865)
Depreciation for the year	-	(11,893)	(68,156)	(2,718)	(442)	(6,960)	-	-	-	(90,169)
Depreciation of disposals	-	-	3,622	206	4	6	-	-	-	3,838
Transfer of depreciation	-	-	477)	134)	29)	511	(1,151)	-	-	-
Disposal of equipment out of use	-	-	-	-	-	-	(48)	-	-	(48)
Net cost as of December 31, 2022	211,011	381,365	1,505,436	25,027	1,003	104,975	-	4,814,852	6,570	7,050,239
Balances at December 31, 2022										
Cost	211,011	503,472)	2,047,724)	47,888	6,573	148,319	10,662	4,886,298	6,570	7,868,517
Accumulated depreciation	-	(122,107)	(541,979)	(22,861)	(5,570)	(43,344)	(10,662)	-	-	(746,523)
Accumulated impairment	-	-	(309)	-	-	-	-	(71,446)	-	(71,755)
	211,011	381,365	1,505,436	25,027	1,003	104,975	-	4,814,852	6,570	7,050,239

(i) Major projects -

Name of the project	Estimated investment amount at December 31, 2022 US$000	Progress percentage % Real	Planned
Talara Refinery Modernization Project - PMRT (a)	6,217,992	98.50	100.00
Project to set up and operate the New Ilo Terminal (b)	47,432	33.70	35.10
Supply Plant in Pasco Ninacaca (c)	7,352	47.50	54.00
Puerto Maldonado Plant and Selling Point (1st stage) (d)	19,491	63.20	84.40

a) Talara Refinery Modernization Project - PMRT -

Its objective is the technological development involving building new manufacturing facilities, modernizing and extending current facilities to:

i) Manufacture Diesel and Gasoline with less than 50 ppm (part per million) of Sulphur.
ii) Enlarge the production capacity of the refinery from 65 to 95 thousand bpd (barrels per day).
iii) Process heavy and more economic crudes to be used in manufacturing light fuels of higher commercial value.

At December 31, 2022 the status of the Project is described as follows specifying the physical progress of the assets and the economic progress for costs incurred:

- **Overall progress -**

- Overall progress of PMRT is 98.50% Real versus 100% Scheduled

To date, in the case of the EPC contract for auxiliary units signed with Consorcio Cobra SLC UA&TC, the subscription of the addendum resulting from the evaluation of Covid-19 impacts for 2021 and 2022 has been coordinated, which includes: impacts on the term, disruptions in execution and mutual claims and effects of Covid-19 in those years..

In the case of the EPC contract for processing units signed with Tecnicas Reunidas de Talara, at the board of directors' agreement dated December 27, 2022, addendum 18 to the international contract and addendum 39 to the local contract were approved, which in turn approved the update of the PMRT Level III master schedule in its review 10. This last approved review includes the term extension as a result of the Covid-19 impacts in 2021 and 2022.

At December 31, 2022 and 2021 the table below shows a breakdown of the budgeted cost of project compared to the disbursements incurred:

	December 31, 2022		Total Budget	
	Disbursements US$000	Progress percentage %	Cost Planned US$000	Percentage of cost %
Técnicas Reunidas (TR) -				
Processing units	3,260,776	97.24	3,353,171	53.93
Consorcio Cobra SCL UA&TC -				
Auxiliary units	803,057	86.34	930,113	14.96
Complementary work	319,145	86.60	368,517	5.93
Others -				
Supervising	357,559	96.90	369,009	5.93
Management	226,999	84.31	269,257	4.33
Interest on financing	919,896	99.13	927,925	14.92
	5,887,432	94.68	6,217,992	100.00

	December 31, 2021		Total Budget	
	Disbursements	Progress percentage	Cost Planned	Percentage of cost
	US$000	%	US$000	%
Técnicas Reunidas (TR) -				
Processing units	3,065,992	96.36	3,181,708	55.64
Consorcio Cobra SCL UA&TC-				
Auxiliary units	770,797	90.99	857,124	14.99
Complementary work	292,912	80.64	363,215	6.35
Others -				
Supervising	321,837	91.95	350,009	6.12
Management	201,249	81.23	247,766	4.33
Interest on financing	717,282	99.83	718,525	12.57
	5,370,069	93.91	5,718,347	100.00

- **Progress of "EPC Unidades de Proceso" - Contract with Técnicas Reunidas (TR) -**

At December 31, 2022 the comprehensive progress physical in the EPC Contract with TR is 99.73% Real vs. 100% Scheduled (at December 31, 2021 98.75% Real vs. 99.84% Scheduled).

TR has registered progress in its activities as follows:

- Progress of engineering: 100%.
- Progress of Procurement: 100% Real vs 100% Scheduled.
- Progress of construction: 99.78% Real Real vs 100% Scheduled.
- Commissioner Advance: 93.06% Real vs 100% Scheduled.

At December 31, 2022 the accumulated executed amount is US$3,226 million (US$3,039 million at December 31, 2021).

- **Progress of EPC Unidades Auxiliares y Trabajos Complementarios - Contract with Consorcio Cobra SCL UA&TC -**

At December 31, 2022 the comprehensive progress physical in the execution of the Procurement and Construction Service Contract (SPC) with the Consorcio Cobra SCL UA&TC is 95.70% Real VS. 100.00% Scheduled (at December 31, 2021 91.15% Real VS. 99.50% Scheduled).

Cobra SCL UA&TC has recorded progress in the Engineering, Procurement and Construction (EPC) activities, as follows:

- Progress of engineering: 99.71% Real vs 100% Scheduled.
- Progress of Procurement: 96.26% Real vs 100% Scheduled.
- Progress of construction: 97.95% Real vs 100% Scheduled.
- Commissioner Advance: 64.10% Real vs 100% Scheduled.

At December 31, 2022 the accumulated executed amount is US$1,122 million (US$1,064 million at December 31, 2021).

- **Financial structure of the PMRT -**

- Capital contribution: US$325 million.
- Own resources: US$938 million.
- Bond placement (15 and 30 years): US$2,000 million.

- Loan secured by Compañía de Seguros de Crédito a la Exportación (CESCE): US$1,300 million.
- Syndicated loan: US$500 million
- Bonds: US$1,155 million (Reopening 2021).

- **Social responsibility and Community Relations -**

- Local labor plan (“Plan de Mano de Obra Local”)

At December 31, 2022 the total labor plan equals 2,416 job positions. The share of local unqualified labor was 97.1% (from a total of 347 unqualified labor), above the limit set in the EIA (70%), while the share of local qualified labor was 65.0% (from a total 2,069 qualified labor).

- Construction of underground cisterns to provide a greater number of hours of drinking water:

- Storm Drainage Improvement for the Private Educational Institution Federico Villareal and Protection of the blocks and houses involved (Urbanization South America).

b) Project to set up and operate the New Ilo Terminal -

This project consists of the construction, installation and startup of a new Supply Terminal in Ilo for receiving, storing and shipping of fuel (Diesel, Gasoline and Gasohol) to meet demand in the surrounding area.

At December 31, 2022 the status of this Project is described as follows:

- The investment amount totals US$47,432 thousand, of which 72.9% has been executed (56.5% has been executed at December 31, 2021). The overall physical progress was 33.7% vs. 35.1% scheduled, and this variation is explained by the longer terms required in contracting the new Procurement and Construction Service (SPC) of the project.

- In 2022, the term of the contract was extended until December 31, 2023 for the continuation of construction activities on the assigned land. Also, the extension of the building license by the provincial municipality of Ilo was approved until June 15, 2024. In addition, the procurement preservation service began and the service of prefabricated sheets and accessories for 9 tanks was completed.

c) Supply Plant in Ninacaca -

Construction, installation and start-up of a new Supply Plant in the district Ninacaca, province Pasco, to meet the demand for liquid fuels (Diesel B5, Gasohol 84, Gasohol 90) in the surrounding area.

At December 31, 2022 the status of this Project is described as follows:

- The proposed investment amounts to US$14,032 thousand. However, it should be noted that, according to the cost baseline of September 2017, the initial investment amount was US$7,352 thousand, of which 83.3% has been executed, equivalent to US$6,124 thousand (one execution from 81.7% at December 31, 2021).

- The overall physical progress is estimated at 47.5% vs. 54.0% scheduled, according to the baseline of the June 2022 schedule (at December 31, 2021 physical progress of 73.5% vs. 96.3% scheduled, according to the baseline of March 2021 schedule).

- The project has been stopped since April 2020, due to a dispute resolution process with Consorcio OBS - IMECON S.A. An expert opinion was initiated to resolve the disputes that end in 2021, and resulted in the recognition of S/1.8 million, VAT included, in favor of the consortium. On March 8, 2022 the Company informed the consortium of the contract termination due to breaches related to the custody of accesses and security of the land where the service is carried out. The market research process is currently carried out for the contracting of the complementary engineering development service.

- There is a valid Building License until August 10, 2023.

d) Puerto Maldonado Plant and Selling Point (1st stage) -

Construction, installation and start-up of a new Fuel Supply Plant in Puerto Maldonado, to meet the demand for liquid fuels in the surrounding area and reduce the cost of transport.

At December 31, 2022 the status of this Project is described as follows:

- The proposed investment amount totals US$42,461 thousand. However, it should be noted that, according to the baseline April 2019, the initial investment amount was US$19,491 thousand, of which 99.3% has been executed, equivalent to US$19,354 thousand. (one execution from 97.0% at December 31, 2021).

- Global physical progress is 63.8% vs. 80.4% scheduled, according to the baseline of the June 2022 (physical progress of 81.9% vs. 95.0%, at December 31, 2021, according to the baseline of the September 2020).

- The Procurement and Construction (PC) service is in charge of the Tecnitanques contractor showing an advance of 96% in general preliminary works, 85% in civil works, 92% in mechanical works and 57% in electrical works and instrumentation.

- The use of easements has been negotiated before the Peruvian Superintendency of State Assets (SBN by its acronym in Spanish), which is a process that began by requesting a declaration from the MEM.

(ii) Concession of port terminals -

The purpose of the Terminal Operation Contract is to designate operators to operate, under their sole responsibility, cost and risk of the fuel storage terminals in the north, center and south of the country; additionally, for the effective period of the concession agreement, making investments as committed as well as additional investments. Terminal operation consists of receiving, storing and shipping hydrocarbons, including maintenance and compliance with the work safety and environmental technical standards.

Maintenance of concession assets is contained in the respective operation agreements, by which, at the termination of those agreements, the concession assets must be returned to grantor in the same conditions in which they were originally provided, except for regular wear and tear from use.

During 2014, a public tender was organized to select Operators for the North, Central and South Terminals; awards for the North and Central Terminals were granted to the companies Graña y Montero Petrolera S.A. and Oiltanking Perú S.A.C.; the relevant operating contracts were signed for an effective period of 20 years, which are effective until October 31, 2034 (Terminales Norte) and September 1, 2034 (Terminales del Centro).

The conditions of the agreements include executing additional investments for the approximate amount of US$83,116 thousand (Terminales Norte) and US$102,842 thousand (Terminales Centro) and investments committed by US$18,390 thousand (Terminales Norte) and US$18,766 thousand (Terminales Centro).

At December 31, 2022 and 2021 the net carrying amounts of the concession assets totaled US$109,534 thousand and US$105,526 thousand, respectively; included mainly in the item of land, machinery and equipment.

(iii) Insurance -

The assets and operations of the Company are covered with an integral insurance policy against:

a) Property and loss of profits policy for up to US$500,000 thousand with declared values of US$6,746,787 thousand; effective until September 9, 2023.
b) Sabotage and terrorism policy for up to US$200,000 thousand with declared value of assets of US$6,746,787 thousand; effective until June 27, 2023.
c) Public general liability insurance ("Póliza de responsabilidad civil general comprensiva") for up to US$100,000 thousand; effective until February 25, 2023.
d) Air carrier's liability and insurance ("responsabilidad civil de aviación") for up to US$500,000 thousand, effective until April 24, 2024.

As of December 31, 2022 and 2021, Management considers that the comprehensive insurance policy described above adequately covers the estimated risk of loss of its assets.

(iv) Depreciation -

The annual depreciation charge to profit or loss on property, plant and equipment is distributed as follows:

	2022 US$000	2021 US$000
Cost of sales (Note 23) (*)	73,720	38,563
Selling and distribution expenses (Note 24)	9,501	10,662
Administrative expenses (Note 25)	6,948	3,950
	90,169	53,175

(*) Not including the depreciation of investment properties for US$10 thousand in 2022 (US$11 thousand in 2021).

At December 31, 2022 and 2021, the Company has not granted any element of its fixed assets as collateral for loans.

The gross cost of totally depreciated assets still in use at December 31, 2022 was US$162,605 thousand, equivalent to S/545,617 thousand (US$158,622 thousand, equivalent to S/532,616 thousand at December 31, 2021).

(v) Major additions related to work in progress -

In 2022, additions of work in progress mostly relate to PMRT´s EPC (Engineering, Procurement and Construction) contract, PMC (Project Management Office), PMO (Project Management Consulting), Auxiliary services and Other services that represent an investment of US$314,749 thousand, (US$530,146 thousand in 2021); and other works in progress amounting to US$63,561 thousand.

Additionally, borrowing costs that were capitalized in 2022 related to the Talara Refinery Modernization Project amounted to US$202,614 thousand (US$185,313 thousand in 2021).

(vi) Disposal of assets -

In 2022, the final disposal of assets mainly includes the fully depreciated cost of some goods (a van, a backhoe and a dumper) in custody of the Pipeline Management, and the removal of certain major maintenance by the Talara Refinery Management. The total amount of the disposal of assets amounts to US$4,086 thousand.

In 2021, the final disposal of assets mainly includes the fully depreciated cost of: combustion engines, tugboats, storage tank and industrial turbines in custody of the Pipeline Management; a van at the Talara Refinery; generator set, electric pumps, vans, horizontal tanks in charge of the Commercial Management and other computer equipment registered as out of use in custody by the Management of the Information Technology Department (OFP) for US$4,545 thousand.

(vii) Impairment of assets -

a) Cash-generating units (CGUs) -

At December 31, 2022 the Company, taking into account the decrease in income and results of 2022 of the CGU operations Oil Pipeline (Note 5), based on internal and external information, considers that there are certain indications that the assets of the CGU Oil Pipeline could be impaired.

The impairment test was performed by comparing the recoverable amount of the CGUs against the carrying amount of the assets of that CGU. The CGU is the smallest group of identifiable assets capable of generating cash flows for the Company. The Company has determined the recoverable amount of the CGU using their value in use. Key assumptions used in determining the value in use were as follows:

Oil Pipeline operations (ONP) -

- Have been considered operating cash flows from the service of transportation and custody of crude from the Northern jungle in Peru.
- Forecast crude volumes: Based on crude production volume projections released by PERUPETRO S.A., Management has prepared forecast of crude volumes expected to be carried through the Oil Pipeline (ONP).
- Forecast transportation rate: The Company estimates the transportation rate applied in its projections based on the current rate schedule as established under the contracts it signed.
- Operating flow for the unloading service and use of crude oil: the estimated inflows come from the service to operators of blocks 67 and 97, currently in operation, and the estimated income from the operations of blocks 192 and 64, which will start in subsequent years.
- Have been considered cash flows from services rendered to the Production and trading CGU of transport and selling of residual products from the Iquitos Refinery.
- All relevant assets have been allocated to the respective CGU.
- A 10-year projection horizon and perpetuity. The perpetuity cash flows projection considers no growth rate in the long term. The Company considers it appropriate to use a projection of 10 years, since at December 31, 2022 not all the oil blocks located in the northern jungle to which the corresponding transfer service would be provided are operating, which is estimated to occur in the long term.
- Projections do not include cash inflows or outflows from financing activities.
- The discount rate is determined before taxes and is affected by the risks associated with a specific CGU and the current assessments that the market makes on the value of money over time.
- Projected costs and expenses are estimated based on the budgeted expenses for 2023 prepared by the Company. The costs include an estimate of maintenance investments.

Key assumptions used in calculating the value in use are as follows:

	2022	2021
Average annual growth rate (%)	17	17
Average gross margin (%)	49	46
Average prices ($)	12	9
Discount rate (%)	16.62	11.78

For 2022, the annual growth rate corresponds to annual growth rate compound income during the period 2023 to 2032. Revenue growth is generated according to the forecasts prepared by oil block operators.

The budgeted gross margin is the average gross margin for 10-year projections.

The rates used are before taxes and reflect specific risks associated with the business of the CGU.

At December 31, 2022, the Company has estimated that the recoverable amount of the Oil Pipeline CGU amounts to US$346,578 thousand (US$388,411 thousand in 2021), while the carrying amount of the assets amounts (as part of the assets of this CGU, investments in Property, plant and equipment are considered, as well as certain items of current assets and liabilities that affect working capital, also included in the flow projection) to US$190,106 thousand (US$251,001 thousand at December 31, 2021).

Sensitivity analysis -

The recoverable amount of this CGU would be equal to its carrying amount if the key assumptions are as follows, holding all other assumptions constant:

Key assumption	**2022**
Average annual growth rate (%)	15
Average gross margin (%)	40
Average price ($)	10
Discount rate (%)	22.92

The Company has conducted a sensitivity analysis of the key assumptions used in determining the recoverable amount, assuming a negative variation in each case of 5%:

Key assumption	**Variation**	**Impairment US$000**
Budgeted annual growth	-5%	-
Prices for the year	-5%	-
Budgeted gross margin	-5%	-
Discount rate	-5%	-

b) Talara Refinery Modernization Project (PMRT by its acronym in Spanish) -

At December 31, 2022, the Company has deemed it appropriate to perform the impairment test of the PMRT considering the changes investment budget, execution schedule and startup; as well as the variability in crude oil prices.

The impairment test was performed by comparing the recoverable amount of the PMRT against the carrying amount. Management has determined the recoverable amount by estimating their value in use. Key assumptions used in determining the value in use are as follows:

- Have been considered operational cash flows from the PMRT activities. Cash flow projections comprise all cash flows that are expected to be generated in the normal course of the PMRT.
- The forecast cash flows consider an investment to be made to complete construction of PMRT.
- 21-year including construction period projection horizon and a perpetuity. The perpetuity cash flow projections consider no growth rate in the long term of 1.65%. The Company considers it appropriate to use a projection period of 21 years, which is aligned with the estimate of the average useful life of the CGU's long-term assets, the operating cycle of the PMRT and the projection of the sale prices of its products during this horizon, according to reports from independent third-party.
- Before-tax discount rate affected by specific risk of the industry and market and a risk premium since this is under construction.
- Projections considered in valuation were operating cash flows from purchases, refinery and sales of crude by-products.
- Fixed and variable costs were defined by the Company.
- Forecast selling prices: the Company estimates the selling prices of oil by-products at import parity prices, based on the movement of prices of WTI crude oil and spreads of by-products in time, considering inputs obtained from a specialized international price source S&P Global (formerly called IHS Markit).
- Selling prices used in valuation are prices at the plant site.
- Forecast crude product volume purchases: refinery loads are estimated by the Management of Refinery and Pipelines (“Gerencia Refinación y Ductos”) using the mathematical model of refining.
- Forecast of costs of acquisition: the Company has prepared, based on projections released by IHS Consulting Services, a forecast of costs of acquisition of crude and products, based on the movement of prices of WTI crude oil and spreads of by-products in time.

Key assumptions used in determining the value in use are as follows:

	2022	2021
Average annual growth rate (%)	3	3
Average gross margin (%)	16	16
Average price of refined oil ($)	112	98
Discount rate (%)	9.53	7.79

The annual growth rate corresponds to annual growth rate compound of income during the period 2023-2043. The average growth rates used are based with the expected performance of the asset and with the Company’s forecasts.

The budgeted gross margin is the average gross margin for operating 21-year projections.

Prices are the average included in projections. Management determined the budgeted prices based on past performance, current trends in the industry, established rates and market development expectations.

Risk-adjusted rates are pre-tax and reflect the risks associated with the relevant business.

At December 31, 2022, the Company has estimated that the recoverable amount of the PMRT amounts to US$6,859,496 thousand (US$5,934,715 thousand at December 31, 2021), while the carrying value of the assets (as part of the assets of this CGU, investments in Property, plant and equipment are considered amounting to US$5,994,673, as well as certain items of current assets and liabilities that affect working capital, also included in the flow projection amounting to US$247,17) amounts to US$6,241,844 thousand (US$5,417,256 thousand at December 31, 2021).

Sensitivity analysis -

The recoverable amount of the PMRT would equal its carrying amount if the key assumptions were as follows, holding all other assumptions constant:

Key assumption	2022
Average annual growth rate (%)	2
Average gross margin (%)	14.81
Average price of refined oil (US$)	110
Discount rate (%)	10

The Company has conducted a sensitivity analysis of the key assumptions used in determining the recoverable amount, assuming a negative variation in each case of 5%:

Key assumption	Variation	Impairment US$000
Budgeted annual growth	-5%	(1,528,941)
Average price of refined oil	-5%	(1,501,931)
Budgeted annual margin	-5%	-
Discount rate	-5%	(2,046,287)

12 INVESTMENT PROPERTIES

	Land US$000	Buildings and other constructions US$000	Total US$000
At January 1, 2021			
Cost	9,339	927	10,266
Accumulated depreciation	-	(710)	(710)
Net cost	9,339	217	9,556
Year 2021			
Net opening amount	9,339	217	9,556
Depreciation for the year	-	(11)	(11)
Net closing amount	9,339	206	9,545
At December 31, 2021			
Cost	9,339	927	10,266
Accumulated depreciation	-	(721)	(721)
Net cost	9,339	206	9,545
Year 2022			
Net opening amount	9,339	206	9,545
Depreciation for the year	-	(10)	(10)
Net closing amount	9,339	196	9,535
At December 31, 2022			
Cost	9,339	927	10,266
Accumulated depreciation	-	(731)	(731)
Net cost	9,339	196	9,535

At December 31, 2022 and 2021 this item comprises:

(a) A lease contract of the real state of Block Z-2B with Savia Perú S.A. (ex Petro-Tech Peruana S.A., hereinafter Savia) for a period of 10 years, which expired on November 15, 2013. The lease contract continues to be effective under the provisions of article 1700 of the Peruvian Civil Code, by which, if at the contract termination date, the lessee continues using the leased asset, it should not be understood as a tacit renewal, but the continuation of the lease under the same terms and conditions, until lessor requests the return of the asset, which can occur at any time. By virtue of this lease, Savia Perú S.A. pays the Company US$10,000 thousand annually.

In April 2018, Savia begins an arbitration process against the Company and stated that it is not entitled to pay the rent set in the contract, considering that it paid the value of assets for an amount of US$200,000 thousand until 2013. Therefore, on June 12, 2019 the Company submitted its respond to the Arbitration Center of the Lima Chamber of Commerce.

On September 5, 2019 the Company was notified with the partial arbitration decision to declare Savia's claims unfounded.

At December 31, 2020 the final arbitration decision remains to be issued by the Arbitration Tribunal, whose pronouncement depends on whether there is an agreement between the Company and Savia on the amount of the rent. The deadline for negotiations with Savia on a possible change in the amount of the goods lease was extended until December 18, 2020. On February 1, 2021, by Proceeding Order No. 27, the Arbitral Tribunal decided to order the temporary suspension of the rent payment set in the contract corresponding to the periods 2019, 2020 and 2021, for a period of six months from the notification of this proceeding order. On July 12, 2021 the Arbitration Center of the Lima Chamber of Commerce issued the final decision establishing the amount of the lease at US$5,000 thousand per year effective from 2013, as well as the return of leases charged to Savia in excess since that date (Note 25(b)), according to the resolution of the Award. On September 28, 2021 the Company filed a Claim for Nullity of the Arbitration Decision before the Judicial Power, because Management considers that there are flaws in the arbitration process that are grounds for nullity. Likewise, the suspension of the execution of the Decision was requested and the claim was admitted at December 31, 2022 by the Judicial Power. To date, the resolution of the request for nullity is pending.

(b) A lease contract signed in March 2014 of the assets the Pucallpa Refinery and Sales plant, Residences and Administrative Offices with Maple Gas Corporation Del Perú S.R.L. (hereinafter, MAPLE), for a period of 10 years, which expires on March 28, 2024, establishing a payment of US$1,200 thousand per year.

During 2019, the Corporate Legal Management has informed Maple that the contract has been duly terminated for breach of contract, default in rents and failure to provide the service of Receiving, Warehousing, and Dispatch. In this regard, the Company began an Arbitration process against MAPLE in order to declare the lease resolution at August 20, 2019, the payment of the pending rent and interest, as well as compensation for lost profits and damages.

In September 2020, the sole hearing was held in which Maple's absence was recorded and the Arbitral Tribunal closed the investigation phase, setting the date for the issuance of the decision.

On October 12, 2020, the Arbitral Tribunal issued the corresponding arbitration decision stating:

1. It recognizes that the lease contract was correctly terminated by the Company, so the recovery of the plant was legitimate.
2. Payment of invoices already issued that exceed US$376 thousand.
3. Payment in favor of the Company, a compensation of US$7,381 thousand plus interest.
4. Maple is ordered to bear 60% of the administrative costs.

Regarding point 3, compensation amount, INDECOPI has been requested to include the Company in the list of creditors, for the recognition of definitive credit. Said request was admitted at December 31, 2021. The assets of the Pucallpa Refinery and Pucallpa Sales Plant have passed to the Company's own administration.

At December 31, 2022, the Environmental Due Diligence Service for the Pucallpa Refinery is in the contracting process. With this service, the collection of samples will be carried out in the perimeter of the refinery and sales plant, in order to evaluate if these property assets have optimal conditions to be leased and if there is any environmental liability.

13 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

a) At December 31, this item includes the following amounts recognized in the statement of financial position:

	At December 31,	
	2022	2021
	US$000	US$000
Right-of-use asset	29,073	26,216
Lease liabilities:		
Current portion	18,500	12,004
Non-current portion	10,946	14,159
	29,446	26,163

The lease liability includes the net present value of the payments of the right-of-use assets related to rental of housing, boats, barges and information technology goods.

At December 31, 2022, the Company does not have leases that contain variable considerations, nor leases with residual value guarantees. Leases of less than 12 months and low-value leases have been recognized as expenses according to the policy stated in 2.12.

b) The movement of right-of-use assets and lease liabilities for years 2022 and 2021 are as follows:

	2022	2021
	US$000	US$000
Right-of-use assets		
Cost:		
Opening balance	68,985	33,258
Additions for new leases	16,659	35,726
Closing balance	85,644	68,984
Depreciation:		
Opening balance	(42,768)	(29,498)
Operating cost	(3,172)	(2,275)
Depreciation for the year	(10,383)	(10,995)
Others	(248)	-
Net cost	29,073	26,216
Lease liabilities:		
Opening balance	26,163	3,503
Additions for new leases	16,659	35,726
Lease payment	(13,576)	(12,760)
Exchange difference	200	(306)
Accrued interest	1,400	1,079
Interest paid	(1,400)	(1,079)
Closing balance	29,446	26,163

The additions for right-of-use assets mainly comprises the renewal of barge lease contracts whose term expires in 2024.

The charge to profit or loss for the depreciation for the year of the right-of-use asset is distributed among the following cost centers:

	2022	2021
	US$000	US$000
Cost of sales (Note 23)	8,826	9,782
Selling and distribution expenses (Note 24)	175	104
Administrative expenses (Note 25)	1,382	1,109
	10,383	10,995

14 OTHER FINANCIAL LIABILITIES

This item comprises:

	At December 31,	
	2022	2021
	US$000	US$000
Current liabilities		
Unsecured loans	708,602	674,106
CESCE loan (ii)	144,444	144,444
Accrued interest	14,695	5,961
	867,741	824,511
Non-current liabilities		
Corporate bonds (i)	3,126,936	3,126,611
CESCE loan (ii)	972,770	1,114,362
	4,099,706	4,240,973

(i) Corporate bonds -

On June 12, 2017 the Company issued bonds in the international market for a total of US$2,000,000 thousand under the U.S. Rule 144A and S Regulation, which are exceptions (“Safe-harbors”) to the U.S. regulatory framework (US Securities Act - 1933 and US Securities Exchange Act -1934) by which foreign issuers are allowed to offer, place and/or resell securities without the requirement to register those securities with the relevant New York Stock Exchange agency (SEC). The funds received are allocated to the Talara Refinery Modernization Project.

The bonds issued are as follows:

- 2032 Notes, a principal of US$1,000,000 thousand, with coupons paid semi-annually at a fixed rate of 4.750% per year, with a maturity of 15 years. Coupons are due from December 2017 and repayment of principal fall due on the bond maturity date. Transactional costs amounted to US$7,558 thousand and at December 31, 2022 the balance amounts to US$5,372 thousand (US$5,810 thousand at December 31, 2021).

- 2047 Notes, a principal of US$2,000,000 thousand (US$1,000,000 thousand received in the first issue of June 2017 and an additional US$1,000,000 thousand resulting from the reopening of bonds in February 2021), at a fixed rate of 5.625% per year, for a term of 30 years. Coupons are due from December 2017 and repayment of principal fall due on the bond maturity date. Transactional costs totaled US$9,558 thousand and at December 31, 2022 the balance amounts to US$8,857 thousand (US$9,022 thousand at December 31, 2021) and the excess amount of the placement over the bonds at the time of reopening amounts to US$135,889 thousand.

Under the bond issue agreement, there is no financial covenants that need to be met; however, it requires the provision of financial information to bondholders.

Bonds issued are not secured with specific guarantees; nevertheless, under Law No.30130 guarantees are approved to be given by the Government for up to US$1,000 million (Note 1-a).

(ii) CESCE loan -

On January 31, 2018, a syndicated loan agreement was signed, with Deutsche Bank SAE, acting as administrative agent, for up to US$1,300,000 thousand. At December 31, 2022, the following funds have been received:

- US$1,236,717 thousand was obtained in 2018, which was used to settle other sources of financing used in settling PMRT invoices, relating to the EPC with Técnicas Reunidas until November 2018.
- US$40,111 thousand was obtained in 2020, which was used to settle other sources of financing used in settling PMRT invoices, relating to the EPC with Técnicas Reunidas until February 2020.
- US$14,088 thousand was obtained in 2020, which was used to settle other sources of financing used in settling PMRT invoices, relating to the EPC with Técnicas Reunidas until November 2020.
- US$9,084 thousand was obtained in 2021, which was used to settle other sources of financing used in settling PMRT invoices, relating to the EPC with Técnicas Reunidas.

Transaction costs amounted to US$72,478 and at December 31, 2022 the balance amounts to US$33,065 thousand (US$41,193 thousand at December 31, 2021). Interest will be paid on a semi-annual basis starting May 2019 with maturity in 2030 and bearing an annual fixed interest rate of 3.285%.

The loan is 99% secured by the Spanish Export Credit Agency (CESCE), for which the Company pays a consideration. This loan not have specific contractual guarantees given by the Company or by Peruvian Government.

As part of the signed agreement, the Company is obliged to meet certain covenants, which are the following:

Financial covenants:

- Debt ratio.
- Service coverage ratio.
- Direct financing for investment in the PMRT.

At December 31, 2022 and 2021, the Company has met the established financial covenants, which are measured quarterly.

Non-financial covenants:

- To preserve and maintain business operations.
- To submit the Company’s audited financial statements within 150 days after the closing date of each fiscal year.
- To use the loan to pay for the acquisition of goods and services, including EPC contract payments.
- To grant the pari passu rank (ranking equally and without preference) to the loan in the priority of payment with all its creditors.

- To comply with established procedures to prevent the Company from being used in money laundering activities, financing of terrorist activities, fraud or other corrupt or illegal purposes or practices.

At December 31, 2022 and 2021, except for the presentation of the audited financial statements (Note 34-b), the Company has met the established non-financial covenants.

a) Debt repayment terms and timetable -

The terms and conditions of the outstanding loans are as follows:

	Original currency	Nominal interest rate %	Maturity	December 31, 2022 Nominal value US$000	December 31, 2022 Carrying amount US$000	December 31, 2021 Nominal value US$000	December 31, 2021 Carrying amount US$000
Unsecured loans	S/	1.56 - 1.92	2022	-	-	74,626	74,626
Unsecured loans	US$	0.29 - 0.77	2022	-	-	599,480	599,480
Unsecured loans	S/	5.89 - 9.95	2023	72,481	72,481	-	-
Unsecured loans	US$	3.16 - 8.85	2023	636,121	636,121	599,480	599,480
CESCE loan	US$	3.29	2031	1,155,556	1,117,214	1,300,000	1,258,806
Corporate bonds	US$	4.75	2032	1,000,000	996,195	1,000,000	994,190
Corporate bonds	US$	5.63	2047	2,000,000	2,130,741	2,000,000	2,132,421
Accrued interest				-	14,695	-	5,961
				4,864,158	4,967,447	4,899,480	5,065,484

The carrying amount is the amortized cost of borrowings, discounted at the effective rate.

b) Classification of loans by type of use (*) -

The Company allocated or will allocate the funds obtained by financing, as follows:

	2022 US$000	2021 US$000
Working capital	700,602	604,105
Short-term PMRT	8,000	70,000
PMRT	4,244,150	4,385,418
	4,952,752	5,059,523

(*) Not including accrued interest payable.

At December 31, 2022 and 2021 the Company maintained specific loans for the PMRT and its effective interest rates were the used interest capitalization rates.

c) Movement of borrowings -

The movement of the debt for borrowings was as follows:

	Unsecured loans US$000	Corporate bonds US$000	CESCE loan US$000	Total US$000
Balance at January 1, 2021	1,189,246	1,990,584	1,234,568	4,414,398
New loans	1,868,315	1,000,000	9,084	2,877,399
Disbursement over par	-	147,180	-	147,180
Payments of principal	(2,380,969)	-	-	(2,380,969)
Interest and transaction cost accrued	3,401	156,056	62,264	221,721
Interest paid (*)	(5,214)	(160,000)	(47,031)	(212,245)
Transactional cost paid	-	(2,000)	-	(2,000)
Balance at December 31, 2021	674,779	3,131,820	1,258,885	5,065,484

	Unsecured loans US$000	Corporate bonds US$000	CESCE loan US$000	Total US$000
Balance at January 1, 2022	674,779	3,131,820	1,258,885	5,065,484
New loans	2,560,501	-	-	2,560,501
Payments of principal	(2,526,005)	-	(144,444)	(2,670,449)
Interest and transaction cost accrued	27,936	156,918	50,456	235,311
Interest paid (*)	(19,190)	(162,224)	(41,986)	(223,400)
Balance at December 31, 2022	718,022	3,126,514	1,122,911	4,967,447

(*) In 2022, the Company has earmarked a total US$175,654 thousand of the interest paid on investing activities since they are mainly related to the PMRT (US$208,289 thousand in 2021).

d) Fair value estimation -

At December 31, the carrying amount and fair value of borrowings are as follows:

	Carrying amount (*)		Fair value	
	2022	2021	2022	2021
	US$000	US$000	US$000	US$000
Unsecured loans	718,022	674,779	708,602	674,106
Bonds	3,126,514	3,131,820	2,070,783	3,209,600
CESCE loan	1,122,911	1,258,885	1,027,376	1,248,302
Payables to related party	885,888	-	876,104	-
	5,853,335	5,065,484	4,682,865	5,132,008

(*) Not including interest payable.

At December 31, 2022 and 2021 to determine the fair value for disclosure purposes, in the case of bonds, the Company has used observable sources (Bloomberg), classified at Level 1. For unsecured loans, they were estimated by discounting future contractual cash flows at a current market interest rate that is available to the Company for similar financial instruments and the inputs of which have been classified in Level 2; while for the CESCE loan, Management has discounted the contractual cash flows at the Company’s average borrowing rate at mid- and long-term plus a spread, information that is classified in level 3.

15 TRADE PAYABLES

This item comprises:

	At December 31,	
	2022	2021
	US$000	US$000
Foreign suppliers of crude and refined products	783,260	1,036,185
National suppliers of crude and refined products	165,968	139,772
Suppliers of goods and services	122,536	145,064
Shipping companies and terminal operators and sales plants	30,158	31,810
	1,101,922	1,352,831

Trade payables reflect the Company's obligations related to the acquisition of crude oil and refined products, transportation and plant operators, supplies and spare parts.

At December 31, 2022 the main foreign supplier is Trafigura PTE LTD, to which US$367,231 thousand (US$57,417 thousand at December 31, 2021), and the main local supplier of crude oil is Petrotal Perú S.R.L., with a balance of US$72,496 thousand (US$70,881 thousand at December 31, 2021).

At December 31, 2022 the main service suppliers are Superintendencia Nacional de Aduana with a balance of US$21,616 thousand (US$18,400 thousand at December 31, 2021), Rimac Seguros y Reaseguros with a balance of US$11,888 thousand (US$14,040 thousand at December 31, 2021), Técnicas Reunidas de Talara Sociedad with a balance of US$8,685 thousand (US$16,736 thousand at December 31, 2021) and Consorcio PMC Talara with a balance of US$7,107 thousand (US$8,725 thousand at December 31, 2021).

The invoices are mainly issued in U.S. dollars, have current maturity, are non-interest bearing and have no specific guarantees.

16 PAYABLES TO RELATED ENTITY

At December 31, 2022, this item comprises:

	US$000
Loans (a)	751,297
Cancellation documents and interest (b)	134,591
	885,888
By maturity -	
Current	134,591
Non-current	751,297
	885,888

Following the changes and composition of this item:

	Loan US$000	Cancellation documents US$000	Total US$000
New loans	750,000	157,295	907,295
Payments of principal	-	(24,721)	(24,721)
Accured interest	21,914	3,843	25,757
Interest paid	-	(205)	(205)
Exchange difference	(20,617)	(1,621)	(22,238)
Balances at December 31, 2022	751,297	134,591	885,888

Pursuant to Emergency Decree No.010-2022, enacted on May 12, 2022, extraordinary economic and financial measures are established for the assurance of the local fuel market, therefore, the temporary financial support granted by the Peruvian Ministry of Economy and Finance (MEF) by means of the General Directorate of the Public Treasury was provided, through the following actions:

a) Financial support through a loan to the Company for an amount in Peruvian soles equivalent to US$750,000 thousand, in order to meet short-term obligations during 2022, which is equivalent to S/2,785,000 thousand; with original maturity on December 31, 2022, extended to December 31, 2024, by means of an addendum dated December 29, 2022. This debt accrues interest at a rate of 5%.

b) Issuance of Cancellation Documents - Public Treasury in favor of the Company: pursuant to Emergency Decree No. 010-2022, the Company requested the General Directorate of the Public Treasury of the MEF the issuance of Cancellation Documents in favor of the Company, up to the amount of S/500,000 thousand, to be used for the payment of customs duties and taxes associated with the purchase of crude oil and fuel products, as well as other taxes for fuel marketing operations. The aforementioned Cancellation Documents were issued on a monthly basis during 2022, at the request of the Company. At December 31, 2022 the Company received Cancellation Documents for S/595,865 thousand (equivalent to US$157,295 thousand) and amortized S/95,868 thousand (equivalent to US$24,721 thousand) with original maturity on December 31, 2022, extended to December 31, 2023 through an addendum dated December 29, 2022, with a rate between 5% and 6.75%.

c) The Company's key management compensation was as follows:

	2022 US$000	2021 US$000
Short-term employee benefits:		
Key management salaries (excluding remuneration of directors)	4,339	4,548
Remuneration of directors (all non-executives)	145	177

There were no post-employment benefits, long-term benefits, termination benefits and share-based payments in the years 2022 and 2021.

d) Owners -

The Peruvian State owns the Company's capital shares and is represented by each member of the General Shareholders' Meeting. According to the twenty-third article of the Company's bylaws, the General Shareholders' Meeting is made up of five members representing the class "A" and "B" shares owned by the Peruvian State: the MEM, who will chair it, and four members on behalf of the Peruvian State designated by Supreme Decree. Transactions between the Company and the Peruvian State and the MEM comprise transactions with shareholders.

17 OTHER PAYABLES

This item comprises:

	At December 31,	
	2022 US$000	2021 US$000
Obligations for Arbitration Decision (a)	25,000	25,000
Advances from customers (b)	24,970	31,074
Taxes (c)	13,245	17,263
Remuneration payable	19,531	16,256
Guarantee deposits (d)	4,123	3,779
Financial instruments payable	-	45
Others	4,391	2,376
	91,260	95,793

(a) Comprising the provision for the return of leases collected from Savia , by virtue of the resolution of the Final Decision issued on July 12, 2021 by the Arbitration Center of the Lima Chamber of Commerce (Note 12(a)). In this regard, the suspension of the execution of the aforementioned decision was requested, and the claim was admitted on December 31, 2022 by the Peruvian Judiciary. To date, the request for annulment is pending resolution.

(b) Advances received from local and foreign customers mainly comprise the amounts received for US$24,599 thousand and US$370 thousand, respectively, to secure the supply of fuel that is pending delivery. Advances for 2022 and 2021 were applied in the first quarter of 2023 and 2022, respectively.

(c) At December 31, 2022 taxes payable mainly include tax on gasoline vehicles and Fund for the mass use of gas (FISE), Perceptions, Osinergmin Aliquot for US$6,223 thousand, US$1,696 thousand, US$3,556 thousand and US$1,040 thousand, respectively. At December 31, 2021 taxes payable mainly include tax on gasoline vehicles and Fund for the mass use of gas (FISE), Perceptions, Osinergmin Aliquot, and income tax withheld for US$8,842 thousand, US$2,652 thousand, US$2,074 thousand, US$1,124 thousand and US$1,083 thousand, respectively.

(d) Comprising security deposits received by third parties to transport fuel to cover possible loss occurrences. If no such event occurs, the security deposit is returned at the end of the contract.

18 PROVISIONS

This item comprises:

	At December 31,	
	2022	2021
	US$000	US$000
Current		
Provision for environmental improvements (a)	45,522	11,166
Provision for labor-related court actions (b)	3,181	2,754
Provision for civil lawsuit (c)	1,812	1,044
Provision for plugging of wells (a)	505	482
Provision for labor termination (d)	108	691
Other provisions	145	145
	51,273	16,282
Non-current		
Provision for environmental improvements (a)	12,488	12,463
Provision for labor termination (d)	67	971
Other provisions	19	30
	12,574	13,464
	63,847	29,746

The movement of provisions is as follows:

	Provision for environmental improvements US$000	Provision for civil lawsuits US$000	Provision for labor-related court actions US$000	Provision for plugging of wells US$000	Provision for labor termination US$000	Other provisions US$000	Total US$000
Balances at January 1, 2021	31,227	103	2,073	532	4,502	201	38,638
Provision for the year (Note 25, 26 and 27)	-	998	1,249	-	-	-	2,247
Payments	(6,699)	-	(387)	-	-	(8)	(7,094)
Update of the present value	-	-	-	-	(37)	-	(37)
Reversal of unused provisions	-	-	(15)	-	(2,381)	-	(2,396)
Exchange difference	(899)	(57)	(166)	(50)	(422)	(18)	(1,612)
Balances at December 31, 2021	23,629	1,044	2,754	482	1,662	175	29,746
Provision for the year (Note 25 and 27)	39,619	729	717	-	-	-	41,065
Payments	(5,614)	-	(376)	-	(7)	(4)	(6,001)
Update of the present value	-	-	-	-	(4)	-	(4)
Reversal of unused provisions	-	(4)	(58)	-	(1,557)	(14)	(1,633)
Exchange difference	376	43	144	23	81	7	674
Balances at December 31, 2022	58,010	1,812	3,181	505	175	164	63,847

a) Provision for environmental improvements and plugging wells costs -

The Peruvian Government promotes the conservation of the environment and responsible use of natural resources in hydrocarbon activities in accordance with the Political Constitution of Peru, Law No.26221, Organic Law of Hydrocarbons in the National Territory; Law No.26821, Organic Law for the Sustainable Use of Natural Resources; Law No.27446, Law of the National System of Evaluation of the Environmental Impact; Law No.28245, Framework Law for Environmental Management; Law No. 28611, General Law of the Environment and Law No.29134, Law Regulating the Environmental Liabilities of the Hydrocarbons Sub-Sector, among others.

The Peruvian Ministry of Energy and Mines, pursuant to Supreme Decree No.039-2014-EM, enacted on November 12, 2014, approved the new Rules for the Environmental protection of Hydrocarbon Activities, which set forth the standards and regulations for the national territory, the Environmental Management of the activities of exploration, exploitation, refining, processing, transport, trade, warehousing and distribution of hydrocarbons, over their life cycle, as a way to prevent, control, mitigate and remediate the adverse environmental impact of such activities.

Also, within the framework of Legislative Decree No.674, “Ley de Promoción de la Inversión Privada en las Empresas del Estado”, the Company assumed contractual obligations of environmental remediation of its privatized units, guaranteed by the Peruvian Government. Therefore, as per the applicable laws and regulations, the signed contracts and management policies, at December 31, 2022, the Company continues to implement environmental remediation activities in its own operating units and privatized units.

Privatized operating units -

During 2017, no significant environmental remediation work was performed in the privatized units considering the new regulatory framework, but administrative and legal steps are taken within the framework of the Contracts for Privatized Units.

In compliance with these provisions, the Company has made provisions for the remediation of negative environment impacts caused in its privatized units for US$80,228 thousand. This amount has been in force since 1997 to 2022. At December 31, 2022 the balance of this provision for privatized units amounts to US$7,982 thousand (US$8,078 thousand at December 31, 2021).

With respect to the privatized units (La Pampilla Refinery, Lubricant Plant, Block X, Block 8, Terminales, Selling Plants, Planta de Generación Eléctrica y Gas Natural), the estimates made were based on the environmental studies ruled favorable by the general hydrocarbons agency (Dirección General de Hidrocarburos - DGH) or the general environmental office (Dirección General de Asuntos Ambientales Energéticos - DGAAE). The provision is updated annually depending on the costs of the work completed or in progress and the costs estimates of work remaining to be implemented corresponding to the Environmental Remediation Agreements and depending on current environmental regulations and legal procedures.

Own operating units -

Of a total 230 of projects of which the environmental management programs (“Programas de Adecuación y Manejo Ambiental - PAMA”) were implemented and met by the Company from 1995 to adapt its operations to the first regulations to protect the environment - “Reglamento para la Protección Ambiental en las Actividades de Hidrocarburos” (D.S. No.046-93-EM). At December 31, 2022 210 projects have been executed.

Regarding the management instrument of the Complementary Environmental Plan (“Plan Ambiental Complementario – PAC”) of the PMRT, due to an operational need, it has been determined that the "Instalación del Oxidador para la soda gastada proveniente del tratamiento de nafta craqueada y GLP (Item 9 del PAMA)” must be carried out with the PMRT Technical Report No. 113-2015-PP dated December 21, 2015, in which it was approved by Board Agreement No. 113-2015-PP, stating that the Spent Soda Plant would be part of the scope of the PMRT activities to be developed, with an advance of 75% at December 31, 2022.

Own operating units correspond to Talara operations, Oil Pipeline operations, Refinería Conchán, Refinería Selva, Planta de Ventas Aeropuerto and Block 64.

In compliance with these provisions, the Company has made provisions for the remediation of negative environment impacts caused in its privatized units for US$29,662 thousand. This amount has been in force since 1997 to 2022. At December 31, 2022 the balance of this provision for own operating units amounts to US$5,880 thousand (US$6,575 thousand at December 31, 2021).

With respect to its own operating units, estimates were made on the basis of the Company's ISO 14001 Environmental Management System and available data of the costs of the privatized units; this information is also updated on an annual basis considering its own operational needs, the cost of work performed, actually performed or in the process of implementation, of market prices and the costs estimates of work remaining to be completed based on information sourced from the own operating units.

With respect to its own operating units, there are new environmental obligations in place, specifically involving compliance of certain standards: "Normas de los Estándares de Calidad Ambiental para Suelo - ECA Suelo (Supreme Decree No.002-2013-MINAM, Supreme Decree No. 013-2015-MINAM and its complementary standards), therefore, for the execution of different technical studies required by these new regulations, the Company has executed until December 31, 2022 the following disbursements: for Operations in Talara US$11,527 thousand (US$752 thousand at December 31, 2021), Operations in Conchán US$460 thousand (US$147 thousand at December 31, 2021), Pipeline Operations US$2,172 thousand (US$132 thousand at December 31, 2021), Selva for US$1,274 thousand (US$393 thousand at December 31, 2021), Commercial Management for US$228 thousand (US$28 thousand at December 31, 2021) and Exploitation for US$252 thousand (US$138 thousand at December 31, 2021).It should be noted that this provision is reflected in other management charges.

At December 31, 2020, the Reports Identifying Possibly Contaminated Sites (IISC) for 21 facilities were approved. In this context, the Environmental Department Management, in coordination with Southern Copper Corporation, awarded the "Characterization Service, Health and Environmental Risk Assessment and Preparation of the Plan Directed to the Remediation of Prioritized Facilities of the Company" in December 2019 to Empresa TEMA Litoclean S.A.C. for an amount of S/11,848 thousand (equivalent to US$3,572 thousand), which formally began on February 3, 2020.

On December 31, 2022, the "Characterization of Contaminated Sites" reports of 21 Company facilities are reviewed by personnel from the Transportation and Distribution Environmental Department to be submited to the MEM.

From 2014 to 2022, a total number of 71 oil spills (46 for criminal acts, 11 for geodynamic phenomena, 13 related to technical aspects and 1 to be determined) have occurred at ONP, of which 47 have been completely served and are waiting for approval of the relevant agency ("Organismo de Evaluación y Fiscalización Ambiental" (hereinafter, OEFA); and 6 are still in remediation process, under the oversight and monitoring of the staff of the Environmental Department Management, which is committed to making sure the Company will continue operating, on a sustainable basis, and reducing the potential impact on the environment.

From 2014, 20 Environmental and Social Assessments have been performed for the significant events in the ONP, conducted in the framework of industry best practices and which have resulted in, among others, obtaining actual data on the dimension of the impact on the environment of the contingent events. It should be noted that this information is useful for the Company to defend itself against potential allegations of negligence and /or environmental and health risk; based on the results of these assessments, the environmental impacts have been determined to be temporary, restricted and reversible. The amount implemented until December 2022 and 2021 in environmental and social assessments is US$8,686 thousand, and there is a balance of US$1,067 thousand that remains to be used in activities expected to be executed during the fourth quarter of 2023.

Also, as a result of the contingencies that occurred in the ONP, the OEFA, under Director's Resolution No 012-2016-OEFA/DS, ordered the Company to submit a Project to update the IGA of ONP with the MINEM; in this context, the Company presented its proposal to the DGAAE-MINEM containing its Terms of Reference for Updating PAMA of the ONP, which were approved under Report No.022-2018-MEM-DGAAH/DEAH dated September 7, 2018. However, on February 25, 2019, the Directorate of Environmental Assessment of Hydrocarbons ("Dirección de Evaluación Ambiental de Hidrocarburos – DEAH") of the MINEM sent to PETROPERÚ S.A. the record No. 171-2019-MEM-DGAAH / DEAH containing the recommendations that should be included as content of the TDR. In this regard, the relevant coordination was carried out so that finally on August 23, 2019, under report No.588-2019-MEM/DGAAH/DEAH, MINEM approved the final TDRs for updating the PAMA of the ONP.

The purpose is updating the PAMA for the ONP for which the so-called "Servicio de Elaboración de las Condiciones Técnicas para la Actualización del Programa de Adecuación y Manejo del Oleoducto Norperuano" has been executed by means of OTT No. 4200085639 signed by the company Viceversa and the Company, for an amount of S/827,894.04 (VAT included), which must be carried out from June 22, 2022 to February 12, 2023.

During 2021, the Company reported 3 significant oil spills, which are under investigation jointly with OSINERGMIN. The Company disbursed the amount of US$143 thousand for 2 events. Likewise, it should be noted that the third event originated on December 31, 2021, so the cleaning and remediation of the area is still in the contracting process.

During 2022, there were 15 significant oil spills, which are under investigation by the relevant authority. At December 31, 2022 out of these 15 spills, 6 are in the execution stage, 6 in the containment and recovery stage, and 3 are still in the environmental assessment process.

As part of its contingency plan, the Company contracted specialized companies to halt and contain the oil spills and begin the environmental remediation of the affected areas.

The movement of the provision for environmental remediation is as follows:

	Balances at January 1 US$000	**Payments US$000**	**Provision and update US$000**	**Balances at December 31 US$000**
Year 2022				
Block 8	2,126	-	-	2,126
Block X	1,962	-	-	1,962
Pampilla	1,702	(96)	-	1,606
Lubricants	118	-	-	118
Northern terminals	341	-	-	341
Southern terminals	85	-	-	85
Mid-country terminals	1,724	-	-	1,724
Natural Gas Electric system	20	-	-	20
Total privatized units	8,078	(96)	-	7,982
Operations in Talara	2,706	(656)	-	2,050
Operations in Conchán	911	(35)	-	876
Operations in Oleoducto	9,437	(4,823)	39,619	44,233
Operations in Iquitos Refinery	1,396	(4)	-	1,392
Commercial operations	603	-	-	603
Management Exploration and Exploitation	959	-	-	959
Total own units	16,012	(5,518)	39,619	50,113
	24,090	(5,614)	39,619	58,095
Exchange difference	(461)	-	-	(85)
	23,629	(5,614)	39,619	58,010

	Balances at January 1 US$000	Payments US$000	Balances at December 31 US$000
Year 2021			
Block 8	2,126	-	2,126
Block X	2,021	(59)	1,962
Pampilla	1,781	(79)	1,702
Lubricants	118	-	118
Northern terminals	341	-	341
Southern terminals	104	(19)	85
Mid-country terminals	1,762	(38)	1,724
Natural Gas Electric system	20	-	20
Total privatized units	8,273	(195)	8,078
Operations in Talara	4,879	(2,173)	2,706
Operations in Conchán	911	-	911
Operations in Oleoducto	13,764	(4,327)	9,437
Operations in Iquitos Refinery	1,400	(4)	1,396
Commercial operations	603	-	603
Management Exploration and Exploitation	959)	-	(959)
Total own units	22,516	(6,504)	16,012
Total	30,709	(6,699)	24,090
Exchange difference	438	-	(461)
	31,227	(6,699)	23,629

Disbursements required in the environmental remediation activities conducted by the Company in the privatized units are recorded with a charge to profit or loss within other management charges (Note 2.19). As stated in Article 6 of Law No. 28840, “Ley de Fortalecimiento y Modernización de la Empresa de Petróleos del Perú - PETROPERÚ S.A.”, the government treasury agency “Dirección General del Tesoro Público” shall transfer the Company the total resources needed to cover the expenses to be incurred in environmental remediation activities of the respective privatized units, which was re-confirmed by another piece of legislation (“Vigésima Sexta Disposición Complementaria Final de la Ley No. 30114, Ley de Presupuesto del Sector Público”) for fiscal 2014, which authorizes the Ministry of Energy and Mines to transfer financial resources to the Company so that it can complete environmental remediation activities in the privatized units that belonged to it.

The mandate under Article 6 of Law No.28840 by which the Peruvian Government shall compensate the Company for the environmental remediation work to be performed in its privatized units was re-confirmed by another piece of legislation (“Vigésima Sexta Disposición Complementaria Final de la Ley No. 30114, Ley de Presupuesto del Sector Público”) for fiscal 2014, which authorizes the Ministry of Energy and Mines to transfer financial resources to the Company so that it can complete environmental remediation activities in the privatized units that belonged to it. At December 31, 2022 a total of US$11,000 thousand remained to be transferred for future expenditures, which was recognized by the MINEM in 2014.

Continuing with the procedures begun in 2006, the Company presented to the Ministry of Energy and Mines invoices and similar documentation supporting the expenses incurred in environmental remediation for the period from January 2007 to October 2014. Based on this process, a total US$1,377 thousand (equivalent to S/4,116 thousand).

The Company has sent communications to MINEM requesting financial remittances intended for environmental remediation, which resulted in contributions of US$20,900 thousand (equivalent to S/62,600 thousand), during 2015; these resources covered the total expenses incurred by the Company at December 31, 2017 in environmental remediation of its privatized units. At December 31, 2022 the Company is taking the necessary steps to transfer the outstanding S/34,000 thousand (equivalent to US$9,382 thousand) to cover the environmental remediation liabilities which the Company has to fulfill.

b) Provision for labor-related court actions -

Comprising contingent labor-related processes for which the Company considers that it will be probable to make future disbursements.

c) Provision for civil claims -

At December 31, 2022 the Company has estimated a provision of US$1,812 thousand (equivalent to S/6,923 thousand), which includes proceedings against: the company Cia De Vigilancia Y Seguridad S.A. - Covise for US$994 thousand (equivalent to S/3,800 thousand), Mr. Murga Pastor Tobias for US$721 thousand (equivalent to S/2,754 thousand) and others for US$97 thousand (equivalent to S/366 thousand).

At December 31, 2021 the Company has estimated a provision of US$1,044 thousand (equivalent to S/4,175 thousand), which includes proceedings against: the company Cia De Vigilancia Y Seguridad S.A. - Covise for US$950 thousand (equivalent to S/3,800 thousand) and others for US$94 thousand (equivalent to S/373 thousand).

d) Provision for labor termination -

Comprising the voluntary separation program by mutual agreement for indefinite-term personnel of the Company started in 2020. The Company has made an estimate considering the benefits granted to certain workers for the termination of the employment contract held with the Company.

19 DEFERRED INCOME TAX LIABILITIES

The movement of the deferred income tax for the years ended December 31, 2022 and 2021 is as follows:

	Balances at January 1, 2021 US$000	Credit (charge) to profit or loss (Note 29-b) US$000	Balances at December 31, 2021 US$000	Credit (charge) to profit or loss (Note 29-b) US$000	Balances at December 31, 2022 US$000
Deferred assets:					
Provision for retirement pension	17	(4)	13	(5)	8
Provision for environmental remediation	9,192	(2,241)	6,951	10,057	17,008
Carry-over loss tax benefit	78,799	40,012	118,811	(4,503)	114,308
Lease liability	1,033	6,685	7,718	968	8,686
Tax EBITDA	-	-	-	23,656	23,656
Other provisions	6,150	398	6,548	(827)	5,721
Provision for impairment works in progress PMR	21,077	-	21,077	-	21,077
	116,268	44,850	161,118	29,346	190,464
Deferred liabilities:					
Attributed cost of property, plant and equipment and intangible assets	(105,817)	(15,892)	(121,709)	(77,759)	(199,468)
Right-of-use asset	(1,110)	(6,624)	(7,734)	(842)	(8,576)
Exchange effect of non-monetary items (*)	(110,780)	(127,495)	(238,275)	106,390	(131,885)
	(217,707)	(150,011)	(367,718)	27,789	(339,929)
Net deferred liabilities	(101,439)	(105,161)	(206,600)	57,135	(149,465)

(*) Comprising the deferred income tax arising from the exchange rate affecting non-monetary items (mainly fixed assets) given the fact the Company is levied with income tax in a currency (Peruvian Soles) other than its functional currency (US$). During 2022, the U.S. dollar had a significant depreciation in relation to the Peruvian sol, which gave rise to deferred income tax of US$106,390 thousand, unlike 2021, where the U.S. dollar weakened in relation to the Peruvian sol, which gave rise to deferred income tax expense of US$127,495 thousand.

20 EQUITY

a) Share capital -

At December 31, 2022 and 2021 the authorized, subscribed and paid-in share capital comprises 5,572,168,000 and 5,368,412,525 common shares, respectively, at S/1 par value each. At December 31, 2022 the share capital structure of the Company is as follows:

Class	Number of shares	Percentage %
A	4,457,734,400	80
B	1,114,433,600	20
	5,572,168,000	100

Class- "A" shares have voting rights but are indivisible, non-transferable and non-seizable shares and cannot be pledged, loaned or affected in any way.

Class- "B" shares have voting right and are transferable via centralized trading mechanisms in the securities market.

At the General Shareholders' Meeting held on September 23, 2022, an increase in capital of US$61,143 thousand (equivalent to S/203,755 thousand) was approved this increase in share capital was made through an additional capital contribution of 2021. On December 19, 2022, registration with the Lima Public Records was reported.

b) Legal reserve -

In accordance with Peruvian General Corporate Law in Article No.229, a legal reserve must be formed by the transfer of 10% of the annual net profits until it reaches a 20% of the paid-in capital. In the absence of non-distributed profits or freely available reserves, the legal reserve may be applied to offset losses, and must be replenished with profit from subsequent periods.

The legal reserve recorded at December 31, 2022 totaled US$8,724 thousand (equivalent to S/33,325 thousand); the legal reserve constituted in 2022 totaled US$6,794 thousand (equivalent to S/22,639 thousand); which corresponds to 10% of the distributable profits for 2021.

At the General Shareholders' Meeting held on July 19, 2021, the audited financial statements of the Company were approved, corresponding to the fiscal year 2020, where a loss of US$67,280 thousand (equivalent to S/178,383 thousand) was obtained and its application to the legal reserve was determined.

c) Additional capital:

Pursuant to DU No. 023-2022 - Emergency Decree dated October 25, 2022, economic and financial measures were established to avoid national fuel shortages. This emergency decree approved the capital contribution of its shareholders (The Peruvian State) to the Company for an amount of S/4,000,000 thousand, which was fully received at the end of November 2022 and was recorded as additional capital, with an equivalent of US$1,014,623 thousand. The issuance of shares resulting from this contribution has been formalized in 2023 (Note 34-c).

d) Retained earnings -

The General Shareholders' Meeting approved the dividends policy, which states that: "The distributable profits and after the deduction of workers' profit sharing, the Legal taxes and legal reserve that may be applicable, will be destined to the investment projects for the modernization or expansion of the activities of the Company, in compliance with its approved annual and five-year objectives, in conformity with the provisions of Article 4 of Law No.28840- Law for the Strengthening and Modernization of the Company Petróleos del Perú - PETROPERÚ S.A.", which is concordant with Article Twenty Nine subsection F) of the current Corporate by-laws.

21 REVENUE FROM ORDINARY ACTIVITIES

This item comprises:

	2022 US$000	2021 US$000
Local sales	4,703,528	3,772,839
Price Stabilization Fund (*) (Note 8)	142,070	25,299
Other revenue from ordinary activities	43,367	2,725
	4,888,965	3,800,863
Foreign sales	628,275	355,551
	5,517,240	4,156,414

(*) At the beginning of 2021, the Fuel Price Stabilization Fund (FEPC by its acronym in Spanish) only applied to industrial oil 6. Between March and November 2021, with Supreme Decree No.006-2021-EM, No.015-2021-EM and No.025-2021-EM, Diesel for vehicle use was included as a product subject to the FEPC. Also, in September 2021, through Supreme Decree No.023-2021-EM, GLP-E was incorporated as a product subject to the FEPC. Subsequently, pursuant to Supreme Decree No. 002-2022-EM, enacted on March 28, 2022, 84 and 90 octane Gasoline, 84 octane Gasohol, and bulk Liquefied Petroleum Gas (GLP-G) and Diesel 2 for vehicular use were incorporated into the FEPC.

In 2022 and 2021, sales are broken down as follows:

	2022 US$000	2021 US$000
Local sales:		
Diesel - others	2,576,405	1,882,315
Gasoline	1,213,279	1,033,914
ONO crude	624,898	521,526
GLP	132,253	171,789
Turbo A1	103,036	32,924
Asphalt	101,088	57,768
Industrial oil	79,986	74,317
Mezcla crude	25,143	-
Solvent	17,148	12,164
Wet Gas Block I	3,636	-
HOGBS	5,247	-
Primary Naphtha and others	6,846	14,146
Total local sales	4,888,965	3,800,863

	2022 US$000	2021 US$000
Foreign sales:		
Gran Tierra Crude	103,695	67,625
Industrial oil	105,144	20,939
Diesel - others	93,992	85,257
Turbo A1	91,647	34,560
NAPO crude	69,824	-
ONO crude	60,778	107,676
Gasoline	48,169	34,364
Nafta Virgen	26,211	-
ULSD (EXP)	14,901	-
Reduced Crude	8,586	-
Asphalt and solvent	4,931	3,805
Nafta Craqueada ADQ. (Exp.)	397	1,325
Total foreign sales	628,275	355,551
Total	5,517,240	4,156,414

22 OTHER OPERATING INCOME

This item comprises:

	2022 US$000	2021 US$000
Income recognized at a point in time:		
Terminal operating fees (a)	19,261	19,300
Operating services for terminals (b)	14,291	12,923
Recoverable freight (c)	10,167	7,684
PNP supply operations	5,160	5,310
Maritime operations services	4,013	3,810
Service of operation of fuel stations and cisterns to mining companies	3,179	-
Revenue from cost of use of hydrocarbons	-	233
Income recognized over time:		
Lease SAVIA PERU S.A. (Note 12 (a))	5,000	5,000
Leases	1,540	1,300
Other revenue from services	1,037	1,184
Crude transport via oil pipeline (d)	-	9,096
	63,648	65,840

(a) Comprising revenue from operating agreements of the terminals of the Company signed with Terminales del Perú for the terminals and northern and central plants.
(b) Comprising revenue from fuel reception, storage and dispatch services.
(c) Comprising revenue from billing of transportation expenses incurred by customers. The Company considers a handling margin when billing this type of expenses.
(d) Comprising the revenue obtained from the transport of crude through the oil pipeline (ONP.

23 COST OF SALES

This item comprises:

	2022 US$000	2021 US$000
Opening inventory of goods	579,580	360,902
Purchase of crude oil and refined products (*)	5,586,137	3,724,959
Operating expenses of production (a)	328,584	258,125
Final inventory of goods (**)	(954,356)	(579,580)
	5,539,945	3,764,406

(*) The increase in the value of purchases in 2022 arises from the higher average price of crude oil (124.9 US$BL in 2022 vs. 80.5US$BL in 2021), offset by the lower volume of purchases (123 MBDC in 2022 vs. 127 MBDC in 2021).

(**) The balance of the opening and final inventory exclude balances for materials, supplies, and goods in transit. In 2022 the consumption of materials and supplies for US$25,342 (US$15,382 in 2021) are shown within purchases of crude oil and refined products.

(a) The composition of operating expenses of production is as follows:

	2022 US$000	2021 US$000
Services provided by third parties (*)	175,243	157,247
Depreciation (Note 12 and 13)	73,730	38,574
Personnel charges (Note 26)	45,139	33,425
Insurance	19,083	17,026
Depreciation of right-of-use asset (Note 13)	8,826	9,782
Other management charges	4,260	225
Amortization	140	7
Others	2,163	1,840
	328,584	258,125

(*) Including the following:

	2022 US$000	2021 US$000
Ground transport freight and expenses	75,755	68,089
Maintenance and repair services	25,069	20,131
Other freights	16,158	14,787
Energy and water	11,084	10,576
Product storage	13,398	13,318
Dispatch of products	12,660	10,917
Industrial protection and safety	4,589	3,516
Food and lodging	3,982	3,619
Storage and dispatch (PNP - Petrored)	3,760	4,700
Advertising	2,231	2,209
Others	6,557	5,385
	175,243	157,247

24 SELLING AND DISTRIBUTION EXPENSES

This item comprises:

	2022 US$000	2021 US$000
Personnel charges (Note 26)	22,996	18,670
Taxes (a)	18,794	15,647
Services provided by third parties (b)	9,655	8,620
Depreciation (Note 11)	9,501	10,662
Insurance	4,742	4,290
Materials and supplies	3,576	3,168
Other management charges	455	520
Depreciation of right-of-use asset (Note 13)	175	104
Expected loss of receivables (Note 8)	662	-
	70,556	61,681

(a) Including the following:

	2022 US$000	2021 US$000
Alicuota Osinergmin (*)	14,648	12,207
Aporte OEFA	3,766	3,111
Others	380	329
	18,794	15,647

(*) Comprising the contribution aimed at supporting Osinergmin, applicable to companies in the hydrocarbons sector, established by article 10 of Law No.27332, which is calculated as a percentage of local sales.

(b) Including the following:

	2022 US$000	2021 US$000
Maintenance and repair services	2,976	3,017
Other services provided by third parties	2,697	2,352
Industrial protection and safety	2,473	2,316
Advertising	387	-
Rentals	393	325
Energy and water	315	286
Travel and transfer expenses	112	72
Freight and other expenses	43	33
Food and lodging	259	219
	9,655	8,620

25 ADMINISTRATIVE EXPENSES

This item comprises:

	2022 US$000	2021 US$000
Personnel charges (Note 26)	72,336	61,604
Services provided by third parties (a)	50,280	46,514
Other management charges (b)	36,758	56,902
Administrative civil and labor contingencies (Note 18)	1,446	2,247
Depreciation (Note 11)	6,948	3,950
Taxes	3,702	3,598
Amortization	3,010	2,476
Materials and supplies	795	846
Depreciation of right-of-use asset (Note 13)	1,382	1,109
Insurance	1,285	803
	177,942	180,049

(a) Including the following:

	2022 US$000	2021 US$000
Advisory, appraisal and audits	15,709	17,652
Maintenance and repair services	7,681	7,454
IBM outsourcing services	7,594	7,148
Industrial protection and safety	4,208	3,277
Bank expenses	4,192	1,410
Freights	2,129	1,908
Temporary services	2,552	2,941
Advertising	1,393	514
Travel and transfer expenses	455	308
Medical services	628	599
Others	3,739	3,303
	50,280	46,514

(b) Including the following:

	2022 US$000	2021 US$000
Return of leases (*)	-	35,000
Administrative penalties (**)	29,205	19,834
Management with creditor	5,061	-
Environmental management	1,875	1,265
Others	617	803
	36,758	56,902

(*) In 2021, this item includes the provision for the return of leases charged in excess to Savia Perú S.A., by virtue of the resolution of the Final Decision issued on July 12, 2021 by the Arbitration Center of the Lima Chamber of Commerce for US$35,000 thousand.

(**) In 2022, this item mainly includes the provision for the 2016 audit result according to determination Resolution 012-003-0129531 issued by SUNAT for US$16,713 thousand and others for US$5,353 thousand, administrative penalties filed by Osinergmin for US$3,700 thousand, fines for property tax of the municipality of Talara for US$1,800 thousand and other environmental management expenses and subscriptions for US$1,639.

In 2021, this item mainly includes a Coercive Collection Resolution for S/53,110 thousand (equivalent to US$13,307 thousand), which corresponds to Fines and Value added tax (IGV in Peru) linked to Collection liquidations, under the argument of ignorance of the customs benefit applied by the company (Replacement of Merchandise Regime in Franchise) for the 2014 period, paid in February 2022, and the payment of US$4,251 thousand as a result of the 2015 Income Tax Audit.

26 PERSONNEL CHARGES

This item comprises:

	2022 US$000	2021 US$000
Wages and salaries	56,133	49,086
Bonuses	31,010	20,645
Social contributions	19,187	17,183
Statutory bonuses	11,704	9,921
Employees’ severance indemnities	7,169	6,391
Vacation leave	4,469	3,923
Feeding	3,550	2,751
Workers’ profit sharing	1,448	-
Overtime	1,443	663
Transportation	1,087	393
Remote Work Compensation	132	346
Others	3,139	2,397
	140,471	113,699
Number of employees at the end of the year	2,645	2,810

Personnel charges, including, workers’ profit-sharing expenses were recorded with charges to profit and loss of the year as follows:

	2022 US$000	2021 US$000
Cost of sales (Note 23)	45,139	33,425
Selling expenses and distribution (Note 24)	22,996	18,670
Administrative expenses (Note 25)	72,336	61,604
	140,471	113,699

27 OTHER INCOME AND OTHER EXPENSES

This item comprises:

	2022 US$000	2021 US$000
Other income:		
Claims and/or compensation (insurance / default)	12,752	14,778
Regularization of provision of the Family Medical Assistance Program	1,558	-
Recovery of the fee for use of the loading port in Pucallpa	893	667
Mineral Transporter - Terminal Callao	224	-
Recovery of provision for doubtful accounts	10	49
Transfer of assets from Block 64 (Note 11)	-	10,552
Return of land in Terminal Callao (Note 11)	-	6,261
Recovery of provision of the voluntary severance program	-	2,418
Supplier refund for credit balance in product purchase	-	2,096
Appraisal of assets of Consorcio Terminales	-	1,690
Recovery of labor provision	-	15
Application of performance bonds	-	3,115
Others	2,633	2,963
	18,070	44,604
Other expenses:		
Provision for losses in oil pipeline (Note 18)	(39,619)	-
Net cost of disposal of held-for-sale assets	(299)	(398)
	(39,918)	(398)

28 FINANCIAL INCOME AND EXPENSES

This item comprises:

	2022 US$000	2021 US$000
Interest on bank deposits	1,329	891
Interest on receivables	2,017	190
	3,346	1,081
Loss on derivative financial instruments	(58,350)	(19,216)
Interest on working capital loans (a)	(53,005)	(2,273)
Loan interest on assets transferred from PMRT (b)	(28,864)	-
Interest on trade obligations (c)	(13,661)	(16)
Interest on leases	(1,400)	(1,079)
Tax obligations	(19)	-
	(155,299)	(22,584)

a) In 2022, the embalming of payments, caused by the decrease in credit days with suppliers, resulted in the increase in bank loans and the increase in interest rates charged by banks, due to the lack of liquidity of the Company. Also, this item includes interest on the loan received from the State according to DU No. 010-2022 (Notes 14 and 16).

b) It corresponds to loan interest related to the Talara Refinery Modernization Project that has not been capitalized in accordance with IAS 23 “Borrowing Costs”, since certain assets completed their construction phase and were ready to be used under the necessary conditions to operate according to Management.

c) In 2022, the cuts in bank credit lines caused delays in direct payment to suppliers and the recognition of interest for payments after the expiration of their invoices.

29 TAX SITUATION

a) Tax rates -

In accordance with current legislation, the Company is individually subject to applicable taxes. Management considers that it has determined taxable income in accordance with the Peruvian income tax general regime, by adding to and deducting from the results shown in the financial statements, those items that are considered as taxable and non-taxable, respectively. The applicable Income tax rate ha has been 29.5% since 2017 onwards, pursuant to Legislative Decree No. 1261 enacted on December 10, 2016.

At December 31, 2022 the Company has tax losses of S/1,421,653 thousand net of application of 50% of the tax profit of 2022, equivalent to US$372,160 thousand (S/1,519,726 equivalent to US$402,750 thousand at December 31, 2021). The Company uses the system “B” to carry forward tax losses, which consists of offsetting said losses until its amount is exhausted, against 50% of the net income obtained in the years immediately following its generation. System option “B” is exercised with the opportunity of filing the annual income tax return for the fiscal year in which the losses were generated, the amount offset in 2022 was S/98,073 thousand, equivalent to US$27,062 thousand. Once the option is exercised, it is not possible to modify the system. In accordance with Management's projections, the Company will offset accumulated tax losses with future tax gains.

It should be noted that under current Peruvian laws, non-domiciled parties are only subject to income tax on their Peruvian-source income. In general, income obtained by non-domiciled parties that provide services in Peru will be subject to a 30% income tax rate on gross income; this is as long as no double taxation agreement (CDI) is applicable. In respect of technical assistance services or digital services rendered by non-domiciled parties to legally resident taxpayers; the place where the services are rendered will not be relevant; in all cases, will be subject to income tax of 15% and 30%, respectively on a gross basis. The income tax rate on technical assistance services is 15% as long as the qualifying requirements under the Peruvian income tax law are met.

b) Income tax determination -

The income tax expense shown in the statement of comprehensive income (which corresponds entirely to the income tax applicable in the country) comprises:

	2022 US$000	2021 US$000
Current	(4,026)	-
Deferred (Note 19)	57,135	(105,161)
	53,109	(105,161)

Reconciliation between the effective income tax rate to the tax rate is as follows:

	2022		2021	
	US$000	**%**	**US$000**	**%**
(Loss) profit before income tax	(324,328)	100.00	173,098	100.00
Income tax according to tax rate	(95,676)	29.50	51,064	29.50
Permanent non-deductible expenses	9,761	3.01	19,258	11.13
Permanent non-taxable income	(7,655)	(2.36)	(1,074)	(0.62)
Effect of exchange difference on tax fixed assets (*)	(22,902)	(7.06)	130,647	75.48
Effect of lower current tax resulting from exchange difference (**)	62,778	19.36	(97,410)	(56.27)
Others	585	0.18	2,676	1.55
Current and deferred income tax	(53,109)	(16.38)	105,161	60.75

(*) Comprising changes in deferred income tax resulting from the exchange rate fluctuations that affect the tax base of non-monetary assets.

(**) Comprising the lower current income tax resulting from the exchange rate fluctuation that affects its determination in Peruvian soles but not the financial statement whose functional currency is the U.S. dollar.

The Peruvian tax authorities have the right to review and, if necessary, amend the income tax determined by the Company in the last four years from January 1 of the year following the date of filing of the corresponding tax return (years subject to examination). Years 2018 to 2022 are subject to examination. Since discrepancies may arise over the interpretation of the tax laws applicable to the Company by tax authorities, it is not possible at present to anticipate whether any additional liabilities will arise as a result of eventual tax examinations. Any additional tax, penalties and interest, if arising, will be recognized in the results of the period when such differences of opinion with the Tax Authority are resolved. The Company considers that no significant liabilities will arise as a result of these eventual tax examinations.

Under current legislation, for purposes of determining Income Tax and VAT, transfer prices agreed between related parties and/or tax havens must have documentation and information supporting the valuation methods and criteria applied in their determination. Tax Authorities are authorized to request this information from the taxpayer. Based on an analysis of the Company’s business, Management and its legal advisers consider that no significant contingencies will arise as a result of this legislation for the Company at December 31, 2022.

c) Temporary Tax on Net Assets -

The Company is subject to the Temporary Tax on Net Assets (ITAN by its acronym in Spanish). The taxable base is the prior period adjusted net asset value less depreciation, amortization admitted by the Peruvian Income Tax Law, as shown in the respective standard (Law 28424 and its Regulation). The ITAN rate is 0.4% for 2022 and 2021 applied to the amount of net assets that exceed S/1 million. It may be paid in cash or in nine consecutive monthly installments. The amount paid may be used as a credit against payments of the general income tax regime for taxable periods from March to December of the fiscal period for which the tax was paid until maturity date of each of the payments on account and against the regularization of income tax payments for the related fiscal year.

d) Tax on financial transactions -

For fiscal 2022 and 2021, the rate of the Tax on Financial Transactions was set at 0.005% and is applicable to bank debits and credits or cash movements through the formal financial system, unless the transaction is exempt. This tax is presented as tax expenses within administrative expenses.

e) Tax Regime of Value Added Tax -

The VAT rate (including Wholesale Price Index) currently in force is 18%.

Pursuant to Supreme Decree No. 068-2022-EF, enacted on April 3, 2022, the Peruvian Executive has approved the amendment of the New Appendix III of the Single Ordered Text of the Value Added Tax and Selective Consumption Tax Law, which excludes until June 30, 2022 Gasolines with a Research Octane number (RON) greater than or equal to 84, but less than 90, greater than or equal to 90, but less than 95, Gasoils, Diesel B2, with a sulfur content less than or equal to 50 ppm, Diesel B5 and Diesel B20, with a sulfur content less than or equal to 50 ppm, as well as other mixtures of Diesel 2 with Biodiesel B100.

The exclusion period may be extended for a maximum of six additional months, after evaluating the evolution of the international price of oil and its impact on domestic prices.

f) Amendments to the Peruvian Income Tax Law that will be effective from January 1, 2023 -

- Market value in the transfer of securities between independent parties. – Pursuant to Legislative Decree No. 1539, discounted cash flow was incorporated as a methodology to determine the market value of these operations, which established the elements to be considered in this determination through Supreme Decree No. 362-2022-EF.

- Communication to SUNAT of the price agreements for imports and exports of commodities between related parties. – Pursuant to Legislative Decree No. 1537, the term and conditions for making this communication are made more flexible, which developed its content through Supreme Decree No. 327-2022-EF.

- Accelerated depreciation of buildings and new constructions. – Pursuant to Law No. 31652, these items are allowed to be depreciated with a percentage of 33.33% per year, which is applicable to constructions beginning on January 1, 2023 and that at December 31, 2024 have a work advance of at least 80%.

Other relevant aspects:

- Peruvian Tax Code: the main amendments are as follows:

    (i) Legislative Decree No. 1540 establishes that at July 1, 2024 the Peruvian tax authorities may issue payment orders to request unpaid taxes resulting from electronic tax records, when they are empowered to generate such records by omission of the taxpayer;

    (ii) Legislative Decree No. 1523 incorporates several mechanisms related to digital transformation, such as virtual appearance, in order to optimize the auditing powers of the Peruvian tax authorities, effective from February 19, 2022; and

    (iii) Legislative Decree No. 1528 establishes that the prescription may only be invoked in a proceeding, whether contentious or non-contentious, but not in both, effective from March 4, 2022.

- Compliance Profile: Legislative Decree No. 1535 establishes the assignment of a profile to all taxpayers in order to grant facilities to taxpayers with a good level of tax compliance and, otherwise, establish limitations.

- Bancarization: Legislative Decree No. 1529, effective from April 1, 2022, requires the payment of obligations for amounts starting at US$500 or S/2,000 (before US$1,000 or S/3,500) to be made through the Peruvian banking and financial system.

- Exclusion of diesel fuels and gasoline and gasoholes from 84 to 94 octane from the Selective Consumption Tax: Supreme Decree No. 068-2022-EF that provided for this measure was in force from April 4 to June 30, 2022.

g) Examination by the Peruvian tax authorities -

With respect to the audit process of Income Tax from January to December 2016, on December 16, 2022, SUNAT notified: i) Determination Resolutions No. 012-003-0129532 to 012-003-0129536 issued for alleged Third-Category Income Tax omissions - additional rate for July, August, September, November and December 2016, ii) Determination Resolutions No. 012-003-0129519 to 012-003-0129530 issued for Income Tax on-account payments from January to December 2016, iii) Determination Resolution No. 012-003-0129531 issued for Third-Category Income Tax for fiscal 2016 and iv) Fine Resolution No. 012-002 -0038228 issued for the infraction in numeral 1) of article 178 of the Peruvian Tax Code related to the determination of the Third-Category Income Tax for fiscal 2016. On December 23, 2022 the Company filed a Claim Appeal against Determination Resolutions No. 012-003-0129532 to 012-003-0129536 and Fine Resolution No. 012-002-0038228 and canceled the tax debt of Determination Resolutions No. 012-003-0129519 to 012- 003-0129531.

As a consequence of the income tax review by the Peruvian tax authorities from January to December 2015, dated December 17, 2021, SUNAT issued Tax Determination Resolutions No.012-003-0122358, issued for alleged omissions of Income Tax for the additional rate of 4.1% of 2015. This resolution was the subject of a Claim Appeal, which was resolved by Tax Determination Resolution No. 0150140016720, notified to the Company on July 27, 2022. Against this last Tax Determination Resolution, the Company filed an Appeal that, at December 31, 2022, is pending resolution.

With respect to income tax review by the tax authorities from January to December 2014, SUNAT issued Tax Determination Resolutions No.012-0030116931 to 012-003-0116935, issued for alleged omissions of Income Tax for the additional rate of 4.1% of 2014; however, an appeal against said resolutions was presented within the term set by law. Pursuant to Resolution No. 0150140016192, SUNAT declared the claim filed unfounded. This resolution was subject to an Appeal that, at December 31, 2022, is pending resolution.

With respect to income tax review by the tax authorities from January to December 2013, SUNAT issued Tax Determination Resolutions No.012-003-0108813 to 012-003-0108818; however, an appeal against said resolutions was presented within the term set by law. On August 3, 2021 a notice was served to the Company with the Resolution No.0150140015507 that declared the claim unfounded, and an appeal had been filed in due course. On January 26, 2022 Courtroom 9 of the Peruvian Tax Court issued Resolution No. 00668-9-2022 that revoked Resolution No. 0150140015507, which anulled Determination Resolutions No. 012-0030108813 to 012-003-0108818. The case concluded with a favorable outcome for the Company.

With respect to income tax review by the tax authorities from January to December 2012 dated January 11, 2021, SUNAT issued Tax Determination Resolutions No.012-003-0101487 to 012-003-0101498 and 012-003-0101500 to 0120030101504; however, an appeal against said resolutions was presented within the term set by law. On September 30, 2021 a notice was served to the Company with the Resolution No.0150140015102 that declared the claim unfounded, and an appeal had been filed in due course. On December 17, 2021 Courtroom 1 of the Peruvian Tax Court issued Resolution No. 11104-1-2022, that revoked Administration Resolution No. 0150140015102, which anulled Determination Resolutions No. 012-003-0101500 to 0120030101504. The case concluded with a favorable outcome for the Company.

30 CONTINGENCIES

The Company has the following labor-related court actions, civil lawsuits, tax and customs claims pending resolution. Management and its legal advisors consider that these contingencies have been considered as possible and, consequently, they have not been recognized in the financial statements:

	2022 US$000	2021 US$000
Civil	79,966	34,950
Tax and customs claims	47,869	47,737
Labor-related	15,172	14,237
	143,007	96,924

The movement of contingencies is detailed below:

	Balance at January 1 US$000	Additions US$000	Deductions US$000	Balance at December 31 US$000
Year 2022				
Civil (a)	34,950	47,120	(2,104)	79,966
Tax and customs claims (b)	47,737	770	(638)	47,869
Labor-related (c)	14,237	935	-	15,172
	96,924	48,825	(2,742)	143,007
Year 2021				
Civil (a)	24,780	24,925	(14,755)	34,950
Tax and customs claims (b)	33,757	15,601	(1,621)	47,737
Labor-related (c)	15,615	112	(1,490)	14,237
	74,152	40,638	(17,866)	96,924

(a) At December 31, 2022 the main Civil proceedings include the following: Arbitration process in the Lima Chamber of Commerce with Heaven Petroleum Operators S. A. (HPO) for US$30,215 thousand and with Consorcio Transmantaro for US$11,766 thousand. In addition to processes with Lambayeque for US$6,687 thousand, Consorcio Cobra for US$10,000 thousand, SIMA for US$5,403 thousand, DEMEM for US$2,917 thousand, the Consorcio FCC process is added for US$3,709 thousand. Also, we have various civil and arbitration proceedings for US$8,535 thousand. Processes maintained with Cousa Coest for US$1,783 thousand, SUNAT for US$638 thousand and Consorcio JZEAM for US$297 thousand were reversed.

At December 31, 2021 the main Civil proceedings include the following: Lambayeque for US$6,687 thousand, Consorcio Cobra for US$10,000 thousand, SIMA for US$5,403 thousand, DEMEM for US$2,917 thousand, Cousa Coest for US$1,783 thousand and others for US$6,497 thousand.

Likewise, in 2021, the processes maintained with Geopark for US$3,213 thousand, J.A.Garrigues for US$3,234 thousand, Hazco for US$2,049 thousand and C.Tesla for US$2,033 thousand.

(b) At December 31, 2022 the main processes correspond to those maintained with the SUNAT for S/171,698 thousand (equivalent to US$47,217 thousand), of which one of them is related to file No.04315-2020-0-1801-JR-CA-21 for S/56,000 thousand (equivalent to US$14,056 thousand) and two others are related to files 06305-2019-01801 for S/61,664 thousand (equivalent to US$17,086 thousand) and file 06304-2019-01801 for S/54,033 thousand (equivalent to US$14,972 thousand).

At December 31, 2021 the main processes correspond to those maintained with the SUNAT for S/178,351 thousand (equivalent to US$46,065 thousand), of which one of them is related to file No.04315-2020-0-1801-JR-CA-21 for S/56,000 thousand (equivalent to US$14,007 thousand) and two others are related to files 06305-2019-01801 for S/61,664 thousand (equivalent to US$17,086 thousand) and file 06304-2019-01801 for S/54,033 thousand (equivalent to US$14,972 thousand).

(c) At December 31, 2022 it mainly includes the labor process with the Administrative Workers Union for S/48,000 thousand, equivalent to US$12,565 thousand (S/48,000 thousand, equivalent to US$12,006 thousand, at December 31, 2021).

31 BASIC AND DILUTED (LOSS) EARNING PER SHARE

The calculation, in 2022 and 2021, of basic and diluted earning (loss) per share shows the same value as there are no shares with dilutive effect is as follows:

	(Loss) profit US$000	Weighted average number of shares used (in thousand)	(Loss) Earnings per share US$000
2022:			
Basic and diluted loss per share (*)	(271,219)	6,065,319	(0.045)
2021:			
Basic and diluted earning per share (**)	67,937	5,572,168	0.012

(*) Includes 4,000 million shares that, at December 31, 2022, were pending to be issued related to the capital contribution described in Note 20-c, which have been weighted from the date of receipt of the contribution.

(**) The number of shares includes the shares issued in 2023 as a result of the capitalization of accumulated results.

32 GUARANTEES

At December 31, 2022 the Company has given performance bonds backed by local financial institutions to suppliers for a total S/133,401 thousand (equivalent to US$34,922 thousand) and US$70,373 thousand.

Guarantees related to borrowings are disclosed in Note 14.

34 SUBSEQUENT EVENTS

At December 31, 2022 and the date of approval of the financial statements, no other events have occurred, in addition to those mentioned below, that require adjusting the items of the 2022 financial statements or being disclosed in their notes.

a) Changes in the organizational structure -

At General Shareholders' Meeting held on January 8, 2023, it was agreed to appoint, from January 9, 2023, Mr. Carlos Edgar Vives Suarez as Chairman of the Company’s Board of Directors, and Mr. Pedro Oswaldo Chira Fernández as a member of the Company’s Board of Directors.

At General Shareholders' Meeting held on April 26, 2023, it was agreed to appoint, as of that date, Mr. Pedro Oswaldo Chira Fernández as Chairman of the Company's Board of Directors.

On January 19, 2023, the contract for the "International Specialized Consulting Service that will prepare the Company's Restructuring Plan" was signed with Consorcio Arthur D. Little LLC - Columbus HB Latam INC. in compliance with numeral 4.1 of Emergency Decree 023-2022 (Note 1-h). On July 31, 2023, the Company received the aforementioned Plan.

b) Financing -

On March 2, 2023, the international rating firm Fitch Ratings withdrew the negative watch since the Company disclosed its 2021 audited financial statements and obtained the consent of the bondholders to avoid an event of default. Also, it maintains the "BB+" rating for the Company as a long-term debt issuer in local and foreign currency, and finally assigns a negative rating outlook due to the link with the country's credit quality and outlook.

In April 2023, the Board of Directors approved to start the procedures to obtain the waivers in order to modify the delivery date of the audited financial statements to December 31, 2022, until September 30, 2023, both within the framework of the CESCE loan agreement as well as in the Indentures corresponding to the Bond issue. In this regard, in May and June 2023 the Company signed the amendment to the CESCE loan agreement and the Supplemental Indentures to Notes 2032 and 2047, respectively.

c) Issuance of shares for capital contributions -

On April 13, 2023, the General Shareholders' Meeting approved the increase in the Company's capital stock due to the contributions made by the State (note 20-c) with the creation and issuance of 4,000 million shares of par value S/ 1 each. On July 13, 2023, said issuance was registered with the National Superintendence of Public Registries (SUNARP by its acronym in Spanish).

d) Exploitation of Blocks I, VI and Z-69 -

In August 2023, PERUPETRO S.A., in accordance with the Regulations for the Qualification of Stakeholders for Carrying Out Hydrocarbon Exploration and Exploitation or Exploitation Activities, informed the Company of its qualification to operate the oil blocks I, VI and Z-69 (formerly Z- 2B). This classification as "Economic Subject" allows the Company to assume obligations for 100% participation in the future exploitation contracts of the aforementioned lots, which have a joint production of approximately 8,000 barrels per day (BPD) and represent 19% of national production.