RBP-066-2023 San Isidro, 28 de julio de 2023

Señores
Superintendencia del Mercado de Valores
Av. Santa Cruz N° 315
Miraflores

Atención: Registro Público del Mercado de Valores
Referencia: Hecho de Importancia

De conformidad con lo previsto en los artículos 3 y 4 del Reglamento de Hechos de Importancia e Información Reservada, aprobado mediante Resolución N° 005-2014-SMV/01 del 17 de marzo de 2014, cumplimos con adjuntar en calidad de Hecho de Importancia el informe de la firma clasificadora Standard & Poor’s Global Ratings, publicado el 28 de julio de 2023, en el que actualizan el análisis económico-financiero de PETROPERÚ. Este informe no contempla una acción de calificación.

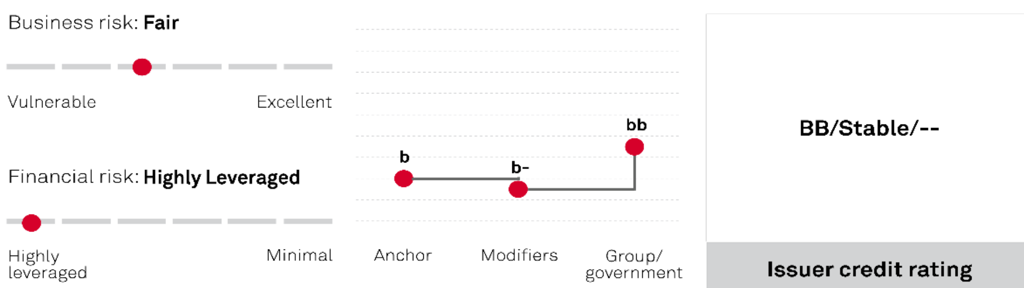
Atentamente,

Enrique Salgado Ponce de León
Representante Bursátil
Petróleos del Perú- PETROPERÚ S.A.

Petroleos del Peru Petroperu S.A.

July 28, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
A very high likelihood of extraordinary government support. We saw evidence of this support in 2022, and expect it to continue as it becomes increasingly required in 2023, in our view.	Management and governance deficiencies in 2022 resulted in a severe reputational and liquidity crisis, disrupting normal fuel supply in the country, eroding market share, and exacerbating the company's weak capital structure.
The company accounts for about 50% of Peru's refining capacity and remains--despite setbacks--a relevant supplier/importer of refined products in the country.	New delays in audited statements in 2023 and Talara have taken a toll on the expected performance recovery this year. We expect Petroperu to continue with its cash burn in 2023.
	Inherent volatility in refining margins that stem from factors outside of the company's control such as oil price differentials.

Petroperu´s turmoil in a nutshell

March 2022
- Dispute with auditor PWC on 2021 financials. The company launched a waiver request to avoid a technical default.
- First downgrade from S&P Global Ratings due to management and governance issues.
- Talara refinery project expected to be fully operational in early 2023.

April 2022
- Petroperu appointed a new board and key management positions, including a new CEO and CFO.
- Second downgrade from S&P Global Ratings related to liquidity issues.

May 2022
- Petroperu received extraordinary support from the government ($750 million short-term loan from the Ministry of Finance).

July 2022
- Petroperu obtained the waivers from Cesce and its bondholders. The new deadline to present the 2021 audited statements was Sept. 30, 2022.

Sept. 2022
- Petroperu published the 2021 audited financial statements with a clean opinion from PWC. However, this didn't restore the company's liquidity and reputation.

Oct. 2022
- Peru's government published the emergency decree 023-2022 including a $1 billion equity contribution and a guarantee for a new $500 million facility from Banco de la Nación. This was neutral for the rating.

Jan. 2023
- Petroperu announced contract with Arthur Little and Columbus to restructure and streamline operations.
- Announcement of new Chairman, members of the board, and CFO.

April 2023
- Second delay to produce audited statements (FY 2022). New round of waivers with banks and bonholders. Audit expected by August 2023.
- New delays in Talara. Full ramp-up now expected by June 2023.
- The CEO resigned and the company announced new changes and appointments to the board of directors.

May 2023
- Petroperu published weaker-than-expected results for first-quarter 2023.
- The financial community granted the waivers related to the delay for 2022 audited statements.

July 2023
- Further delays at Talara. Ramp-up now expected in October 2023. S&P revises base case downwards upon cash burn expectations.
- Petroperu said it expects to publish the 2022 audited financial statements in August 2023.
- New changes in Petroperu´s management: appointment of a new temporary CEO. Further changes expected in other key positions.

Source: S&P Global Ratings.

We believe Petroperu's initiatives haven't yet restored its standing in the market after the severe management and governance deficiencies in 2022 that hurt its reputation and liquidity. Following a dispute with its auditor in early 2022, Petroperu had several events that undermined its reputation and liquidity, forcing it to negotiate waivers from the financial community to avoid debt acceleration risks. As a result, the government was forced to step in on various occasions to preserve operations and avoid a default. The release of a clean audit on 2021 financials didn't restore normal business conditions or access to credit.

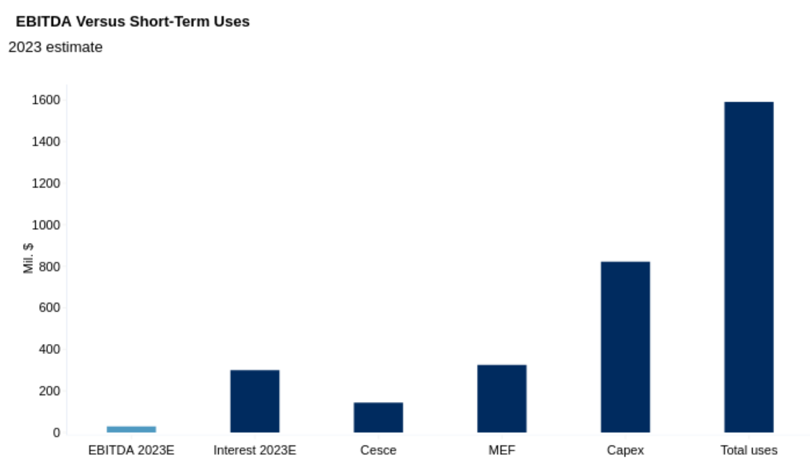
We now see a similar situation in 2023, with a new delay in presenting the 2022 fiscal year audited statements. This second delay--along with the weaker than expected results in 2022 and to date in 2023, the lengthy and bumpy ramp-up of the new Talara refinery, and the still ongoing discussions to set up new liquidity sources--have all resulted in higher market scrutiny of the company's ability to deliver. Talara's total budget increased to $5.3 billion in December 2022 (before interest of about $1 billion) from $5.0 billion (before interest of around $700 million) in December 2021. The delays in 2023 may result in a revised budget, in our view.

Petroperu is implementing a series of initiatives to restore its standing in the market, including changes in the board and management team, a plan to streamline operations by AD Little / Columbus, increased dialogue with the financial community to restore liquidity, and a commercial plan to foster market share. However, in our view, these have not yet resulted in a material improvement in its reputation and liquidity.

Petroperu has underperformed expectations, exacerbating its weak capital structure and leading us to revise downward our base case, putting pressure on the ratings. Petroperu's market share has continued eroding, on top of the fact that Talara's full entry in operations (already extended a couple of times) has been further extended well into the second half of this year. This will continue to negatively affect the company's margins and cash flows. Although we still expect higher EBITDA from Talara, the timing has stretched, leading us to revise our base case downward. At this point, we look at 2024 for a potential pick up in EBITDA, assuming Talara is fully operating at some point later this year.

We expect the company to burn cash again in 2023, making government support increasingly necessary. Petroperu's ability to significantly deleverage through cash flows in the next 12 months is very limited now, in our view. Total debt burden was about $6 billion as of March 31, 2023 (and potentially approaching $7 billion by year-end). The downward revision of our base case results in an EBITDA decline to around break-even this year from last year’s $470 million-$520 million. In addition, while depending on Talara's full ramp-up timing, Petroperu’s capacity to cope with its financial and operating obligations on its own appears increasingly limited.

The company faces an interest burden of about $300 million, $72 million coming due to Cesce in December, the repayment of part of the loan from MEF (under negotiation for an extension), capital expenditures (capex) of about $800 million (as per management guidance), and ongoing revolving short-term debt. As a result, Petroperu is increasingly dependent on external credit and government support. As such, we see further demonstrations of support from the government as increasingly necessary--at least until Talara is fully operating--because despite ongoing discussions during the last few quarters, the company has not been able to secure enough liquidity sources.



The ratings account for the government's track record of support. We think the events discussed above could fit within our last downside scenario (refer to "Petroleos del Peru Petroperu S.A.," published on Dec. 6, 2022). However, we said our downside case included no indication of ongoing or extraordinary support from the government. Having witnessed the materialization of such support in 2022 and the government’s stated intention to intervene to avoid a default in payments, our ratings on Petroperu continue to be unchanged.

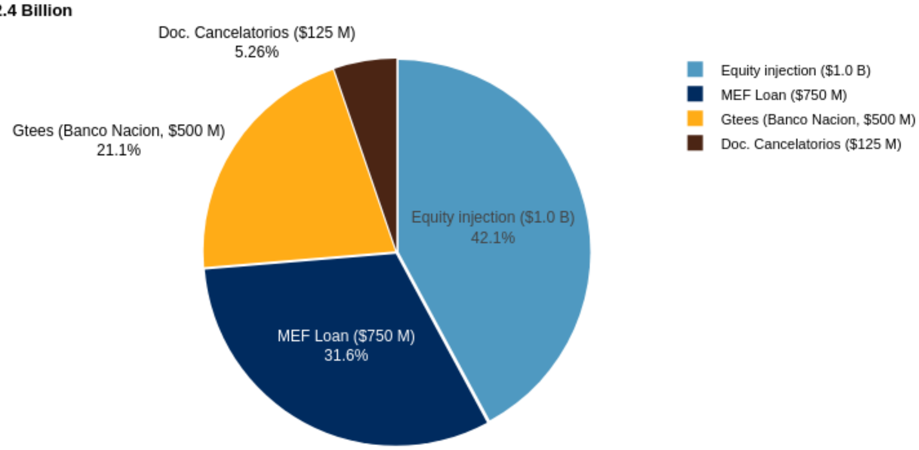
Government support is the key credit factor for Petroperu's creditworthiness and instrumental for business continuity. We believe further support is now more likely in 2023-2024 and our assessment of the likelihood of government support to the company remains unchanged. We continue to view Petroperu's position in the domestic energy sector as not easily replaceable because of the difficulty in building new refineries, pipelines, and storage facilities given the amount of necessary investments, the environmental licenses, and the construction timeline. Therefore, we expect Petroperu to continue receiving ongoing and timely extraordinary support if necessary.

Upon the current liquidity and reputational crisis, the government demonstrated not only its willingness but also its capacity to intervene (i.e., the $750 million loan from the Ministry of Finance (MEF) and the decree 023-2022 in October). The latter included a $1 billion equity contribution, a guarantee for a new $500 million short-term facility from Banco de la Nación, and the set-up of a framework for Petroperu's business restructuring.

This support was instrumental to preserve fuel supply in the country, to support the higher oil consumption during Talara's ramp up, and to avoid a payment default. However, Petroperu has not yet restored market confidence and standing in the market. There are still several ongoing initiatives that need to materialize (like the plan from Arthur Little / Columbus to streamline operations, the recommendations from auditors to improve governance and internal controls, the initiatives to set up new sources of funding, and the plan to restore lost market share, for example).

We expect government support to continue. Considering the company's weaker-than-expected performance so far in 2023, we believe that further interventions from the government are increasingly likely. We will continue to monitor the relationship between Petroperu and the Peruvian government, including the latter's incentives, capacity, and timeliness to support the company, because oversight does not seem to have been as close as the situation has merited.

Summary Of Main Government Support Instruments
Total: $2.4 Billion



Source: S&P Global Ratings.

Outlook

The stable outlook on the company mainly mirrors that on the sovereign and our view that Petroperu will continue playing a very important role in Peru's energy and infrastructure policy while its link to the government remains very strong. We think that Petroperu's weak capital structure is only sustainable thanks to the very high likelihood of extraordinary support from the government in case of financial stress, such as the support seen in 2022. The outlook also reflects our expectation that once Talara's ramp-up is finished and the refinery is fully operational, Petroperu's leverage should fall to 10x-15x in 2024.

Downside scenario

We could downgrade Petroperu to 'BB-' or below if the likelihood of government support diminishes while other credit factors remain unchanged. That could occur, for example, if the company's role for the government weakens, in our view, or if Petroperu's importance to the Peruvian energy sector lessens. Having witnessed the materialization of support this year, we don't expect likelihood of support to fall in the next 12 months.

We could revise our outlook to negative or revise downward our stand-alone credit profile (SACP) on Petroperu if we consider the company's capital structure as unsustainable, suggesting a potential default in payments. Given the new delays and costs overruns for Talara, the eroding market share and weaker liquidity, this could occur if we don't perceive any indication of ongoing or extraordinary support from the government.

Upside scenario

We could upgrade Petroperu if our view of the likelihood of extraordinary support increases, for example, if the company's role to the government--or link to it--strengthens. We could also raise the ratings if we were to revise our liquidity assessment to a stronger category along with our management and governance (M&G) assessment. The latter, albeit improbable at this stage, would require evidence that the company has strengthened its capacity to identify, anticipate, and more effectively control critical risks such as the timely delivery of financial statements, noting that the audit on 2022 statements has also been delayed.

A stronger assessment of liquidity would require a clearer view of the company's capital structure and access to credit, as well as more clarity about the pending initiatives like the other credit facilities currently under negotiations and the status of the loan with the MEF. Aside from liquidity and management and governance, we think an upgrade based only on leverage metrics is not possible at this stage, because it would require debt to EBITDA to remain consistently below 5x and funds from operations (FFO) to debt to exceed 12%.

Our Base-Case Scenario

Assumptions

- We incorporate macroeconomic variables that we view as relevant for the refining segment, particularly GDP growth that correlates to energy demand and inflation that affects selling, general, and administrative (SG&A) expenses. Refer to "Economic Outlook Emerging Markets Q3 2023: A Slowdown Ahead After Beating Expectations," published on June 26, 2023. We assume Peru's GDP to grow 2.0% in 2023, 2.8% in 2024, and 2.9% in 2025, and an inflation rate at 5.8% in 2023, 3.0% in 2024, and 2.0% afterward.
- Talara will be fully operational in late 2023 (versus our previous expectation of the first quarter of 2023), so we now expect an EBITDA pick-up in 2024 as the company recovers refining margins and is able to process heavier crude oil, while reducing the imports of refined products.
- Sales volume reduction of about 20% in 2023 to capture the 34% drop seen in the first quarter, the Talara delay beyond June 2023, and the lower market share. We also assume that the share of refined products imports will remain steady until late 2023, hurting margins. We expect selling, general, and administrative (SG&A) expenses will increase by

10% over inflation in 2024-2025 to capture Petroperu's commercial efforts to regain market share.

- Fuel prices, as well as prices for buying oil and refined products, moving in tandem because both correlate to oil prices. We updated our WTI oil price assumptions as per our article, "S&P Global Ratings Revises Approach To Determining Its Hydrocarbon Price Decks; Changes Definition Of Long-Term Price," published on April 20, 2023. We assume a WTI price of $85 per barrel in 2023 and $80 per barrel in 2024-2025.
- Working capital changes to stabilize in 2023, after the material negative impact seen in 2022 that resulted in the company's capitalization by the government. We assume working capital in line with actual terms seen in the first quarter of 2023. All else equal, more stable oil prices in our assumptions should translate in more stable working capital dynamics.
- We updated capex amounts following management's guidelines. We incorporate $820 million in 2023, mostly for completing Talara's refurbishment; significantly decreasing to $180 million-$200 million in 2024-2025, mainly for maintenance.
- Debt structure and liquidity as per financial statements as of March 31, 2023. No ad hoc inflows from the different initiatives under discussion because at the time of this report, none of those contracts had been signed.
- No dividend payments.

Key metrics

We now expect weak EBITDA in 2023 of around break-even or $100 million, which remains dependent on the uncertain timing for Talara's ramp-up. Once Talara is fully operational, we expect EBITDA to recover to about $450 million in 2024 and 2025. Accordingly, leverage should decrease to about 15x after skyrocketing in 2022, due to the challenging events Petroperu experienced. In addition, we expect EBITDA interest coverage to hover around 1.3x in 2024-2025.

Period ending	**Dec-31-2021**	**Dec-31-2022**	**Dec-31-2023**	**Dec-31-2024**	**Dec-31-2025**
(Mil. $)	2021a	2022a	2023f	2024f	2025f
Revenue	4,218	5,591	4,200-4500	4,500-5000	4700-5200
EBITDA	327	(110)	0-100	400-500	400-500
Debt	4,869	4,949	6,700-7,000	6,700-7,000	6,700-7,000
Capex	586	407	700-900	100-200	200-300
Adjusted ratios					
Debt/EBITDA (x)	14.9	(45.0)	240.1	16.1	16.8
EBITDA interest coverage (x)	1.5	(0.5)	0.1	1.3	1.3
EBITDA margin (%)	7.8	(2.0)	0.7	8.9	8.4
EBITDA/cash interest (x)	1.5	(0.5)	0.1	1.3	1.3

Company Description

Peru (local currency: BBB+/Negative/A-2; foreign currency: BBB/Negative/A-2) owns 100% of Petroperu, of which 60% belongs to the Ministry of Energy and Mines (MINEM) and 40% to the Ministry of Finance (MEF).

The company transports, refines, distributes, and markets fuels and other petroleum-derived products in Peru. Petroperu owns and operates three refineries (Talara, Conchan, and Iquitos) with a total refining capacity of 92,500 barrels per day (bpd). The Pucallpa refinery, which used to be leased from a private entity, is currently under evaluation to continue its operations. The company also owns and operates the Nor Peruano oil pipeline (approximately 1,100 kilometers in length), which is Peru's main transportation pipeline that connects all of the country's major oil blocks to the country's largest refinery and port. Petroperu distributes fuel through ships, trucks, and rail cars, and sells it mainly through affiliated retail stations that work exclusively with Petroperu.

Most of the company's revenue and EBITDA come from the refining, marketing, and distribution of oil products in the country. Petroperu is making a material investment to upgrade Talara , which will increase its refining capacity to 95,000 bpd from 65,000 bpd, and to a total of 122,500 bpd for all three operating refineries. This initiative explains the vast majority (about 85%) of Petroperu's total outstanding debt as of March 31, 2023. Curretnly, 98.75% of the renovation is complete. Petroperu formally inaugurated the plant in April 2022, starting its ramp-up period. After several delays, the company expects the ramp-up to be completed in the fourth quarter of 2023.

Peer Comparison

We typically select as peers other refining assets that we rate in Latin America. The peers are all government-related entities (GREs) with a very high likelihood of support from their respective governments. Therefore, they have an important role from an economic and social standpoint in their countries of operations, and they benefit from large, well-established market shares and limited competition, with the mandate to ensure domestic fuel supply. Also, they all depend on imports (either crude oil to refine or refined products) because none of them are self-sufficient.

From a business perspective, we view Administracion Nacional de Combustibles Alcohol y Portland (ANCAP; BBB-/Stable/--) and Empresa Nacional del Petróleo (ENAP; BB+/Positive/--) as the most comparable to Petroperu, although they differ in terms of capacity (because they serve different economies) and development (mainly for Petroperu because of the sizable investment in Talara, which resulted in severe governance and liquidity issues).

ENAP is a Chilean oil and gas company with a large presence in the domestic downstream market and some domestic and foreign upstream activities. It accounts for approximately 40% of Chile's energy supply for transportation and power generation, and supplies about 60% of the country's refined product needs. A credit strength for ENAP stems from its refining capacity that's larger than its peers and its mandate to focus on efficiency to be an increasingly self-sufficient company, even though it's owned by the state. In addition, ENAP's established exploration and production division provides financial flexibility to the company, especially when oil prices are high.

ANCAP is Uruguay's government-owned oil and gas company. It has exclusive rights for refining and for crude oil, refined products, and natural gas imports in the country. The company also has a dominant position in the fuel distribution market in Uruguay, enjoying about a 60% market share through its network of 290 service stations.

Petroperu has some level of integration because it owns and operates the country's sole oil pipeline. Additionally, the government of Peru recently demonstrated its support to Petroperu through various instruments. Compared to ANCAP, Petroperu benefits from fuel prices that are adjusted on a weekly basis, incorporating variations in oil price and foreign exchange, whereas ANCAP's prices are formally approved by the government despite the implementation of an import parity scheme. Moreover, Petroperu has a larger refining capacity than ANCAP.

In terms of the financial risk profiles, the three companies are subject to the inherent volatility of refining margins; therefore, their leverage has fluctuated in the past five years depending on refining cycles. Still, Petroperu has by far the largest amount of debt (mainly related to the Talara project), followed by ENAP (with a stable debt burden of around $4.5 billion), while ANCAP has the strongest financial risk profile due to its much lower debt burden.

Petroleos del Peru Petroperu S.A. -- Peer comparison

Industry sector: Oil refining & marketing

	Petroleos del Peru Petroperu S.A.	Administracion Nacional de Combustibles Alcohol y Portland	Empresa Nacional del Petroleo
Ratings as of July 19, 2023	BB/Stable/--	BBB-/Stable/--	BB+/Positive/--
	--Fiscal year ended Dec. 31, 2022--	--Fiscal year ended Dec. 31, 2022--	--Fiscal year ended Dec. 31, 2022--
(Mil. $)			
Revenue	5,591	5,579	12,358
EBITDA	(110)	396	1,357
Funds from operations (FFO)	(382)	314	1,135
Interest expense	230	26	232
Cash interest paid	225	19	160
Cash flow from operations	(1,437)	302	717
Capital expenditure	231	73	531
Free operating cash flow (FOCF)	(1,668)	229	186
Discretionary cash flow (DCF)	(1,668)	229	186
Cash and short-term investments	89	691	450
Debt	4,949	525	4,260
Equity	2,645	1,835	1,624
Adjusted ratios			
EBITDA margin (%)	(2)	7	11
Return on capital (%)	(3)	18	19
EBITDA interest coverage (x)	(0)	15	6
FFO cash interest coverage (x)	(1)	18	8
Debt/EBITDA (x)	(45)	1	3
FFO/debt (%)	(8)	60	27
Cash flow from operations/debt (%)	(29)	57	17
FOCF/debt (%)	(34)	44	4
DCF/debt (%)	(34)	44	4

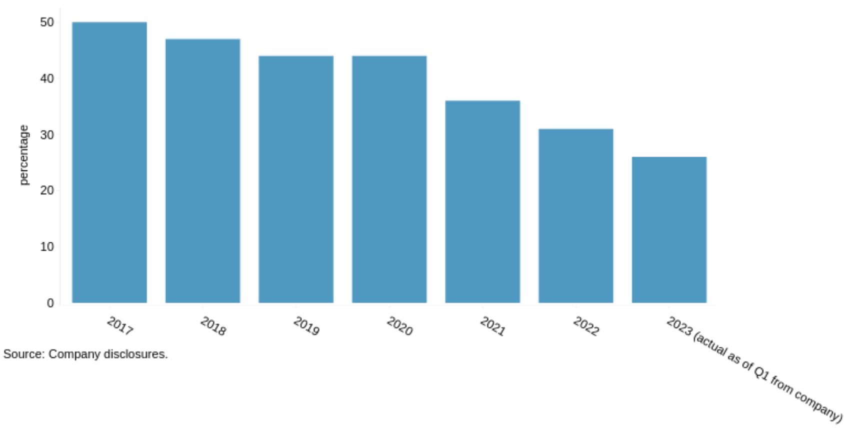
Source: S&P Global Ratings.

Business Risk

Petroperu is responsible for about half of Peru's refining capacity and is a relevant supplier of diesel and gasoline. Most of the remaining refining market share in Peru is led by a subsidiary of Spain-based MACROBUTTON OrgId_116969 Repsol S.A. (BBB+/Stable/A-2), through its refinery, La Pampilla, which is located near Lima.

Despite its relevant position, Petroperu's market share in the liquid fuels market has eroded materially since 2017 to 26% in 2023 from about 50%. The company has a plan to gradually restore its position, which involves strengthening brand recognition, improving supply procurement, focusing on fuels and diesel (the main share within all fuels sold), and client service in its own network. Commercial strategy focuses on boosting regional sales and direct corporate clients, among other initiatives.

Evolution of Market Share

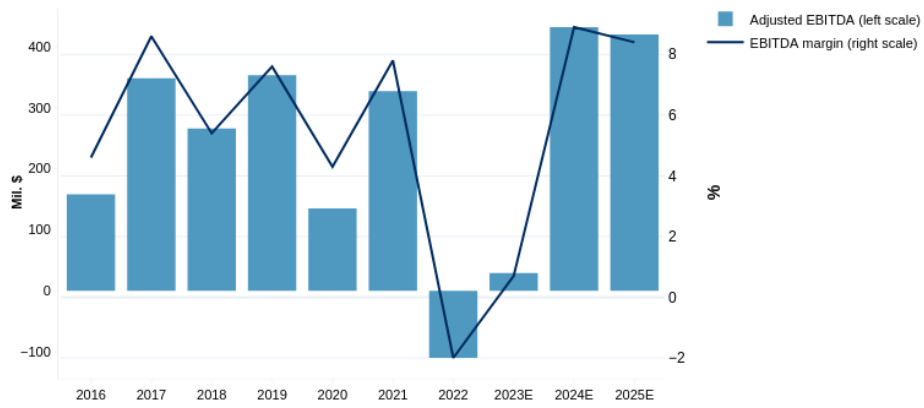


Source: Company disclosures.

In addition to its core refining business Petroperu also owns and operates a 1,100 km oil pipeline (Oleoducto Nor Peruano--OLP) that connects all of Peru's major oil blocks to the country's largest refinery and port. This gives the company the opportunity to better manage its all-in feedstock costs compared to its regional peers, which mainly import crude oil. However, the pipeline has been subject to incidents (such as leaks and disruptions; 65% of which were due to attacks), especially related to the social unrest in Peru in late 2022, exposing the company to oil spills and the related reputational and environmental risks. For more details, refer to our publication “Peru's Social And Political Instability Hasn't Weakened Domestic Infrastructure Entities' Credit Quality So Far," published on April 24, 2023.

Finally, we view the company's network of 731 gas stations across the country (as of March 2023), operating under the Petroperu brand, as a strength. On the other hand, we think Petroperu's scale of operations is small and its geographic and asset diversification is narrow. Moreover, we consider as rating weaknesses the cyclicality of Petroperu's profitability (typical for the refining industry) and the lack of economies of scale and operating flexibility that result in lower margins than those of larger international peers.

Petroperu's EBITDA And EBITDA Margins



E--Estimated. Source: S&P Global Ratings.

Financial Risk

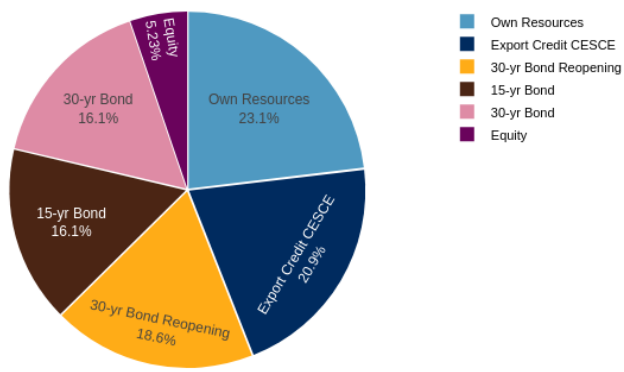
The massive investment in the new Talara refinery during the last few years resulted in Petroperu's weak capital structure and very high leverage. After delays and costs overruns (some pandemic-induced) we now expect the refinery to be fully operational in late 2023, with EBITDA picking up only in 2024, which prompted us to revise our base case downward. We now expect the EBITDA in 2023 to be marginally positive -if any- and depending on the actual timing of Talara's ramp-up. Once fully operational, we expect EBITDA to recover to about $450 million in 2024 and 2025. Accordingly, debt to EBITDA should decrease to about 15x after skyrocketing in 2022 due to the challenging events Petroperu experienced. In addition, we expect EBITDA interest coverage to hover around 1.3x in 2024-2025.

The weaker performance expected in 2023 reflects the lower volumes reported in the first quarter, a continuous erosion of market share, and the negative impact on margins from the extended and bumpy ramp-up of Talara. The ramp-up prevents the company from earning refining margins, and it obtains suboptimal margins during ramp-up. The recovery in 2024 mainly relates to the gradual recovery of volumes sold because sale prices should remain steady upon stable oil price assumptions. The company should resume earning refining margins, reducing the share of imported refined products purchased. We believe that once Talara is fully operative, Petroperu will also focus on its commercial initiatives to gradually restore its market share.

We maintain our view that Petroperu's overly indebted capital structure is only sustainable thanks to the ongoing and extraordinary support from the government. In 2017, Petroperu issued two international unsecured bonds with maturities in 2032 and 2047 for an aggregate amount of $2 billion. In addition, in 2018 it raised a $1.3 billion ECA loan due 2031 (99% guaranteed by Cesce). Finally, in February 2021, Petroperu raised another $1 billion in senior unsecured notes, almost completing the required financing for Talara.

Although this last issuance alleviated the company's financial needs, liquidity became scarce again in 2022 due to the issues discussed above. In addition, as Talara has further delayed, and the negotiations around new, long-term financing alternatives have been so far unsuccessful (we refer to the Spanish Ministry of Industry and Trade -FIEM- or export credit-based type of facilities), the funding structure for this project remains incomplete.

TALARA´s Funding Structure



Source: S&P Global Ratings.

Note: Financial summary below includes preliminary, unaudited figures for fiscal year 2022.

Petroleos del Peru Petroperu S.A.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	$	$	$	$	$	$
Revenues	4,052	4,965	4,668	3,122	4,218	5,591
EBITDA	348	266	353	135	327	(110)
Funds from operations (FFO)	120	27	141	(54)	99	(382)
Interest expense	117	139	181	182	212	230
Cash interest paid	121	131	189	182	213	225
Operating cash flow (OCF)	79	(242)	495	295	155	(1,437)
Capital expenditure	632	497	768	639	378	231
Free operating cash flow (FOCF)	(552)	(739)	(273)	(344)	(223)	(1,668)
Discretionary cash flow (DCF)	(552)	(739)	(273)	(344)	(223)	(1,668)
Cash and short-term investments	666	1,566	381	85	240	89
Gross available cash	666	1,566	381	85	240	89
Debt	2,676	3,282	3,826	4,355	4,869	4,949
Common equity	1,618	1,737	1,908	1,841	1,909	2,645
Adjusted ratios						
EBITDA margin (%)	8.6	5.4	7.6	4.3	7.8	(2.0)
Return on capital (%)	8.2	5.0	5.3	0.3	4.2	(2.7)
EBITDA interest coverage (x)	3.0	1.9	1.9	0.7	1.5	(0.5)

Petroleos del Peru Petroperu S.A.--Financial Summary

FFO cash interest coverage (x)	2.0	1.2	1.7	0.7	1.5	(0.7)
Debt/EBITDA (x)	7.7	12.3	10.8	32.3	14.9	(45.0)
FFO/debt (%)	4.5	0.8	3.7	(1.2)	2.0	(7.7)
OCF/debt (%)	3.0	(7.4)	12.9	6.8	3.2	(29.0)
FOCF/debt (%)	(20.6)	(22.5)	(7.1)	(7.9)	(4.6)	(33.7)
DCF/debt (%)	(20.6)	(22.5)	(7.1)	(7.9)	(4.6)	(33.7)

Reconciliation Of Petroleos del Peru Petroperu S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	4,967	2,645	5,591	(110)	(214)	54	(110)	(1,261)	-	407
Cash taxes paid	-	-	-	-	-	-	(46)	-	-	-
Cash interest paid	-	-	-	-	-	-	(49)	-	-	-
Lease liabilities	29	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(89)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	176	(176)	(176)	-	(176)
Asset-retirement obligations	41	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	20	-	-	-	-	-
Total adjustments	(18)	-	-	-	20	176	(271)	(176)	-	(176)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	4,949	2,645	5,591	(110)	(194)	230	(382)	(1,437)	-	231

Liquidity

We view Petroperu's liquidity as increasingly weak because the company's measures to restore it are taking longer than we expected and we don't forecast EBITDA to recover until 2024. We believe sources to uses of cash indicate a material deficit in the next 12 months. In addition, similar to last year, the delay in presenting the 2022 audit has increased the market scrutiny. We expect liquidity to remain under pressure in the next 12 months and commensurate with our weak assessment.

The company continues to negotiate the reopening of uncommitted credit lines, which has taken longer than anticipated. To further support liquidity, Petroperu is negotiating new short and long-term facilities, while the $500 million credit facility backed by an export credit agency that we expected in early 2023 has not materialized.

We could revise our liquidity assessment once Talara is fully operational and we have more visibility on the company's capital structure. This includes, but is not limited to, the status of the $750 million facility from the Treasury, the outcome of the negotiations around bilateral credit facilities, the set-up of new funding sources under discussion, and the potential support from the government, which at this stage we view as increasingly likely because raising new debt would further stress an already tight capital structure.

To date, the company's liquidity remains fragile until normal business conditions and its access to credit are restored. As of June 30, 2023, there were about $1 billion in bilateral lines still under negotiation, out of a total of about $3.3 billion (the latter includes the $500 million facility granted by Banco de la Nacion, following decree 032-2022).

Principal liquidity sources

- Cash and equivalents of $111 million as of March 2023;
- Funds from operations (FFO) not meaningful -if any- in the next 12 months because we expect the company to burn cash; and
- No ad hoc inflows at this stage because none of the alternative funding sources have been finalized.

Principal liquidity uses

- Short-term debt maturities of $1.4 billion as of March 2023, which include around of $400 million from the government, $1 billion of drawings under the short-term bank facilities, and the amortization of the Cesce loan;
- Working capital outflows of $10 million-$30 million for the 12 months; and
- Capex of $650 million-$700 million, including the Talara completion.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	**E-4**	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	G-2	G-3	G-4	**G-5**

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Governance factors, are a very negative consideration in our credit rating analysis, affecting more than one analytical component or one severely.

Similar to other refineries, environmental factors are a negative consideration in our credit rating analysis of Petroperu. We view environmental risks in the refining and marketing sector as well above average because the refining process is a significant source of carbon dioxide emissions and produces carbon-based fuels, demand for which will be affected by the energy transition. On this front, we acknowledge that the investment in Talara is designed to reduce the environmental impact, and we will monitor that accordingly. The sector also has material exposure to regulations on emissions and carbon taxes, as well as to pollution, transport spills, and contamination risks, which may result in financial and reputational damage.

Social factors have an overall neutral influence on our rating analysis.

Government Influence

We continue to think the likelihood of support from the government is very high, based on the relevant role the company plays in Peru's energy matrix. In 2022, the materialization of sustained government support was essential for Petroperu's business continuity, yet insufficient to restore normal business conditions because it still needs to implement several ongoing initiatives. In addition to the $750 million loan from the MEF, the government injected $1 billion in equity following decree 023-2022, along with other measures. This was instrumental to preserve fuel supply in the country and to support the higher oil consumption during Talara's ramp-up phase.

We also believe Petroperu has a very strong link to the government. Petroperu's government shareholders have reaffirmed their intention to support the company, highlighting the strategic role it plays in the country's fuel supply and stating that they can't afford a default by Petroperu. Because government support has been crucial to sustain the business, we will continue to monitor the relationship between Petroperu and the Peruvian government, including the latter's incentives, capacity, tools, and timeliness to support the company, particularly amid the uncertain global economic conditions and the company's current difficulties.

Rating Component Scores

Foreign currency issuer credit rating	**BB/Stable/--**
Local currency issuer credit rating	**BB/Stable/--**
Business risk	**Fair**
Country risk	Moderately High
Industry risk	Moderately High
Competitive position	Fair
Financial risk	**Highly Leveraged**
Cash flow/leverage	Highly Leveraged
Anchor	**b**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Weak (-1 notch)
Management and governance	Weak (-1 notch)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**b-**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Oil Refining And Marketing Industry, March 27, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of July 28, 2023)*

Petroleos del Peru Petroperu S.A.	
Issuer Credit Rating	BB/Stable/--
Senior Unsecured	BB
Issuer Credit Ratings History	
06-Jul-2022	BB/Stable/--
27-Apr-2022	BB/Watch Neg/--
15-Mar-2022	BB+/Watch Neg/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.