PETROLEOS DEL PERU - PETROPERÚ S.A.

CONDENSED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2020, DECEMBER 31, 2019 AND JUNE 30, 2019

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US$ = United States dollar
S/ = Sol
EUR = Euro

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

ASSETS	Note	As of June 30 2020 US$000	As of December 31 2019 US$000
Current assets			
Cash and cash equivalent	8	166,659	375,699
Trade accounts receivable	9	266,284	362,632
Other accounts receivable	10	210,235	173,991
Inventories	11	448,411	654,419
Expenses contracted in advance		-	3,671
Assets held for sale		588	588
Total current assets		1,092,177	1,571,000
Non-current assets			
Other accounts payable	10	404,751	363,609
Property, plant and equipment	12	5,474,928	5,094,563
Investment properties		9,563	9,569
Intangible assets		36,839	36,773
Assets for right of use		7,166	11,527
Total non-current assets		5,933,247	5,516,041
TOTAL ASSET		7,025,424	7,087,041

LIABILITIES AND EQUITY	Note	As of June 30 2020 US$000	As of December 31 2019 US$000
Current liabilities			
Other financial liabilities	13	1,474,297	1,009,994
Trade accounts payable	14	359,994	739,128
Other accounts payable		67,095	139,318
Other provisions	15	27,773	37,913
Lease Liabilities		2,594	8,811
Total current liabilities		1,931,753	1,935,164
Non-current liabilities			
Other financial liabilities	13	3,199,125	3,153,745
Other provisions	15	11,536	11,700
Deferred income tax liabilities	16	169,257	75,488
Lease Liabilities		2,267	2,682
Total non-current liabilities		3,382,185	3,243,615
Total liabilities		5,313,938	5,178,779
Equity	17		
Share capital		1,445,586	1,445,586
Additional capital		-	-
Legal reserve		52,115	52,115
Retained earnings		213,785	410,561
Total equity		1,711,486	1,908,262
TOTAL LIABILITIES AND EQUITY		7,025,424	7,087,041

The notes from page 6 to 38 are part of the condensed interim financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	For the three month period ended on June 30		For the period of six months ended on June 30	
		2020	2019	2020	2019
		US$000	US$000	US$000	US$000
Income from ordinary activit	18	436,198	1,210,436	1,420,674	2,276,353
Other operating income		12,211	28,061	35,129	43,195
Total income		448,409	1,238,497	1,455,803	2,319,548
Sales cost	19	(412,421)	(1,102,996)	(1,449,359)	(2,038,540)
Gross profit		35,988	135,501	6,444	281,008
Sales and distribution expe	20	(12,025)	(19,187)	(28,735)	(39,332)
Administration expenses	21	(24,560)	(39,815)	(59,691)	(80,467)
Other income	23	3,214	5,946	5,403	16,550
Other expenses	23	(377)	180	(401)	(12,260)
Total operation costs		(33,748)	(52,876)	(83,424)	(115,509)
Profit from operating activities		2,240	82,625	(76,980)	165,499
Financial income		6,152	4,318	12,873	8,382
Financial expenses		(13,434)	(9,152)	(18,762)	(14,361)
Exchange difference, net		(14,315)	2,260	(20,138)	6,450
Income before tax		(19,357)	80,051	(103,007)	165,970
Income tax expense	24	(42,704)	(28,821)	(93,769)	(50,890)
Net income for the period		(62,061)	51,230	(196,776)	115,080
Other comprehensive income that could be reclassified to income:					
Income of derived instruments		-	-	-	-
Total comprehensive income		(62,061)	51,230	(196,776)	115,080
Basic and diluted earnings	26	(0.013)	0.012	(0.041)	0.026

The notes from page 6 to 38 are part of the condensed interim financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED ON JUNE 30, 2020 AND 2019

	Number of shares	Capital share US$000	Capital Additional US$000	Reserve legal US$000	Other reserves equity US$000	Retained earnings US$000	Total equity US$000
Balance as of January 1, 2019	4,448,416,995	1,337,989	-	40,160	-	359,161	1,737,310
Comprehensive income:							
Net income for the period	-	-	-	-	-	115,080	115,080
Total comprehensive income	-	-	-	-	-	115,080	115,080
Transactions with shareholders:							
Transfer to additional capital and legal reserve	-	-	107,597	11,955	-	(119,552)	-
Total transactions with shareholders	-	-	107,597	11,955	-	(4,472)	-
Balance as of June 30, 2019	4,448,416,995	1,337,989	107,597	52,115	-	354,689	1,852,390
Balance as of January 1, 2020	4,850,895,325	1,445,586	-	52,115	-	410,561	1,908,262
Comprehensive income:							
Net income for the period	-	-	-	-	-	(196,776)	(196,776)
Total comprehensive income	-	-	-	-	-	(196,776)	(196,776)
Transactions with shareholders:							
Transfer to additional capital and legal reserve	-	-	-	-	-	-	-
Total transactions with shareholders	-	-		-	-	(196,776)	(196,776)
Balance as of June 30, 2020	4,850,895,325	1,445,586	-	52,115	-	213,785	1,711,486

The notes from page 6 to 38 are part of the condensed interim financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	For the period of six months ended on June 30 2020 US$000	2019 US$000
OPERATING ACTIVITIES			
Net cash from (used in) operating activities		(186,532)	316,439
Interest payment		(9,794)	(22,982)
Income tax payment		(6,553)	(22,509)
Net cash from (used in) operating activities		(202,879)	270,948
INVESTMENT ACTIVITIES			
Advance refund of general sales tax related to investment activities	11	23,529	33,215
General sales tax related to investment activities		(37,284)	(43,095)
Payment for property, plant and equipment purchase		(407,495)	(286,589)
Paid capitalized interest		(72,572)	(78,162)
Payment for the purchase of intangible assets		(1,166)	(2,209)
Withdrawal of investment from term deposits		-	861,000
Investment in time deposits		-	(586,000)
Net cash used in investment activities		(494,988)	(101,840)
FINANCING ACTIVITIES			
Loans received from financial institutions	13	1,429,487	1,551,795
CESCE loan	13	40,111	-
Payment of loans to financial institutions	13	(969,397)	(2,113,885)
IFRS 16 asset lease payment		(6,758)	-
Net cash (used in) provided by financing activities		493,443	(562,090)
Net decrease in cash and cash equivalent		(204,424)	(392,982)
Effect of exchange rate variation on cash		(4,616)	2,003
Cash and cash equivalent at the beginning of the year		375,699	528,700
Cash and cash equivalent at the end of the year		166,659	137,721
FINANCING ACTIVITIES TRANSACTIONS AND INVESTMENT THAT DID NOT GENERATE CASH FLOWS			
- Accrued interest not paid	13	14,179	13,198
- Works in progress to be paid		55,248	107,371
- Profits capitalization	17	-	107,597

The notes from page 6 to 38 are part of the condensed interim financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	For the period of six months ended on June 30 2020 US$000	2019 US$000
Net income for the period		(196,776)	115,080
Adjustments to reconcile the net income of the year with the cash from the operation activities:			
Provision for retirement pensions	16	-	7
Provision for contingencies	16	1,224	799
Provision for plugging and environmental remediation	16	371	11,960
Provision of labor separation		-	-
Depreciation		23,275	21,662
Amortization		1,100	1,094
Right of use asset depreciation		3,821	-
Withdrawal of property, plant and equipment		30	
Provision for Impairment of accounts receivable		-	9
Deferred income tax		93,769	(26,679)
Adjustment effect of unused difference exchange rate		4,616	(2,003)
		(68,570)	121,929
Net variations in operating assets and liabilities:			
Trade accounts receivable		96,348	40,913
Other accounts receivable		(62,164)	161,124
Inventories		206,008	427
Expenses contracted in advance		3,671	(6,498)
Trade accounts payable		(302,701)	(19,349)
Other accounts payable		(75,471)	(27,598)
Net cash from (used in) operating activities		(202,879)	270,948
		-	

The notes from page 6 to 38 are part of the condensed interim financial statements.

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 N° 28840, Law for the Strengthening and Modernization of Empresa de Petróleos del Perú - PETROPERÚ S.A., 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"). In addition, by means of the second final provision of Law No 28840, the Supreme Resolution N° 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 N°28840 - was superseded.

The Company's activities are governed by its Organic Law approved under Legislative Decree N° 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 9th and article 12th 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 designated by 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 - PETROPERÚ S.A.”), hereinafter the PMRT as well as its rules for application, as approved under Supreme Decree N° 008-2014-EM, published on March 24, 2014. In accordance with article 5 “Approval of granting of guarantees” of Law No. 30130 which approves 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 June 30, 2020 and December 31, 2019 there has been no need to use those guarantees.

Additionally, on December 30, 2016, Legislative Decree N°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. On August 15, 2019, Law No. 30993 was enacted declaring of national interest the preparation and execution of the North Peruvian Pipeline Strengthening and Modernization Project, in order to guarantee the operation and efficient maintenance of the North Peruvian Pipeline, expand its extension, increase its transportation capacity and profitability, safeguard the conservation of the environment and complement the Talara Refinery Modernization Project, as well as guarantee an adequate participation by way of taxes, fees and royalties in favor of the State.

b) Economic activity -

By means of Law N°.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 for the Strengthening and Modernization of Empresa de Petróleos del Perú - PETROPERU 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 N°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 Law N°.26221, Organic Law that regulates the activity of Hydrocarbons in National Territory. These activities consist of all oil industry phases, such as oil trade, including its by-products, basic and intermediary petrochemicals and other forms of energy.

By means of Law N°.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 that 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 the Company 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 decided to accept the assignment of 75% stake in the License Agreement for Block 64, held by Geopark Perú S.A.C., due to the fact that in July said company notified PETROPERÚ S.A. that it irrevocably chose to exercise the option to withdraw from the License Agreement.

Pursuant to Legislative Decree No.1292, published 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 calendar days counted from the date of publication of said Legislative Decree, 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 8th, Law N°29970 to implement the Talara Refinery Modernization Project and the amendment of article 4 and the Second Complementary Provision to Law N°28840, Law for the Strengthening and Modernization of Empresa de Petróleos del Perú - PETROPERÚ S.A. to implement Legislative Decree No. 1292" approved by the Board of Directors is in execution. Said 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:

- The prices of liquid fuels and specialties are determined according to their supply and demand, in compliance with the provisions of the Organic Hydrocarbons Law and regulations that modify or replace it.

- The prices list of liquid fuels and specialties will be approved by the Executive Price Committee chaired by the General Management and made up by the Corporate Finance Manager, Supply Chain Manager, Refining Manager and Commercial Manager or who will assume their functions.

- The determination of prices of liquid fuels and specialties that the Company sells in the local market will consider the opportunity cost and the prices that allow the Company to compete in the market and at the same time reach its strategic and budgetary goals will be set. In the case of liquid fuels, the opportunity cost corresponds to the Import Parity Price calculated with the methodology defined by the Company in its Guidelines.

- The prices list of liquid fuels of the Company must be competitive with other economic agents - producers and importers - in the Sales Plants of the country in which there is commercial operation, provided that there is commercial benefit.

- In the case of events in the international market that have a significant impact on the prices of liquid fuels and specialties strongly upward or downward, which negatively affect the reputation or economic situation of the Company, the Executive Price Committee may decide to transfer them gradually to the clients or to put aside the variations presented in conjunctural form until the local or international market stabilizes, taking into account the financial sustainability of the Company.

- Fund for the Stabilization of Petroleum Derived Fuel Prices (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 Perú. Article 6th, 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.

  On June 30, 2020, the Price Stabilization Fund was applied to the following fuel items: GLP-E, Diesel B5, Diesel B5 S-50 and industrial petroleum 6. This fund represented – 2.2% (contribution) of the Company's revenues (-0.4% of revenues in December 2019).

  Pursuant to Supreme Decree No. 007-2020-EM, published on April 21, 2020, GLP-E and Diesel B5 and Diesel S-50 are excluded as products under the Price Stabilization Fund, effective as of April 28, 2020.

d) Approval of the financial statements -

The financial statements for the three-month period ended on June 30, 2020 have been approved by the General Management of the Company on September 17, 2020. The financial statements as of December 31, 2019 were approved by the General Shareholders' Meeting on July 31, 2020.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The condensed interim financial statements for the six-month period ended on June 30, 2020, have been prepared in accordance with International Accounting Standard No.34, "Interim Financial Information" (IAS 34) issued by the International Accounting Standards Board (IASB)."

The information on the statement of financial position as of December 31, 2019 and the corresponding notes are derived from the audited financial statements as of that date.

The unaudited condensed interim financial statements arise from the accounting records and are prepared on the basis of historical cost, except for derivative financial instruments that are measured at fair value. The condensed interim financial statements are presented in thousands of US Dollars, except when a different monetary currency is indicated. The accounting policies applied are consistent with those of the 2019 annual exercise and the comparative interim period.

The condensed interim financial statements do not include all the information and disclosures required for the annual financial statements and must be read together with the financial statements for the year ended on December 31, 2019, which were prepared in accordance with the IFRS issued by the IASB.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in the applicable standards as of January 1, 2020 –

The following standard and modifications have been adopted by the Company for the first time for the year that began on January 1, 2020:

- Revised Conceptual Framework for Financial Reporting -

  The Revised Conceptual Framework was published in March 2018. The main changes arising from the Revised Conceptual Framework, with respect to the previous conceptual framework, are:

  - It is clarified that one of the objectives of the financial statements is also to provide information that allows the management assessment of those who administer the entity's resources
  - The prudence concept is reinstated as a component of the neutrality necessary to prepare the financial statements,
  - The definition of reporting entity has been incorporated,
  - The definitions of assets and liabilities have been revised,
  - Although the probability thresholds for the recognition of items in the financial statements have been eliminated, it is required that for the recognition of items to be appropriate, it must meet the objectives of the financial statements, that is, that the information is relevant and faithfully represents the economic fact. Thus, it has not been the intention of the change to broaden the range of assets and liabilities that can be recognized in the financial statements, but rather to align the recognition criteria with the general objectives of the financial statements.
  - Guides for the derecognition of assets and liabilities have been incorporated,
  - The definition of the measurement bases allowed for the items of the financial statements has been reviewed, and
  - It is made explicit that the income statement is the main source of information about the performance of an entity. In addition, a reference is made to the fact that in exceptional circumstances some items of income or expenses should not be recognized in the income statement, but in the statement of comprehensive income. Likewise, it incorporates the general concept that the reclassification to income of the items recognized as parts of the other comprehensive income, should be carried out when this contributes to the relevance or the accurate representation of the financial statements.

  The Revised Conceptual Framework is effective for the IASB since its publication date, with regard to its analysis process for the publication of new IFRS. The Revised Conceptual Framework is not intended to amend existing IFRSs; however, if an entity developed an accounting policy based on the previous Conceptual Framework, it needs to apply the new concepts from January 1, 2020 and confirm whether its policy continues to be appropriate.

- Amendments to IAS 1 and IAS 8 - Definition of material

  In October 2018, the IASB issued these amendments to IAS 1 and IAS 8 to align the definition of materiality used in the Revised Conceptual Framework with those used in the different IFRS.

  The Company has been evaluating the impact of the Revised Conceptual Framework and the amendments to IAS 1 and IAS 8.

  Additionally, other regulations and modifications listed below have been published which, due to the nature of its activities, the Company considers that they are not applicable:

  - Modifications to IFRS 3 - Business definition.
  - IFRS 17 - Insurance contracts.
  - Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture

3.2 Significant accounting policies –

The accounting policies applied are consistent with those of the annual financial statements for the year ended on December 31, 2019, as described therein, except for the accounting treatment of income tax in the interim periods, which are accounted using the tax rate applicable to the expected total annual profit or loss (see Note 4 and Note 24). The income tax expense is recognized in each interim period based on the best estimate of the expected effective annual income tax rate for the entire year. The Company Management considers that the amount accrued for the income tax expense in an interim period may have to be adjusted in a later interim period of that same year, if the estimate of the annual effective income tax rate changes.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the condensed interim financial statements requires Management to make judgments, estimates and assumptions in the balances of assets and liabilities, income and expenses that may affect the application of accounting policies. Actual results may differ from those estimates.

In preparing the condensed interim financial statements, the relevant judgments and estimates made by the Management in the application of the Company's accounting policies and in the critical information for the estimation of uncertainties were the same as those applied in the financial statements by the year ended on December 31, 2019, with the exception of changes in the estimates that are required to determine the provision for income tax.

Income Tax –

To determine the income tax in the interim periods, the Management uses the effective tax rate applicable to the expected total annual profit or loss (see Note 3.2 and Note 24), which requires the management's judgment to determine the expected results for tax purposes.

The Company conducted a sensitivity analysis of income tax expense in the interim periods based on the estimate of the effective income tax rate at the end of the year.

If the effective income tax rate had been +/- 1% different from Management's estimates, the Company would need to increase / decrease the income tax expense by US $ 938 thousand in the six-month period ended on June 30, 2020 (US $ 509 thousand in the six-month period ended on June 30, 2019).

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors -

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

The condensed interim financial statements do not include all the information and disclosure of the financial risk management required in the annual financial statements; they must be read together with the Company's annual financial statements as of December 31, 2019, as there have been no changes in the related assessments of financial risks since the end of the year.

There have been no significant changes in the risk management department or in any risk management policy since the end of 2019.

5.2 **Liquidity risk -**

The Management manages its liquidity risk by ensuring that sufficient committed credit lines are available at all times, and meeting its working capital needs with the cash flows obtained from operating activities.

The Company has sufficient credit capacity to access credit lines with the best qualified financial institutions (institutions with no history of default and with local prestige) in terms of market. In addition, the Company develops new banking relationships in order to have adequate funds available at all times. However, with the current uncertainty, due to the state of emergency that the country is experiencing due to the COVID 19 pandemic, there is a risk that banks will review the terms of the credit lines (short-term financing that may not be refinanced). The Company assumes this risk.

At June 30, 2020, the Company maintains short-term revolving credit lines with local and foreign banks for a total of US$3,008,463 thousand, of which US$1,430,293 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.

5.3 Capital risk -

The Company's objectives when managing capital are to safeguard the Company's 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), minus cash and cash equivalent. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

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

At June 30, 2020 and December 31, 2019, the gearing ratios were as follows:

	2020 US$000	2019 US$000
Other financial liabilities	4,673,422	4,163,739
Minus: Cash and cash equivalent and term deposits	(166,697)	(381,063)
Net debt (A)	4,506,725	3,782,676
Total equity (B)	1,711,486	1,908,262
Total capital (A)+(B)	6,218,211	5,690,938
Ratio (A/(A+B))	0.72	0.64

The increase in the gearing ratio, as of June 30, 2020, is explained by the increase in short-term bank loans, as a result of the decrease in sales volume, the decrease in cash for use in investments in the PMRT and the decrease in equity due to the period loss.

6. 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 y (iii) leased and privatized units.

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

The following summary describes the operations of each reportable segment:

Reportable segment	**Operations**
Production and trading	Refining and commercialization of petroleum products.
Oil Pipeline operations	Service of transfer and custody of crudes from the Northern jungle of Perú.
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 –

	Production and marketing (*) **US$000**	**Oil pipeline operations** **US$000**	**leased and privatized units** **US$000**	**Total** **US$000**
As of June 30, 2020				
Assets:				
Current	954,204	93,966	44,007	1,092,177
Non-current	5,510,645	227,766	194,836	5,933,247
	6,464,849	321,732	238,843	7,025,424
Liabilities:				
Current	1,861,544	34,845	35,364	1,931,753
Non-current	3,364,729	17,456	-	3,382,185
	5,226,273	52,301	35,364	5,313,938
As of December 31, 2019				
Assets:				
Current	1,454,698	74,302	42,000	1,571,000
Non-current	5,099,959	223,294	192,788	5,516,041
	6,554,657	297,596	234,788	7,087,041
Liabilities:				
Current	1,860,622	50,573	23,869	1,935,164
Non-current	3,226,112	17,503	-	3,243,615
	5,086,734	68,076	23,969	5,178,779

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

c) Statement of comprehensive income by segments –

	Production and marketing (*) **US$000**	**Oil pipeline operations** **US$000**	**leased and privatized units** **US$000**	**Total** **US$000**
For six-month period ended on June 30, 2020				
Ordinary activities income	1,413,790	6,884	-	1,420,674
Provision of services	13,559	9,634	11,936	35,129
Total income	1,427,349	16,518	11,936	1,455,803
Sales cost	(1,420,487)	(26,183)	(2,689)	(1,449,359)
Transfers	7,235	(7,235)	-	- -
Gross Profit (loss)	14,097	(16,900)	9,247	6,444
Sales and distribution expenses	(26,766)	-	(1,969)	(28,735)

	Production and marketing (*)	Oil pipeline operations	leased and privatized units	Total
Administration expenses	(55,058)	(4,633)	-	(59,691)
Other income and expenses	3,555	1,447	-	5,002
Operating Profit (loss)	(64,172)	(20,086)	7,278	(76,980)
Financial, net	(20,720)	(5,299)	(8)	(26,027)
Profit before income tax	(84,892)	(25,385)	7,270	(103,007)
Income tax	(77,279)	(23,108)	6,618	(93,769)
Profit for the period	(162,171)	(48,493)	13,888	(196,776)

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

	Production and marketing (*)	Oil pipeline operations	leased and privatized units	Total
	US$000	US$000	US$000	US$000
For the six-month period ended On June 30, 2019				
Ordinary activities income	2,262,554	13,799	-	2,276,353
Provision of services	9,620	11,940	21,635	43,195
Total income	2,272,174	25,739	21,635	2,319,548
Sales cost	(2,010,732)	(25,119)	(2,689)	(2,038,540)
Transfers	(5,120)	5,120	-	-
Gross Profit (loss)	256,322	5,740	18,946	281,008
Sales and distribution expenses	(35,575)	-	(3,757)	(39,332)
Administration expenses	(71,659)	(8,808)	-	(80,467)
Other income and expenses	8,844	(4,554)	-	4,290
Operating Profit (loss)	157,932	(7,622)	15,189	165,499
Financial, net	(1,121)	1,591	1	471
Profit before income tax	156,811	(6,031)	15,190	165,970
Income tax	(48,082)	1,849	(4,657)	(50,890)
Profit for the period	108,729	(4,182)	10,533	115,080

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

d) Revenue by geographical area -

At June 30, 2020 and 2019 the Revenue by geographical segment is based on the customers' geographical location:

	2020	2019
	US$000	US$000
Peru	1,316,298	2,059,104
Other countries	139,505	260,444
	1,455,803	2,319,548

7. SIGNIFICANT CHANGES IN THE CURRENT PERIOD

The financial position and performance of the Company were especially affected by the following two factors during the six-month period ended on June 30, 2020:

- At June 30, 2020, the international price of crude oil had a downward trend, with a closing price of US $ 39.27 per barrel (US $ 61.06 per barrel as of December 31, 2019), this factor does not influence the realization margins, however, it affects the value of inventories, therefore a lower inventory value of US $ 175,674 thousand has been determined, being the main factor for the negative result at the end of this period. This factor is triggered by the lower demand for fuels in the world and in the country, due to the measures of social isolation taken internationally and, in the country, to face the pandemic caused by the COVID 19 virus. For companies in the hydrocarbon sector it represents a temporary situation, due to this emergency stage, which is corrected with the increased traffic of the population, higher demand and the consequent recovery in prices, which as of the date of this publication has been progressively occurring.
- Deferred tax generated by the exchange rate fluctuation that affects non-monetary items (mainly fixed assets) due to the fact that the Company pays income tax in a different currency (Soles)

than its functional currency (US $). As of June 2020, the US dollar appreciated significantly against the Sol (3,541 as of June and 3,317 as of December 2019), generating a deferred income tax expense of US $ 81,586 thousand.

8. CASH AND CASH EQUIVALENTS

As of June 30, 2020, and December 31, 2019 this item comprises:

	2020 US$000	2019 US$000
Current accounts (a)	165,580	374,621
Liquidity funds (b)	1,050	1,050
Fixed funds	29	28
	166,659	375,699

(a) The Company maintains cash deposited in financial institutions in the form of current accounts in national currency and in foreign currency. The funds in these accounts are freely available and earn preferential interest rates between 0.25% and 0.40%.

(b) As of June 30, 2020, liquidity funds are short-term instruments in foreign institutions with returns between 1.79% and 3.30% (1.79% and 3.30% as of December 31, 2019) and are immediately available without a defined maturity date, which will be used in PMRT investment activities in the following months.

9. TRADE RECEIVABLES

As of June 30, 2020, and December 31, 2019 this item comprises:

	2020 US$000	2019 US$000
Wholesale distributors	163,504	217,200
Fuel Stabilization Price Fund -	-	9,796
Ministry of Energy and Mines (Note 1-c)	23,358	44,830
Fuel distributors	18,483	27,929
Oil companies	18,082	23,167
Foreign market	13,297	4,562
Armed Forces and National Police of Peru	10,922	11,037
Aviation business	6,394	6,341
Fishing sector	4,561	2,406
Maritime business	3,198	4,057
Construction sector	1,731	4,372
Transport sector	1,530	2,537
Industrial sector	257	962
Energy sector	180	543
Various customers	786	2,892
Doubtful collection accounts	5,969	6,270
	272,253	368,902
Expected loss of trade accounts receivable	(5,969)	(6,270)
	266,284	362,632

The balances of trade accounts receivable correspond to invoices in soles and US dollars, mainly for the sale of refined products. Accounts receivable from the Armed Forces and the National Police of Peru have a maturity of 45 days. Accounts receivable from wholesale distributors and other customers have maturities between 7 and 45 days. Accounts receivable, in accordance with the Company's internal policies, are mostly guaranteed with letters of guarantee or other instruments of the national financial system in accordance with the credit policy approved by the Board of Directors.

Fuel Price Stabilization Fund - Ministry of Energy and Mines -

The total amount receivable from the General Hydrocarbons Agency (DGH), as of June 30, 2020, amounts to US$ 15,545 thousand, generated by compensations and contributions which includes, as of June 30, 2020, the legal recourse ("Demanda de Amparo") recorded in a Claims account for US $ 16,387 thousand (US $ 17,494 thousand as of December 31, 2019), classified, as other long-term accounts receivable (Note 10) and the amount payable (contribution) of US $ 842 thousand, submitted in Other accounts payable, (US $ 9,796 thousand receivable for Compensation as of December 31, 2019).

As of June 30, 2020, and December 31, 2019, the movement of the total balance of the item Price Stabilization Fund is explained as follows:

	2020 US$000	2019 US$000
Initial balance	9,796	82,472
Price compensation	1,336	7,835
Price contribution	(33,109)	(28,346)
Net (charged)paid to income from ordinary activities (note 18)	(31,773)	(20,511)
Product import fund	(9,236)	(4,665)
Collection and compensation payments and/or contribution	30,619	(48,783)
Exchange difference	(248)	1,283
Final balance	(842)	9,796

Expected loss of trade accounts receivable –

To measure the expected credit losses, the Company has classified its customers according to homogeneous risk characteristics that represent the payment capacity of each customer segment for the amounts due. This classification has been carried out on the basis of segments that represent specific risks: wholesale sector, industrial sector, commercial sector and Armed Forces.

The Company considers it appropriate to exclude accounts receivable from wholesalers and businesses due to their high liquidity and because there has been no historical loss incurred.

Expected loss rates are based on sales payment profiles in a 12-month period before June 30, 2020 and December 31, 2019, and historical credit losses are adjusted to reflect current and prospective information on Macroeconomic factors that affect the ability of customers to settle trade accounts receivable.

On that basis, the provision for losses as of June 30, 2020 and December 31, 2019 was determined as follows:

	2020			2019		
	Expected loss rate %	Gross amount in books US$000	Expected loss US$000	Expected loss rate %	Gross amount in books US$000	Expected loss US$000
Current	0.00	82,687	1	0.01	352,178	33
From 1 to 30 days	0.10	708	1	0.62	35	-
From 31 to 60 days	0.10	125,923	124	-	-	-
From 61 to 90 days	0.11	34,766	40	-	-	-
From 91 to 120 days	0.24	1,127	3	1.55	39	1

From 121 to 150 days	0.28	1,212	3	4.66	57	2
From 151 to 180 days	0.34	2,698	9	4.71	6	-
From 181 to 210 days	0.40	16,220	66	8.65	4	-
From 211 to 240 days	2.33	575	13	-	-	-
From 241 to 270 days	3.69	102	4	-	-	-
From 271 to 300 days	47.28	5	3	-	-	-
From 301 to 330 days	-	-	-	-	-	-
From 331 to 360 days	100.00	14	14	100.00	6	6
More than 360 days	100.00	5,688	5,688	100.00	6,222	6,228
Total (*)		271,725	5,969		358,547	6,270

As of June 30, 2020, and December 31, 2019, the estimate movement of the expected loss of trade accounts receivable was as follows:

	2020 US$000	2019 US$000
Initial balance	6,270	5,019
Expected loss for the year (Note 19)	-	1,307
Exchange difference	(301)	(25)
Recoveries and Penalties	-	(31)
Final balance	5,969	6,270

In the Management's opinion, the estimate for doubtful collection accounts recognized in the financial statements and the guarantees requested are sufficient to cover any eventual risk in the recovery of trade accounts receivable at the date of the statement of financial position.

Trade accounts receivable due, but not impaired, are related to independent customers with whom letters of guarantee are maintained and/or whose debt has been reconciled and is expected to be collected in the short term.

10. OTHER ACCOUNTS RECEIVABLE

As of June 30, 2020, and December 31, 2019, this item comprises:

	As of December 31,	
	2020 US$000	2019 US$000
Tax Credit - General Sales Tax and Income Tax (a)	163,787	122,042
Assets for derivative financial instruments	21,283	11,784
Advances to suppliers	12,638	12,754
Investment in partnership with GeoPark	4,996	4,996
Loans to personnel	2,998	12,322
Loans	2,480	2,543
Time deposits (d)	36	5,364
Sundry	2,017	2,186
Doubtful collection accounts	34,884	35,954
	245,119	209,945
Minus - Allowance for doubtful accounts (f)	(34,884)	(35,954)
	210,235	173,991
Non-current		
Tax Credit - General Sales Tax, long term (b)	372,681	329,405
Claims for the Price Stabilization Fund - Ministry of Energy and Mines (Note 1-c) (c)	16,387	17,494
Claims to the Superintendency of Tax Administration (e)	8,245	8,802
Other taxes, long term	7,438	7,908
Non-current part	404,751	363,609

(a) Tax credit - General Sales Tax and Income tax, short term –

As of June 30, 2020, it corresponds mainly to the General Sales Tax of operations for US $ 32,496 thousand, General Sales Tax of the PMRT for an amount of US $ 63,825 thousand, Tax credit for payments on account of income tax for US $ 24,073 thousand and Tax credit for Selective Excise Tax for US $ 43,393 thousand, which will be recovered in the short term through operations and via the VAT early recovery regime.

At June 2020, SUNAT carried out the tax credit refund of VAT for US $ 54,807 thousand (equivalent to S/ 188,198 thousands) which were requested by the Company through the early recovery regime and balance in favor of the exporter.

(b) Tax credit - General Sales Tax, long term –

Corresponds to the balance in favor of the VAT paid for the acquisition of goods and services related mainly to the Talara Refinery Modernization Project that amount to US $ 252,832 thousand and the VAT for operations amounting to US $ 119,849 thousand. This balance in favor of tax credit has no expiration period. The Company expects to recover this tax credit through the VAT early recovery regime in the long term.

As of December 31, 2019, it corresponds to the balance in favor of the VAT paid for the acquisition of goods and services mainly related to the Talara Refinery Modernization Project amounting to US $ 173,211 thousand and the VAT for operations amounting to US $ 113,972 Thousands.

This balance in favor of the tax credit does not have an expiration period. The Company expects to recover this tax credit through the VAT early recovery regime in the long term.

(c) **Claims to the fuel price stabilization fund of the 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. Said action was signed with File No. 21022-2010-0-1801-JR-CI-02

On November 28, 2018, the Judgment contained in Resolution No. 16 has been issued whereby the Second Constitutional Specialized Court of Lima declares the claim inadmissible. By Resolution No. 17 of June 27, 2019, the appeal of said Judgment was granted to the second instance.

On December 17, 2019, by means of a Judgment contained in Resolution No. 5, the Third Civil Chamber declared Resolution No. 16, which declared the claim inadmissible and ordered that the Judge of first instance issue a new resolution in accordance with the above, null and void. As of June 30, 2020, the judgment of the Second Constitutional Court of Lima is pending.

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 will allow to recover the whole amount receivable recorded, which amounts to US $ 16,387 thousands as of June 30, 2020 (US $ 17,494 thousands as of December 31, 2019).

(d) Time deposits –

As of June 30, 2020, and December 31, 2019, the Company maintains term deposits with maturities of 90 days in foreign banks. The decrease in 2020 corresponds to the availability of these funds to pay for the progress of the PMRT work.

(e) 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 186-002-EF, which stipulated the sales of Turbo A1 intended for general aviation activities were not subject to Excise Tax (ISC in Perú). 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.

As of June 30, 2020, and December 31, 2019, this item comprises:

	2020 US$000	2019 US$000
File No. 17806-2012 (i)	8,245	8,802
	8,245	8,802

(i) In November 2012, the Company paid US$8.651 thousand (equivalent to S/.29,197 thousand) for a number of tax determination and tax penalty resolutions involving allegedly unpaid excise tax (ISC) and VAT (IGV) for fiscal 2007. At December 31, 2019, this action remains to be resolved by Courtroom 4 of the Peruvian Tax Tribunal, under File No. 17806-2012. Based on the favorable resolution of other similar claims, the Company and its legal counsel have high expectations of obtaining a favorable outcome. The expected refund is equivalent to US$8,245 thousand at the closing exchange rate.

(f) Expected loss of other accounts receivable –

The expected loss is mainly related to claims made to the municipalities for property taxes and excise duties, which the probability of recovery is low.
In this sense, the Company applies the general model of IFRS 9 to measure the claims expected credit losses.

The Company considers the probability of default after the initial recognition of the claims and whether there has been a significant increase in credit risk on an ongoing basis throughout each period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default on 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 previous analysis, a significant increase in credit risk is presumed if a debtor is more than 30 days late in making the claim payment. Regarding the other items of other accounts receivable, the Company considers that the credit risk of the counterparties is low, therefore it has not recorded an expected loss on these accounts as it is not significant.

As of June 30, 2020, and December 31, 2019, the movement of the provision for the expected loss is as follows:

	2020 US$000	2019 US$000
Initial balance	35,954	35,495
Expected loss (Note 20)	-	186
Exchange difference	(1,070)	309

	2020	2019
Recoveries	-	(36)
Penalties	-	-
Final balance	34,884	35,954

11. INVENTORIES

As of June 30, 2020, and December 31, 2019, this item comprises:

	2020 US$000	2019 US$000
Crude oil	115,568	49,798
Refined products:		
In process	68,224	214,796
Finished	121,986	253,035
Refined products purchased	107,784	71,606
Inventories in transit	6,076	45,933
Supplies	29,308	20,253
	448,946	655,421
Minus - Estimation for devaluation of supplies	(535)	(1,002)
	448,411	654,419

As of June 30, 2020, the cost of inventories recognized as expenses and included in the cost of sales amounted to US$1,326,381 thousand (US$1,871,382 thousand as of June 30, 2019) that equals the cost of sales minus operating manufacturing costs (Note 19).

As of June 30, 2020, the crude oil price had a downward trend, with a closing price of US$39.27 per barrel (US$58.47 per barrel at June 30, 2019). The average price during June 2020 was US$38.30 per barrel (US$56.68 per barrel at June 30, 2019).

As of June 30, 2020, and December 31, 2019, the movement of the provision for devaluation of supplies is explained as follows:

	2020 US$000	2019 US$000
Initial balance	(1,002)	(1,063)
Devaluation of supplies	-	(539)
Reversals	467	600
Final balance	535	1,002

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 June 30, 2020 and December 31, 2019, 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.

12. PROPERTY, PLANT AND EQUIPMENT

	Lands	Buildings and other constructions	Machinery and equipment	Transportation unit	Furniture and fixtures	miscellaneous and computer equipment	equipment out of use	Units to be received	Works in progress	Additional investments	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Cost	201,276	191,725	811,407	19,139	4,840	57,147)	17,462	-	3,253,339	22,255	4,578,590
Accumulated depreciation	-	(93,886)	(377,703)	(14,239)	(3,835)	(28,123)	(17,462)	-	-	-	(535,248)
Accumulated impairment	-	-	(309)	-	-	-	-	-	-	-	(309)
As of December 31, 2018,	201,276	97,839	433,395	4,900	1,005	29,024	-	-	3,253,339	22,255)	4,043,033
Year 2019:											
Opening balance of net book cost	201,276	97,839	433,395	4,900	1,005	29,024	-	-	3,253,339	22,255	4,043,033
Additions	-	-	-	141	-	-	-	-	1,108,201	13,304	1,121,646
Capitalizations	2,886	9,488	87,543	18,822)	1,241)	5,983	-	-	(124,505)	(1,458)	-
Withdrawals	-	-	(24,083)	(137)	(6)	(6)	(13,899)	-	-	-	(38,131)
Transfers	-	-	(2,404)	(240)	(29)	(151)	2,824	-	-	-	-
Reclassifications	-	(10)	-	-	-	-	-	-	-	-	(10)
Depreciation for the year		(5,240)	(57,771)	(2,261)	(427)	(4,035)	-	-	-	-	(69,733)
Withdrawal depreciation	-	-	24,054	110	6	4	13,899	-	-	-	38,073
Depreciation Transfers	-	-	2,090	230	29	151	(2,500)	-	-	-	-
Adjustment	-	10	-	-	-	-	-	-	-	-	10
Impairment of assets on loan	-	-	-	-	-	-	(324)	-	-	-	(324)
As of December 31, 2019,	204,162	102,087	462,824	21,565	1,819	30,970	-	-	4,237,035	34,101	5,094,563
As of December 31, 2019											
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	204,162	102,087	462,824	21,565	1,819	30,970)	-	-	4,237,035	34,101	5,094,563
Year 2020											
Opening balance of net book cost	204,162	102,087	462,824	21,565	1,819	30,970	-	-	4,237,035	34,101	5,094,563
Additions	-	-	-	-	-	-	-	-	396,585	7,080	403,665
Capitalizations	-	944	3,650	44	46	82	-	-	(4,767)	-	-
Withdrawals	-	-	-	-	-	-	(1,646)	-	-	-	(1,646)
Transfers	-	-	(273)	(50)	(1)	(235)	559	-	-	-	-
Depreciation for the year	-	(2,755)	(17,182)	(1,273)	(259)	(1,800)	-	-	-	-	(23,269)
Withdrawal depreciation	-	-	-	-	-	-	1,646	-	-	-	1,646
Withdrawal of property, plant and equipment	-	-	-	-	-	-	(30)	-	-	-	(30)
Depreciation Transfers	-	-	255	39	1	234	(529)	-	-	-	-
As of June 30, 2020,	204,162	100,276	449,274	20,325	1,606	29,251	-	-	4,628,853	41,181	5,474,928
As of June 30, 2020											
Cost	204,162	202,147	875,840	37,719	6,091	62,820	5,300	-	4,628,853	41,181	6,064,113
Accumulated depreciation	-	(101,871)	(426,257)	(17,394)	(4,485)	(33,569)	(4,976)	-	-	-	(588,552)
Accumulated impairment	-	-	(309)	-	-	-	(324)	-	-	-	(633)
	204,162	100,276	449,274	20,325	1,606	29,251	-	-	4,628,853	41,181	5,474,928

Talara Refinery Modernization Project - PMRT -

The status of the Project at June 30, 2020, is described as follows:

- ***Comprehensive progress***

- The scheduled progress percentages are values obtained based on the Integrated Schedule prepared by CPT, the project's supervising company, based on (i) Level III Rev. 08 Master Schedule approved for the EPC Contract of Process Units executed by Técnicas Reunidas and (ii) Level III Schedule according to the Framework Agreement approved for the EPC Contract of Auxiliary Units and Complementary Works executed by the Cobra SCL UA&TC Consortium.

  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, and since June 15, 2020, work on PMRT has been progressively restarted, complying with the protocols approved and established in the PMRT Plan for Surveillance, Prevention and Control of COVID-19.

  The term impacts to PMRT due to the State of National Emergency are being evaluated with the Main Contractors.

  The composition of the Cost (Economic Progress) of the Project, compared to the disbursements incurred as of June 30, 2020, is detailed below:

	June 30, 2020	Total Budget		
	Disbursement	Percentage of completion	Planned	Total percentage
	US$000	%	US$000	%
Técnicas Reunidas (TR) -				
Process units	2,639,015	89.37	2,953,068	55.77
Consorcio Cobra SCL -				
Auxiliary units	585,295	74.38	786,949	14.86
Complementary works	228,760	67.35	339,635	6.41
Others -				
Supervision	260,594	81.44	319,994	6.04
Management	156,539	65.18	240,180	4.54
Contingencies	-	-	60,181	1.14
Interest on financing	444,380	74.62	595,495	11.25
	4,314,583		5,295,502	100

- Progress EPC Auxiliary Units and Complementary Works - Contract with Consortium Cobra SCL UA & TC

- The comprehensive progress of the EPC Contract with Cobra SCL UA & TC Consortium is 71.73% Actual vs 85.55% scheduled.
- Cobra SCL UA&TC has registered the following progress in the Engineering, Procurement and Construction (EPC) activities:
  - Engineering progress: 91.46% Actual vs. 99.38% Scheduled.
  - Procura's progress: 82.92% Actual vs 93.50% Scheduled.
  - Construction progress: 60.83% Actual vs 81.33% Scheduled.
- As of June 30, 2020, the accumulated executed amount is MMUS $ 598.22.

- ***Progress EPC Process Units - Contract with Técnicas Reunidas (TR)***:

- The comprehensive advance in the EPC Contract with TR is 94.47% Actual vs. 97.00% Scheduled.
- TR has registered progress in the construction activity, as follow:
  - Engineering progress: 100%
  - Procura progress: 99.92% Actual vs 99.97% Scheduled.
  - Construction progress amounted to 92.83% Actual vs 97.08% Scheduled.

- As of June 30, 2020, the accumulated executed amount is MMUS $2,627.48.

- ***Management***

PMRT Financial structure:

Capital Contribution: USD 325 MM
Own Resources: USD 671 MM
Bond issuance (15 and 30 years): USD 2,000 MM
Financing guaranteed by the Export Credit Insurance Company (CESCE): USD 1,300 MM
FIEM[1] loans: USD 285 MM (in structuring process)
Loan or Bond: USD 714.5 MM (in structuring process)

PMC (Project Management Consultancy):

- The PMRT Project Management Consulting, Consulting and Supervision Service continues, under the responsibility of the PMC Talara Consortium (CPT).

PMO (Project Management Office):

The Consultancy Service for support in Dispute Management and Decision Making for PMRT continues under the responsibility of Consorcio Deloitte Talara.

\- **Social Management and community relations**

Local Workforce Program:

As of June 30, 2020, the total workforce was 1921 jobs, local unskilled labor had a participation of 97% (out of a total of 177 Unskilled), exceeding the minimum established in the EIA (70%), while local qualified labor had a participation of 42% (out of a total of 1744 Qualifiers).

Impairment of assets -

As of December 31, 2019, the Company performed the impairment tests of the Production and Marketing and pipeline Operations Cash Generating Units, and also performed the impairment test of the assets under construction of the PMRT and considers that as of June 30, 2020 there are no events that could modify the result and conclusions obtained in the annual evaluation.

13. OTHER FINANCIAL LIABILITIES

As of June 30, 2020, and December 31, 2019, this item includes:

	2020 US$000	2019 US$000
Current liabilities		

Bank loans without guarantee	1,460,118	1,000,027
Accrued interest	14,179	9,967
	1,474,297	1,009,994
Non-current liabilities		
Corporate bonds (i)	1,986,374	1,986,078
CESCE loan (ii)	1,212,751	1,167,667
	3,199,125	3,153,745

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. Transaction expenses totaled US$6,399 thousand, net of the liability.

- 2047 Notes, a principal of US$1,000,000 thousand with coupons paid semi-annually at a fixed rate of 5.625% per year with maturity of 30 years. Coupons are due from December 2017 and repayment of principal will take place on the bond maturity date. Transaction expenses totaled US$7,227 thousand, thousand, net of the liability.

Under the bond issue agreement, there is no covenants that need to be met apart from the financial reporting requirement.

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, the loan contract was signed with the Spanish Export Credit Insurance Company (CESCE) being the administrative agent Deutsche Bank SAE for US $ 1,300,000 thousand. As of June 30, 2020, US $ 1,276,828 thousand was received, a fund that was used to reimburse the different sources of financing used to pay PMRT invoices, corresponding to the EPC with Técnicas Reunidas. The transactional costs are comprised of the disbursement commission of US $ 61,880 thousands and other structuring costs of US $ 14,179 thousands. Interest is paid semiannually as of May 2019 with maturity in 2031 based on the fixed interest rate of 3.285%.

As of June 30, 2020, the disbursement amount pending amounts to US $ 23,172 thousand, which will be made in the second half of 2020.

The CESCE loan does not have specific contractual guarantees from the Company or the Peruvian state, however, it has a 99% guarantee by the Spanish Government through CESCE.

As part of the subscribed contract, the Company is obliged to comply with financial commitments (covenants), these commitments are measured quarterly, being the following:

- Debt ratio
- Debt service coverage
- Direct financing for investment in the PMRT

As of June 30, 2020, the Company complied with the commitments established in the financing contract.

a) **Debt repayment terms and timetable**

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

	Original currency	Nominal interest rate	maturity	As of June 30, 2020 Nominal value US$000	As of June 30, 2020 carrying amount US$000	As of December 31, 2019 nominal value US$000	As of December 31, 2019 carrying amount US$000
Bank loans without Guarantee	Soles	0.74% - 4.25%	2020	389,438	389,438	403,191	403,191
Bank loans without Guarantee	Dollars	1.05% - 5.01%	2020	1,070,680	1,070,680	596,836	596,836
CESCE loan	Dollars	3.285%	2031	1,276,828	1,212,751	1,236,717	1,167,667
Corporate bonds	Dollars	4.750%	2032	1,000,000	993,602	1,000,000	993,372
Corporate bonds	Dollars	5.625%	2047	1,000,000	992,772	1,000,000	992,706
Accrued interest				-	14,179	-	9,967
				4,736,946	4,673,422	4,236,744	4,163,739

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

b) **Movement of financial liabilities**

The movement of debt due to financial obligations has been as follows:

	Bank loans Without guarantee US$000	Corporate bonds US$000	CESCE loan US$000	Total US$000
Balance as of January 1, 2020	1,002,982	1,990,069	1,170,688	4,163,739
New loans	1,429,487	-	40,111	1,469,598
Amortizations	(969,397)	-	-	(969,397)
Amortized cost	-	253	5,016	5,269
Accrued interest	14,152	51,591	20,835	86,578
Interest paid	(9,794)	(51,875)	(20,697)	(82,366)
Balance as of June 30, 2020	1,467,4302	1,990,038	1,215,954	4,673,422

14. TRADE ACCOUNTS PAYABLE

As of June 30, 2020, and December 31, 2019, this item comprises:

	2020 US$000	2019 US$000
Foreign suppliers of crude and refined products	156,763	383,873
Goods and service suppliers	80,883	212,847
National suppliers of crude and refined products	93,977	114,452
Shipping companies and operators of terminals and sales plants	28,371	27,956
	359,994	739,128

As of June 30, 2020, the main national supplier of crude is Petrotal Perú S.R.L. whose balance amounts to US $ 45,362 thousand. The main foreign supplier is Motiva Enterprises LLC, which is owed US $ 74,956 thousand (US $ 100,766 thousand as of December 31, 2019).

As of June 30, 2020, the main service providers are Consortium Cobra SCL UA&TC whose balance amounts to US $ 36,194 thousand (US $ 86,026 thousands as of December 31, 2019), Técnicas Reunidas de Talara Sociedad whose balance amounts to US $ 11,851 thousand (US $ 31,648 thousands as of December 31, 2019) and Consorcio PMC Talara whose balance amounts to US $ 6,340 thousand (US $ 9,060 thousand as of December 31, 2019).

This account reflects the Company's obligations related to the acquisition of crude oil and refined products with the transportation services of plant operation and with the acquisition of 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.

15. OTHER PROVISIONS

As of June 30, 2020, and December 31, 2019, this item comprises:

	2020 US$000	2019 US$000
Current		
Provision for Environmental improvements (a)	22,918	30,386
Provisions for labor claims	2,092	2,075
Provision for job termination	1,063	4,157
Provisions for civil claims (b)	987	512
Provision for well plugging	544	581
Provision for retirement pensions	20	43
Other provisions	149	159
	27,773	37,913
Non-current		
Provision for Environmental improvements (a)	9,503	9,544
Provision for job termination	1,978	2,112
Provision for retirement pensions	55	44
	11,536	11,700
	39,309	49,613

The movement of other provisions is as follows:

	Provision for Environment improvement US$000	Provision for civil claims US$000	Provision for labor claims US$000	Provision for Well plugging US$000	Provision for retirement pension US$000	Provision for job termination US$000	Other provisions US$000	Total - US$000
Balance as of December 31, 2019	39,930	512	2,075	581	87	6,269	159	49,613
Provision for the year (Note 21 - 22)	371	950	274	-	-	-	-	1,224
Payments	(5,516)	(440)	(71)	-	(8)	(2,938)	-	(8,973)
Reversion of unused provisions	(1,384)	-	(47)	-	-	-	-	(1,064)
Exchange rate difference	(980)	(35)	(139)	(37)	(4)	(290)	(10)	(1,491)
Balance as of June 30, 2020	32,421	987	2,092	560	75	3,041	149	39,309

a) Provision for environmental remediation and well plugging -

During the first semester 2020, no spill has been registered in the ONP, however, during 2019, the Company registered six (06) significant spills[2], which are under investigation jointly with OSINERGMIN.

[2]A significant spill is considered to be an uncontrolled spill of hydrocarbons with a volume greater than 1 barrel.

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 improvements is as follows:

	Balance as of January 1st US$000	Payments US$000	Provision and update US$000	Balance as of June 30 US$000
Year 2020+				
Lot 8	2,126	-	-	2,126
Lot X	4,106	(7)	-	4,099
Pampilla	4	(64)	-	(60)
Lubricants	118	-	-	118
North terminals	263	-	-	263
South terminals	205	-	-	205
Central terminals	1,640	-	-	1,640
Natural Gas Electric system	20	-	-	20
Total Privatized units	8,482	(71)	-	8,411
Talara operations	4,879	-	-	4,879
Conchán operations	911	-	-	911
Oil pipeline operations	21,023	(5,445)	(1,014)	14,564
Iquitos refinery operations	1,400	-	-	1,400
Commercial operations	603	-	-	603
Exploration and Exploitation management	959	-	-	959
Total Own units	29,775	(5,445)	(1,014)	23,316
Total	38,257	(5,516)	(1,014)	31,727
Exchange rates difference	1,673			694
Total	39,930			32,421

b) Provision for civil claims -

As of June 30, 2020, the Company has estimated a provision for US $ 987 hundred, which is made up of: US $ 55 thousand from an administrative process with the Higher Agency for Investment in Energy and Mining - OSINERGMIN, a process to Transgas Shipping for US $ 160 thousand and AFP's US $ 38 thousand and arbitration proceedings against Securitas for US $ 653 thousand, an arbitration process with Consorcio Consultora Energética & Amb. SAC. Lizandro Rosales Puño for US $ 92 thousand.

As of December 31, 2019, the Company has estimated a provision for US $ 512 thousand, made up of: US $ 59 thousand from an administrative process with the Higher Agency for Investment in Energy and Mining - OSINERGMIN, a process with Transgas Shipping for US $ 160 thousands and AFP's US $ 26 thousand and an arbitration processes with Securitas for US $ 653 thousand, an arbitration process with Consorcio Consultora Energética & Amb. SAC. and Lizandro Rosales Puño for US $ 93 thousand.

16. DEFERRED TAX LIABILITIES

The movement of the deferred income tax as of June 30, 2020 and December 31, 2019 is as follows:

	Balance as of January 1, 2019 US$000	Charge (credit) to income US$000	Balance as of December 31, 2019 US$000	Charge (credit) to income US$000	Balance as of June 30, 2020 US$000
Deferred assets:					
Provision for retirement pensions	29	(3)	26	(4)	22
Provision for environmental remediation	10,857	902	11,759	(2,214)	9,545
Lease liability (policy change as of January 1, 2019)	3,959	(569)	3,390	(1,956)	1,434
Other provisions	4,640	451	5,091	(3,368)	1,723
Provision for impairment of fixed assets			-	-	-
Unpaid labor liabilities		1,467	1,467	(1,467)	0
	19,485	2,248	21,733	(9,009)	12,724
Deferred liabilities:					
Attributed cost of property, plant and equipment and intangibles	(105,580)	11,069)	(94,511)	(8,869)	(103,380)
Discount Art. 57 accrued	-	(181)	(181)	181	-
Right-of-use asset (policy change as of January 1, 2019)	(3,959)	558	(3,401)	5,514	2,113
Exchange effect of non-monetary items (a)	(19,295)	20,167	872	(81,586)	(80,714)
	(128,834)	31,613	(97,221)	(84,760)	(181,981)
Net deferred liability	(109,349)	33,861	(75,488)	(93,769)	(169,257)

(a) Corresponds to the deferred tax generated by the fluctuation of the exchange rate that affects non-monetary items (mainly fixed assets) due to the fact that the Company pays income tax in a different currency (Soles) from its functional currency (US $). As of June 2020, the US dollar had a significant appreciation against the Sol generating a deferred income tax expense of US $ 81,586 thousand, while in 2019 the US dollar had a significant depreciation against the Sol, generating a deferred income tax income of US $ 20,167.

17. EQUITY

a) Share capital -

At June 30, 2020 the authorized, subscribed and paid-in share capital comprises 4,850,895,325 common shares, at one sol par value each.

Class	Number of shares	Percentage
		%
A	3,880,716,260	80
B	970,179,065	20
	4,850,895,325	100

Class "A" shares have voting rights, but they are indivisible, non-transferable and unseizable shares and may not be the target of a security interest, usufruct or any affectation.

Class "B" shares have voting rights and may be transferred through centralized negotiation mechanisms of the Stock Market.

b) Additional capital -

At the General Shareholders' Meeting held on March 29, 2019, an increase in additional share capital by US$107,597 thousand (equivalent to S/402,478 thousand) was approved, as a result of the capitalization of distributable profits for the year 2018.

c) 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 reference to the norm, the legal reserve registered as of December 31, 2019 amounts to US $ 52,115 thousand (equivalent to S / 174,720 thousand); in 2019 a legal reserve amounting to US $ 11,955 thousand (equivalent to S / 44,720 thousands), corresponding to 10% of the distributable net income of 2018, was constituted.

18. REVENUE FROM ORDINARY ACTIVITIES

This item comprises:

	For the three-month period ended on June 30		For the six-month period ended on June 30	
	2020	2019	2020	2019
	US$000	US$000	US$000	US$000
National sales	420,507	1,080,829	1,311,640	2,033,229
Derivative fuel price stabilization fund (*) (Note 9)	(13,377)	(3,886)	(31,773)	(18,770)
Income related to ordinary activities	605	990	1,302	1,450
	407,735	1,077,933	1,281,169	2,015,909
Sales abroad	28,463	132,503	139,505	260,444
	436,198	1,210,436	1,420,674	2,276,353

(*) In 2019, the Price Stabilization Fund applied to the following fuels: LPG-E, Diesel B5, Diesel B5 S-50 and industrial oil 6. According to Supreme Decree No. 007-2020-EM, published on April 21, 2020, LGP-E and Diesel B5 and Diesel S-50 are excluded as products subject to the Fuel Price Stabilization Fund, effective as of April 28, 2020.

Income from ordinary activities is recognized as defined by IFRS 15, at a point in time.

The sales are broken down as follows:

	For the three month-period ended on June 30		For the six month-period ended on June 30	
	2020	2019	2020	2019
	US$000	US$000	US$000	US$000
National sales**:**				
Various diesel	217,668	589,317	724,107	1,150,437
Gasolines	102,868	290,802	351,559	544,045
ONO Crude	44,608	-	80,482	-
Industrial oils	21,200	102,459	46,058	156,284
GLP	14,943	33,477	42,566	59,628
Turbo	4,061	27,007	16,938	53,042
Asphalt	664	16,537	10,604	27,868
Solvents	1,105	3,556	4,645	7,884
Primary Naphth and others	618	1,154	4,210	3,097
Loreto crude	-	13,624	-	13,624
Total national sales	407,735	1,077,933	1,281,169	2,015,90
Foreign sales:				
ONO crude	18,609	-	78,465	-
Various Diesel	759	41,020	18,892	95,056
Turbo	1,611	9,208	17,957	18,716
Industrial oils	481	64,349	12,679	108,535
Primary residual / crude	6,813	-	6,813	-
Gasolines	-	4,434	4,093	8,999
Asphalt	190	724	606	1,929
Virgin Naphtha	-	12,768	-	27,209
Total foreign sales	28,463	132,503	139,505	260,444
Total	436,198	1,210,436	1,420,674	2,276,353

19. COST OF SALES

This item comprises:

	For the three-month period Ended on June 30		For the six-month period ended on June 30	
	2020	2019	2020	2019
	US$000	US$000	US$000	US$000
Initial stock inventory	456,561	617,518	589,236	556,287
Purchase of crude oil, refined products and supplies	315,198	958,094	1,150,707	1,871,405
Production Operating expenses (a)	54,224	83,694	122,978	167,158
Final stock inventory	(413,562)	(556,310)	(413,562)	(556,310)
	412,421	1,102,996	1,449,359	2,038,540

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

	For the three-month period Ended on June 30		For the six-month period ended on June 30	
	2020	2019	2020	2019
	US$000	US$000	US$000	US$000
Third party services (*)	30,039	53,990	70,013	103,800
Personnel costs (Note 22)	9,590	12,386	22,486	25,371
Depreciation (Note 13)	9,010	7,287	17,982	14,753
Insurances	4,970	2,230	8,667	4,461
Depreciation of right-of-use assets	452	-	3,163	-
Other production materials and supplies	112	2,983	210	6,170
Miscellaneous management costs	1	38	22	89
Participation of workers (Note 22)	-	4,677	-	11,237
Others	50	103	435	1,277
	54,224	83,694	122,978	167,158

(*) Includes the following:

	For the three-month period Ended on June 30		For the six-month period ended on June 30	
	2020	2019	2020	2019
	US$000	US$000	US$000	US$000
Freight and land transport expenses	11,392	14,548	23,529	26,299
Maintenance and repair services	3,720	4,386	10,226	8,430
Other freight	2,758	4,787	7,204	10,363
Energy and water	1,328	5,243	3,290	11,220
Freight and shipping expenses	602	6,376	2,170	12,301
Industrial protection and safety	575	1,009	1,673	2,157
Food and lodging	721	791	1,665	1,623
Miscellaneous	8,943	16,850	20,256	31,407
	30,039	53,990	70,013	103,800

20. SELLING AND DISTRIBUTION EXPENSES

This item comprises:

	For the three-month period Ended on June 30		For the six-month period ended on June 30	
	2020	2019	2020	2019
	US$000	US$000	US$000	US$000
Personnel costs (Note 22)	4,935	6,003	11,873	12,162
Taxes (b)	1,946	4,873	6,495	9,671
Third party services (*)	1,441	2,582	3,430	5,209
Depreciation (Note 11)	1,457	2,367	2,958	4,624
Insurances	1,268	587	2,209	1,160
Materials y supplies	869	605	1,616	1,472
Miscellaneous management costs	78	241	90	346
Depreciation of right of use	31	-	64	-
Participation of workers (Note 22)	-	1,929	-	4,688
	12,025	19,187	28,735	39,332

(*) Includes the following:

	For the three-month period Ended on June 30		For the six-month period ended on June 30	
	2020	2019	2020	2019
	US$000	US$000	US$000	US$000
Maintenance and repair services	547	829	1,193	1,822
Third-party services – Miscellaneous	383	593	988	1,220
Industrial protection and safety	318	617	700	1,159
Leases	73	290	229	519
Energy and water	66	87	150	168
Travel expenses and transfers	16	99	71	193
Freight and other expenses	3	19	20	38
Food and lodging	35	48	79	90
	1,441	2,582	3,430	5,209

21. ADMINISTRATIVE EXPENSES

This item comprises:

	For the three-month period Ended on June 30		For the six-month period ended on June 30	
	2020	2019	2020	2019
	US$000	US$000	US$000	US$000
Personnel costs (Note 22)	14,276	19,164	35,545	38,403
Third party services (a)	6,978	10,678	13,538	19,791
Participation of workers (Note 22)	-	6,337	-	13,291
Sundry management charges	419	709	2,802	1,417
Depreciation (Note 13)	1,157	1,139	2,335	2,285
Taxes	826	513	2,140	2,126
Amortization	550	547	1,101	1,094
Materials and supplies	(294)	308	10	1,003
Right of use depreciation	442	-	593	-
Administrative civil and labor contingencies (Note 15)	-	295	1,224	809
Insurances	206	125	403	248
	24,560	39,815	59,691	80,467

(a) Includes the following:

	For the three-month period Ended on June 30		For the six-month period ended on June 30	
	2020	2019	2020	2019
	US$000	US$000	US$000	US$000
Maintenance and repair services	1,250	2,294	3,253	4,286
IBM Outsourcing Services	2,261	2,466	2,702	3,997
Miscellaneous	958	1,456	1,932	2,786
Industrial protection and safety	535	983	1,430	2,065
Consulting, expertise and audits	721	1,050	1,336	2,400
Freight and other freight	443	682	986	1,070
Temporary services	409	670	772	983
Bank costs	144	160	374	523
Advertising	129	411	314	588
Travel expenses and transfers	35	352	211	758
Medical services	93	154	228	335
	6,978	10,678	13,538	19,791

22. PERSONNEL CHARGES

This item comprises:

	For the three-month period Ended on June 30		For the six-month period ended on June 30	
	2020	2019	2020	2019
	US$000	US$000	US$000	US$000
Wages and salaries	13,215	15,303	26,826	30,112
Bonuses	6,287	7,563	19,296	15,081
Social contributions	3,216	6,430	8,789	12,889
Gratifications	2,364	3,094	5,155	6,170
Compensation for time of service	1,806	2,037	4,058	4,454
Vacations	1,116	1,163	2,306	2,311
Food	616	915	1,484	1,862
Overtime	115	175	379	683
Transport	60	319	312	624
Participation of the workers (Note 19,20 and 21)	-	12,943	-	29,216
Others	6	554	1,299	1,750
	28,801	50,496	69,904	105,152

23. OTHER INCOME AND EXPENSES

The other income and expenses, comprises:

	For the three-month period Ended on June 30		For the six-month period ended on June 30	
	2020	2019	2020	2019
	US$000	US$000	US$000	US$000
Other income				
Claims and / or indemnities (insurance / default)	466	2,079	1,393	10,568
Civil provisions recovery	-	1,921	-	1,921
Maritime operations services	930	840	1,626	1,625
OLE claims recovery	1,384	-	1,384	-
Fee recovery for use of the loading port in Pucallpa	183	-	472	-
Labor provisions recovery	-	3	47	84
Commercial doubtful collection provision recovery	-	24	-	24
Other income	251	1,079	481	2,328
	3,214	5,946	5,403	16,550

	For the three-month period Ended on June 30		For the six-month period ended on June 30	
	2020	2019	2020	2019
	US$000	US$000	US$000	US$000
Other expenses				
Accidents provision in the Pipeline	(371)	258	(371)	(11,960)
Net cost of disposal of assets held for sale	(6)	(75)	(30)	(293)
Provision for retirement pension	-	(3)	-	(7)
	(377)	180	(401)	(12,260)

24. INCOME TAX

Income tax expense is recognized in accordance with the Management's estimate of the expected annual income tax rate for the entire financial year. The estimated annual effective rate used for the years 2020 and 2019 is 91.03% and 25.70%, respectively.

25. CONTINGENCIES

As of June 30, 2020, and December 31, 2019, the Company has the following labor-related court actions, civil lawsuits, tax and customs claims pending resolution, which are considered possible contingencies:

	2020 US$000	2019 US$000
Civil proceedings	21,484	22,858
Tax and customs proceedings	36,416	49,324
Labor proceedings	2,425	2,589
	60,325	74,771

The movement of contingencies is detailed below:

	Balance as of January 1, 2020 US$000	Additions US$000	Deductions US$000	Balance as of June 30, 2020 US$000
Civil proceedings	22,858	100	(1,474)	21,484
Tax and customs proceedings	49,324	70	(12,978)	36,416
Labor proceedings	2,589	-	(164)	2,425
	74,771	170	(14,616)	60,325

26. BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

The calculation at June 30, 2020 and 2019, of earnings (losses) per basic and diluted share shows the same value as there are no shares with dilutive effect, is as follows:

	Income US$000	Weighted average of outstanding shares (in thousands)	Earnings per share
As of June 30, 2020			
Basic and diluted earnings per share	(196,776)	4,850,895	(0.041)
As of June 30, 2019			
Basic and diluted earnings per share	115,080	4,448,416	0.026

27. GUARANTEES AND COMMITMENTS

Guarantees and performance bonds -

As of June 30, 2020, the Company maintains performance bonds issued by local financial institutions in favor of suppliers for S/ 96,823 thousand and for US$ 33,695 thousand.

Guarantees related to financial obligations are disclosed in Note 14.

28. 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 PETROPERÚ S.A., 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.

29. SUBSEQUENT EVENTS

During the first months of 2020, a spread of the COVID-19 virus has been observed globally. In Peru, as a consequence of this, during the months of March, April, May, June, July and August 2020, the Government issued Supreme Decrees No. 044-2020-PCM, No. 051-2020-PCM, No. 064-2020-PCM, No.075-2020-PCM, No.083-2020-PCM, No.094-2020-PCM, No.116-2020-PCM, No.135-2020-PCM and No.146-2020-PCM, through which a state of national emergency and mandatory social isolation (quarantine) was ordered until September 30, 2020, due to the risks of the virus for the population. The aforementioned supreme decrees establish restrictions in the field of commercial and cultural activities, and recreational activities, hotels and restaurants. However, the Company has continued with its operations, because Supreme Decree No. 044-2020-PCM guarantees the supply of food and the provision of health services, as well as the continuity of other industries; In this sense, as the Company, is dedicated to the refining and commercialization of fuel, it is considered as a complementary and related service for the acquisition, production and supply of food and the provision of health services and, therefore, is linked to the productive chain of goods and services that cannot be paralyzed, as they are considered essential.

The financial sustainability of the Company is based on the high commercialization of its products in the market, which today is affected only by social isolation, therefore for the Company this situation represents a temporary event, which has already been normalized with the return to the highest traffic as of the month of July 2020; therefore, the Company considers that this situation will not affect its long-term plans, the fulfillment of financial obligations and the assessment of recoverability of its Cash Generating Units. The Company recognizes that uncertainty regarding crude prices remains, however; the fall in the oil price does not significantly affect business results in realization, since the Company obtains its profit based on the net refining margin, however it does affect the value of inventories.

To date, the state of emergency has significantly affected the Company's revenues and costs in 2020 due to a lower volume of purchases and sales and due to variations in local and international prices of crude oil and refined products; however, the flows make it possible to cover their fixed costs and the variables incurred, and the improvement in their results is due to the greater transit of the population as of July 1, 2020.

The accounts receivables are guaranteed by bank guarantees, so the increased risk of impairment of accounts receivable with customers is covered.

In the first half of June, the construction work in the PMRT has been gradually restarted, strictly complying with the safety and health protocols, approved and established in the surveillance, prevention and control plans of COVID-19, for Petroperú workers, contractors and subcontractors. The project has, as of August 31, 2020, an advance of 90.39%, to date the impacts on time and cost of the project are being evaluated due to the effect of the state of emergency.

On the other hand, in August 2020, the Company decided to accept the assignment of 75% stake in the License Agreement for Lot 64, held by Geopark Perú S.A.C., because in July the company notified PETROPERÚ S.A. that it irrevocably chose to exercise the option to withdraw from the License Agreement.

After June 30, 2020 and the date of approval of the financial statements, no other events have occurred, in addition to the one mentioned in the preceding paragraphs, that require adjusting the items of the financial statements as of June 2020 or be disclosed in their notes.