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(Free translation from the original in Spanish)

**PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.**

FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

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FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

CONTENTS	Page
Independent auditor's report	1 - 2
Statement of financial position	3
Statement of comprehensive income	4
Statement of changes in equity	5
Statement of cash flows	6 - 7
Notes to the financial statements	8 - 86

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.**

September 9, 2022

We have audited the accompanying financial statements of **Petróleos del Perú - PETROPERÚ S.A.**, which comprise the statements of financial position at December 31, 2021 and 2020 and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes, from 1 to 33.

### Management's responsibility for the financial statements

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

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing approved for application in Peru by the Board of Deans of Institutes of Peruvian Certified Public Accountants and in accordance with the Governmental Financial Audit Manual. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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*Gaveglío Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.*  
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September 9, 2022  
Petróleos del Perú - PETROPERÚ S.A.

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

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of **Petróleos del Perú - PETROPERÚ S.A.** at December 31, 2021 and 2020, its financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

*CAVEGLIO APARICIO Y ASOCIADOS*

Countersigned by

A handwritten signature in black ink, appearing to read 'Hernán Aparicio P.', written over a horizontal line.

-----(partner)

Hernán Aparicio P.  
Peruvian Certified Public Accountant  
Registration No.01-020944

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**PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.**

**STATEMENT OF FINANCIAL POSITION**

<b>ASSETS</b>	<b>Note</b>	<b>At December 31,</b>		<b>LIABILITIES AND EQUITY</b>	<b>Note</b>	<b>At December 31,</b>	
		<b>2021</b>	<b>2020</b>			<b>2021</b>	<b>2020</b>
		<b>US\$000</b>	<b>US\$000</b>			<b>US\$000</b>	<b>US\$000</b>
<b>Current assets</b>				<b>Current liabilities</b>			
Cash and cash equivalents	7	239,557	84,818	Other financial liabilities	14	824,511	1,196,648
Trade receivables	8	302,091	287,853	Trade payables	15	1,352,831	807,568
Other receivables	9	273,910	157,317	Other payables	16	95,793	53,229
Inventories	10	641,323	417,612	Other provisions	17	16,282	24,204
Other assets		2,012	3,687	Lease liabilities	13	12,004	1,755
<b>Total current assets</b>		<b>1,458,893</b>	<b>951,287</b>	<b>Total current liabilities</b>		<b>2,301,421</b>	<b>2,083,404</b>
<b>Non-current assets</b>				<b>Non-current liabilities</b>			
Other receivables	9	567,702	425,688	Other financial liabilities	14	4,240,973	3,217,750
Property, plant and equipment	11	6,579,422	5,831,901	Other provisions	17	13,464	14,434
Investment properties	12	9,545	9,556	Deferred income tax liabilities	18	206,600	101,439
Intangible assets	2.10	43,758	37,565	Lease liabilities	13	14,159	1,748
Right-of-use assets	13	26,216	3,760	<b>Total non-current liabilities</b>		<b>4,475,196</b>	<b>3,335,371</b>
<b>Total non-current assets</b>		<b>7,226,643</b>	<b>6,308,470</b>	<b>Total liabilities</b>		<b>6,776,617</b>	<b>5,418,775</b>
				<b>Equity</b>	19		
				Share capital		1,599,443	1,599,443
				Legal reserve		1,930	69,210
				Retained earnings		307,546	172,329
				<b>Total equity</b>		<b>1,908,919</b>	<b>1,840,982</b>
<b>TOTAL ASSETS</b>		<b>8,685,536</b>	<b>7,259,757</b>	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,685,536</b>	<b>7,259,757</b>

The attached notes from pages 8 to 86 form part of the financial statements.

(Free translation from the original in Spanish)

**PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.**

**STATEMENT OF COMPREHENSIVE INCOME**

	<b>Note</b>	<b>For the year ended</b>	
		<b>December 31,</b>	
		<b>2021</b>	<b>2020</b>
		<b>US\$000</b>	<b>US\$000</b>
Revenue from ordinary activities	20	4,156,414	3,045,302
Other operating income	21	62,030	76,457
Total revenue		<u>4,218,444</u>	<u>3,121,759</u>
Cost of sales	22	<u>(3,764,406)</u>	<u>(2,862,410)</u>
Gross profit		<u>454,038</u>	<u>259,349</u>
Selling and distribution expenses	23	(61,681)	(64,271)
Administrative expenses	24	(180,049)	(129,741)
Other income	26	48,414	13,876
Impairment of assets	11.vii	-	(71,446)
Other expenses	26	(398)	(7,535)
Total operating expenses		<u>(193,714)</u>	<u>(259,117)</u>
Profit from operating activities		260,324	232
Finance income	27	14,280	17,758
Finance expenses	27	(35,783)	(33,278)
Exchange difference, net	3.1.a.i	<u>(65,723)</u>	<u>(26,041)</u>
Profit before income tax		173,098	(41,329)
Income tax expense	28	<u>(105,161)</u>	<u>(25,951)</u>
Net profit for the year and comprehensive income		<u>67,937</u>	<u>(67,280)</u>
Earning (loss) per basic and diluted share	30	<u>0.013</u>	<u>(0.014)</u>

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**PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>Number of shares</u>	<u>Share capital US\$000</u>	<u>Additional capital US\$000</u>	<u>Legal reserve US\$000</u>	<u>Retained earnings US\$000</u>	<u>Total equity US\$000</u>
<b>Balances at January 1, 2020</b>	4,850,895,325	1,445,586	-	52,115	410,561	1,908,262
Comprehensive income:						
Net profit for the year	-	-	-	-	(67,280)	(67,280)
Total comprehensive income	-	-	-	-	(67,280)	(67,280)
Transactions with shareholders:						
Transfers to additional capital and legal reserve	-	-	153,857	17,095	(170,952)	-
Transfers to share capital	-	153,857	(153,857)	-	-	-
Total transactions with shareholders	517,517,200	153,857	-	17,095	(238,232)	(67,280)
<b>Balance at December 31, 2020</b>	<u>5,368,412,525</u>	<u>1,599,443</u>	<u>-</u>	<u>69,210</u>	<u>172,329</u>	<u>1,840,982</u>
<b>Balances at January 1, 2021</b>	5,368,412,525	1,599,443	-	69,210	172,329	1,840,982
Comprehensive income:						
Net profit for the year	-	-	-	-	67,937	67,937
Total comprehensive income	-	-	-	-	67,937	67,937
Transactions with shareholders:						
Transfer to retained earnings	-	-	-	(67,280)	67,280	-
Total transactions with shareholders	-	-	-	(67,280)	67,280	-
<b>Balance at December 31, 2021</b>	<u>5,368,412,525</u>	<u>1,599,443</u>	<u>-</u>	<u>1,930</u>	<u>307,546</u>	<u>1,908,919</u>

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**PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.**

**STATEMENT OF CASH FLOWS**

	Note	For the year ended	
		December 31,	
		2021	2020
		US\$000	US\$000
<b>OPERATING ACTIVITIES</b>			
Net cash provided by operating activities		382,419	483,910
Interest payment	13 and 14	(5,036)	(22,480)
Income tax payment		(14,440)	(6,553)
Net cash provided by operating activities		<u>362,943</u>	<u>454,877</u>
<b>INVESTING ACTIVITIES</b>			
VAT early refund related to investing activities	9	16,392	56,399
VAT related to investing activities	9	(45,507)	(73,856)
Payment for purchase of property, plant and equipment		(586,077)	(798,927)
Capitalized interest payment	14	(208,289)	(148,161)
Payment for purchase of intangible assets		(1,833)	(3,000)
Retirement of investment in fixed term deposits		400,000	5,329
Investment in fixed term deposits		(400,000)	-
Net cash applied to investing activities		<u>(825,314)</u>	<u>(962,216)</u>
<b>FINANCING ACTIVITIES</b>			
Loans from financial institutions	14	1,868,315	2,669,968
Bonds issued	14	1,000,000	-
Disbursement over par	14	147,180	-
CESCE loans	14	9,084	54,199
Payment of loans to financial institutions	14	(2,380,969)	(2,483,237)
Payment of transactional costs	14	(2,000)	-
Payment of lease liability	13	(12,760)	(16,680)
Net cash provided by financing activities		<u>628,850</u>	<u>224,250</u>
Net increase (decrease) in cash and cash equivalents		166,479	(283,089)
Effect of changes in exchange rate on cash		(11,740)	(7,792)
Cash and cash equivalents at beginning of year		<u>84,818</u>	<u>375,699</u>
Cash and cash equivalents at end of year		<u>239,557</u>	<u>84,818</u>
<b>NON-CASH TRANSACTIONS FROM FINANCING AND INVESTMENT ACTIVITIES</b>			
- Unpaid accrued interest	14	5,961	9,889
- Work in progress payable		37,527	41,167
- Right-of-use asset and lease liability		35,726	9,035
- Reclassification of Property, plant and equipment to intangible assets		6,843	-
- Income from donation of assets		16,813	-

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**PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.**

**STATEMENT OF CASH FLOWS**

	Note	For the year ended	
		December 31,	
		2021	2020
		US\$000	US\$000
Net profit for the period		67,937	(67,280)
Adjustments to reconcile the profits for the year to cash from operating activities:			
Estimate for impairment of other trade receivables	8	-	7,815
Estimate for impairment of inventories		232	4,394
Provision for contingencies	17	2,247	942
Provision for plugging and environmental remediation	17	-	793
Provision for job termination	17	-	2,136
Depreciation of property, plant and equipment and investment properties	11 and 12	53,186	47,136
Provision for impairment of property, plant and equipment		-	71,446
Amortization		2,483	2,208
Depreciation of right-of-use assets	13	10,995	13,940
Disposal and adjustments of property, plant and equipment and investment properties		397	667
Deferred income tax	18	105,161	25,951
Income from donation of assets		(16,813)	-
Effect on adjustment of unrealizable exchange gains and losses		11,740	7,792
		<u>237,565</u>	<u>117,940</u>
Net changes in operating assets and liabilities:			
Trade receivables		(14,238)	66,964
Other receivables		(229,492)	(33,277)
Inventories		(223,943)	232,413
Other assets		1,674	572
Trade payables		548,903	158,954
Other payables and provisions		61,951	(59,656)
Net cash applied to operating activities		<u>382,419</u>	<u>483,910</u>

The attached notes from pages 8 to 86 form part of the financial statements.

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## **PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

### **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, 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 company and securities regulator (Superintendencia de Mercados de Valores - SMV).

The legal address of the Company is at Av. Enrique Canaval y Moreyra No.150, San Isidro, Lima Perú.

Under the provisions of Law No.28840, "Ley de Fortalecimiento y Modernización de la Empresa de Petróleos del Perú - PETROPERÚ S.A.", for the modernization of 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 - Law for the Strengthening and Modernization of Empresa de Petróleos del Perú, PETROPERÚ S.A. (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), the Peruvian tax and customs Regulator ("Superintendencia Nacional de Aduanas y de Administración Tributaria - SUNAT") and the local hydrocarbons regulator.

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 the former, the Company's financial statements are audited, on an annual basis, by external independent auditors who are designated at the General Shareholders' Meeting; with respect to the latter, 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. The Law No.30130 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, 2021 and 2020 there has been no need to use those guarantees.

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. 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 estate.

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. 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 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.

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 PETROPERU to GEOPARK PERU 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 it 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 PETROPERÚ S.A. Thus, PETROPERU 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 Talara Refinery Modernization Project 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. This plan was approved by the Board of Directors through Agreement No.067-2018-PP dated August 6, 2018.

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 Ministry of Energy and Mines (MEM, the Spanish acronym) 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 Ministry of Energy and Mines 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 2020, the Fuel Price Stabilization Fund (FEPC, for its acronym in Spanish) applied to the following fuels: GLP-E, Diesel B5, Diesel B5 S-50 and industrial oil 6. In April 2020, with Supreme Decree No. 007- 2020-EM, GLP-E, Diesel B5 and Diesel S-50 were excluded as products subject to the FEPC. 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 as a product subject to the FEPC.

At December 31, 2021 said fund represented 0.61% (compensation) of the Company's revenue. At December 31, 2020 said fund represented -1.1% (contribution) of the Company's revenue.

d) Impacts of COVID-19 -

Given the severe outbreak of COVID-19 worldwide, on March 11, 2020 the World Health Organization declared it a pandemic. In Peru, from March 2020 to date, the Peruvian Government issued a series of supreme decrees declaring a state of national emergency, which was extended until September 30, 2022 due to the risks that the virus implies for the health of the population. The aforementioned Supreme Decrees set forth restrictions to a large number of economic, trade, cultural, recreational, activities as well as those of hotels and restaurants. Nonetheless, the Company has continued operating under the provisions of Supreme Decree No. 044-2020-PCM, since the beginning of the pandemic, secured the supply of food products and provision of health services, and the continuity of other related industries; in this sense, since the Company is engaged in the refining and marketing of fuel, it provides services that complement and are involved in the acquisition, production and supply of food and provision of health services, and then, linked to the productive chain of goods and services and therefore, an activity within those industrial activities that has not paralyzed its work at any time, as they are considered essential.

The Company's financial sustainability is based on the high commercialization of products in the market, which during the most complex stage of the pandemic was affected by social isolation and with the gradual economic reactivation has been showing a progressive improvement due to the greater transit of the population and the increase in the demand for their products. The Company considers that this situation does not affect its long-term plans, the compliance with borrowings and the recoverability assessment of its assets.

The Company's financial position and performance were most notably affected by the aforementioned situation at December 31, 2021. The measures carried out by the Company, as well as the financial assessment are explained below:

- Operating results -

The state of emergency has significantly affected the Company's income and costs in 2021 and 2020 due to a lower volume of purchases and sales, compared to 2019 (pre-pandemic). The Company recognizes that the crude price uncertainty remains constant; however, the variation in oil has no significant impact on the financial performance of the business since the Company obtains its profit based on a net margin on refinery. However, it does affect the market value of inventories, due to variations in local and international prices of crude oil and refined products. Therefore, this is the main factor for the positive result at the end of this period.

This factor is triggered by the higher demand for fuels in the world and in the country, due to the economic reactivation measures taken internationally and, in the country. As it represents a temporary situation for companies in the hydrocarbon sector, it has been overcome with greater population traffic, greater demand and the consequent recovery in prices, which has been progressively occurring at the date of approval of the financial statements.

- Assessment of current assets -

The increase in inventories and trade receivables is related to the higher volume of purchases and sales during the period compared to 2020.

Receivables are guaranteed by bank guarantees, so the increase in the risk of impairment of receivables from customers is significantly mitigated.

Based on the determination of the net realizable value of its inventories, the Company considers that their carrying amount will be recovered in the normal course of operations.

The increase in cash and cash equivalents comprises the remaining balance of the Bond issue carried out in February 2021, which is fully used to pay for the PMRT work progress.

- PMRT impairment assessment (Note 11.vii.b) -

At December 31, 2021 the Company has deemed it appropriate to perform the impairment test of the PMRT, considering the changes in the execution schedule and budget. The impairment test was performed by comparing the recoverable amount, by estimating its value in use, with the carrying amount of its assets.

At December 31, 2021 the Company has estimated the recoverable value of the PMRT and, as a result of this evaluation, it has determined that it is not necessary to establish any provision for impairment for the PMRT. At December 31, 2021 the carrying amount of the PMRT assets, net of impairment, amounts to US\$5,417,256 thousand.

At December 31, 2020 the Company estimated the recoverable value of the PMRT and determined a provision for impairment of US\$71,446 thousand, which was recognized in profit or loss under the item impairment of assets. At December 31, 2020 the carrying amount of the PMRT, net of impairment, amounts to US\$4,665,422 thousand.

- e) Approval of the financial statements -

The financial statements at December 31, 2021 have been issued with the authorization of General Management on September 9, 2022 and will be submitted for approval of their issue by the Board and then for consideration of the General Shareholders' Meeting for final approval. The financial statements at December 31, 2020 were approved at the General Shareholders' Meeting dated July 19, 2021.

## **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 Board of Directors, which expressly states that in preparing them it has applied all accounting principles and criteria required under the IFRS issued by the IASB.

- 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 and interpretations in force for the financial statements for annual periods beginning on or after January 1, 2021 -

There have been no regulatory changes of mandatory application for the 2021 financial statements that the Company has considered for the preparation of these financial statements, except for the following:

- Interest Rate Benchmark Reform - Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 -

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address issues arising during interest rate benchmark reform, including the replacement of a benchmark rate for another alternative.

These amendments provide the following practical applications:

- By changing the basis for determining contractual cash flows for financial assets and financial liabilities (including lease liabilities), the exceptions have the effect that changes, which are necessary as a direct consequence of the IBOR reform and which are considered economically equivalent, will not have an immediate effect on the income statement.
- Hedge accounting exceptions will allow most IAS 39 or IFRS 9 hedging relationships that are directly affected by the IBOR reform to continue. However, additional ineffectiveness may need to be recorded.

The amendments to the previously listed standards have not had a significant impact on the Company's financial statements at December 31, 2021, since it does not maintain borrowings affected by the Libor rate.

- iv) New standards, amendments and interpretations effective for the financial statements for annual periods beginning on or after January 1, 2022 and which have not been early adopted -

Certain standards and amendments to standards have been published that are mandatory in 2022 or later and have not been early adopted by the Company. The Company's assessment of the impact that these standards will have on the financial statements is explained below:

- Rent concession related to COVID-19 - Amendments to IFRS 16 -

As a result of the COVID-19 pandemic, rent concessions have been granted in lease contracts. Such concessions might take many forms including rent reductions, payment holidays and deferral of lease payments. In May 2020, IASB published an amendment to IFRS 16 "Leases" where lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. Generally, this will result for the concession as variable lease payments in the period in which they are granted.

The practical application could originally be applied to rent concessions granted until June 30, 2021. However, this date was later extended to June 30, 2022.

If a lessee used the original practical expedient application in 2021, it must continue to apply the same treatment to all leases with similar characteristics and circumstances, taking into account the above-mentioned extension. If a lessee did not use the practical expedient in 2021 on eligible leases, it is prohibited from applying it in the new extended term.

However, if a lessee has not established its accounting policy on rent concessions on eligible contracts, it could decide to apply the option in the extended term.



The amendment is effective for annual periods beginning on or after April 1, 2021.

As a result of the application of the amendment of this standard, the Company does not expect to have a significant impact on its financial statements.

- Classification of Liabilities as Current or Non-current - Amendments to IAS 1 -

This amendment clarifies 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 bank following the breach of a contractual commitment (covenants).

The amendment also clarifies the meaning of the IAS 1 reference to what is a 'settlement' of a liability.

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.

The amendments should be applied retrospectively in accordance with the requirements of IAS 8. The amendment is effective from January 1, 2023.

The Company is currently evaluating the impact this amendment may have on its financial statements.

- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 -

Originally the IAS established that "Significant" accounting policies must be disclosed, with this amendment it is specified that the disclosure must be made for "material" accounting policies. In this regard, this amendment incorporates the definition of what is "information about material accounting policies" and explains how to identify this type of information. It also clarifies that it is not necessary to disclose information on immaterial accounting policies and if it is disclosed, it must not cause material accounting information to be misleading.

Consistently, the Statement of Practice 2, 'Making judgements about materiality' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

This amendment is effective from January 1, 2023. The Company will evaluate during 2022 and 2023 the impact that this amendment may have on its financial statements.

- Definition of Accounting Estimates - Amendments to IAS 8 -

This amendment clarifies how to distinguish changes in accounting policies from changes in accounting estimates. The distinction is important in defining the accounting treatment, since changes in accounting estimates are recognized prospectively to future transactions and events, while changes in accounting policies are generally applied retrospectively to past transactions and events, as well as the current period.

This amendment is effective from January 1, 2023. The Company will evaluate during 2022 and 2023 the impact that this amendment may have on its financial statements.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 -

These amendments provide 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.

These amendments should be applied to transactions occurring on or after the beginning of the earliest comparative period presented. In addition, deferred tax assets (to the extent that it is probable that they can be used) and deferred tax liabilities should be recognized at the beginning of the earliest comparative period for all deductible or taxable temporary differences associated with:

- Right-of-use assets and lease liabilities, and
- liabilities for dismantling, restoration and similar activities, and the related amounts should be recognized as part of the cost of the related assets.

The cumulative effect of these adjustments is recognized in retained earnings or another component of equity, as appropriate.

Previously, IAS 12 did not establish any particular accounting treatment for the tax effects of leases that are recognized on the balance sheet and for similar transactions, so different approaches were considered acceptable. Entities that are already recognizing deferred taxes on these transactions will have no impact on their financial statements.

This amendment is effective from January 1, 2023. The Company will evaluate in 2022 and 2023 the impact this amendment may have on its financial statements.

In addition, other effective amendments have been published for future years that are not relevant for the Company's activities:

- IFRS 17 - Insurance Contracts.
- Proceeds before Intended Use - Amendments to IAS 16, Property, Plant and Equipment.
- Reference to the Conceptual Framework - Amendments to IFRS 3.
- Cost of Fulfilling a Contract - Amendments to IAS 37, Onerous Contracts.
- Annual Improvements to IFRS Standards 2018 - 2020.
- Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28.

Other IFRS or IFRIC interpretations that are not yet effective are not expected to have a significant impact on the Company's financial statements.

## **2.2 Foreign currency translation -**

### **a) Functional and presentation currency -**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in U.S. dollars, which is the Company's functional currency and presentation currency.

### **b) Transactions and balances -**

Foreign currency transactions (different from the U.S. dollar) are translated into the functional currency using the exchange rates prevailing at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

## **2.3 Going concern -**

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.

At December 31, 2021 the Company has reported a gain of US\$67,937 thousand and the current liabilities exceed its current assets by US\$842,528 thousand (US\$1,132,117 thousand at December 31, 2020), which primarily reflects the increase in trade payable by US\$545,263 thousand due to maintaining longer payment terms and evidences an improvement in the management of working capital compared to 2020. In addition, this situation is due to the fact that the short-term bank loans include US\$144,444 thousand of the loan with Guarantee of the “Compañía Española de Seguros de Crédito a la Exportación - CESCE” for US\$1,300,000 thousand, whose amortization begins in 2022.

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\$2,955,750 thousand and cash flows of its operating activities, with the start-up of the Talara Refinery Modernization Project (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. In February 2021, the Company issued Bonds for US\$1,000,000 thousand as part of the financing process for the Talara Refinery Modernization Project (Note 14), which allowed to pay the short-term loans taken for the project and with it improve the Company's working capital position. In 2022, the Company received a working capital loan from the MEF to meet short-term obligations (Note 33).

## **2.4 Segment information -**

Segment information is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker of the Company.

The Company's board has designated General Management as the chief operating decision-maker, which assesses the financial performance and position, makes strategic decisions and is responsible for allocating resources to the operating segments.

For management purposes, Management analyzes the performance of the Company on the basis of three operating segments for the purposes of disclosure of financial information (Note 5).

The Company evaluates the performance of operating segments based on operating profit. The Company determines the segment's assets as the total assets attributable to each segment and the liabilities as the total liabilities attributable to each segment. The accounting policies used in segment reporting are the same as those used in preparing the financial statements. Inter-segment transfer prices are based on market prices.

Revenue by geographical area is determined based on the location of the customer. All of the Company's non-current assets are located in Peru. Accordingly, no other information by geographical area is prepared on non-current assets.

## **2.5 Financial assets -**

Classification -

The Company classifies its financial assets in the following categories:

- Measured at fair value (through profit or loss or other comprehensive income), and
- Measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, any gains or losses will be recognized in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, measurement will depend on whether the Company irrevocably opts, at initial recognition, to recognize these equity instrument through other comprehensive income.

The Company performs the classifications of the debt instruments whenever the underlying business model to manage these instruments changes.

Financial assets measured at amortized cost consists of trade receivables and some items included in other receivables.

Recognition and derecognition -

Purchases or sales of financial assets are recorded on the trading date of the transaction; i.e. the date on which the Company undertakes to buy or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Measurement -

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Embedded derivatives are assessed on a comprehensive basis to determine whether their cash flows are solely payments of principal and interest.

For financial assets measured at the amortized cost, these are assets held for the contractual cash flows to be obtained, where these cash flows only relate to payments of principal and interest. Interest income on these financial assets is included in finance income using the effective interest rate method. Impairment losses are presented as separate line item in the statement of comprehensive income.

Impairment -

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in the credit risk.

For receivables, the Company applies the simplified approach permitted by IFRS 9, which requires that management estimates the expected credit loss over the lifetime of the instrument and recognize it from initial recognition (see Note 3.1-b of Financial Risk Management for more details).

## **2.6 Cash and cash equivalent -**

For purposes of the statement of cash flows, cash and cash equivalents includes cash in hand in checking accounts, highly liquid investments with original maturities of three months or less that are easily convertible into cash and are subject to an insignificant risk of changes in value and fixed funds.

## **2.7 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 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.

## **2.8 Inventories -**

Inventories are stated at the lower of cost and net realizable value. The cost includes direct material costs and, where applicable, 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 initial 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.

## **2.9 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 qualifying assets, the finance costs. 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:

	<u>Years</u>
Buildings and other constructions	Between 6 and 25
Machinery and equipment	Between 2 and 42
Containers and returnable containers	20
Vehicles	Between 5 and 15
Other equipment	Between 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. At December 31, 2021 and 2020 there were no significant changes as a result of its review.

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 2.12.

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 2.16.

Assets received by donation or assignment are recorded at their fair value, which is recognized under Other income in the statement of comprehensive income (Note 26).

The income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

## **2.10 Intangible assets -**

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 (hereinafter, CGU), 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.

At December 31, 2021 costs associated amounted to US\$29,814 thousand (US\$29,563 thousand at December 31, 2020) and are recorded in intangible assets.

On the other hand, on December 25, 2021 Supreme Decree 030-2021-EM was published, which approved the Temporary License Contract for the Exploitation of Hydrocarbons in Block I, assuming the operation on December 27, 2021, which consists of the production of hydrocarbons from the Block for a period of 22 months.

## **2.11 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).

## **2.12 Impairment of non-financial assets of indefinite useful lives -**

The Company conducts an assessment of impairment 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. 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.

The Company evaluates annually if there is evidence that indicates that previously recognized impairment losses have been partially or totally reversed. At December 31, 2021 and 2020 the Company has carried out an impairment test for Pipeline Operations and determined that it was not necessary to recognize any provision for impairment. At December 31, 2021 and 2020 the Company has performed the PMRT impairment test and the results are disclosed in Note 11(viii)(b).

## **2.13 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, 2021 and 2020 the Company only holds liabilities in "other financial liabilities at amortized cost", which correspond to (i) corporate bonds, (ii) unsecured bank loans, which includes the CESCE loan, (iii) trade payables (iv) provisions, (v) 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.



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.

#### **2.14 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.

#### **2.15 Borrowings -**

Borrowings consist of loans obtained from financial institutions, including unsecured short-term, which are used for working capital and capital expenditures in the PMRT, corporate bonds and CESCE loan. 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.

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.

#### **2.16 Borrowing costs -**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, 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 a substantial period of 1 year 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 comprehensive income in the period in which they are incurred.

## 2.17 Leases -

The Company mainly leases property, shipping units and other equipment. Rental contracts are usually signed for fixed periods, but they may have term extension options. The terms of the lease are agreed on a lease-by-lease basis and contain a wide range of different terms and conditions. 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).

## **2.18 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) Vacation 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.

## **2.19 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.

## **2.20 Contingent liabilities and assets -**

Contingent liabilities are recognized in the financial statements to the extent that cash outflows are probable; and they are only disclosed in a note to the financial statements when cash outflows are possible.

Contingent assets are not recognized and are only disclosed if it is probable that economic benefits will flow to the Company in the future.

## **2.21 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 liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

## **2.22 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.

## 2.23 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; 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 Ministry of Energy and Mines 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 Ministry of Energy and Mines (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 Ministry of Energy and Mines are accounted for as described in 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 rent, 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 given that there is no possibility for the customer not to accept the service already completed.

d) Interest income -

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

**2.24 Earnings per share -**

Earnings per share are calculated by dividing the net profit attributable to the Company's stockholders by the weighted average number of shares outstanding during the year.

**2.25 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 2.23. 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.

**2.26 Derivative financial instruments -**

Derivative financial instruments such as futures contracts (forwards) are used to hedge foreign currency risks. 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.

**3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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 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 or commodities), credit risk and liquidity risk.

a) Market risk -

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

i) Foreign exchange risk -

Transactions in foreign currency are mainly agreed in soles and euros. The Company is exposed to the risk of severe fluctuations in the exchange rate of said currencies.

Management manages the foreign exchange risk 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. For other transaction such as purchases from suppliers in Peruvian soles and Euros and obligations with suppliers, the Company takes the Exchange rate risk, which has significantly impacted the net exchange difference for the twelve-month period ended December 31, considering which is the global economic and health crisis.

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:

	<u>2021</u>			<u>2020</u>		
	<u>S/000</u>	<u>EUR000</u>	<u>JPY000</u>	<u>S/000</u>	<u>EUR000</u>	<u>JPY000</u>
<b>Assets:</b>						
Cash and cash equivalent	293,686	1,033	-	253,505	2,241	-
Trade receivables	857,351	-	-	761,764	-	-
Other receivables	<u>3,297,220</u>	<u>-</u>	<u>-</u>	<u>2,031,250</u>	<u>-</u>	<u>-</u>
	<u>4,448,257</u>	<u>1,033</u>	<u>-</u>	<u>3,046,519</u>	<u>2,241</u>	<u>-</u>
<b>Liabilities:</b>						
Other liabilities	( 298,350)	-	-	( 290,000)	-	-
Trade payables	( 286,493)	( 1,258)	( 783)	( 168,744)	( 74)	( 191)
Other payables	( 389,758)	-	-	( 137,857)	-	-
Lease liability	( 10,639)	-	-	( 7,861)	-	-
Other provisions	( 13,972)	-	-	( 39,704)	-	-
	<u>( 999,212)</u>	<u>( 1,258)</u>	<u>( 783)</u>	<u>( 644,166)</u>	<u>( 74)</u>	<u>( 191)</u>
<b>Net asset (liability) exposition</b>	<u>3,449,045</u>	<u>( 225)</u>	<u>( 783)</u>	<u>2,402,353</u>	<u>2,167</u>	<u>( 191)</u>

The Company's assets and liabilities denominated in foreign currencies 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:

	<b>Exchange rate at</b>	
	<b>December 31</b>	
	<u>2021</u>	<u>2020</u>
S/	0.250	0.276
EUR	1.212	1.354
JPY	0.011	0.012

For the year ended December 31, 2021 and 2020, the Company recognized a net exchange loss of US\$65,723 thousand and US\$26,041 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% with all other variables held constant, it would have affected profit before income tax.

	<u>Movement of</u>	<u>Effect on profit and loss before taxes</u>	
		<u>Revaluation</u>	<u>Devaluation</u>
		<u>US\$000</u>	<u>US\$000</u>
<b>Year 2021</b>			
S/	5%	43,135	( 43,135)
<b>Year 2020</b>			
S/	5%	33,152	( 33,152)

At December 31, 2021 and 2020 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 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, 2021 and 2020 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 0.29% and 0.77% and Peruvian soles at rates between 1.56% and 1.92%; (iv) financial lease liabilities at rates between 0.41% and 0.45%.

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, 2021 and 2020.

The Company seeks to enter into agreements with crude oil suppliers and manufacturers in Peru in order to mitigate the price risk by signing long-term purchase agreements at referential basket prices of crude oil or WTI pricing formulas, taking into account the expected margins in the international market. In addition, in purchasing crude oil and imported products, the best price quotes are obtained based on international public bidding processes.

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. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted.



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 45 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.

The rates of expected credit losses are based on the payment profiles of over a 12-month period before December 31, 2021 and 2020, 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 have significant 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-d) and 2.3.

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.

At December 31, 2021 the Company maintains short-term revolving credit lines with local and foreign banks for a total of US\$2,955,750 thousand, of which US\$1,880,735 thousand are available at that date, a sufficient amount to meet its purchase operations 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 invested in interest-bearing instruments and time deposits, choosing instruments with appropriate due dates or sufficient liquidity.

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:

	<u>Carrying amount</u> US\$000	<u>Cash flows non-discounted</u> US\$000	<u>Less than 1 year</u> US\$000	<u>More than 1 year</u> US\$000	<u>More than 2 years</u> US\$000
<b>2021</b>					
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	28,163	12,004	13,713	446
Other payables (*)	<u>31,200</u>	<u>31,200</u>	<u>31,200</u>	<u>-</u>	<u>-</u>
	<u>6,475,678</u>	<u>9,961,127</u>	<u>2,418,243</u>	<u>355,340</u>	<u>7,185,544</u>
<b>2020</b>					
Other financial liabilities	4,414,398	6,804,203	1,339,849	267,320	5,197,034
Trade payables	807,568	807,568	807,568	-	-
Lease liabilities	3,503	3,760	1,892	1,868	-
Other payables (*)	<u>7,085</u>	<u>7,085</u>	<u>7,085</u>	<u>-</u>	<u>-</u>
	<u>5,232,554</u>	<u>7,622,616</u>	<u>2,156,394</u>	<u>269,188</u>	<u>5,197,034</u>

(\*) Other payables do not include liabilities for taxes, advances, or labor liabilities. Liabilities for derivative financial instruments are included.

### 3.2 Capital risk management -

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), 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, 2021 the Company maintains the investment grade given by credit rating agencies: Standar & Poor's (BBB- on the long-term debt) and Fitch Ratings (BBB on the foreign currency long-term debt), as well as the AA- rating issued by local agency of AA- with Apoyo & Asociados Internacionales S.A.C. (AA-(pe)).

At June 30, 2022 the Company maintains the investment grade given by credit rating agencies: Standar & Poor's (BB on the long-term debt) and Fitch Ratings (BBB- on the foreign currency long-term debt), as well as the AA-(pe) with Apoyo & Asociados Internacionales S.A.C. (Note 33).

At December 31, gearing ratios were as follows:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Other financial liabilities (Note 14)	5,065,484	4,414,398
Cash and cash equivalents (Note 7)	( 239,557)	( 84,818)
Net debt (A)	4,825,927	4,329,580
Total equity (B)	<u>1,908,919</u>	<u>1,840,982</u>
Total capital (A)+(B)	<u>6,734,846</u>	<u>6,170,562</u>
Ratio (A/(A+B))	<u>0.72</u>	<u>0.70</u>

(\*) 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, 2021 and 2020 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. 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, 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. See note 14.

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) 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 resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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 of property, plant and equipment -

Depreciation 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 physical wear and tear of the asset and ii) 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 17). 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 a liability 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 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 and deferred income tax for the fiscal period in which those observations are determined.

Deferred income tax asset is reviewed at each reporting date to determine the recoverable amount.

The current income tax determination is performed by the Company following applicable laws and regulations and it does not include any estimated provisions that may eventually give rise to differences against tax audit results. 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.

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 coming years. The Company, taking into account internal and external information, has considered it appropriate to carry out the impairment test of the CGU, Oil Pipeline Operations and the PMRT (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 assets subject to amortization or depreciation -

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 recoverable amount of an asset comprises the higher of its fair value less cost of disposal or its value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

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

- 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. 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 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 2021 and 2020, 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 (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, 2021 and 2020 according to Company's critical judgment, the functional currency is the US dollar.

## **5 SEGMENT INFORMATION**

- a) Description of business segments and core activities -

The Company's chief operating decision-maker (General Management) 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:

<b>Reportable segment</b>	<b>Operations</b>
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.

The Company's General Management 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 -

	<b>Production and trading (*)</b> <b>US\$000</b>	<b>Oil Pipeline operations</b> <b>US\$000</b>	<b>Leased and privatized units</b> <b>US\$000</b>	<b>Total</b> <b>US\$000</b>
<b>At December 31, 2021</b>				
<b>Assets:</b>				
Current	1,175,195	262,895	20,803	1,458,893
Non-current	<u>6,751,994</u>	<u>270,737</u>	<u>203,912</u>	<u>7,226,643</u>
	<u>7,927,189</u>	<u>533,632</u>	<u>224,715</u>	<u>8,685,536</u>
<b>Liabilities:</b>				
Current	2,141,238	106,800	53,383	2,301,421
Non-current	<u>4,457,821</u>	<u>17,375</u>	-	<u>4,475,196</u>
	<u>6,599,059</u>	<u>124,175</u>	<u>53,383</u>	<u>6,776,617</u>
<b>At December 31, 2020</b>				
<b>Assets:</b>				
Current	791,350	109,950	49,987	951,287
Non-current	<u>5,873,759</u>	<u>241,670</u>	<u>193,041</u>	<u>6,308,470</u>
Total assets	<u>6,665,109</u>	<u>351,620</u>	<u>243,028</u>	<u>7,259,757</u>
<b>Liabilities:</b>				
Current	1,998,650	52,796	31,958	2,083,404
Non-current	<u>3,317,934</u>	<u>17,437</u>	-	<u>3,335,371</u>
Total liabilities	<u>5,316,584</u>	<u>70,233</u>	<u>31,958</u>	<u>5,418,775</u>

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

c) Statement of comprehensive income by segments -

	<u>Production and trading (*)</u> US\$000	<u>Oil Pipeline operations</u> US\$000	<u>Leased and privatized units</u> US\$000	<u>Total</u> US\$000
<b>For the year ended December 31, 2021</b>				
Revenue from				
ordinary activities	4,156,237	177	-	4,156,414
Other operating income	<u>28,061</u>	<u>9,668</u>	<u>24,301</u>	<u>62,030</u>
Total revenue	<u>4,184,298</u>	<u>9,845</u>	<u>24,301</u>	<u>4,218,444</u>
Cost of sales	( 3,716,973)	( 42,055)	( 5,378)	( 3,764,406)
Transfers	( 8,175)	<u>8,175</u>	-	-
Gross profit	<u>459,150</u>	( 24,035)	<u>18,923</u>	<u>454,038</u>
Selling and distribution expenses	( 53,613)	-	( 8,068)	( 61,681)
Administrative expenses	( 133,506)	( 11,543)	( 35,000)	( 180,049)
Other income and expenses	<u>45,834</u>	<u>2,182</u>	-	<u>48,016</u>
Profit (loss) from operating activities	<u>317,865</u>	( 33,396)	( 24,145)	<u>260,324</u>
Financial, net	( 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)	<u>42</u>	<u>119</u>	( 105,161)
Result from the year	<u><u>130,146</u></u>	<u><u>36,209</u></u>	<u><u>26,000</u></u>	<u><u>67,937</u></u>
<b>For the year ended December 31, 2020</b>				
Revenue from				
ordinary activities	3,045,173	129	-	3,045,302
Other operating income	<u>27,705</u>	<u>22,278</u>	<u>26,474</u>	<u>76,457</u>
Total revenue	<u>3,072,878</u>	<u>22,407</u>	<u>26,474</u>	<u>3,121,759</u>
Cost of sales	( 2,811,283)	( 45,750)	( 5,377)	( 2,862,410)
Transfers	( 6,856)	<u>6,856</u>	-	-
Gross profit	<u>254,739</u>	( 16,487)	<u>21,097</u>	<u>259,349</u>
Selling and distribution expenses	( 60,352)	-	( 3,919)	( 64,271)
Administrative expenses	( 117,957)	( 11,784)	-	( 129,741)
Other income and expenses	( 67,428)	<u>2,323</u>	-	( 65,105)
Profit (loss) from operating activities	9,002	( 25,948)	17,178	232
Financial, net	( 34,581)	( 6,969)	( 11)	( 41,561)
Profit (loss) before income tax	( 25,579)	( 32,917)	17,167	( 41,329)
Income tax expense	( 27,220)	<u>582</u>	<u>687</u>	( 25,951)
Result from the year	<u><u>52,799</u></u>	<u><u>32,335</u></u>	<u><u>17,854</u></u>	<u><u>67,280</u></u>

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

d) Revenue by geographical area -

At December 31, revenue by geographical segment is based on the customers' geographical location:

	<u>2021</u> US\$000	<u>2020</u> US\$000
Peru	3,862,893	2,894,047
Other countries	<u>355,551</u>	<u>227,712</u>
	<u><u>4,218,444</u></u>	<u><u>3,121,759</u></u>



## 6 FINANCIAL INSTRUMENTS

### 6.1 Financial instruments per category -

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

	<u>At December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>US\$000</u>	<u>US\$000</u>
<b>Financial assets as per the statement of financial position</b>		
Financial assets at amortized cost:		
- Cash and cash equivalents (Note 7)	239,557	84,818
- Trade receivables (Note 8)	302,091	287,853
- Other receivables (*) (Note 9)	39,265	37,907
	<u>580,913</u>	<u>410,578</u>
<b>Other assets measured at fair value through profit and loss:</b>		
- Derivative financial instruments (Note 9)	6,759	2,195
	<u>587,672</u>	<u>412,773</u>
<b>Financial liabilities as per the statement of financial position</b>		
Other financial liabilities at amortized cost:		
- Other financial liabilities (Note 14)	5,065,484	4,414,398
- Trade payables (Note 15)	1,352,831	807,568
- Lease liabilities (Note 13)	26,163	3,503
- Other payables (*) (Note 16)	31,155	7,073
	<u>6,475,633</u>	<u>5,232,542</u>
<b>Other liabilities measured at fair value through profit and loss:</b>		
- Derivative financial instruments (Note 16)	45	12
	<u>6,475,678</u>	<u>5,232,554</u>

(\*) 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 time deposits is broken down as follows:

	<u>At December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>US\$000</u>	<u>US\$000</u>
<b>Cash and cash equivalent -</b>		
Cash and cash equivalent:		
A+	220,512	60,670
A	19,026	23,074
	<u>239,538</u>	<u>83,744</u>
Liquidity funds:		
A	-	1,050

Risk ratings "A" and "A+" in the above table represent high quality ratings. For banks in Perú, 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.

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>US\$000</b>	<b>US\$000</b>
<b>Trade receivables (Note 8)</b>		
A	624	4
B	245,450	266,225
C	56,017	21,624
	<u>302,091</u>	<u>287,853</u>

#### **Other receivables (Note 9)**

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

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>US\$000</b>	<b>US\$000</b>
A	1,306	12,896
B	15,836	10,789
C	22,123	14,222
	<u>39,265</u>	<u>37,907</u>

The total balance of trade receivables and receivables from related parties is in compliance with contract terms and conditions; none of them have been re-negotiated.

## **7 CASH AND CASH EQUIVALENTS**

This item comprises:

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>US\$000</b>	<b>US\$000</b>
Checking accounts (a)	239,538	83,744
Liquidity funds (b)	-	1,050
Fixed funds	19	24
	<u>239,557</u>	<u>84,818</u>

- (a) The Company maintains cash in checking accounts in local and foreign currency with financial institutions. These funds are freely available earning preferred interest rates between 2.15% and 0.58%. The increase in checking account balances is mainly due to the balance of cash flows derived from the reopening of 2047 bonds carried out in February 2021 (Note 14).

(b) At December 31, 2020 liquidity funds are short term instruments in foreign institutions, characterized by liquidity and a stable share price with a yield of 0.12% and are immediately available without a defined maturity date. During 2021, the liquidity funds have been used in the investment activities of the PMRT.

## 8 TRADE RECEIVABLES

This item comprises:

	<u>At December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>US\$000</u>	<u>US\$000</u>
Wholesalers	171,520	189,221
Mining industry	35,976	22,604
Fuel traders	16,025	11,234
Oil companies	22,460	37,416
External market	12,201	-
Armed Forces and National Police Force	4,570	7,891
Aviation business	2,552	2,843
Fishing industry	4,391	8,279
Construction industry	771	2,424
Transport industry	1,389	1,309
Industrial industry	459	555
Electric power industry	179	2,452
Other customers	1,087	1,625
Doubtful accounts receivable from different customers	<u>11,989</u>	<u>13,673</u>
	<u>285,569</u>	<u>301,526</u>
Price Stabilization Fund - Ministry of Energy and Mines (Note 1-c)	<u>28,511</u>	<u>-</u>
	314,080	301,526
Less: Expected loss of trade receivables	<u>( 11,989)</u>	<u>( 13,673)</u>
	<u>302,091</u>	<u>287,853</u>

Accounts receivable -

The balances of trade receivables are invoices in 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 letter of guarantee and other instruments of the Peruvian financial system in accordance with the credit policy approved by the Board of Directors.

Price Stabilization Fund - Ministry of Energy and Mines -

At December 31, 2021 and 2020 the total amount receivable from the General Hydrocarbons Agency (DGH) amounted to US\$43,025 thousand and US\$15,757 thousand, respectively, generated from compensations and contributions transactions (Note 2.23-b). These balances includes a legal recourse ("Demanda de Amparo") recorded in a Claims account for US\$14,514 thousand at December 31, 2021 (US\$16,012 thousand at December 31, 2020), classified as other long-term receivables (Note 9).

During 2021, the increase in balances receivable from the Fuel Price Stabilization Fund is mainly due to the inclusion in the FEPC of GLP-E, Diesel B5 and Diesel S-50. Likewise, the upward trend in the price of crude oil (US\$76.99 per barrel in 2021 vs. US\$48.52 per barrel in 2020) as a result of the Russia-Ukraine conflict, had an impact on the calculation of the FEPC.

At December 31, the movement of the total balance of the item Price Stabilization Fund is explained as follows:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Opening balance	( 255)	9,796
Price compensation	28,473	1,336
Price contribution	( 3,174)	( 36,243)
Net (charged) credited to revenue from ordinary activities (Note 20)	25,299	( 34,907)
Compensation generated by imported products	4,626	-
Contribution generated by import of products	( 926)	( 9,236)
Collection and compensation and/or contribution payments	145	32,560
Exchange difference	( 378)	1,532
Final balance receivable (payable)	<u>28,511</u>	<u>( 255)</u>

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 Company considered appropriate to exclude trade receivable from wholesale and trade segments considering their high liquidity and because no historical losses have been incurred.

The rates of expected credit losses are based on the payment profiles of sales over a 12-month period before December 31, 2021 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, 2021 and 2020 was determined as follows:

	<u>2021</u>			<u>2020</u>		
	<u>Expected loss rate</u> %	<u>Gross carrying amount</u> US\$000	<u>Expected loss</u> US\$000	<u>Expected loss rate</u> %	<u>Gross carrying amount</u> US\$000	<u>Expected loss</u> US\$000
Current	0.00	273,507	4	0.02	272,297	47
From 1 to 300 days	99.36	22	22	0.46	15,195	70
From 301 to 330 days	99.36	-	-	41.10	175	72
From 331 to 360 days	99.36	-	-	79.28	22	17
More than 360 days	99.36	12,040	11,963	97.33	13,837	13,467
Total (*)		<u>285,569</u>	<u>11,989</u>		<u>301,526</u>	<u>13,673</u>

(\*) Does not include the Price Stabilization Fund.

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

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Opening balance	13,673	6,270
Expected loss (Note 23)	-	7,815
Exchange difference	( 1,635)	( 412)
Recoveries	( 49)	-
Final balance	<u>11,989</u>	<u>13,673</u>

Management considers that the estimate 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 letters of guarantee 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 expenses in the statement of comprehensive income (Note 23).

## 9 OTHER RECEIVABLES

This item comprises:

	<u>At December 31,</u>	
	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
<b>Current</b>		
Tax credit - VAT and income tax (a)	222,105	121,007
Advances granted to suppliers	27,598	20,277
Association investment with GeoPark	3,522	3,779
Loans to personnel	3,242	3,669
Funds subject to restriction	3,094	2,229
Assets for derivative financial instruments	6,759	2,195
Loans to third parties	2,166	2,270
Others	5,424	1,891
Doubtful claims to municipalities and others (e)	<u>32,824</u>	<u>34,521</u>
	306,734	191,838
Less: Expected loss of other receivables (e)	( 32,824)	( 34,521)
Current portion	<u>273,910</u>	<u>157,317</u>
<b>Non-current</b>		
Tax credit - VAT, long-term (b)	539,364	394,738
Price Stability Fund Claims - Ministry of Energy and Mines (Note 1-c), Note 8)	14,514	16,012
Claims against tax authorities - SUNAT (d)	7,303	8,057
Other long-term taxes	<u>6,521</u>	<u>6,881</u>
<b>Non-current portion</b>	<u>567,702</u>	<u>425,688</u>

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

At December 31, 2021 corresponds to the Value Added Tax credit (IGV in Peru) of operations for US\$2,824 thousand (equivalent to S/11,249 thousand), Value Added Tax of the PMRT for an amount of US\$48,790 thousand (equivalent to S/195,064 thousand) and tax credit for excise tax (ISC) for US\$113,763 thousand (equivalent to S/454,825 thousand) and tax credit for payments on account of income tax for US\$56,726 thousand (equivalent to S/226,789 thousand), which will be recovered in the short term from operations and under the VAT anticipated recovery regime. At December 31, 2020 corresponds to the Value Added Tax credit (IGV in Peru) of operations for US\$17,000 thousand (equivalent to S/65,669 thousand), Value Added Tax of the PMRT for an amount of US\$28,000 thousand (equivalent to S/114,593 thousand) and tax credit for excise tax (ISC) for US\$36,202 thousand and tax credit for payments on account of income tax for US\$39,507 thousand (equivalent to S/143,174 thousand), which will be recovered in the short term from operations and under the VAT anticipated recovery regime.

During 2021, SUNAT made the return of VAT tax credit for US\$42,352 thousand (equivalent to S/168,805 thousand), which was requested by the Company through the early recovery regime ("Régimen de Recuperación Anticipada") for US\$16,392 thousand (equivalent to S/67,312 thousand) (Note 28-e) and return of the balance in favor of the exporter's benefit for US\$25,960 (equivalent to a S/101,493 thousand).

During 2020, SUNAT made the return of VAT tax credit for US\$101,957 thousand (equivalent to S/355,566 thousand), which was requested by the Company through the early recovery regime ("Régimen de Recuperación Anticipada") for US\$56,399 thousand (equivalent to S/197,196 thousand) (Note 28-e) and return of the balance in favor of the exporter's benefit for US\$45,558 thousand (equivalent to S/158,370 thousand).

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

At December 31, 2021 corresponds to the Value Added Tax credit (IGV in Peru) paid for the acquisition of goods and services mainly related to the Talara Refinery Modernization Project amounting to US\$301,624 thousand (equivalent to S/1,205,917 thousand) and the VAT for operations amounting to US\$237,740 thousand (equivalent to S/950,506 thousand). At December 31, 2020 corresponds to the Value Added Tax credit (IGV in Peru) paid for the acquisition of goods and services mainly related to the Talara Refinery Modernization Project amounting to US\$105,054 thousand (equivalent to S/380,717 thousand) and the VAT for operations amounting to US\$289,684 thousand (equivalent to S/1,049,811 thousand).

This credit balance of tax credit has no expiry date. The Company expects to recover this tax credit through its operations and the early recovery regime ("Régimen de Recuperación Anticipada") in the long-term.

(c) Price Stabilization Fund Claims - Ministry of Energy and Mines -

In April 2010, the General Hydrocarbons Agency (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 N°21022-2010-0-1801-JR-CI-02.

On November 28, 2018 a Sentence was issued as contained in Resolution No.16 by which a constitutional court in Lima ("Segundo Juzgado Especializado Constitucional de Lima") decided the claim was groundless. By means of Resolution No.17, the Appeal of said Judgment was granted to the second instance.

On December 17, 2020, by means of a Sentence contained in Resolution No.5, the Third Civil Court (“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. At December 31, 2021 the Second Constitutional Court of Lima (“Segundo Juzgado Especializado Constitucional de Lima”) has not issued a Sentence.

Management considers that, based on the reports of its external legal counsel, once the court proceedings are completed, the outcome will be favorable to the Company and it will enable it to recover the whole account receivable recorded those amounts to US\$14,514 thousand at December 31, 2021 (US\$16,012 thousand at December 31, 2020).

- (d) Claims to the Peruvian Tax and Customs regulator (Superintendencia Nacional de Aduanas y de Administración Tributaria - SUNAT) -

This item consists of claims against tax assessments involving the Turbo A-1 (fuel intended only for aviation activities) resulting from the provisions of DS 186-2002-EF, which stipulated the sales of Turbo A1 intended for general aviation activities were not subject to Excise Tax (ISC in Peru). In this respect, 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.

At December 31, 2021 and 2020 this item only comprises File No.17806-2012., which is explained below:

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) for fiscal. At December 31, 2021 this action remains to be resolved by Courtroom 4 of the Peruvian Tax Tribunal, under File No. 17806-2012. The Company and its legal counsel have high expectations of obtaining a favorable outcome. The expected refund is equivalent to US\$7,303 thousand at the closing exchange rate.

- (e) Expected credit loss of other receivables -

The expected loss is mainly related to claims submitted to municipalities involving property taxes and municipal taxes; the probability of a favorable outcome is low. In this sense, the Company applies the general model of IFRS 9 to measure the expected credit losses of claims.

The Company considers the probability of default after the initial recognition of claims and whether there has been a significant increase in credit risk on a continuous basis throughout each period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default in the asset on the date of presentation of the financial statements with the risk of default on the date of its initial recognition. The current and reasonable information that is available is considered. In particular, the internal credit rating is incorporated as an indicator.

Regardless of the above analysis, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making the claim payment. 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.

At December 31, 2021 and 2020 the movement of the provision for expected loss is as follows:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Opening balance	34,521	35,954
Exchange difference	( 1,487)	( 1,433)
Write-offs	( 210)	-
Final balance	<u>32,824</u>	<u>34,521</u>

## 10 INVENTORIES

This item comprises:

	<b>At December 31,</b>	
	<b><u>2021</u></b>	<b><u>2020</u></b>
	<b>US\$000</b>	<b>US\$000</b>
Crude oil	210,379	110,698
Refined products:		
In-process	53,096	55,802
Finished	165,567	99,418
Acquired refined products	150,538	94,984
In-transit inventories	27,682	30,890
Supplies	<u>38,312</u>	<u>30,239</u>
	645,574	422,031
Less - Provision for impairment of supplies	<u>( 4,251)</u>	<u>( 4,419)</u>
	<u><u>641,323</u></u>	<u><u>417,612</u></u>

In 2021, the cost of inventories recognized as expenses and included in the cost of sales amounted to US\$3,506,281 thousand (US\$2,608,374 thousand in 2020) which are equivalent to cost of sales less operating expenses of production (Note 22).

At December 31, 2021 the crude oil price had a rising trend, with a closing price of US\$76.99 per barrel (US\$48.52 per barrel at December 31, 2020). The average price during December 2021 was US\$71.53 per barrel (US\$47.05 per barrel in December 2020).

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

	<b><u>2021</u></b>	<b><u>2020</u></b>
	<b>US\$000</b>	<b>US\$000</b>
Opening balance	( 4,419)	( 1,002)
Obsolescence of supplies	( 232)	( 4,394)
Recovery	400	456
Adjustment	-	521
Final balance	<u>( 4,251)</u>	<u>( 4,419)</u>

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 sales or consumption and considering their physical condition. At December 31, 2021 and 2020 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

This item comprises:

	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
<b>At January 1, 2020:</b>										
Cost	204,162	201,203	872,463	37,725	6,046	62,973	6,387	4,237,035	34,101	5,662,095
Accumulated depreciation	-	( 99,116)	( 409,330)	( 16,160)	( 4,227)	( 32,003)	( 6,063)	-	-	( 566,899)
Accumulated impairment	-	-	( 309)	-	-	-	( 324)	-	-	( 633)
Net cost	<u>204,162</u>	<u>102,087</u>	<u>462,824</u>	<u>21,565</u>	<u>1,819</u>	<u>30,970</u>	<u>-</u>	<u>4,237,035</u>	<u>34,101</u>	<u>5,094,563</u>
<b>Year 2020:</b>										
Opening balance of net carrying amount	204,162	102,087	462,824	21,565	1,819	30,970	-	4,237,035	34,101	5,094,563
Additions	-	538	2,918	77	-	-	-	846,476	6,565	856,574
Transfers	-	5,118	16,567	5,765	284	1,397	-	( 29,131)	-	-
Disposals	-	-	( 19)	-	( 17)	-	( 3,268)	-	-	( 3,304)
Reclassification to equipment out of use	-	-	( 961)	( 50)	( 39)	( 1,378)	2,428	-	-	-
Reclassifications	-	-	-	-	2	-	-	-	-	2
Cost adjustments	-	( 530)	( 9)	-	-	-	-	-	-	( 539)
Depreciation for the year	-	( 5,486)	( 34,982)	( 2,630)	( 538)	( 3,489)	-	-	-	( 47,125)
Depreciation of disposals	-	-	19	-	17)	-	3,268	-	-	3,304)
Obsolete assets	-	-	-	-	-	-	( 138)	-	-	( 138)
Transfer depreciation	-	-	836	39	39	1,376	( 2,290)	-	-	-
Impairment of assets	-	-	-	-	-	-	-	( 71,446)	-	( 71,446)
Depreciation adjustments	-	-	9	-	-	-	-	-	-	9
At December 31, 2020	<u>204,162</u>	<u>101,727</u>	<u>447,202</u>	<u>24,766</u>	<u>1,568</u>	<u>28,876</u>	<u>-</u>	<u>4,982,934</u>	<u>40,666</u>	<u>5,831,901</u>
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)
At December 31, 2020	<u>204,162</u>	<u>101,727</u>	<u>447,202</u>	<u>24,766</u>	<u>1,568</u>	<u>28,876</u>	<u>-</u>	<u>4,982,934</u>	<u>40,666</u>	<u>5,831,901</u>
<b>Year 2021</b>										
Opening balance of net carrying amount	204,162	101,727	447,202	24,766	1,568	28,876	-	4,982,934	40,666	5,831,901
Additions	6,261	1,635	53,694	-	-	3,773	-	770,719	( 28,146)	807,936
Transfers	-	5,002	107,671	5,837	190	1,411	-	( 120,111)	-	-
Disposals	-	-	( 3,098)	( 1,028)	-	( 39)	( 380)	-	-	( 4,545)
Reclassification to equipment out of use	-	-	( 3,488)	( 108)	17	( 738)	4,351	-	-	-
Reclassifications	-	-	-	-	-	-	-	( 6,843)	-	( 6,843)
Cost 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 depreciation	-	-	3,124	102	17	711	( 3,954)	-	-	-
Obsolete assets	-	-	-	-	-	-	( 397)	-	-	( 397)
At December 31, 2021	<u>210,423</u>	<u>102,752</u>	<u>567,507</u>	<u>27,735</u>	<u>1,288</u>	<u>30,496</u>	<u>-</u>	<u>5,626,701</u>	<u>12,520</u>	<u>6,579,422</u>
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)
At December 31, 2021	<u>210,423</u>	<u>102,752</u>	<u>567,507</u>	<u>27,735</u>	<u>1,288</u>	<u>30,496</u>	<u>-</u>	<u>5,626,701</u>	<u>12,520</u>	<u>6,579,422</u>

(i) Major projects -

<u>Name of the project</u>	<u>Disbursements</u>	<u>Progress percentage %</u>	
	<u>December 31,</u> <u>2021</u> <u>US\$000</u>	<u>Real</u>	<u>Planned</u>
Talara Refinery Modernization Project - PMRT (a)	5,370,069	96.79	93.37
Project to set up and operate the New Ilo Terminal (b)	47,432	46.00	78.50
Supply Plant in Pasco Ninacaca (c)	7,352	73.50	100.00
Puerto Maldonado Plant and Selling Point (1st stage) (d)	19,491	81.90	100.00

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, 2021 the status of the Project is described as follows:

- **Overall progress**

- Overall progress of PMRT is 96.79% Real vs 99.37% Scheduled.

Since March 16, 2020, Petroperú temporarily suspended the PMRT construction activities, maintaining only the execution of tasks related to the industrial safety of the facilities and equipment. Since June 15, 2020, the work in the PMRT has been progressively restarted, complying with the protocols approved and established in the Plan for the Surveillance, Prevention and Control of COVID-19 of the PMRT.

To date, the Master Schedule level 3 review 9 presented by Técnicas Reunidas has been approved. For Auxiliary Units, there is an estimate by CPT, which is subject to modification when the EPC Cobra-SCL Contractor presents its updated Master Schedule.

The approval of the change proposals proposed by Técnicas Reunidas and Cobra is being managed due to the impacts on time and cost caused by the State of National Emergency due to Covid-19 during 2021. On November 6, 2021 the Framework Agreement II was signed with the contractor Cobra SCL UA&TC, where the delivery dates of the Auxiliary Units are established, as well as the impacts that must be recognized by Petroperú as a consequence of the effects of the Covid-19 pandemic during 2021 and 2022, among others. On November 24, 2021 Change Proposal No. 272 was received, in which it is limited exclusively to collecting (from January 1 to December 31, 2021) the cost impacts corresponding to 2021 to which Técnicas Reunidas is forced to incur as a result of the regulations and protocols due to the Covid-19 pandemic.

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

	<u>December 31, 2021</u>		<u>Total Budget</u>	
	<u>Disbursements</u>	<u>Progress</u>	<u>Planned</u>	<u>Total</u>
	<u>US\$000</u>	<u>percentage</u>	<u>US\$000</u>	<u>percentage</u>
<b>Técnicas Reunidas (TR) -</b>				
Processing unit	3,065,992	96.36	3,181,708	55.64
<b>Consorcio Cobra SCL -</b>				
Auxiliary units	770,797	90.99	857,124	14.99
Complementary work	292,912	80.64	363,215	6.35
<b>Others -</b>				
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
	<u>5,370,069</u>	<u>93.91</u>	<u>5,718,347</u>	<u>100.00</u>

	<u>December 31, 2020</u>		<u>Total Budget</u>	
	<u>Disbursements</u>	<u>Progress</u>	<u>Planned</u>	<u>Total</u>
	<u>US\$000</u>	<u>percentage</u>	<u>US\$000</u>	<u>percentage</u>
<b>Técnicas Reunidas (TR) -</b>				
Processing unit	2,765,065	92.26	2,996,984	56.59
<b>Consorcio Cobra SCL -</b>				
Auxiliary units	652,944	82.97	786,949	14.86
Complementary work	245,573	72.31	339,635	6.41
<b>Others -</b>				
Supervising	286,809	89.63	319,994	6.04
Management	172,250	71.72	240,180	4.54
Contingencies	-	-	16,265	0.31
Interest on financing	531,969	89.33	595,495	11.25
	<u>4,654,610</u>	<u>92.74%</u>	<u>5,295,502</u>	<u>100.00</u>

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

The Comprehensive Progress in the EPC Contract with the Consorcio Cobra SCL UA&TC is 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: 89.46% Real vs 100% Scheduled.
- Commissioner Advance: 22.30% Real vs 100% Scheduled.

At December 31, 2021 the accumulated executed amount is US\$1,063.71 million.

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

The Comprehensive Progress in the EPC Contract with TR is 98.75% Real vs. 99.84% Scheduled. TR has recorded progress in the construction activity (C), as follows:

- Progress of engineering: 100%.
- Progress of Procurement: 99.98% Real vs 100% Scheduled.
- Progress of construction: 98.98% Real vs 100% Scheduled.
- Commissioner Advance: 66.79% Real vs 92.15% Scheduled.

At December 31, 2021 the accumulated executed amount is US\$3,065.99 million.

- **Financial structure of the PMRT**

- Capital contribution for US\$325 million.
- Own resources for: US\$808 million.
- Bond placement (15 and 30 years) for US\$2,000 million.
- Loan secured by Compañía de Seguros de Crédito a la Exportación (CESCE) for US\$1,300 million.
- Loans from the Corporate Internationalisation Fund (FIEM) for US\$148 million (in structuring process).
- Bonds for US\$1,155,000 thousand.

- **Social responsibility and Community Relations**

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

At December 31, 2021 the total labor plan was 4,453 job positions. The share of local unqualified labor was 96.9% (from a total of 716 unqualified labor), above the limit set in the EIA (70%), while the share of local qualified labor was 60.1% (from a total of 3,737 qualified labor).

- Improvement of the Northern Cone Road (Section: Víctor Raúl Bridge – A.H. Jesús María):
  - ✓ 1st Stage: Track Adequacy. Real progress: 100%
  - ✓ 2nd Stage: Contracting process of the work. The approval was given to the Consorcio del Norte JPO for the execution of the work.
- Storm Drainage Improvement IEP Federico Villareal and Protection of the blocks and houses involved (Urb. 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, 2021 the status of this Project is described as follows:

- The investment amount totals US\$47,432 thousand, of which 56.50% has been executed. The overall physical progress was 46.00% vs. 78.50% scheduled, since the activities initially scheduled for 2020 and 2021 were deferred by the Declaration of the State of Emergency due to Covid-19, as well as the longer deadlines for the completion of the new Detailed Engineering.

- In 2021, the activities have focused on the procurement of equipment and materials that present an advance of 71.8%. On the other hand, Future Contract Notice No. ACF-2021-190 was published for the new PC service for the continuation of the construction of the terminal on the PETROPERÚ website, after the termination of the contract with Felguera and the update of Detail Engineering.
- The term for the reversion of the land of the New Ilo Terminal (deadline for the restart of activities) was revalidated until December 31, 2023. However, the approval for the expansion of the Building License presents delays by the Municipality of Ilo.

c) Supply Plant in Pasco Ninacaca -

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

At December 31, 2021 the status of this Project is described as follows:

- The project investment amounts to US\$7,352 thousand, of which 81.7% has been executed. Comprehensive physical execution remained at 73.5% during 2021, given that the project has been on hold since April 2020, due to direct treatment of controversies with the OBS – IMECON S.A. Consortium, whose expert opinion culminated on November 12, 2021 with the issuance of the report, which includes a recognition of US\$375 thousand (equivalent to S/1,500 thousand) in favor of Consorcio. To date, PETROPERÚ and the contractor agree on deadlines for its application.
- The progress of the works of the Management, Engineering and Mobilization Plan is 93%, civil works 61%, mechanical works 62%, electrical works 55%, instrumentation and control works 1%; while the works of mobilization of equipment and infrastructure, earthworks and foundation of tanks were 100% completed.
- 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 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, 2021 the status of this Project is described as follows:

- The investment amount totals US\$19,491 thousand, of which 97.00% has been executed. Comprehensive overall physical progress is 81.90% vs. 100.00% scheduled, explained by the economic difficulties of the contractor for the inclusion of larger work fronts derived from the State of Emergency due to COVID-19.
- The Procurement and Construction (PC) service is in charge of the Tecnitanques contractor showing an advance of 96.00% in general preliminary works, 77.80% in civil works, 92.00% in mechanical works and 57.00% in electrical works.
- Use of the right of way to access the plant under review and approval by PROVIAS (95% progress).

(ii) Concession of port terminals -

The purpose of the Terminal Operation Contract is to contract operators to operate, under their sole responsibility, cost and risk, North, Central and South Terminals; 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).

The South Terminal Operation Contract was signed in 1998 for a period of 15 years with Consorcio Terminales, made up of the companies Graña y Montero Petrolera S.A. and Oiltanking Perú S.A.C., which remained in force, by means of the addenda for years 2014, 2015, 2017 and 2019, and ended on November 2, 2019.

On November 3, 2019 the Company took the operation of the South Terminals.

At December 31, 2021 and 2020 the net carrying amounts of the concession assets totaled US\$105,526 thousand and US\$89,409 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\$6,803,935 thousand; effective until September 9, 2022.
- b) Sabotage and terrorism policy for up to US\$200,000 thousand with declared value of assets of US\$6,803,935 thousand; effective until February 27, 2022.
- c) Public general liability insurance (“Póliza de responsabilidad civil general comprensiva”) for up to US\$100,000 thousand; effective until October 25, 2022.
- d) Air carrier’s liability and insurance (“responsabilidad civil de aviación”) for up to US\$500,000 thousand, effective until October 25, 2022.

(iv) Depreciation -

The annual depreciation charge to profit or loss on property, plant and equipment is allocated to the following cost centers:

	<u>2021</u> US\$000	<u>2020</u> US\$000
Cost of sales (Note 22) (*)	38,563	36,211
Selling and distribution expenses (Note 23)	10,662	6,278
Administrative expenses (Note 24)	<u>3,950</u>	<u>4,636</u>
	<u>53,175</u>	<u>47,125</u>

(\*) Not including the depreciation of investment properties for US\$11 thousand at December 31 2021 (US\$11 thousand at December 31, 2020).

At December 31, 2021 and 2020 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, 2021 was US\$158,622 thousand (US\$157,882 thousand at December 31, 2020).

(v) Major additions related to work in progress -

At December 31, 2021 additions of work in progress mostly relate to PMRT's EPC contract, PMC, PMO and Auxiliary services amounting to US\$530,146 thousand equivalent to S/2,087,820 thousand (US\$566,546 thousand equivalent to S/1,995,988 thousand in 2020); and other works in progress at corporate level amounting to US\$109,577 thousand equivalent to S/425,776 thousand (US\$121,485 thousand equivalent to S/439,117 thousand in 2020).

Additionally, borrowing costs that were capitalized over the period ended December 31, 2021 related to the Talara Refinery Modernization Project amounted to US\$185,313 thousand equivalent to S/722,409 thousand (US\$158,445 thousand equivalent to S/554,641 thousand during 2020).

(vi) Assets retirement -

At December 31, 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, equivalent to S/15,244 thousand.

At December 31, 2020 the final disposal of assets mainly includes fully depreciated cost of: machinery and other equipment in custody of OFP; containers and returnable containers, pipeline, electric pumps, compressors, centrifugal pumps, air conditioning equipment at Talara Refinery; analyzer, spectrophotometer, potentiometric titrator, centrifugal pump, computer network and other equipment recorded as out of use under custody and storage of Conchan Refinery for US\$3,265 thousand, equivalent to S/10,969 thousand.

(vii) Impairment of assets -

a) Cash-generating units (CGUs) -

At December 31, 2021 2020 the Company, taking into account the decrease in income and results of 2021 of the CGUs and Oil Pipeline (Note 5), based on internal and external information, considers that there are certain indications that the assets of the CGUs and Oil Pipeline Operations 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) -

- 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 based on the current rate schedule as established under the contracts and negotiations for the service of liquid hydrocarbon transport via Nor Peruano pipeline.

- Operating cash flows from the service of crude unloading and use.
- Operating cash flows from sales in 2025 of crude held in the oil pipeline.
- 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 it has the support information for these purposes.
- Projections do not include cash inflows or outflows from financing activities.
- Pre-tax discount rate affected by the risks associated with a specific CGU and market assessments of the time value of money.
- Projected costs and expenses are based on the expense budgets for 2021 prepared by Management.

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

	<b>Oil Pipeline Operations</b>
Annual growth rate (%)	17%
Budgeted gross margin (%)	46%
Prices (\$)	9
Discount rate (%)	11.78%

The annual growth rate corresponds to annual growth rate compound income during the period 2022 - 2031. The average growth rates used are consistent with the actual performance of the CGU and with the Company's forecasts. Revenue growth is generated according to the forecasts prepared by Perupetro S.A.

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, 2021 the Company has estimated that the recoverable value of the Oil Pipeline CGU amounts to US\$388,411 thousand (US\$310,209 thousand in 2020), while the carrying amount of the assets amounts to US\$246,399 thousand (US\$213,399 thousand in 2020).

Sensitivity analysis -

The Company performs a sensitivity analysis to determine the effect of eventual changes in the assumptions used in the valuation model. In this sense, the pre-tax discount rate used by the Company to determine the recoverable value was 11.78%.

If the discount rate used increases by 2%, the Company would not have to record impairment.

The Company has conducted a sensitivity analysis of the key assumptions used in determining the recoverable amount:



<u>Key assumption</u>	<u>Variation</u>	<u>Impairment US\$000</u>
Oil Pipeline operations:		
Budgeted annual growth	-5%	-
Prices	-5%	-
Budgeted gross margin	-5%	-

b) Talara Refinery Modernization Project (PMRT, the Spanish acronym) -

At December 31, 2021 the Company has deemed it appropriate to perform the impairment test of the PMRT, hereinafter the Project for impairment, considering the changes in the execution schedule and budget; as well as the variability in crude oil prices.

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

- Operational cash flows from the Project activities. Cash flow projections comprise all cash flows that are expected to be generated in the normal course of the Project.
- 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 1.58%. The Company considers it appropriate to use a projection period of 21 years since it has the support information for these purposes.
- Post-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 IHS Consulting Services.
- 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:

Annual growth rate (%)	3%
Budgeted gross margin (%)	6%
Prices (\$)	98
Discount rates (%)	7.79%

The annual growth rate corresponds to annual growth rate compound of income during the period 2022-2042. The average growth rates used are consistent with the actual 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 determines the budgeted prices based on IHS estimates, which consider current trends in the industry, established rates and market development expectations.

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

At December 31, 2021 the Company has estimated that the recoverable value of the PMRT. As a result of this assessment, the Company has determined that it is not necessary to record an impairment provision for PMRT at the date of the statement of financial position. At December 31, the recoverable amount amounts to US\$5,934,715 thousand, while the carrying amount of assets amounts to US\$5,417,256 thousand.

At December 31, 2020 the Company has estimated the recoverable value of the PMRT, for which a provision for impairment of US\$71,446 thousand, which has been recognized in the statement of comprehensive income as asset impairment. At December 31, 2020 the carrying amount of the PMRT net of impairment amounts to US\$4,665,422 thousand.

Sensitivity analysis -

Management performs a sensitivity analysis to determine the effect of changes in the assumptions used in the valuation model. In this sense, the after-tax discount rate used by the Company averaged 7.79% in determining the recoverable amount.

If the Company used an average discount rate of 7.69%, the recoverable amount would be equal to the carrying amount.

The Company has conducted a sensitivity analysis of the key assumptions used in determining the recoverable amount:

<u>Key assumption</u>	<u>Variation</u>	<u>Impairment</u> <u>US\$000</u>
Budgeted annual growth	-2%	( 141,248)
Prices per year	-2%	-
Budgeted annual margin	-2%	-
Production	-2%	-

## 12 INVESTMENT PROPERTIES

	<u>Land</u> <u>US\$000</u>	<u>Buildings</u> <u>and other</u> <u>constructions</u> <u>US\$000</u>	<u>Total</u> <u>US\$000</u>
<b>At December 31, 2019</b>			
Cost	9,341	927	10,268
Accumulated depreciation	-	( 699)	( 699)
Net cost	<u>9,341</u>	<u>( 228)</u>	<u>( 9,569)</u>
<b>Year 2020</b>			
Net opening carrying amount	9,341	228	9,569
Disposals	( 2)	-	( 2)
Depreciation for the year	-	( 11)	( 11)
Net closing carrying amount	<u>9,339</u>	<u>217</u>	<u>9,556</u>
<b>At December 31, 2020</b>			
Cost	9,339	927	10,266
Accumulated depreciation	-	( 710)	( 710)
Net cost	<u>9,339</u>	<u>217</u>	<u>9,556</u>

	<u>Land</u> US\$000	<u>Buildings and other constructions</u> US\$000	<u>Total</u> US\$000
<b>Year 2021</b>			
Net opening carrying amount	9,339	217	9,556
Depreciation for the year	<u>-</u>	<u>( 11)</u>	<u>( 11)</u>
Net closing carrying amount	<u>9,339</u>	<u>206</u>	<u>9,545</u>
<b>At December 31, 2021</b>			
Cost	9,339	927	10,266
Accumulated depreciation	<u>-</u>	<u>( 721)</u>	<u>( 721)</u>
Net cost	<u>9,339</u>	<u>206</u>	<u>9,545</u>

At December 31, 2021 and 2020 this item comprises:

- (a) A lease contract of the assets of Block Z-2B with Savia Perú S.A. (ex Petro-Tech Peruana S.A.) 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 Perú S.A. 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 answer 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 Petroperú S.A. 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 Peru in excess since that date (Note 24 (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, 2021 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 Petroperú, so the recovery of the plant was legitimate.
2. Payment of invoices already issued that exceed US\$376 thousand.
3. Payment in favor of Petroperú, 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 PETROPERU's own administration.

### 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:

	<u>At December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>US\$000</u>	<u>US\$000</u>
Right-of-use asset	26,216	3,760
Lease liabilities		
Current portion	12,004	1,755
Non-current portion	<u>14,159</u>	<u>1,748</u>
	<u>26,163</u>	<u>3,503</u>

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, 2021 the Company does not have variable leases or leases with residual value guarantees. Leases of less than 12 months and low-value leases have not been recognized as expenses according to the policy stated in 2.17.

The Company excluded initial direct costs for mediation of the initial right-of-use asset.

b) At December 31, the movement of right-of-use assets and lease liabilities are as follows:

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>US\$000</b>	<b>US\$000</b>
<b>Cost:</b>		
Opening balance	33,258	28,884
Additions for new leases	35,726	9,035
Final balance	<u>68,984</u>	<u>37,919</u>
<b>Depreciation:</b>		
Opening balance	( 29,498)	( 17,356)
Operating cost	( 2,275)	( 2,863)
Depreciation for the year	<u>( 10,995)</u>	<u>( 13,940)</u>
Net cost	<u>26,216</u>	<u>3,760</u>
<b>Lease liabilities:</b>		
Opening balance	3,503	11,493
Additions for new leases	35,726	9,035
Lease payment	( 12,760)	( 16,680)
Exchange difference	( 306)	( 345)
Accrued interest	1,079	641
Interest paid	<u>( 1,079)</u>	<u>( 641)</u>
Final balance	<u>26,163</u>	<u>3,503</u>

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:

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>US\$000</b>	<b>US\$000</b>
Cost of sales (Note 22)	9,782	12,332
Selling and distribution expenses (Note 23)	104	129
Administrative expenses (Note 24)	<u>1,109</u>	<u>1,479</u>
	<u>10,995</u>	<u>13,940</u>

#### 14 OTHER FINANCIAL LIABILITIES

This item comprises:

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>US\$000</b>	<b>US\$000</b>
<b>Current liabilities</b>		
Unsecured loans	674,106	1,186,759
CESCE loan (ii)	144,444	-
Accrued interest	5,961	9,889
	<u>824,511</u>	<u>1,196,648</u>
<b>Non-current liabilities</b>		
Corporate bonds (i)	3,126,611	1,986,594
CESCE loan (ii)	<u>1,114,362</u>	<u>1,231,156</u>
	<u>4,240,973</u>	<u>3,217,750</u>

- (i) 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. At December 31, 2021 transactional costs totaled US\$5,810 thousand, which are presented net of the liability.
- 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\$9,088 thousand and the excess amount of the placement over the bonds at the time of reopening amounts to US\$147,180 thousand.

Under the bond issue agreement, there is no 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) On January 31, 2018 a loan agreement was signed with Compañía Española de Seguros de Crédito a la Exportación (CESCE), with Deutsche Bank SAE, acting as administrative agent, for up to US\$1,300,000 thousand. At December 31, 2021 a drawdown of:

- 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.

At December 31, 2021 transaction costs amounted to US\$41,128 thousand. Interest will be paid on a semi-annual basis starting May 2019 with maturity in 2031 and bearing an annual fixed interest rate of 3.285%.

The CESCE loan does not have specific contractual guarantees given by the Company or by the Peruvian Government; nevertheless, it is 99% secured by the Government of Spain through the CESCE.

Under the terms of this loan agreement, the Company has to meet the following financial covenants, which are measured on a quarterly basis:

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

At December 31, 2021 and 2020 the Company has met the established 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, 2021		December 31, 2020	
				Nominal value US\$000	Carrying amount US\$000	Nominal value US\$000	Carrying amount US\$000
Unsecured loans	Soles	0.74% - 1.75%	2021	-	-	80,022	80,022
Unsecured loans	Dollars	0.24% - 1.95%	2021	-	-	1,106,737	1,106,737
Unsecured loans	Soles	1.56% - 1.92%	2022	74,626	74,626	-	-
Unsecured loans	Dollars	0.29% - 0.77%	2022	599,480	599,480	-	-
CESCE loan	Dollars	3.29%	2031	1,300,000	1,258,806	1,290,916	1,231,156
Corporate bonds	Dollars	4.75%	2032	1,000,000	994,190	1,000,000	993,772
Corporate bonds	Dollars	5.63%	2047	2,000,000	2,132,421	1,000,000	992,822
Accrued interest				-	5,961	-	9,889
				<u>4,974,106</u>	<u>5,065,484</u>	<u>4,477,675</u>	<u>4,414,398</u>

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:

	<u>2021</u> US\$000	<u>2020</u> US\$000
Working capital	604,105	657,759
Short-term PMRT	70,000	529,000
PMRT	<u>4,385,418</u>	<u>3,217,750</u>
	<u>5,059,523</u>	<u>4,404,509</u>

(\*) Not including accrued interest payable.

c) Movement of financial liabilities

The movement of these balances was as follows:

	<u>Bank loans without guarantee</u> US\$000	<u>Corporate bonds</u> US\$000	<u>CESCE loan</u> US\$000	<u>Total</u> US\$000
Balance at January 1, 2020	1,002,982	1,990,069	1,170,688	4,163,739
New loans	2,669,968	-	54,199	2,724,167
Payments of principal	( 2,483,237)	-	-	( 2,483,237)
Interest and transaction cost accrued	23,647	104,265	51,817	179,729
Interest paid	( 24,114)	( 103,750)	( 42,136)	( 170,000)
Balance at December 31, 2020	<u>1,189,246</u>	<u>1,990,584</u>	<u>1,234,568</u>	<u>4,414,398</u>
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	<u>674,779</u>	<u>3,131,820</u>	<u>1,258,885</u>	<u>5,065,484</u>

The Company has earmarked in 2021 a total US\$208,289 thousand of the interest paid on investing activities since they are related to the PMRT project (US\$148,161 thousand in 2020).

d) Fair value estimation

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

	<b>Carrying amount</b>		<b>Fair value</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Unsecured loans	674,106	1,186,759	674,105	1,186,759
Bonds	3,126,611	1,986,594	3,209,706	2,388,230
CESCE loan	<u>1,258,806</u>	<u>1,231,156</u>	<u>1,258,806</u>	<u>1,231,157</u>
	<u>5,059,523</u>	<u>4,404,509</u>	<u>5,142,617</u>	<u>4,806,146</u>

At December 31, 2021 and 2020 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:

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>US\$000</b>	<b>US\$000</b>
Foreign suppliers of crude and refined products	1,036,185	615,447
National suppliers of crude and refined products	139,772	60,882
Suppliers of goods and services	145,064	105,882
Shipping companies and terminal operators and sales plants	<u>31,810</u>	<u>25,357</u>
	<u>1,352,831</u>	<u>807,568</u>

At December 31, 2021 the main local supplier of crude is Petrotal Perú S.R.L. with a balance of US\$70,881 thousand equivalent to S/277,123 thousand (US\$14,310 thousand equivalent to S/51,199 at December 31, 2020). Major service providers are B.B. Energy USA LLC. with a balance of US\$328,264 thousand equivalent to S/1,337,989 thousand and BP Products North America INC. with a balance of US\$225,981 thousand equivalent to S/912,629 thousand (US\$49,601 thousand, equivalent to S/178,388 thousand at December 31, 2020).

At December 31, 2021 the main service suppliers are Superintendencia Nacional de Aduana with a balance of US\$22,177 thousand equivalent to S/88,719 thousand (US\$8,523 thousand equivalent to S/30,847 thousand at December 31, 2020), Técnicas Reunidas de Talara Sociedad with a balance of US\$16,737 thousand equivalent to S/66,602 miles (US\$13,064 thousand equivalent to S/47,073 thousand at December 31, 2020) and Rimac Seguros y Reaseguros with a balance of US\$14,040 thousand equivalent to S/58,063 thousand (US\$0 thousand at December 31, 2020).

This account reflects the Company's obligations related to the acquisition of crude oil and refined products, transportation and plant operators, supplies and spare parts. The invoices are issued in U.S. dollars, are of current maturity, are non-interest bearing and have no specific guarantees.



## 16 OTHER PAYABLES

This item comprises:

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>US\$000</b>	<b>US\$000</b>
Advances received from customers and compensation payable (a)	31,074	15,189
Obligations for Arbitration Decision (b)	25,000	-
Taxes (c)	17,263	14,072
Remunerations	16,256	16,883
Guarantee deposits (d)	3,779	4,283
Price Stabilization Fund - Ministry of Energy and Mines (Note 1-c)	-	255
Financial instruments payable	45	12
Others	2,376	2,535
	<u>95,793</u>	<u>53,229</u>

- (a) Advances received from local and foreign customers mainly comprise the amounts received for US\$10,044 thousand (equivalent to S/40,158 thousand) and US\$11,441 thousand (equivalent to S/45,740 thousand), respectively, to secure the supply of fuel that is pending delivery. In addition, it includes compensation payable for the purchase of crude oil from the supplier Petrotal Perú S.R.L. for US\$9,589 thousand.
- (b) Comprising the provision for the return of leases collected from 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.
- (c) 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. At December 31, 2020 taxes payable mainly include tax on gasoline vehicles and Fund for the mass use of gas (FISE), Perceptions, Income tax withheld, Osinergmin Aliquot and Fund for the mass use of gas (FISE) for US\$5,663 thousand, US\$1,016 thousand, US\$1,633 thousand, US\$798 thousand and US\$3,114 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.

## 17 OTHER PROVISIONS

This item comprises:

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>US\$000</b>	<b>US\$000</b>
Current -		
Provision for environmental improvements (a)	11,166	18,709
Provision for labor-related court actions (b)	2,754	2,073
Provision for civil lawsuit (c)	1,044	103
Provision for termination (d)	691	2,622
Provision for plugging of wells	482	532
Provision for retirement pensions	13	20
Other provisions	132	145
	<u>16,282</u>	<u>24,204</u>
Non-current -		
Provision for environmental improvements (a)	12,463	12,518
Provision for termination (d)	971	1,880
Provision for retirement pensions	30	36
	<u>13,464</u>	<u>14,434</u>
	<u>29,746</u>	<u>38,638</u>

The movement of other provisions is as follows:

	<b>Provision for environmental improvements US\$000</b>	<b>Provision for civil lawsuits US\$000</b>	<b>Provision for labor-related court actions US\$000</b>	<b>Provision for plugging of wells US\$000</b>	<b>Provision for retirement pensions US\$000</b>	<b>Provision for termination US\$000</b>	<b>Other provisions US\$000</b>	<b>Total US\$000</b>
Balances at December 31, 2020	39,930	512	2,075	581	87	6,269	159	49,613
Provision for the year (Note 24, 25 And 26)	793	451	491	-	-	2,136	-	3,871
Payments	( 6,877)	( 440)	( 207)	-	( 19)	( 3,552)	-	( 11,095)
Reversal of unused provisions	( 1,384)	( 412)	( 107)	-	( 6)	53	-	( 1,856)
Exchange difference	( 1,235)	( 8)	( 179)	( 49)	( 6)	( 404)	( 14)	( 1,895)
Balances at December 31, 2020	<u>31,227</u>	<u>103</u>	<u>2,073</u>	<u>532</u>	<u>56</u>	<u>4,502</u>	<u>145</u>	<u>38,638</u>
Provision for the year (Note 24, 25 and 26)	-	998	1,249	-	-	-	-	2,247
Payments	( 6,699)	-	( 387)	-	( 8)	-	-	( 7,094)
Updating the present value	-	-	-	-	-	( 37)	-	( 37)
Reversal of unused provisions	-	-	( 15)	-	-	( 2,381)	-	( 2,396)
Exchange difference	( 899)	( 57)	( 166)	( 50)	( 5)	( 422)	( 13)	( 1,612)
Balances at December 31, 2021	<u>23,629</u>	<u>1,044</u>	<u>2,754</u>	<u>482</u>	<u>43</u>	<u>1,662</u>	<u>132</u>	<u>29,746</u>

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 Ministry of Energy and Mines, by means of Supreme Decree No.039-2014-EM, published 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, 2021, 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. At December 31, 2021 the amount implemented by the privatized units was US\$70,277 thousand.

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 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, 2021 the respective supplementary environmental program (PAC) for the Talara Refinery is pending approval by a governmental agency: “Dirección General de Asuntos Ambientales y Energéticos - DGAAE”).

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. At December 31, 2021 the amount implemented by the own operating units was US\$17,505 thousand, respectively.

With respect to its own operating units (Talara operations, Oil Pipeline operations, Refinería Conchán, Refinería Selva, Planta de Ventas Aeropuerto and Block 64), 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 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 (D.S. No.002-2013-MINAM, D.S. No.002-2014-MINAM, R.M. No.085-2014-MINAM, R.M. No.034-2015-MINAM and D.S. No.013-2015-MINAM)" that will require other expenses to be incurred by the Company to conduct a number of different technical studies as required under said new regulations. In addition, for the year 2018 the Operational Environmental Remediation Program was executed for US\$430 thousand (equivalent to S/1,395 thousand), Conchán for US\$215 thousand (equivalent to S/698 thousand), Oleoducto for US\$263 thousand (equivalent to S/853 thousand), Selva for US\$175 thousand (equivalent to S/567 thousand), Commercial Management for US\$209 thousand (equivalent to S/677 thousand) and Explotación for US\$329 thousand (equivalent to S/1,068 thousand).

During 2017, the "Service of identification of possibly polluted places was completed (identifying sampling) that are over the environmental quality standards for soil in the operations of PETROPERÚ S.A." for a total budgeted amount of US\$2,670 thousand (equivalent to S/9,347 thousand), representing 99.94% of the contractual amount.

At December 31, 2020 the Reports Identifying Possibly Contaminated Sites (IISC) for 21 facilities were approved. In this context, the Environmental Department Management (now the QHSSE Oil Pipeline, Transportation and Distribution Department Management), in coordination with SCCO, awarded the "Characterization Service, Health and Environmental Risk Assessment and Preparation of the Plan Directed to the Remediation of Prioritized Facilities of PETROPERÚ" 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.

In March 2020, the Work Plan and preliminary documentation for entering the ONP Operations were approved as part of the Preliminary Assessment necessary for the field work. In March 2020, field visits were made for the Preliminary Assessment at the Iquitos Refinery, Iquitos Sales Plant, Stations 6, 7, 8 and 9, with the visits to Bayóvar Terminal, Talara Refinery and Conchán Refinery being suspended due to the National Emergency for the Covid-19 Pandemic.

At December 31, 2021 cabinet work has been carried out, which includes the review of the Sampling Plans and the gathering of information necessary for the Detailed Characterization stage, as well as the update of the Service Schedule until the start of field activities.

On December 31, 2021 the sampling was carried out within the Conchán Refinery, the Conchán Sales Plant and the Talara Refinery to enter the facilities. The proposed work Schedule of the Service has been executed normally and within schedule with two work teams, with 60% contractual progress.

From 2014 to December 2021 a total number of 54 oil spills (31 for criminal acts, 11 for geodynamic phenomena and 12 related to technical aspects) have occurred at ONP, of which 51 have been completely served and are waiting for approval of the relevant agency (“Organismo de Evaluación y Fiscalización Ambiental” (hereinafter, OEFA); and 3 are still in remediation process, under the oversight and monitoring of the staff of the corporate environmental management (“Gerencia Corporativa Ambiente, Salud y Seguridad Ocupacional” (GCAS), which is committed to making sure PETROPERÚ S.A. 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. In addition, risk assessments relating to health and environment are conducted; monitoring activities completed at the closure stages enable the Company to verify and support that the environmental remediation objectives in the involved areas are met. The amount implemented until December 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 first quarter of 2022.

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, among others, 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-MINEM/DGAAH/DEAH, MINEM approved the final TDRs for updating the PAMA of the ONP.

The purpose is updating the Environmental Adequacy and Management Program (“Programa de Adecuación y Manejo Ambiental - PAMA”) for the ONP and will involve identifying and impacting assessment, preliminary management measures, comparing, selection and justification of management alternatives; contingency plan, etc.; the estimated referential amount in 2018 was S/3,641 thousand (equivalent to US\$1,078 thousand) and US\$1,040 thousand. In December 2018, a call was made for the award process for competence of the Service for Updating PAMA of the ONP; however, the process was declared void.

At December 31, 2020 the Technical Conditions have been prepared for hiring a consulting company to prepare the Technical Conditions for the ONP PAMA award process, which will continue with the corresponding process to obtain the current Estimated Referential Amount.

During 2020, the Company reported 3 significant oil spills, US\$474 thousand were disbursed for their attention.

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.

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:

	<b>Balances at January 1 US\$000</b>	<b>Payments US\$000</b>	<b>Provision and update US\$000</b>	<b>Balances at December 31 US\$000</b>
<b>Year 2021</b>				
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	<u>8,273</u>	<u>( 195)</u>	<u>-</u>	<u>8,078</u>
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	<u>22,516</u>	<u>( 6,504)</u>	<u>-</u>	<u>16,012</u>
Total	<u>30,709</u>	<u>( 6,699)</u>	<u>-</u>	<u>24,090</u>
Exchange difference	438			( 461)
	<u>31,227</u>			<u>23,629</u>
<b>Year 2020</b>				
Block 8	2,126	-	-	2,126
Block X	2,105	( 84)	-	2,021
Pampilla	1,882	( 101)	-	1,781
Lubricants	118	-	-	118
Northern terminals	263	( 22)	100	341
Southern terminals	205	( 1)	( 100)	104
Mid-country terminals	1,763	( 1)	-	1,762
Natural Gas Electric system	20	-	-	20
Total privatized units	<u>8,482</u>	<u>( 209)</u>	<u>-</u>	<u>8,273</u>
Operations in Talara	4,879	-	-	4,879
Operations in Conchán	911	-	-	911
Operations in Oleoducto	21,023	( 6,668)	( 591)	13,764
Operations in Iquitos Refinery	1,400	-	-	1,400
Commercial operations	603	-	-	603
Management Exploration and Exploitation	959	-	-	959
Total own units	<u>29,775</u>	<u>( 6,668)</u>	<u>( 591)</u>	<u>22,516</u>
Total	<u>38,257</u>	<u>( 6,877)</u>	<u>( 591)</u>	<u>30,789</u>
Exchange difference	1,673			438
Total	<u>39,930</u>			<u>31,227</u>

Disbursements required in the environmental remediation activities conducted by the Company in the privatized units are recorded with a charge to profit or loss. 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, 2021 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, 2021 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.

Article No.3 of Supreme Decree No.002-2006-EM, the supplementary environmental plan (“*Disposiciones para la presentación del Plan Ambiental Complementario - PAC*”) enacted on January 5, 2006 establishes that the energy and mining regulator (*Organismo Supervisor de la Inversión en Energía y Minas - OSINERGMIN*) (competence transferred to the “Organismo de Evaluación y Fiscalización Ambiental - OEFA” under Board Resolution No. 001-2011-OEFA/CD dated March 2, 2011) will communicate to the Company the list of activities not complied in the respective PAMA requirements so as to coordinate with the *Dirección General de Asuntos Ambientales Energéticos* of the Ministry of Energy and Mines, the PAC execution schedule over a period not exceeding four (4) years.

The Supplementary Environmental Plan (*PAC*) for Operations in Talara is currently undergoing the approval process with *DGAAE*; once approval is obtained, of the term of execution will be four (4) years and it will be become a medium-term project.

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, 2021 the Company has estimated a provision of US\$1,044 thousand (equivalent to S/4,175 thousand), of which: US\$950 thousand (equivalent to S/3,800 thousand) correspond to Covise S.A., US\$49 thousand (equivalent to S/195 thousand) correspond to an administrative proceeding contingency with the energy and mining regulator “Organismo Superior de la Inversión en Energía y Minería - OSINERGMIN”, AFP’s for US\$25 thousand (equivalent to S/98 thousand), Comercial Import. Ferretera del Amazonas S.A.C. for US\$20 thousand (equivalent to S/80 thousand).

At December 31, 2020 the Company estimated a provision of US\$ 103 thousand equivalent to S/374 thousand, of which: US\$54 thousand equivalent to S/196 thousand correspond to an administrative proceeding contingency with the energy and mining regulator “Organismo Superior de la Inversión en Energía y Minería - OSINERGMIN”, AFP’s for US\$27 thousand equivalent to S/98 thousand, Comercial Import. Ferretera del Amazonas S.A.C. for US\$22 thousand equivalent to S/80 thousand.

d) Provision for 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.

## 18 DEFERRED INCOME TAX LIABILITIES

(a) This item comprises:

	<b>At December 31,</b>	
	<b><u>2021</u></b>	<b><u>2020</u></b>
	<b>US\$000</b>	<b>US\$000</b>
Deferred income tax assets:		
Reversal expected within the next 12 months	11,792	39,144
Reversal expected after 12 months	<u>149,326</u>	<u>77,124</u>
	<u>161,118</u>	<u>116,268</u>
Deferred income tax liabilities:		
Reversal expected within the next 12 months	( 7,734)	( 1,110)
Reversal expected after 12 months	<u>( 359,984)</u>	<u>( 216,597)</u>
	<u>( 367,718)</u>	<u>( 217,707)</u>
	<u>( 206,600)</u>	<u>( 101,439)</u>



(b) The movement on the deferred income tax for the years ended December 31, 2021 and 2020 is as follows:

	<b>Balances at January 1, 2020 US\$000</b>	<b>Credit (charge) to profit and loss (Note 28-b) US\$000</b>	<b>Balances at December 31, 2020 US\$000</b>	<b>Credit (charge) to profit and loss (Note 28-b) US\$000</b>	<b>Balance at December 31, 2021 US\$000</b>
<b>Deferred assets:</b>					
Provision for retirement pension	26	( 9)	17	( 4)	13
Provision for environmental remediation	11,759	( 2,567)	9,192	( 2,241)	6,951
Carry-over loss tax benefit	-	78,799	78,799	40,012	118,811
Lease liability	3,390	( 2,357)	1,033	6,685	7,718
Other provisions	5,091	1,059	6,150	398	6,548
Provision for impairment works in progress PMR	-	21,077	21,077	-	21,077
Unpaid labor liabilities	1,467	( 1,467)	-	-	-
	<u>21,733</u>	<u>94,535</u>	<u>116,268</u>	<u>44,850</u>	<u>161,118</u>
<b>Deferred liabilities:</b>					
Attributed cost of property, plant and equipment and intangible assets	( 94,511)	( 11,306)	( 105,817)	( 15,892)	( 121,709)
Discount Art. 57 accrued	( 181)	181	-	-	-
Right-of-use asset	( 3,401)	2,291	( 1,110)	( 6,624)	( 7,734)
Translation effect of non-monetary items (a)	872	( 111,652)	( 110,780)	( 127,495)	( 238,275)
	<u>( 97,221)</u>	<u>( 120,486)</u>	<u>( 217,707)</u>	<u>( 150,011)</u>	<u>( 367,718)</u>
Net deferred liabilities	<u>( 75,488)</u>	<u>( 25,951)</u>	<u>( 101,439)</u>	<u>( 105,161)</u>	<u>( 206,600)</u>

(c) 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 2021, the U.S. dollar weakened in relation with the Peruvian sol giving rise to deferred income tax asset of US\$127,495 thousand, as in 2020, which generated a deferred income tax expense of US\$111,652 thousand.

## 19 EQUITY

### a) Share capital -

At December 31, 2021 and 2020 the authorized, subscribed and paid-in share capital comprises 5,368,412,525 common shares, at S/1 par value each. At December 31, 2021 the share capital structure of the Company is as follows:

<u>Class</u>	<u>Number of shares</u>	<u>Percentage</u> %
A	4,294,730,020	80
B	<u>1,073,682,505</u>	<u>20</u>
	<u>5,368,412,525</u>	<u>100</u>

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.

The movements of the share capital in 2021 and 2020 were as follows:

At the General Shareholders' Meeting held on July 31, 2020 an increase in capital of US\$153,857 thousand (equivalent to S/517,517 thousand) was approved; this increase in share capital was made through an additional capital contribution. On November 18, 2020 registration with the Lima Public Records was reported.

In 2020, a loss of US\$67,280 thousand (equivalent to S/178,383 thousand) was obtained. Therefore, there was no increase in share capital through the capitalization of distributable profits, during 2021.

### b) Legal reserve -

In accordance with Peruvian 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.

In the context of this regulation, the legal reserve recorded at December 31, 2020 totaled US\$69,210 thousand (equivalent to S/232,222 thousand); the legal reserve constituted in 2020 totaled US\$17,095 thousand (equivalent to S/57,502 thousand); which corresponds to 10% of the distributable profits for 2019.

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.

c) 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.

## 20 REVENUE FROM ORDINARY ACTIVITIES

This item comprises:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Local sales	3,772,839	2,848,499
Price Stabilization Fund (*) (Note 8)	25,299	( 34,907)
Revenue from ordinary activities	<u>2,725</u>	<u>3,998</u>
	3,800,863	2,817,590
Foreign sales	<u>355,551</u>	<u>227,712</u>
	<u>4,156,414</u>	<u>3,045,302</u>

(\*) At the beginning of 2020, the Fuel Price Stabilization Fund (FEPC, for its acronym in Spanish) applied to the following fuels: GLP-E, Diesel B5, Diesel B5 S-50 and industrial oil 6. In April 2020, with Supreme Decree No. 007- 2020-EM, GLP-E, Diesel B5 and Diesel S-50 were excluded as products subject to the FEPC. 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 as a product subject to the FEPC.

Revenues from ordinary activities are recognized according to what is defined by IFRS 15, at one point in time.

In 2021 and 2020, sales are broken down as follows:

	<u>At December 31,</u>	
	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Local sales:		
Diesel - others	1,882,315	1,545,467
Gasoline	1,033,914	726,379
ONO crude	521,526	287,697
GLP	171,789	89,627
Turbo A1	32,924	30,052
Industrial oil	74,317	92,400
Solvent	12,164	10,627
Primary Naphtha and others	14,146	6,882
Total local sales	<u>3,800,863</u>	<u>2,817,590</u>

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>US\$000</b>	<b>US\$000</b>
Foreign sales:		
ONO crude	107,676	92,198
Industrial oil	20,939	41,769
Diesel - others	85,257	45,945
Turbo a1	34,560	26,100
Primary residual/crude	-	6,813
Gasoline	34,364	8,984
Asphalt	3,805	1,299
Nafta Craqueada ADQ. (Exp)	1,325	-
Chaza Crude	-	4,604
Gran Tierra Crude Block 95	<u>67,625</u>	<u>-</u>
Total foreign sales	<u>355,551</u>	<u>227,712</u>
Total revenue from ordinary activities	<u>4,156,414</u>	<u>3,045,302</u>

## 21 OTHER OPERATING INCOME

This item comprises:

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>US\$000</b>	<b>US\$000</b>
<b>Income recognized at a point in time:</b>		
Terminal operating fees (a)	19,300	16,474
Operating services for Terminals (b)	12,923	11,858
Recoverable freight (c)	7,684	7,656
PNP supply operations	5,310	6,031
Revenue from cost of use of hydrocarbons (d)	233	11,719
<b>Income recognized over time:</b>		
Crude transport via oil pipeline (e)	9,096	10,056
Savia Perú S.A. lease (Note 12(a))	5,000	10,000
Leases	1,300	1,272
Other service revenue	<u>1,184</u>	<u>1,391</u>
	<u>62,030</u>	<u>76,457</u>

- (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) At November 2019 the Company took the operation of the South Terminals, due to the termination of the concession contract with Consorcio Terminales for the terminals and plants in southern Peru.
- (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 revenue from the immediate use of crude oil that is transported through the North Peruvian Oil Pipeline, as well as compensation for volatility in the international price of oil.
- (e) Comprising the revenue obtained from the transport of crude through the oil pipeline (ONP).

## 22 COST OF SALES

This item comprises:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Opening inventory of goods	360,902	589,236
Purchase of crude oil, refined products and supplies	3,724,959	2,380,040
Operating expenses of production (a)	258,125	254,036
Closing inventory of goods	( 579,580)	( 360,902)
	<u>3,764,406</u>	<u>2,862,410</u>

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

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Third-party services (*)	157,247	144,249
Personnel charges (Note 25)	33,425	42,948
Depreciation (Note 11 and 12)	38,574	36,222
Insurance	17,026	15,267
Depreciation of right-of-use asset (Note 13)	9,782	12,332
Other materials and production supplies	-	1,325
Other management charges	225	73
Amortization	7	-
Others	1,840	1,620
	<u>258,125</u>	<u>254,036</u>

(\*) Includes the following:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Ground transport freight and expenses	68,089	54,936
Maintenance and repair services	20,131	18,230
Other freights	14,787	14,640
Product storage	13,318	15,209
Dispatch of products	10,917	11,045
Energy and water	10,576	6,619
Storage and dispatch (PNP - Petrored)	4,700	4,867
Food and lodging	3,619	3,094
Industrial protection and safety	3,516	3,582
Advertising	2,209	3,468
Maritime transport freight and expenses	-	2,087
Others	5,385	6,472
	<u>157,247</u>	<u>144,249</u>

## 23 SELLING AND DISTRIBUTION EXPENSES

This item comprises:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Personnel charges (Note 25)	18,670	22,658
Taxes (a)	15,647	13,376
Depreciation (Note 11)	10,662	6,278
Third-party services (b)	8,620	7,314
Insurance	4,290	3,842
Materials and supplies	3,168	2,381
Other management charges	520	478
Depreciation of right-of-use asset (Note 13)	104	129
Expected loss of receivables (Note 8)	-	7,815
	<u>61,681</u>	<u>64,271</u>

(a) Includes the following:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Alicuota Osinergmin	12,207	10,402
Aporte OEFA	3,111	2,614
Others	329	360
	<u>15,647</u>	<u>13,376</u>

(b) Includes the following:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Maintenance and repair services	3,017	2,472
Other third-party services	2,352	2,076
Industrial protection and safety	2,316	1,731
Rentals	325	469
Energy and water	286	277
Food and accommodation	219	147
Travel and transfer expenses	72	106
Freight and other expenses	33	36
	<u>8,620</u>	<u>7,314</u>

## 24 ADMINISTRATIVE EXPENSES

This item comprises:

	<u>2021</u> US\$000	<u>2020</u> US\$000
Personnel charges (Note 25)	61,604	72,020
Third-party services (a)	46,514	33,483
Other management charges (b)	56,902	10,479
Depreciation (Note 11)	3,950	4,636
Taxes	3,598	3,169
Amortization	2,476	2,208
Administrative civil and labor contingencies (Note 17)	2,247	942
Depreciation of right-of-use asset	1,109	1,479
Materials and supplies	846	549
Insurance	803	776
	<u>180,049</u>	<u>129,741</u>

(a) Includes the following:

	<u>2021</u> US\$000	<u>2020</u> US\$000
Advisory, appraisal and audits (*)	17,652	6,452
Maintenance and repair services	7,454	6,745
IBM outsourcing services	7,148	6,623
Industrial protection and safety	3,277	3,731
Temporary services	2,941	2,121
Freight and other freight	1,908	1,778
Bank expenses	1,410	854
Medical services	599	559
Advertising	514	933
Travel and transfer expenses	308	288
Others	3,303	3,399
	<u>46,514</u>	<u>33,483</u>

(\*) The increase in advisory, expert and audit expenses is mainly due to advisory services related to PMRT process management. The main services are technical assistance for the implementation of the operational management system of the new Talara Refinery, provided by the contractor Consorcio ODI for US\$9,586 thousand and the process engineering management system requirements development service provided by Consorcio Facex - Lamor for US\$1,219 thousand.

(b) In 2021, this item mainly 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\$25,000 thousand. In addition, it 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.

In 2020, it mainly includes administrative penalties for US\$7,876 thousand corresponding to income tax for 2007 and payments for omitted taxes.

## 25 PERSONNEL CHARGES

This item comprises:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Wages and salaries	49,086	51,927
Bonuses	20,645	36,291
Social contributions	17,183	17,165
Statutory bonuses	9,921	11,086
Employees' severance indemnities	6,391	7,395
Vacations leave	3,923	4,317
Feeding	2,751	3,003
Overtime	663	718
Remote Work Compensation	346	-
Transportation	393	484
Other expenses - Voluntary termination (Note 26)	-	2,136
Others	2,397	5,240
	<u>113,699</u>	<u>139,762</u>
Number of employees at the end of the year	<u>2,810</u>	<u>2,679</u>

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

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Cost of sales (Note 22)	33,425	42,948
Selling expenses and distribution (Note 23)	18,670	22,658
Administrative expenses (Note 24)	61,604	72,020
Other expenses - Voluntary termination (Note 26)	-	2,136
	<u>113,699</u>	<u>139,762</u>

## 26 OTHER INCOME AND EXPENSES

This item comprises:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
<b>Other income</b>		
Claims and/or compensation (insurance / default)	14,778	5,769
Transfer of assets from Block 64 (Note 11)	10,552	-
Return of land in Terminal Callao (Note 11)	6,261	-
Maritime operations services	3,810	3,413
Recovery of provision of the voluntary severance program	2,418	-
Supplier refund for credit balance in product purchase	2,096	-
Return of assets of Consorcio Terminales	1,690	-
Recovery of the fee for use of the loading port in Pucallpa	667	766
Doubtful trade accounts provision recovery	49	-
Labor provision recovery	15	107
Recovery of losses in oil pipeline	-	1,384
Recovery of provision for civil claim	-	412
Application of bond letters	3,115	772
Others	2,963	1,253
	<u>48,414</u>	<u>13,876</u>



	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Net cost of disposal of other assets	( 398)	( 668)
Impairment of supplies	-	( 3,938)
Voluntary termination program (Note 25)	-	( 2,136)
Provision for losses in oil pipeline	-	( 793)
	<u>( 398)</u>	<u>( 7,535)</u>

## 27 FINANCIAL INCOME AND EXPENSES

Financial income and expenses comprise:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Gains from derivative financial instruments	13,199	12,510
Interest on bank deposits	891	1,440
Interest on receivables	190	3,808
	<u>14,280</u>	<u>17,758</u>
Loss on derivative financial instruments (a)	( 32,415)	( 8,345)
Interest on working capital loans (b)	( 2,273)	( 21,405)
Interest on leases	( 1,079)	( 641)
Others	( 16)	( 448)
Premiums for crude oil hedging options	-	( 2,439)
	<u>( 35,783)</u>	<u>( 33,278)</u>

(a) The increase in the loss from derivative financial instruments comprises the compensations made to the supplier Petrotal Perú S.R.L. for US\$28,667 thousand by virtue of the premiums for hedging options for the cost of crude established in the purchase contract signed with this supplier.

(b) The decrease in interest in 2021 is due to the fact that the Company reduced its working capital bank loans and financed its purchases directly with suppliers.

## 28 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 has been 29.5% since 2017 onwards, by means of Legislative Decree No. 1261 published on December 10, 2016.

At December 31, 2021 the Company has tax losses of S/1,519,726 equivalent to US\$402,750 (S/968,024 equivalent to US\$267,115 at December 31, 2020). 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. 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 comprises:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Deferred (Note 18)	( 105,161)	( 25,951)

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

	<u>2021</u> <u>US\$000</u>	%	<u>2020</u> <u>US\$000</u>	%
Pre-tax profit	173,098	100.00	( 41,329)	100.00
(Tax benefit) theoretical income tax 29.5%	51,064	29.50	( 12,192)	-
Permanent non-deductible expenses	19,258	11.13	5,585	( 13.51)
Permanent non-taxable income	( 1,074)	( 0.62)	( 437)	1.06
Effect of exchange difference on tax fixed assets (*)	130,647	75.48	127,402	239.54
Effect of (lower) higher current tax resulting from exchange difference (**)	( 97,410)	( 56.27)	( 93,029)	( 270.15)
Others	2,676	1.55	( 1,378)	( 19.72)
Current and deferred income tax	<u>105,161</u>	<u>60.75</u>	<u>25,951</u>	<u>( 62.79)</u>

(\*) 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 2021 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. At December 31, 2021, the years 2016 and 2017 are in the audit process.

Under current legislation, for purposes of determining Income Tax and VAT (IGV in Perú), 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, 2021.

c) Temporary Tax on Net Assets -

The Company is subject to the Temporary Tax on Net Assets (ITAN, from its Spanish acronym). The taxable base is the prior period adjusted net asset value less depreciation, amortization admitted by the Income Tax Law, as shown in the respective standard (Law 28424 and its Regulation). The ITAN rate is 0.4% for 2021 and 2020 applied to the amount of net assets that exceed S/1,000,000. 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 2021 and 2020, 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 accounted for 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%.

The Company opted to take advantage of the VAT anticipated recovery regime ("Régimen de Recuperación Anticipada del Impuesto General a las Ventas - IGV") by which it will be able to obtain a refund of the VAT levied on imports and local purchases of new goods or inputs, as well as construction services and contracts, carried out in the pre-operating phase to be used in implementing the PMRT project.

On October 21, 2016 the Company filed with PROINVERSION an application for anticipated recovery of VAT (IGV). As part of the paperwork, the application was sent by PROINVERSION to the Ministry of Energy and Mines (MEM) and the Ministry of Economy and Finance (MEF). In this respect, Technical Report No. 0125-2017-MEM-DGH-DPTC-DNH was issued, by which the Ministry of Energy and Mines approved the investment schedule presented by the Company for a total of US\$2,958,000 thousand.

Said report was sent to MEF on December 29, 2017, which issued Report No.117-2018-EF/61.01 stating a favorable opinion on the listing of goods, services and construction contracts relating to the PMRT project subject to the benefit of anticipated recovery of VAT ("Régimen de Recuperación Anticipada del IGV").

By means of Ministry Resolution No.212-2019-MEM/DM published in the Peruvian gazette "El Peruano" dated June 8, 2019, the MEM authorized the Company to apply for the anticipated recovery of VAT (IGV) and approved respective listing of goods, services and construction contracts relating to the PMRT project subject to the benefit of anticipated recovery of VAT (IGV).

On December 23, 2019 the Company applied for a refund of the VAT (IGV) paid from April 2019 to September 2019 on the purchases related to the PMRT Project for a total US\$23,529 thousand (equivalent to S/81,198 thousand. By means of Resolution No.012-180-0021030 dated January 3, 2020 SUNAT approved and refunded a balance of US\$23,529 thousand (equivalent to S/81,198 thousand).

Subsequently, on July 23, 2020 the Company apply for a refund of the VAT paid from October 2019 to March 2020 on the purchases related to the PMRT Project. By means of Resolution No. 012-180-0022534 dated July 29, 2020 SUNAT approved and refunded a balance of US\$32,870 thousand (equivalent to S/115,997 thousand).

Finally, on September 21, 2021 the Company applied for a refund of the VAT (IGV) paid from April to September 2020 on the purchases related to the PMRT Project. By means of Resolution No. 012-180-0026068 dated September 28, 2021 SUNAT approved and refunded a balance of US\$12,007 thousand (equivalent to S/49,554 thousand). Subsequently, on December 9, 2021 the Company applied for a refund of the VAT (IGV) paid from October to December 2020 on the purchases related to the PMRT Project. By means of Resolution No.012-180-0026678 dated December 16, 2021 SUNAT approved and refunded a balance of US\$4,385 thousand (equivalent to S/17,759 thousand).

f) Amendments to the Law on Income Tax -

In 2021, Law No. 31380 was published, which delegates to the Executive Branch the power to legislate on tax, fiscal, financial and economic reactivation matters; effective until March 27, 2022. The most significant powers granted in terms of Income Tax are detailed below:

- Regulate the treatment of the Income Tax applicable to Joint Venture Agreement.
- Modify the provisions on support to require reliable and/or dated documents to confirm that there is no unjustified increase in assets.
- Establish a new valuation method that reasonably approximates the market value in the transfer of securities.
- Standardize the cost for access to stability provided for in the Legal Stability Agreements regulated by Legislative Decrees 662 and 757; among other.

In addition, Supreme Decree No.402-2021-EF was published, which entered into force on December 31, 2021. A brief summary is detailed below:

- Deductibility of interest expenses: At December 31, 2021 new rules must be followed to calculate the limit for deducting interest. These rules absolve the doubt as to whether the EBITDA can be negative, stating that it is not possible. In cases in which the taxpayer does not obtain net income or has obtained the amount of losses from previous years that can be offset with the former, the EBITDA will be equal to the sum of net interest, depreciation and amortization deducted in said year.

At the end of 2021, relevant regulations were published, such as Legislative Decree No.1516. This standard is intended to standardize the cost for access to legal stability provided for in the Legal Stability Agreements regulated by Legislative Decrees No.662 and 757.

Legislative Decree No. 1516 was published, which modifies the presumed net income from Peruvian sources received by non-domiciled taxpayers. The purpose of this standard is to modify the presumed net income received by non-domiciled taxpayers and branches, agencies or any other permanent establishment in the country of sole proprietorships, companies and entities of any nature incorporated abroad to include the extraction and sale of hydrobiological resources.

It is worth highlighting the following control points to be considered by taxpayers:

- Permanent Establishment: The Peruvian Tax Administration has concluded that a permanent establishment is not established in Peru when a company incorporated in the country changes its corporate domicile abroad, provided that certain aspects are met. (Report No. 040-2021-SUNAT/7T0000).
- Final Beneficiary: The members of the board of directors or the general manager of a legal entity will be considered as its final beneficiaries, to the extent that said body or area heads the functional or management structure of the legal entity. (Report No. 130-2020-SUNAT/7T0000).
- Electronic Books and Records: The taxpayer who is in temporary suspension of activities is not required to generate, during the time of suspension, the electronic books and records that he/she is required to keep within the corresponding due dates. (Report No. 052-2021-SUNAT/7T0000).

g) Examination by the tax authorities -

With respect to income tax review by the tax authorities from January to December 2015, SUNAT issued Tax Determination Resolutions No.012-003-0122358, which was the subject of a Claim Appeal filed on December 23, 2021. At December 31, 2021 this appeal is pending resolution by SUNAT (File No. 0150340018762).

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; however, an appeal against said resolutions was presented within the term set by law. This claim was resolved by SUNAT through Tax Determination Resolution No. 0150140016192, which declared the claim filed unfounded. This resolution is subject to an Appeal by the Company. At December 31, 2020 this appeal is pending resolution by the Tax Court.

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, 2020 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. At December 31, 2020 the appeal remains to be resolved in Chamber 9 of the Tax Tribunal, signed with Case File No.5940-2020.

With respect to income tax review by the tax authorities from January to December 2012 dated January 11, 2020, SUNAT issued Tax Determination Resolutions No.012-003-0101487 to 012-003-0101498 and 012-003-0101500 to 012-0030101504; however, an appeal against said resolutions was presented within the term set by law, On September 30, 2020 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. This appeal was resolved in favor of the Company by the Tax Court in its Resolution No.11104-1-2021 dated December 17, 2021 (File No.135042019).

On the other hand, as a result of the income tax review by the tax authorities for fiscal 2011, the Company paid a total of US\$2,940 thousand (equivalent to S/9,540 thousand) in respect of unpaid taxes, interest and tax penalties. However, given the difference between the tax loss determined by SUNAT and the tax loss filed by the Company for fiscal 2008, under Resolution No.0150140009896 dated July 27, 2011, SUNAT issued a Tax Determination Resolution No.012-003-0090872 for the amount of US\$2,667 thousand (equivalent to S/8,653 thousand) An appeal against said resolution was presented by the Corporate and Legal Management ("Gerencia Corporativa Legal, Sub Gerencia Tributaria, Cumplimiento Regulatorio y ambiental") within the term set by law with an outcome adverse for the Company as per Resolution No.0150150014244 dated July 16, 2019. The Company has filed an appeal against that Resolution, which was resolved by the Tax Tribunal under Resolution No.08286-9-2020 dated September 16, 2020. The Tax Court ordered SUNAT to re-settle the 2011 tax loss based on the determination of the 2008 tax loss.

With respect to the tax loss for fiscal 2008, the Tax Tribunal, under Resolution No.08272-9-2019, dated September 16, 2019, revoked the Resolution No. 0150140009896, and ordered that SUNAT issue a new pronouncement. On February 5, 2020 the Company filed an appeal against Resolution No.0150150002300, issued in compliance with the aforementioned Resolution No.08272-9-2019. The Tax Court ruled on the Appeal by Resolution No.07109-9-2020 dated November 23, 2020 and confirmed the origin of the Resolution No.0150150002300 and, therefore, the amount of the tax loss for 2008 determined by SUNAT.

With respect to fiscal 2006, under Resolution No.7238-4-2019 dated August 13, 2019, the Tax Tribunal resolved in favor of the Company an appeal filed involving prepaid Income Tax and annual regularization of said tax. On January 14, 2020 the Company canceled the tax debt of Tax Determination Resolutions No.012-003-0024895, 012-003-0024896, 012-003-0024897, 012-003-0024898 and Fine Resolutions No.012- 002-0018354, 012-002-0018355, 012-002-0018356 and 012-002-0018357 that were confirmed by the Tax Tribunal Resolution No.7238-4-2019.

In August 2018, a notice was served to the Company with the Tax Tribunal Resolution No.06573-1-2018 containing a pronouncement that was favorable to the Company revoking the VAT tax assessments for the period from January to December 2006.

With respect to fiscal 2005, dated April 25, 2019, the Tax Tribunal issued the Resolution No.3921-4-2019 which resolved an appeal filed involving tax assessments determined by SUNAT on the Income Tax (Case File No.164-2011). This Resolution has been favorable to the Company by revoking the Resolution No. 0150140009330 issued by SUNAT.

## 29 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:

	<u>2021</u> <u>US\$000</u>	<u>2020</u> <u>US\$000</u>
Civil	34,950	24,780
Tax and customs claims	47,737	33,757
Labor-related	<u>14,237</u>	<u>15,615</u>
	<u>96,924</u>	<u>74,152</u>

The movement of contingencies is detailed below:

	<u>Balance at</u> <u>January 1</u> <u>US\$000</u>	<u>Additions</u> <u>US\$000</u>	<u>Deductions</u> <u>US\$000</u>	<u>Balance at</u> <u>December 31</u> <u>US\$000</u>
<b>Year 2021</b>				
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)	<u>15,615</u>	<u>112</u> (	<u>1,490)</u>	<u>14,237</u>
	<u>74,152</u>	<u>40,638</u>	<u>( 17,866)</u>	<u>96,924</u>
<b>Year 2020</b>				
Civil	22,858	6,017 (	4,095)	24,780
Tax and customs claims	49,324	32,169 (	47,736)	33,757
Labor-related	<u>2,589</u>	<u>13,256</u> (	<u>230)</u>	<u>15,615</u>
	<u>74,771</u>	<u>51,442</u>	<u>( 52,061)</u>	<u>74,152</u>

(a) At December 31, 2021 the main Civil proceedings include the following: Lambayeque for US\$6,687 thousand (equivalent to S/20,000 thousand), Consorcio Cobra for US\$10,000 thousand (equivalent to S/38,000 thousand), SIMA for US\$5,403 thousand (equivalent to S/21,933 thousand), DEMEM for US\$2,917 thousand (equivalent to S/11,840 thousand), Cousa Coest for US\$1,783 thousand (equivalent to S/6,790 thousand) and others for US\$6,497 thousand (equivalent to S/ 25,992 thousand).

Likewise, in 2021, the processes maintained with Geopark for US\$3,213 thousand (equivalent to S/12,720 thousand), J.A.Garrigues for US\$3,234 thousand (equivalent to S/12,929 thousand), Hazco for US\$2,049 thousand (equivalent to S/8,192 thousand) and C.Tesla for US\$2,033 thousand (equivalent to S/8,128 thousand).

- (b) At December 31, 2021 the main processes correspond to those maintained with the Peruvian Tax Administration (SUNAT) for US\$46,065 thousand (equivalent to S/178,351 thousand), of which one of them is related to file No.04315-2020-0-1801-JR-CA-21 for US\$14,007 thousand (equivalent to S/56,000 thousand) and two others are related to files 06305-2019-01801 for US\$17,086 thousand (equivalent to S/61,664 thousand) and file 06304-2019-01801 for US\$14,972 thousand (equivalent to S/54,033 thousand).
- (c) At December 31, 2021 it mainly includes the process maintained with the Administrative Workers Union for US\$12,006 thousand (equivalent to S/8,000 thousand).

### 30 BASIC AND DILUTED EARNINGS PER SHARE

The calculation at December 31, 2021 and 2020 of earnings per basic and diluted share shows the same value as there are no shares with dilutive effect is as follows:

	<u>(Loss) Profit US\$000</u>	<u>Weighted average number of shares used</u>	<u>(Losses) Earnings per share</u>
<b>2021:</b>			
Basic and diluted earnings per share	67,937	5,368,412	0.013
<b>2020:</b>			
Basic and diluted losses per share	( 67,280)	4,911,863	( 0.014)

### 31 GUARANTEES

At December 31, 2021 the Company has given performance bonds backed by local financial institutions to suppliers for a total US\$22,638 thousand (equivalent to S/90,508 thousand) and US\$6,831 thousand.

Guarantees related to borrowings are disclosed in Note 14.

### 32 RELATED PARTIES

The Peruvian Government owns the Company's share capital and it is represented by each member of the General Shareholders' Meeting. As per the twenty-third article of the Bylaws of the Company, the General Shareholders' Meeting consists of five members representing the class "A" and "B" shares owned by the Peruvian Government: The Ministry of Energy and Mines, which chairs the Meetings and four members on behalf of the Peruvian Government, appointed by Supreme Decree. Transactions between the Company and the Peruvian Government and the Ministry of Energy and Mines are shareholder transactions.

The compensation of the Company's key management was as follows:

	<u>2021 US\$000</u>	<u>2020 US\$000</u>
Short-term employee benefits:		
Key management salaries (excluding director's compensation)	4,548	5,050
Directors' compensation (all non-executives)	177	197

There were no post-employment benefits, long-term benefits, termination benefits, and share-based payments in 2021 and 2020.

### 33 SUBSEQUENT EVENTS

#### 1. Changes in the organizational structure -

On April 1, 2022 the General Shareholders' Meeting met in Universal Session and the total change of the Company's Board of Directors was approved as of April 2, 2022.

With Board Agreement No.041-2022-PP dated April 3, 2022, it was approved to assign, at April 4, 2022, Mrs. Beatriz Cristina Fung Quiñones, the position of General Manager of Petróleos del Perú, a Qualified position of Management and Trust.

With Board Agreement No.042-2022-PP dated April 3, 2022, the change of the Basic Structure Management (Corporate Management) was approved, as a commission, at April 4, 2022.

#### 2. Financing -

On March 15, 2022 S&P Global Ratings downgraded Petroperú's global foreign currency credit risk rating to 'BB+' from 'BBB-' and placed it on its CreditWatch listing with negative implications.

In May 2022, Emergency Decree No. 010-2022 was issued, which establishes extraordinary measures in economic and financial matters aimed at securing the local fuel market, for which the Ministry of Economy and Finance (MEF) granted a loan of US\$750,000 thousand and the issuance of cancellation documents for up to S/500,000 thousand, which has allowed the Company to maintain the continuity of the payment chain and ensure the commercialization of hydrocarbons nationwide.

As of June 30, 2022, the Company maintains the investment grade given by the credit rating agency Fitch Ratings ("BBB-" on the foreign currency long-term debt); however, it is maintained the classification given by the credit rating agency S&P Global Ratings on April 27, 2022, that is, it lowered its global scale foreign currency rating on Petroperu to 'BB' from 'BB+' on long-term debt and maintained the Credit Watch with Negative Implications. The "AA-(pe)" rating issued by the local agency Apoyo & Asociados Internacionales S.A.C. is also maintained. On July 6, 2022 the rating firm S&P Global Ratings assigned the condition of "stable" to the perspective of Petroperú S.A., eliminating its assignment of Credit Watch with Negative Implications and ratified the Company's rating of "BB" as a long-term debt issuer.

At August 31, 2022 the Company maintains revolving lines of credit (uncommitted and unsecured) for US\$2,852,000 thousand, of which US\$1,189,000 thousand will be reviewed for renewal by the Credit and Risk areas of the respective banks with the issuance of the financial statements at December 31, 2021.

On September 6, 2022 Fitch Ratings downgraded the long-term local and foreign currency issuer default ratings (IDRs) to 'BB+' from 'BBB-'. It also reviewed the Individual Credit Profile to ccc- from ccc. In addition, it maintained the Rating Watch Negative (RWN).

#### 3. Block 192 -

On July 25, 2022 Supreme Decree No. 009-2022-EM was published in the Peruvian Gazette "El Peruano", in which the License Agreement for the Exploitation of Hydrocarbons in Block 192 was approved. Perupetro S.A. was authorized to sign said contract with the Company, in accordance with the current legal framework.

At December 31, 2021 and the date of approval of the financial statements, no other events have occurred, in addition to those previously mentioned, that require adjusting the items of the 2021 financial statements or being disclosed in their notes.