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PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2020 (UNAUDITED), DECEMBER 31, 2019 AND
SEPTEMBER 30, 2019 (UNAUDITED)

Gaveglio Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.
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CONTENTS

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

January 12, 2021

Introduction

We have reviewed the accompanying condensed interim financial statements of **Petróleos del Perú - PETROPERÚ S.A.** at September 30, 2020, which comprise the condensed interim statements of comprehensive income, changes in equity and cash flows for the nine-month periods ended September 30, 2020 and 2019, and a summary of significant accounting policies and other explanatory notes from 1 to 28. Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" issued by the International Accounting Standards Board. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" approved for application in Peru by the Board of Deans of Institutes of Peruvian Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily with the personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements of **Petróleos del Perú - PETROPERÚ S.A.** at September 30, 2020 and for the nine-month periods ended September 30, 2020 and 2019 have not been prepared, in all material respects, in accordance with International Accounting Standard 34 - "Interim Financial Reporting" issued by the International Accounting Standards Board.

Gaveglio Aparicio y Asociados

Countersigned by

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

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

ASSETS	Nota	At September 30, 2020 US$000 (Unaudited)	At December 31, 2019 US$000
Current assets			
Cash and cash equivalents	8	154,321	375,699
Trade receivables	9	247,995	362,632
Other receivables	10	151,846	168,627
Other financial assets at amortized cost	10	36	5,364
Inventories	11	356,122	654,419
Other assets		1,875	4,259
Total current assets		912,195	1,571,000
Non-current assets			
Other receivables	10	407,414	363,609
Property, plant and equipment	12	5,628,732	5,094,563
Investment properties		9,561	9,569
Intangible assets		37,094	36,773
Right-of-use assets		9,042	11,527
Total non-current assets		6,091,843	5,516,041
TOTAL ASSETS		7,004,038	7,087,041

LIABILITIES AND EQUITY	Nota	At September 30, 2020 US$000 (Unaudited)	At December 31, 2019 US$000
Current liabilities			
Other financial liabilities	13	1,261,832	1,009,994
Trade payables	14	553,015	739,128
Other payables		65,803	139,318
Provisions	15	28,880	37,913
Lease liabilities		5,426	8,811
Total current liabilities		1,914,956	1,935,164
Non-current liabilities			
Other financial liabilities	13	3,201,502	3,153,745
Provisions	15	11,487	11,700
Deferred income tax liabilities		82,291	75,488
Lease liabilities		2,146	2,682
Total non-current liabilities		3,297,426	3,243,615
Total liabilities		5,212,382	5,178,779
Equity	16		
Share capital		1,445,586	1,445,586
Additional capital		153,857	-
Legal reserve		69,210	52,115
Retained earnings		123,003	410,561
Total equity		1,791,656	1,908,262
TOTAL LIABILITIES AND EQUITY		7,004,038	7,087,041

The attached notes from pages 7 to 42 form part of the condensed interim financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Nota	For the nine-month period ended September 30, 2020 US$000 (Unaudited)	2019 US$000 (Unaudited)
Revenue from ordinary activities	17	2,199,199	3,449,318
Other operating revenue		57,733	62,463
Total revenue		2,256,932	3,511,781
Cost of sales	18	(2,120,632)	(3,113,836)
Gross profit		136,300	397,945
Selling and distribution expenses	19	(43,073)	(55,983)
Administrative expenses	20	(95,904)	(114,011)
Other income	22	9,154	23,297
Impairment of assets	12	(71,446)	-
Other expenses	22	(6,838)	(12,348)
Total operating expenses		(208,107)	(159,045)
(Loss) profit from operating activities		(71,807)	238,900
Finance income		17,081	13,766
Finance costs		(26,701)	(26,533)
Exchange difference, net		(28,376)	(4,670)
(Loss) profit before income tax		(109,803)	221,463
Income tax expense	23	(6,803)	(76,385)
Net (loss) profit for the period		(116,606)	145,078
Other comprehensive income		-	-
Total comprehensive (loss) income for the period		(116,606)	145,078
(Loss) earning per basic and diluted share	25	(0.015)	0.033

The attached notes from pages 7 to 42 form part of the condensed interim financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2020 AND 2019

	Number of shares	Share capital US$000	Additional capital US$000	Legal reserve US$000	Retained earnings US$000	Total equity US$000
Balances at January 1, 2019	4,448,416,995	1,337,989	-	40,160	359,161	1,737,310
Comprehensive income:						
Profit and other comprehensive income for the period	-	-	-	-	145,078	145,078
Total comprehensive income	-	-	-	-	145,078	145,078
Transactions with shareholders:						
Transfer to additional capital and legal reserve	-	-	107,597	11,955	(119,552)	-
Total transactions with shareholders	-	-	107,597	11,955	25,526	-
Balance at September 30, 2019 (unaudited)	4,448,416,995	1,337,989	107,597	52,115	384,687	1,882,388
Balances at January 1, 2020	4,850,895,325	1,445,586	-	52,115	410,561	1,908,262
Comprehensive income:						
Profit and other comprehensive income for the period	-	-	-	-	(116,606)	(116,606)
Total comprehensive income	-	-	-	-	(116,606)	(116,606)
Transactions with shareholders:						
Transfer to additional capital and legal reserve	-	-	153,857	17,095	(170,952)	-
Total transactions with shareholders	-	-	153,857	17,095	(287,558)	(116,606)
Balance at September 30, 2020 (unaudited)	4,448,416,995	1,445,586	153,857	69,210	123,003	1,791,656

The attached notes from pages 7 to 42 form part of the condensed interim financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Nota	For the nine-month period ended September 30, 2020 US$000 (Unaudited)	2019 US$000 (Unaudited)
OPERATING ACTIVITIES			
Net cash provided by operating activities		259,645	652,903
Interest payment	13	(17,892)	(32,824)
Income tax payment		(6,554)	(22,509)
Net cash provided by operating activities		235,199	597,570
INVESTING ACTIVITIES			
Value added tax early refund related to investing activities	11	56,398	33,215
Value added tax related to investing activities		(54,358)	(67,320)
Payment for purchase of property, plant and equipment		(621,792)	(519,442)
Capitalized interest payment		(72,572)	(78,162)
Payment for purchase of intangible assets		(1,976)	(3,313)
Retirement of investment in other financial assets at amortized cost		5,328	1,156,000
Investment in other financial assets at amortized cost		-	(637,000)
Net cash applied to investing activities		(688,972)	(116,022)
FINANCING ACTIVITIES			
New loans from financial institutions	13	2,070,232	2,461,722
New CESCE loan	13	40,111	-
Payment of loans to financial institutions	13	(1,858,312)	(3,198,384)
Payments for right of use of assets under lease		(9,768)	(12,384)
Net cash provided by (applied to) financing activities		242,263	(749,046)
Net decrease in cash and cash equivalents		(211,510)	(267,498)
Effect of changes in exchange rate on cash		(9,868)	131
Cash and cash equivalents at beginning of period		375,699	528,700
Cash and cash equivalents at end of period		154,321	261,333
NON-CASH TRANSACTIONS FROM FINANCING AND INVESTMENT ACTIVITIES			
- Unpaid accrued interest	13	49,885	13,198
- Work in progress payable		77,889	107,371
- Profit capitalization	17	153,857	107,597
- Right-of-use asset and lease liability		5,847	18,237

The attached notes from pages 7 to 42 form part of the condensed interim financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Nota	For the nine-month period ended September 30, 2020 US$000 (Unaudited)	2019 US$000 (Unaudited)
Net (loss) profit for the period		(116,606)	145,078
Adjustments to reconcile the (loss) profits for the period to cash from operating activities:			
Provisions	16	-	11
Provision for contingencies	16	1,344	950
Provision for plugging and environmental remediation	16	371	11,960
Provision for job termination	15	2,207	-
Depreciation	12	34,966	33,779
Impairment of assets	12	71,446	
Amortization		1,656	1,641
Depreciation of right-of-use assets		8,332	12,181
Estimate for expected loss of trade receivables		117	9
Estimate for obsolescence of inventories		4,122	-
Deferred income tax		6,803	6,952
Effect on adjustment of unrealizable exchange gains and losses		9,868	(131)
		24,626	212,430
Net changes in operating assets and liabilities:			
Trade receivables		114,520	110,289
Other receivables		(27,598)	187,075
Inventories		294,175	(7,295)
Other assets		2,384	(5,974)
Trade payables		(132,321)	83,901
Other payables		(16,141)	72,477
Net cash provided by operating activities		259,645	652,903

The attached notes from pages 7 to 42 form part of the condensed interim financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM FINANCIAL STATEMENTS
AT SEPTEMBER 30, 2020 (UNAUDITED), DECEMBER 31, 2019 AND
SEPTEMBER 30, 2019 (UNAUDITED)

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"). In addition, through the second final provision of Law No. 28840 and the Supreme Resolution No. 290-92-PCM, the Company was included within the scope of the process of private investment promotion, and any other regulation opposing Law No.28840.

The Company's activities are governed by its Organic Law approved under Legislative Decree No. 043, its Bylaws, Law 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 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, the Spanish acronym) 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 September 30, 2020 and December 31, 2019 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 Peru (“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 decided to accept the assignment of the 75% stake in the License Agreement for Lot 64, held by Geopark Perú S.A.C., because in July it notified PETROPERÚ S.A. that irrevocably chose to execute the option to withdraw from the License Agreement. Geopark, in its capacity as Operator, will continue to operate the Block 64 until a new resolution is issued granting Petroperú the 100% concession, therefore it will continue to attribute 25% of these expenses to Petroperú on a monthly basis.

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 8th, 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 N°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 Management, Refining Management and Commercial 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 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 Peru 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 September 30, 2020 the fuel price stabilization fund was applied to the following fuel items: GLP-E, Diesel B5, Diesel B5 S-50 and industrial petroleum 6. This fund representing -1.5% (contribution) of the Company's total revenue (-0.4% of total revenue in 2019).

With Supreme Decree No. 007-2020-EM, published on April 21, 2020, GLP-E and Diesel B5 and Diesel S-50 are excluded as products subject to the Fund for the Stabilization of Fuel Prices, effective as of April 28, 2020.

d) Approval of financial statements -

The condensed intermim financial statements for nine-month period ended September 30, 2020 have been issued with the authorization of General Management on January 8, 2021. The financial statements at December 31, 2019 were approved at the General Shareholders' Meeting dated July 31, 2020.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The condensed interim financial statements for the nine-month period ended September 30, 2020 and 2019 have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34) issued by the International Accounting Standards Board (IASB)."

Information on the statement of financial position at December 31, 2019 and its related notes are derived from the audited financial statements at that date.

The condensed interim financial statements unaudited are based on the respective accounting records and are prepared under the historical cost convention, except for derivative financial instruments, which are measured at fair value. The condensed interim financial statements are presented in thousands of United States Dollars, unless otherwise stated. The applied accounting policies are consistent with those applied at 2019 year-end and comparative interim period.

The unaudited condensed interim financial statements do not include all the information and disclosures required for annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the IASB.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in the applicable standards from January 1, 2020 -

The following standard and amendments are mandatory for the first time for the period that began on January 1, 2020:

- Revised Conceptual Framework.

  The Revised Conceptual Framework was published in March 2018 and amend some concepts from the previous framework. Among the main changes are (i): clarification that one of the major objectives of the financial statements is evaluating performance of those who manage an entity’s resources; (ii) reincorporation of the concept of prudence; (iii) update of the definition of assets and liabilities and their criteria of recognition and (iv) it is expressly stated that the statement of income is the principal source of information on the performance of an entity.

  The Revised Conceptual Framework is effective from the date of publication and can be used in the analysis underlying the publication of new IFRS. The Revised Conceptual Framework does not modify any of the existing IFRS; however, if an entity developed an accounting practice based on the previous Conceptual Framework, it will need to apply the new concepts from January 1, 2020 and confirm whether its policy continues to be appropriate.

- Definition of Material - Amendments to IAS 1 and IAS 8.

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

  The Company has assessed the impact of the Revised Conceptual Framework and the amendments to IAS 1 and IAS 8 and considers that they have not had an impact on the financial statements as of September 30, 2020.

  Likewise, other standards and modifications have been published that, due to the nature of its activities, the Company considers that they are not applicable.

3.2 Significant accounting policies -

The significant accounting policies are consistent with those used in the annual financial statements for the year ended December 31, 2019, as described in them, except for the accounting treatment of the income tax for the interim period at the tax rate that is expected to be effective on the estimated future annual taxable profit or loss (see Note 4 and Note 23). The income tax expense is recognized at each interim period at Management´s best estimate of the income tax rate expected to be effective at year-end. Management considers that the accrued income tax amount for the interim period can be adjusted over a subsequent interim period of a same year, whenever the annual income tax rate estimate changes.

4 SIGNIFICANT CHANGES IN CURRENT PERIOD

During the first months of 2020, the COVID-19 virus spread worldwide. In Peru, as a consequence of this, during the months of March to December 2020, the Government issued a series of supreme decrees declaring a state of national emergency until January 1 of 2021, due to the risks that the virus implies for the population. The aforementioned supreme decrees established 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, the Company, since it is dedicated to the refining and commercialization of fuel, is considered as a complementary and related service for the acquisition, production and supply of food and the provision of health services and that, therefore, is linked to the productive chain of goods and services that cannot be paralyzed, as they are considered essential.

In addition, the financial and operational sustainability of the Company is based on the high commercialization of its products in the market, which is currently affected mainly by social isolation. However, this emergency situation represents an adverse temporary event for the Company, which has already been normalized with the return to the greatest traffic from July 2020; therefore, the Company considers that the current situation does not affect its long-term plans, compliance with financial obligations and the assessment of the recoverability of its assets.

The financial position and performance of the Company were particularly affected by the aforementioned situation during the nine-month period ended September 30, 2020, as explained below:

- As of September 30, 2020, the state of emergency has significantly affected the Company's revenues and costs as a result of a lower volume of purchases and sales. The Company recognizes that uncertainty regarding crude prices remains, however; the price drop of oil does not significantly affect the results of the business, because the Company obtains its profit based on the net refining margin, however, it affects the value of inventories, due to variations in local and international prices of crude oil and refined products, this 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 by the COVID 19 virus. However, as it represents a temporary situation for companies in the hydrocarbon sector, this will be overcome with greater population traffic, greater demand and the consequent recovery in prices, which to date is already occurring progressively.

- The decrease in inventories and trade accounts receivable is related to the lower volume of purchases and therefore sales during the period; in addition, accounts receivable are guaranteed by bank guarantees, therefore the increase in the risk of impairment of accounts receivable with its customers is significantly mitigated.

- Decrease in cash and cash equivalents corresponds to the lower volume of sales during the period, as well as the disbursements for investments in the PMRT, for which the Company also obtained higher short-term bank financing.

- The increase in non-current assets is mainly due to the investments made in the PMRT presented in the property, plant and equipment category. In the first half of June, construction work of the PMRT was progressively 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 September 30, 2020, an advance of 90.89%. To date, the impacts on time and cost of the project due to the state of emergency are being evaluated. The Company considers that the stoppage of some construction activities of the project during the period was not significant.

5 ESTIMATES AND CRITICAL ACCOUNTING CRITERIA

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

In preparing the condensed interim financial statements, the critical judgements and estimates made by Management in applying its accounting policies and assessing the sensitive information required for estimating uncertainties were the same as those used in the financial statements for the year ended December 31, 2019, except for changes in the estimates that are needed to determine the provision for income tax.

Income tax -

In determining the income tax for the interim periods, Management uses the effective tax rate that would be applicable to the expected annual profit or loss for the interim periods (see Note 3.2 and Note 23), that require Management to exercise judgement in estimating those expected results for tax purposes.

The Company performed a sensitivity analysis on the income tax expense for interim periods based on estimates of the income tax rate expected to be effective at year-end. If the income tax rate had been +/- 5% other that Management's estimates, the Company would have needed to increase / decrease the income tax expense by US$340 thousand for the nine-month period ended September 30, 2020 (US$3,819 thousand for the nine-month period ended September 30, 2019).

Given the current Covid-19 public health crisis, the Company has analyzed the relevant assumptions and estimates to ensure their proper accounting as of September 30, 2020 in the current context, which are described below:

Impairment test of assets of the CGU Oil Pipeline Operations -

As a result of the current health emergency, the Company has deemed it appropriate to perform the impairment test of the CGU Oil Pipeline Operations (Norperuano Pipeline). The recoverable amount exceeded the carrying amount, therefore no impairment was required to recognize for this CGU, taking into account that the operations of this CGU did not have significant stoppages. since it is linked to the productive chain of goods and services that cannot be paralyzed, and its activity is considered essential, therefore this stage of national emergency represents a short-term problem for the Company, which does not affect its long-term plans.

Impairment test of Talara Refinery Modernization Project (PMRT) -

As a result of the current health emergency, the Company has deemed it appropriate to perform the impairment test of the PMRT. The recoverable amount determined by the Company was below the asset's carrying amount, therefore an impairment loss of US$71,446 thousand was recognized (Note 12-b). Despite the impairment loss, the project continues to be strategic for the Company's future operations and it is expected that the variables to which the recoverable value is sensitive, which had an adverse impact in the current context, will get better in the short or medium term.

Net realizable value of inventories -

The main activity of the Company is the Refining and commercialization of products derived from crude oil, and its cost is comparable with the market value, in application of IAS 2 "cost or net realizable value" the lower. The inventory turnover ratio has been affected in this emergency period, as a result of the higher stock and lower sales volume, however the Company continues to operate and has not stopped selling and rotating its products; in addition the Company has modified the plan of their purchases at the level of demand for their products and have been able to sustain sufficient sales prices to ensure the profitability of their products; for this reason, it was not necessary to recognize an impairment in inventories as a result of the estimate of the net realizable value.

Expected loss of trade receivable -

The current public health crisis is creating increased credit risk for clients as a result of the financial difficulties they are experiencing. The Company's exposure to the credit risk of its clients was the subject of a specific analysis for the accounts receivable that are maintained; however, trade accounts receivable are guaranteed with bank guarantees, therefore the increased risk of impairment of accounts receivable with its clients is significantly covered, then the Company considers that trade accounts receivable include the potential expected losses in the current context and conditions.

6 FINANCIAL RISK MANAGEMENT

6.1 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.

The condensed interim financial statements do not include all the financial risk management information and disclosures that are required in the annual financial statements; they should be read together with the Company's annual financial statements at December 31, 2019.

6.2 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 impacted significantly the exchange difference, net for the nine-month period ended September 2020 considering the current of global economic and health crisis.

6.3 Liquidity risk -

Management 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.

The Company is sufficiently creditworthy in market terms to be able to obtain borrowings from prime-rated financial institutions (local financial institutions with no default history). Also, the Company develops new bank relations to be able to have committed credit lines available at any time. However, given the current global uncertainty, due to the economic and health crisis that the country and the world are experiencing due to the COVID-19 pandemic, there is a risk that Banks may revise the terms of the lines of credit already granted (short-term financing which may not be refinanced. The Company takes this risk.

At September 30, 2020, the Company maintains revolving credit lines with local and foreign banks for a total of US$2,987,599 thousand, of which US$1,645,417 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.

As of September 30, 2020, current liabilities exceed current assets by US$1,002,761 thousand, which is mainly due to the decrease in cash due to the consumption of the fund balance obtained with the issuance of Bonds and CESCE loan used to settle the liabilities related to the PMRT works, the increase in short-term financing to finance the PMRT, and the decrease in the value of inventories, due to the fall in international prices. 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. In this sense, the Company considers that the cash flows from its operations and the short-term revolving credit lines granted by local and foreign banks up to an amount of US$2,987,599 thousand will allow it to maintain enough cash to meet its obligations and deal the negative working capital.

6.4 Capital risk management -

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), less cash and cash equivalent. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The Company re-confirmed the investment grade given by credit rating agencies: Standard & Poor´s (BBB- on the long-term debt), Fitch Ratings (BBB+ on the foreign currency long-term debt and A- on local currency), as well as the AA- rating issued by local agency Apoyo & Asociados Internacionales S.A.C.(Fitch Ratings representative) (AA-(pe)) for long-term debt.

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

	2020 **US$000** **(Unaudited)**	**2019** **US$000**
Other financial liabilities	4,463,334	4,163,739
Less: Cash and cash equivalents and fixed time deposits	(154,357)	(381,063)
Net debt (A)	4,308,977	3,782,676
Total equity (B)	1, 791,656	1,908,262
Total capital (A+B)	6,100,633	5,690,938
Ratio (A/(A+B))	0.71	0.64

The increase in gearing ratio at September 30, 2020, is explained by the decrease in equity due to the loss of the period; in addition for the increase in short-term loans and the decrease in cash and cash equivalents, both for the use in the settlement of the investments in the PMRT.

7 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:

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

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 trading (*) US$000	Oil Pipeline operations US$000	Leased and privatized units US$000	Total US$000
At September 30, 2020 (Unaudited)				
Assets:				
Current	640,800	250,567	20,828	912,195
Non-current	5,668,365	229,534	193,944	6,091,843
	6,309,165	480,101	214,772	7,004,038
Liabilities:				
Current	1,844,098	36,894	33,964	1,914,956
Non-current	3,279,982	17,444	-	3,297.426
	5,124,080	54,338	33,964	5,212.382
At 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 gas station, commercial area and main office.

c) Statement of comprehensive income by segments -

	Production and trading (*) US$000	Oil Pipeline operations US$000	Leased and privatized units US$000	Total US$000
For the nine-month period ended September 30, 2020 (Unaudited)				
Revenue from ordinary activities	2,199,099	100	-	2,199,199
Other operating revenue	20,284	18,761	18,688	57,733
Total revenue	2,219,383	18,861	18,688	2,256,932
Cost of sales	(2,076,948)	(39,651)	(4,033)	(2,120,632)
Transfers	(5,888)	5,888	-	-
Gross profit (loss)	136,547	(14,902)	14,655	136,300
Selling and distribution expenses	(40,288)	-	(2,785)	(43,073)
Administrative expenses	(88,122)	(7,782)	-	(95,904)
Impairment of assets	(71,446)	-	-	(71,446)
Other income and expenses	1,487	829	-	2,316
Operating profit (loss)	(61,822	(21,855)	11,870	(71,807)
Financial, net	(30,503)	(7,482)	(11)	(37,996)
Profit (loss) before income tax	(61,822)	(29,337)	11,859	(109,803)
Income tax	(8,327)	765	759	(6,803)
Net profit (loss) for the period	(100,652)	(28,572)	12,618	(116,606)
For the nine-month period ended September 30, 2019 (Unaudited)				
Revenue from ordinary activities	3,435,300	14,018	-	3,449,318
Other operating revenue	15,829	14,960	31,674	62,463
Total revenue	3,451,129	28,978	31,674	3,511,781
Cost of sales	(3,072,721)	(37,082)	(4,033)	(3,113,836)
Transfers	(11,908)	11,908	-	-
Gross profit (loss)	366,500	(3,804)	27,641	397,945
Selling and distribution expenses	(50,391)	(2)	(5,590)	(55,983)
Administrative expenses	(101,705)	(12,306)	-	(114,011)
Other income and expenses	11,797	(848)	-	10,949
Operating profit (loss)	226,201	(9,352)	22,051	238,900
Financial, net	(16,080)	(1,352)	(5)	(17,437)
Profit (loss) before income tax	210,121	(10,704)	22,046	221,463
Income tax	(72,474)	3,692	(7,603)	(76,385)
Net profit (loss) for the period	137,647	(7,012)	14,443	145,078

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

d) Revenue by geographical area -

For the nine-month period ended September 30, revenue by geographical segment is based on the customers' geographical location:

	2019 US$000 (Unaudited)	2018 US$000 (Unaudited)
Peru	2,063,262	3,124,776
Other countries	193,670	387,005
	2,256,932	3,511,781

8 CASH AND CASH EQUIVALENTS

At September 30, 2020 and December 31, 2019, this item comprises:

	2020 US$000 (Unaudited)	2019 US$000
Checking accounts (a)	153,247	374,621
Liquidity funds (b)	1,050	1,050
Fixed funds	24	28
	154,321	375,699

(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 0.10% and 0.30%.

(b) At September 30, 2020, liquidity funds are short-term instruments in foreign institutions with variable return around 0.18% % (1.79% and 3.30% at December 31, 2019) and are immediately available without a defined maturity date, which will be used in PMRT investment activities in the subsequent months.

9 TRADE RECEIVABLES

At September 30, 2020 and December 31, 2019, this item comprises:

	2020 US$000 (Unaudited)	2019 US$000
Wholesalers	148,430	217,200
Oil companies	31,757	23,167
Mining industry	25,689	44,830
Fuel traders	17,836	27,929
Armed Forces and National Police Force	11,184	11,037
Construction industry	3,651	4,372
Electric power industry	2,963	543
Maritime businesses	1,657	4,057
Transport industry	1,612	2,537
Aviation business	1,591	6,341
Industrial sector	616	962
Fuel Price Stabilization Fund - Ministry of Energy and Mines (Note 1-c)	-	9,796
External market	-	4,562
Fishing industry	-	2,406
Other customers	1,008	2,892
Other wholesalers doubtful accounts	6,006	6,270
	254,001	368,902
Expected loss of trade receivables	(6,006)	(6,270)
	247,995	362,632

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, with this the credit risk is covered.

Price Stabilization Fund - Ministry of Energy and Mines -

At September 30, 2020 and December 31, 2019 the total amount receivable from the General Hydrocarbons Agency (DGH) amounted to US$15,754 thousand and US$27,290 thousand, respectively, generated from compensations and contributions transactions that includes a legal recourse ("Demanda de Amparo") recorded in a Claims account for US$16,123 thousand (US$17,494 thousand at December 31, 2019), classified as other long-term receivables (Note 10) and the amount payable (contribution) for US$369 miles, presented in other account payable, (US$9,796 thousand receivable for compensation at December 31, 2019).

For the nine-month period ended September 30, 2020, the movement of the total balance of the Price Stabilization Fund item is explained as follows:

	US$000 (Unaudited)
Opening balance	9,796
Price compensation	1,336
Price contribution	(34,871)
Net credited to revenue from ordinary activities (Note 17)	(33,535)
Contribution generated by import of products	(9,236)
Collection and payment of compensation and / or contribution	32,560
Exchange difference	46
Closing balance	(369)

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 current public health crisis is creating increased credit risk for clients as a result of the financial difficulties they are experiencing. However, trade receivables are guaranteed with bank guarantees, therefore, the increase in the risk of impairment of trade receivables with its customers is significantly covered. In that sense the Company considers that trade receivables include the potential expected loss in the context and current economic conditions as a result of the health crisis.

The rates of expected credit losses are based on the payment profiles of sales over a 12-month period before September 30, 2020 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 expected loss at September 30, 2020 and December 31, 2019 was determined as follows:

	2020			2019		
	Expected loss rate	Gross carrying amount	Expected loss	Expected loss rate	Gross carrying amount	Expected loss
	% (Unaudited)	US$000 (Unaudited)	US$000 (Unaudited)	%	US$000	US$000
Current	0.00	207,727	3	0.01	352,178	33
From 1 to 30 days	0.09	11,915	11	0.62	35	-
From 31 to 60 days	0.09	787	1	-	-	-
From 61 to 90 days	0.11	855	1	-	-	-
From 91 to 120 days	0.12	1,109	1	1.55	39	1
From 121 to 150 days	0.14	824	1	4.66	57	2
From 151 to 180 days	0.30	818	2	4.71	6	-
From 181 to 210 days	0.33	1,092	4	8.65	4	-
From 211 to 240 days	0.42	1,207	5	-	-	-
From 241 to 270 days	0.54	2,606	14	-	-	-
From 271 to 300 days	0.83	16,020	132	-	-	-
From 301 to 330 days	100	-	-	-	-	-
From 331 to 360 days	100.00	4	4	100.00	6	6
More than 360 days	100.00	5,827	5,827	100.00	6,222	6,228
Total (*)		250,791	6,006		358,547	6,270

(*) It does not include the Price Stabilization Fund.

For the nine-month period ended September 30, 2020 the movement in the provision for expected loss of trade receivables is as follows:

	US$000 (Unaudited)
Opening balance	6,270
Expected loss for the period/year (Note 19)	117
Exchange difference	(381)
Closing balance	6,006

Management considers that the estimate for the expect loss recognized in the financial statements and the guarantees obtained are sufficient to cover the eventual risk of recovery of trade receivables at the date of the statement of financial position.

Trade receivables that are past due but not impaired are related to independent customers with which performance bonds and/or de balances owed have been reconciled and are expected to be collected in the short term.

10 OTHER RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTIZED COST

At September 30, 2020 and December 31, 2019, this item comprises:

	2020 US$000 (Unaudited)	2019 US$000
Current		
Tax credit - VAT (a)	100,378	122,042
Assets for derivative financial instruments	22,526	11,784
Advances granted to suppliers	17,425	12,754
Payments for return of association investment with GeoPark	3,906	4,996
Loans to personnel	2,942	12,322
Loans	2,432	2,543
Others	2,237	2,186
Doubtful claims to municipalities and others	34,629	35,954
	186,475	204,581
Expected loss of other receivables (e)	(34,629)	(35,954)
Current portion	151,846	168,627
Non-current		
Tax credit - VAT, long-term (b)	375,947	329,405
Price Stability Fund Claims - Ministry of Energy and Mines (Note 1-c) (c)	16,123	17,494
Claims against tax authorities - SUNAT (d)	8,113	8,802
Other long-tern taxes	7,231	7,908
Non-current portion	407,414	363,609
Other financial assets at amortized cost		
Fixed time deposits	36	5,364

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

At September 30, 2020, it mainly corresponds to the Value Added Tax credit (IGV in Peru) of operations for US$27,895 thousand, Value Added Tax of the PMRT for an amount of US$20,075 thousand, tax credit for payments on account of income tax US$31,732 miles and Excise Tax (ISC in Peru) for US$20,676 thousand, which will be recovered in the short term from operations and under the VAT anticipated recovery regime.

At September 2020, SUNAT made the return of VAT for US$92,102 thousand (equivalent to S/319,966 miles), that were requested by the Company through the VAT anticipated recovery regime and balance in favor of the exporter, for which they recovered US$56,398 thousand (equivalent to S/197,196 thousand) and US$ 35,703 thousand (equivalent to S/122,770 thousand), respectively.

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

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$145,950 thousand and the VAT for operations amounting US$229,997 thousand. This credit balance of tax credit has no expiry date. The Company expects to recover this tax credit through 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, at 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 null, which declared the claim inadmissible and ordered that the judge of first instance issue a new resolution in accordance to the exposed. As of September 30, 2020, the Second Constitutional Court of Lima is pending to issue a Judgment.

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 that amounts to US$16,387 thousand at September 30, 2020 (US$17,494 thousand at December 31, 2019).

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

These processes are related to claims against SUNAT for 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.

In November 2012, the Company paid a total US$8,651 thousand (equivalent to S/29,197 miles), in respect of a number of tax determination and tax penalty resolutions involving allegedly unpaid excise tax (ISC) and VAT (IGV) for fiscal 2007. At September 30, 2020, this action remains to be resolved by Courtroom 4 of the Peruvian Tax Tribunal, under File N°17806-2012. The Company and its legal counsel have high expectations of obtaining a favorable outcome., based on the resolution of other similar claims that were favorable. The expected refund is equivalent to US$8,113 thousand at the closing exchange rate.

(e) Expected loss on 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.

For the nine-month period ended September 30, 2020, the movement of the provision for expected loss is as follows:

	US$000 (Unaudited)
Opening balance	35,954
Exchange difference	(1,325)
Closing balance	34,629

11 INVENTORIES

At September 30, 2020 and December 31, 2019, this item comprises:

	2020 US$000 (Unaudited)	**2019 US$000**
Crude oil	92,517	49,798
Refined products:		
In-process	49,875	214,796
Finished	99,100	253,035
Acquired refined products	80,291	71,606
In-transit inventories	8,818	45,933
Supplies	30,123	20,253
	360,724	655,421
Less - Provision for obsolescence of supplies	(4,602)	(1,002)
	356,122	654,419

At September 30, 2020, the cost of inventories recognized as expenses and included in the cost of sales amounted to US$1,935,970 thousand (US$2,867,301 thousand at September 30, 2019) which are equivalent to cost of sales less operating expenses of production (Note 18).

At September 30, 2020, the crude oil price had a decreasing trend, with a closing price of US$ 40.22 per barrel (US$54.09 per barrel at September 30, 2019). The average price during September 2020 was US$39.60 per barrel (US$54.84 per barrel at September 30, 2019).

For the nine-month period ended September 30, 2020, the movement of the provision for obsolescence of supplies is explained as follows:

	US$000 (Unaudited)
Opening balance	(1,002)
Obsolescence of supplies	(4,122)
Recovery	522
Closing balance	(4,602)

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 September 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

This item comprises:

	Land	Buildings and others constructions	Machinery and equipment	Vehicles	Furniture and fixtures	Other and computer equipment	Equipment not in use	Work 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
At January 1, 2020										
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
Period 2020 (Unaudited)										
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	-	-	-	22	-	-	-	632,386	8,302	640,710
Transfers	-	3,238	7,257	44	73	139	-	(10,751)	-	-
Disposals	-	-	-	-	-	-	(3,268)	-	-	(3,268)
Reclassifications	-	-	(725)	(50)	(39)	(1,365)	2,179	-	-	-
Depreciation for the period	-	(4,131)	(25,885)	(1,917)	(388)	(2,636)	-	-	-	(34,957)
Depreciation of disposals	-	-	-	-	-	-	3,268	-	-	3,268
Transfers of depreciation	-	-	600	39	39	1,363	(2,041)	-	-	-
Impairment of assets	-	-	-	-	-	-	-	(71,446)	-	(71,446)
Adjustments	-	-	-	-	-	-	(138)	-	-	(138)
Closing balance of net book cost	204,162	101,194	444,071	19,703	1,504	28,471	-	4,787,224	42,403	5,628,732
At September 30, 2020 (Unaudited)										
Costo	204,162	204,441	878,995	37,741	6,080	61,747	5,298	4,858,670	42,403	6,299,537
Accumulated depreciation	-	(103,247)	(434,615)	(18,038)	(4,576)	(33,276)	(4,974)	-	-	(598,726)
Accumulated impairment	-	-	(309)	-	-	-	(324)	(71,446)	-	(72,029)
Net cost	204,162	101,194	444,071	19,703	1,504	28,471	-	4,787,224	42,403	5,628,732

At September 30, 2020, Work in progress includes mainly Talara Refinery Modernization Project – PMRT, which status is described as follows -

- **Overall progress -**

• Overall physical progress of PMRT: 90.89% Real

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. Later, since June 15, 2020, the works in the PMRT have been progressively restarted, after complied with the protocols approved and established in the Plan for Surveillance, Prevention and Control of COVID-19 of the PMRT. The terms of the PMRT works due to the National State of Emergency are being evaluated with the main contractors. Borrowing cost has continued to be capitalized considering that this temporary stoppage has not been extended.

To date, the Level 3 Rev. 9 Schedule of the Process Units EPC Contract with Técnicas Reunidas Contractor has been approved, impacted by the effect of the National State of Emergency associated with COVID-19; the updating of the Schedule of the EPC UA&TC Contract with the contractor Consorcio Cobra SCL UA&TC is in process and the updating of the programmed progress curves of the PMRT is also in process.

The table below shows a breakdown of the estimated total cost of project compared to the disbursements incurred:

	September 30, 2020		Total Budget	
	Disbursements	Progress percentage	Planned	Total percentage
	US$000	%	US$000	%
Técnicas Reunidas (TR) -				
Processing units	2,710,514	91.79	2,953,068	55.77
Consorcio Cobra SCL -				
Auxiliary units	619,067	78.67	786,949	14.86
Complementary work	236,516	69.64	339,635	6.41
Others -				
Supervising	276,236	86.33	319,994	6.04
Management	164,915	65.18	240,180	4.54
Contingencies	-	-	60,181	1.14
Interest of financing	484,960	81.44	595,495	11.25
	4,492,208		5,295,502	100.00

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

• The progress of the EPC contract with Consorcio Cobra SCL UA&TC is 75.87% Real vs. 93.30% Scheduled.

• Cobra SCL UA&TC has registered progress in the activities of Engineering, Procurement and Construction (EPC), according to detail:

  • Progress of engineering was 96.07% Real.
  • Progress of Procurement was 86.35% Real.
  • Progress of construction was 66.43% Real.

• At September 30, 2020, the accumulated executed amount is US$737.57 million.

- ***Progress of EPC Processing units - Contract with Técnicas Reunidas (TR) -***

- The progress of the EPC contract with TR is 95.12% Real vs. 94.60% Scheduled.

- TR has registered progress in the activities of Construction, according to detail:

    - Progress of engineering was: 100%.
    - Progress of Procurement: 99.92% Real vs 99.93% Schedule.
    - Progress of construction: 93.99% Real vs 93.03% Schedule.

- At September 30, 2020, the accumulated executed amount is US$2,689.58 million.

- ***Management -***

Financial structure of the PMRT:

- Capital contribution for US$325,000 thousand.
- Own resources for US$671,000 thousand.
- International bond placement of up to US$2,000,000 thousand, placed in June 2017.
- CESCE loan US$1,300,000 thousand. In January 2018 CESCE loan was signed. In November 2018 a drawdown of US$1,236,717 thousand was completed.
- Loans from the Corporate Internationalisation Fund (FIEM): US$200,000 thousand (in structuring process).
- Bond or loan placement of up to US$714,500 thousand (in structuring process).

PMC (Project Management Consultancy):

- The service of Project monitoring continues to be provided by Consorcio PMC Talara (CPT).

PMO (Project Management Office):

- The service of Project management office and decision making provided by Consorcio Deloitte Talara ended.

The gradual reactivation of construction activities as of September 30, 2020 meant the gradual incorporation of approximately 5,800 people on site (as of June 30, 2020, 1,921 people were reported on site).

- ***Social management and community relations -***

Local labor plan ("Plan de Mano de Obra Local"):

At September 30, 2020 the total work force consisted of 7,782 job positions. The share of local unqualified labor was 96% (from a total of 845 unqualified labor), above the limit set in the EIA (70%), while the share of local qualified labor was 40% (from a total of 6,937 qualified labor).

Others related works to the project:

- Modular hospital donation.
- Improvement of the "Cono Norte" road (Section: Victor Raúl Bridge - A.H. Jesús María).
- Municipal Solid Waste Cleaning Service in Critical Points of the City of Talara, within the framework of the PRC of the EIA of the PMRT.
- Construction of underground cisterns equipped to provide a greater number of hours of water service in the Pariñas district of the Talara province, Piura department -IOARR.
- Bankability.
- Communication and Citizen Participation Program.

Depreciation -

For the nine-month period ended September 30, 2020 and 2019 the depreciation charge to profit or loss on property, plant and equipment is allocated to the following cost centers:

	2020 US$000 (Unaudited)	2019 US$000 (Unaudited)
Cost of sales (Note 17) (*)	27,018	23,450
Selling and distribution expenses (Note 18)	4,377	6,835
Administrative expenses (Note 19)	3,562	3,486
	34,957	33,771

(*) Not including the depreciation of investment properties for nine-month period ended September 30, 2020 amounts to US$9 thousand (US$8 thousand in 2019).

Impairment of assets -

a) Cash-generating units (CGUs) -

At September 30, 2020, the Company has deemed it appropriate to perform the impairment test of the CGU Oil Pipeline operations ("Operaciones ONP or ONP"), based on internal and external information and the decrease in the results of 2020, considers that there are certain indications that the assets of the Oil Pipeline operations CGU may 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 2020 prepared by Management.

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

	Oil Pipeline Operations
Annual growth rate (%)	16%
Budgeted gross margin (%)	41%
Prices ($)	7
Discount rate (%)	12.58%

The annual growth rate corresponds to annual growth rate compound income during the period 2020 - 2029. The average growth rates used are consistent with the actual performance of the CGU and with the Company's forecasts. Growth in the projections of 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 risk-adjusted rate is pre-tax and reflects the specific risks associated with the business of the CGU.

At September 30, 2020, the Company has estimated that the recoverable value of the Oil Pipeline CGU amounts to US$316,041 thousand, while the carrying amount of the assets amounts to US$219,592 thousand.

At September 30, 2020, the Company has determined that it is not necessary to record an impairment provision in the case of the Oil Pipeline CGU.

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 respect, the pre-tax discount rate used by the Company to estimate the recoverable amount was 12.58%. If the discount rate on the Oil Pipeline CGU had been 15.47%, the recoverable amount would be equal to the book value.

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

Key assumption	Variation	Impairment loss US$000
Budgeted annual growth	-5%	(7,302)
Prices	-5%	-
Budgeted gross margin	-5%	-

b) Talara Refinery Modernization Project (PMRT) -

At September 30, 2020, 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.

- 23-year including construction period projection horizon and a perpetuity. The perpetuity cash flow projections consider no growth rate in the long term of 1.8%. The Company considers it appropriate to use a projection period of 23 years since it has the support information for these purposes.
- Projections do not include cash inflows or outflows from financing activities.
- 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 PIRA 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 PIRA 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 (%)	26%
Prices ($)	77
Average discount rate (%)	7.11%

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 past performance, 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 September 30, 2020 the Company has estimated that the recoverable value of the PMRT amounts to US$4, 509,515 miles thousand, while the carrying amount of assets amounts to US$4, 580,961 thousand. Consequently, the Company has determined an impairment for US$71,446 thousand at the date of the statement of financial position, which has been recognized in the statement of comprehensive income as impairment of assets. 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.

Sensitivity analysis -

Management performs a sensitivity analysis to determine the effect of changes in the assumptions used in the valuation model. The average post-tax discount rate used by the Company was 7.11% in determining the recoverable amount. When changing the discount rate to 7.38%, a total impairment of US$74,674 thousand. would be required to recognize.

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

Key assumption	Variation	Impairment loss US$000
Budgeted annual growth	-1%	(151,450)
Prices per year	-1%	(336,237)
Budgeted annual margin	-1%	(138,504)
Production	-1%	(133,086)

The recoverable amount would be equal to the carrying amount if the key assumptions used were increased as shown below:

Key assumption	Variation
Budgeted annual growth	+0.9%
Prices per year	+0.3%
Budgeted annual margin	+1.1%
Production	+1.2%

If the discount rate had been 7.30%, the recoverable amount would be equal to the book value.

13 OTHER FINANCIAL LIABILITIES

At September 30, 2020 and December 31, 2019, this item comprises:

	2020 US$000 (Unaudited)	2019 US$000
Current liabilities		
Unsecured loans	1,211,947	1,000,027
Accrued interest	49,885	9,967
	1,261,832	1,009,994
Non-current liabilities		
Corporate bonds (i)	1,986,463	1,986,078
CESCE loan (ii)	1,215,039	1,167,667
	3,201,502	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. Transactional costs totaled US$7,009 thousand, which are presented 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. Transactional costs totaled US$7,402 thousand, which are presented net of the liability.

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, 2018 a drawdown of US$1,236,717 thousand was obtained, which was used to settle other sources of financing used in settling PMRT invoices, relating to the EPC with Técnicas Reunidas. Transactional costs consist of the drawdown commission of US$61,880 thousand and other structuring costs of US$12,815 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%.

During 2020 was received US$40,111 thousand. The remaining drawdown at September 30, 2020 is US$23,172 thousand and is expected to be received during the last quarter of 2020.

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 September 30, 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	At September 30, 2020 Nominal value US$000 (Unaudited)	At September 30, 2020 Carrying amount US$000 (Unaudited)	At Deciember 31, 2019 Nominal value US$000	At Deciember 31, 2019 Carrying amount US$000
Unsecured loans	Sol	0.74% - 1.75%	2020	156,986	156,986	403,191	403,191
Unsecured loans	Dollar	0.55% - 3.24%	2020	1,054,961	1,054,961	596,836	596,836
CESCE loan	Dollar	3.29%	2031	1,276,828	1,215,039	1,236,717	1,167,667
Corporate bonds	Dollar	4.75%	2032	1,000,000	993,670	1,000,000	993,372
Corporate bonds	Dollar	5.63%	2047	1,000,000	992,793	1,000,000	992,706
Accrued interest				-	49,885	-	9,967
				4,488,775	4,463,334	4,236,744	4,163,739

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

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

At September 30, 2020 and December 31, 2019, the Company allocated or will allocate the funds obtained by financing, as follows:

	2020 US$000	2019 US$000
Working capital	996,932	1,000,027
PMRT	3,466,402	3,153,745
	4,463,334	4,153,772

(*) Not including accrued interest payable.

c) Movement of financial liabilities -

The movement of these balances was as follows:

	Bank loans without guarantee US$000	Corporate bonds US$000	CESCE loan US$000	Total US$000
Balance at January 1, 2020	1,002,982	1,990,069	1,170,688	4,163,739
New loans	2,070,232	-	40,111	2,110,343
Payments of principal	(1,858,312)	-	-	(1,858,312)
Accrued interest	21,098	78,055	38,875	138,028
Interest paid	(17,892)	(51,875)	(20,697)	(90,464)
Balance at September 30, 2020 (unaudited)	1,218,108	2,016,249	1,228,977	4,463,334

14 TRADE PAYABLES

At September 30, 2020 and December 31, 2019, this item comprises:

	2020 US$000 (Unaudited)	2019 US$000
Foreign suppliers of crude and refined products	300,897	383,873
Suppliers of goods and services	124,195	212,847
National suppliers of crude and refined products	100,542	114,452
Shipping companies and terminal operators and sales plants	27,381	27,956
	553,015	739,128

At September 30, 2020, the main local supplier of crude is Refinería La Pampilla S.A.A. with a balance of US$26,631 thousand (US$14,386 thousand at December 31, 2019). The main international supplier is Motiva Enterprises LLC with a balance of US$121,717 thousand (US$100,766 thousand at December 31, 2019).

At September 30, 2020, main service providers are Consorcio Cobra SCL UA&TC with a balance of US$38,622 thousand (US$86,026 thousand at December 31, 2019), Técnicas Reunidas de Talara S.A.C. with a balance of US$24,285 thousand (US$31,648 thousand at December 31, 2019) and Consorcio PMC Talara, with a balance of US$14,071 thousand (US$9,060 thousand at December 31, 2019).

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; and project construction services. The invoices are issued in U.S. dollars, are of current maturity, are non-interest bearing and have no specific guarantees.

15 PROVISIONS

At September 30, 2020 and December 31, 2019, this item comprises:

	2020 US$000 (Unaudited)	2019 US$000
Current -		
Provision for environmental improvements (a)	22,457	30,386
Provision for civil lawsuit (b)	973	512
Provision for labor-related court actions	2,049	2,075
Provision for plugging of wells	536	581
Provision for termination (c)	2,699	4,157
Other provisions	166	202
	28,880	37,913
Non-current -		
Provision for environmental improvements (a)	9,493	9,544
Provision for termination (c)	1,946	2,112
Other provisions	48	44
	11,487	11,700
	40,367	49,613

The movement of provisions is as follows:

	Provision for environmental improvements US$000	Provision for civil lawsuits US$000 (Unaudited)	Provision for labor-related court actions US$000 (Unaudited)	Provision for plugging of wells US$000 (Unaudited)	Provision for termination US$000 (Unaudited)	Other provisios US$000 (Unaudited)	Total US$000 (Unaudited)
Balance at January 1, 2020	39,930	512	2,075	581	6,269	246	49,613
Provision for the period (Note 19 and 22)	371	950	394	-	2,207	-	3,922
Payments	(5,796)	(440)	(202)	-	(3,510)	(14)	(9,962)
Reversal of unused provisions	(1,384)	-	(49)	-	53	-	(1,380)
Exchange difference	(1,171)	(49)	(169)	(45)	(374)	(23)	(1,826)
Balances at December 31, 2020 (Unaudited)	31,950	973	2,049	536	4,645	214	40,367

(a) Provision for environmental improvements and plugging wells costs -

At September 30, 2020, the Company reported one oil spill in km 731+163.5 Olmos of the Section II of ONP in September 8, 2020, which was reported to OEFA and OSINERGMIN, through the company EO-RS JOSCANA SAC, transport and disposal of hazardous waste were carried out for a total of 569.29TM.

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 detailed below:

	Balances at January 1	Payments	Provision and financial cost	Balances at September 30
	US$000	US$000 (Unaudited)	US$000 (Unaudited)	US$000 (Unaudited)
Año 2020				
Block 8	2,126	-	-	2,126
Block X	4,106	(33)	-	4,073
Pampilla	4	(72)	-	(68)
Lubricants	118	-	-	118
Northern terminals	263	-	-	340
Southern terminals	205	(23)	-	105
Mid-country terminals	1,640	-	-	1,640
Natural Gas Electric system	20	-	-	20
Total privatized units	8,482	(128)	-	8,354
Operations in Talara	4,879	-	-	4,879
Operations in Conchán	911	-	-	911
Operations in Oleoducto	21,023	(5,668)	(1,013)	14,354
Operations in Iquitos Refinery	1,400	-	-	1,400
Commercial operations	603	-	-	603
Management Exploration and Exploitation	959	-	-	959
Total own units	29,775	(5,668)	(1,013)	23,106
Total	38,257	(5,796)	(1,013)	31,460
Exchange difference	1,673			490
Total	39,930			31,950

(b) Provision for civil claims -

At September 2020, the Company has estimated a provision of US$973 thousand (equivalent to S/3,503 thousand), of which: US$54 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”, a Transgasshipping process for US$160 thousand (equivalent to S/574 thousand) and AFP’s US$25 thousand (equivalent to S/91 thousand) and an arbitral proceeding to Securitas for US$643 thousand (equivalent to S/2,313 thousand), an arbitral proceeding to Consorcio Consultora Energética & Amb. S.A.C., and Lizandro Rosales Puño for US $91 thousand (equivalent to S/329 thousand).

(c) Provision for termination -

Comprising the voluntary separation program by mutual agreement for indefinite-term personnel of the Company started in 2019. The Company has made an estimate considering the benefits granted to certain workers for the termination of the employment contract held with the Company.

16 EQUITY

a) Share capital and additional capital -

At September 30, 2020, the authorized, subscribed and paid-in share capital comprises 4,850,895,325 common shares at S/1 par value each.

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

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

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

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

At the General Shareholders’ Meeting held on July 31, 2020 an increase in capital by US$153,857 thousand (equivalent to S/ 517,517 thousand) was approved, as a result of the capitalization of distributable profits reported for 2019, which as of September 30, 2020 is classified in the additional capital item as the issuance and subscription of the respective shares is pending.

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 September 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), I which corresponds to 10% of the distributable profits for 2019.

17 REVENUE FROM ORDINARY ACTIVITIES

This item comprises:

	For the nine-month period ended September 30,	
	2020	**2019**
	US$000 (Unaudited)	**US$000 (Unaudited)**
Local sales	2,037,543	3,080,078
Price Stabilization Fund (*) (Note 9)	(33,535)	(21,289)
Revenue from ordinary activities	1,521	3,524
	2,005,529	3,062,313
Foreign sales	193,670	387,005
	2,199,199	3,449,318

(*) In 2020, the Price Stabilization Fund applied to the following products: GLP-E, Diesel B5, Diesel B5 S-50 and industrial oil 6. With Supreme Decret N°007-2020-EM, published at April 21, 2020, was excluded GLP-E, Diesel B5 and Diesel S-50 as products subject to the Price Stabilization Fund, effective from April 28, 2020.

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

Sales are broken down as follows:

	For the nine-month period ended September 30,	
	2020	2019
	US$000 (Unaudited)	US$000 (Unaudited)
Local sales:		
Diesel - others	1,110,003	1,750,869
Gasoline	520,486	835,342
ONO Crude	196,436	-
Industrial oil	63,820	228,308
GLP	62,146	87,495
Turbo	22,714	78,691
Asphalt	17,546	48,409
Solvent	7,268	11,665
Primary Naphtha and others	5,109	7,910
Loreto Crude	-	13,624
Total local sales	2,005,529	3,062,313
Foreign sales:		
Industrial oil	35,921	162,479
ONO Crude	92,197	-
Diesel - others	32,786	126,388
Turbo	20,985	27,314
Primary residual / crude	6,813	-
Gasoline	4,094	15,741
Asphalt	874	2,850
Virgin Naphtha	-	52,233
Total foreign sales	193,670	387,005
Total	2,199,199	3,449,318

18 COST OF SALES

This item comprises:

	For the nine-month period ended September 30,	
	2020	2019
	US$000 (Unaudited)	US$000 (Unaudited)
Opening balance of inventory of goods	589,236	556,287
Purchase of crude oil, refined products and supplies	1,668,517	2,867,047
Operating expenses of production(a)	184,662	246,535
Closing balance of inventory of goods	(321,783)	(556,033)
	2,120,632	3,113,836

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

	For the nine-month period ended September 30,	
	2020	2019
	US$000 (Unaudited)	US$000 (Unaudited)
Third-party services (*)	102,055	147,673
Labor costs (Note 21)	33,488	38,189
Depreciation (Note 12)	27,027	23,458
Insurance	13,688	6,733
Depreciation of right-of-use asset	7,271	11,169
Other materials and production supplies	7,687	7,687
Other management charges	38	241
Workers' profit sharing (Note 21)	-	10,058
Others	564	1,327
	184,662	246,535

(*) This item is composed of:

	For the nine-month period ended September 30,	
	2020	2019
	US$000 (Unaudited)	US$000 (Unaudited)
Ground transport freight and expenses	37,159	41,836
Maritime transport freight and expenses	2,087	5,755
Other freights	10,661	15,217
Maintenance and repair services	13,101	12,653
Energy and water	4,765	16,067
Industrial protection and safety	2,823	3,197
Food and lodging	2,181	2,390
Others	29,278	50,558
	102,055	147,673

19 SELLING AND DISTRIBUTION EXPENSES

This item comprises:

	For the nine-month period ended September 30,	
	2020	2019
	US$000 (Unaudited)	US$000 (Unaudited)
Personnel charges (Note 21)	17,747	18,311
Taxes	9,680	14,444
Third-party services (*)	5,238	7,743
Depreciation (Note 12)	4,377	6,835
Insurance	3,486	1,750
Materials and supplies	2,006	2,132
Other management charges	330	497
Expected loss of receivables (Note 9)	117	(1)
Workers' profit sharing (Note 21)	-	4,197
	43,073	55,983

(*) Includes the following:

	For the nine-month period ended September 30,	
	2020	2019
	US$000 (Unaudited)	US$000 (Unaudited)
Maintenance and repair services	1,650	2,589
Other third-party services	1,487	2,157
Industrial protection and safety	1,281	1,673
Rentals	380	720
Travel and transfer expenses	87	283
Energy and water	217	260
Freight and other expenses	25	61
Food and lodging	111	-
	5,238	7,743

20 ADMINISTRATIVE EXPENSES

This item comprises:

	For the nine-month period ended september 30,	
	2020	2019
	US$000 (Unaudited)	US$000 (Unaudited)
Personnel charges (Note 21)	55,640	58,969
Third-party services (a)	20,739	28,937
Workers' profit sharing (Note 21)	-	11,897
Other management charges	8,380	2,490
Depreciation (Note 12)	3,562	3,486
Taxes	2,738	3,097
Amortization	1,656	1,640
Administrative civil and labor contingencies (Note 15)	1,344	961
Depreciation of right-of-use asset	968	937
Insurance	610	377
Materials and supplies	267	1,220
	95,904	114,011

(a) Includes the following:

	For the nine-month period ended september 30,	
	2020	2019
	US$000 Unaudited)	US$000 (Unaudited)
Maintenance and repair services	4,349	6,921
IBM outsourcing services	4,113	5,350
Advisory, appraisal and audits	3,600	3,671
Others services	2,669	3,094
Industrial protection and safety	1,918	3,004
Freight and other freight	1,364	1,609
Temporary services	1,065	1,667
Travel and transfer expenses	225	1,132
Advertising	446	1,114
Bank expenses	631	887
Medical services	359	489
	20,739	28,937

21 PERSONNEL CHARGES

This item comprises:

	For the nine-month period ended September 30,	
	2020	2019
	US$000 (Unaudited)	US$000 (Unaudited)
Wages and salaries	39,428	45,304
Workers' profit sharing (Note 18,19 y 20)	-	26,152
Bonuses	29,392	23,062
Social contributions	12,710	18,518
Statutory bonuses	8,827	10,291
Employees' severance indemnities	5,613	6,558
Vacations	3,331	3,482
Feeding	2,236	2,831
Overtime	556	971
Transportation	397	940
Others	4,385	3,512
	106,875	141,621
Number of staff employed at September 30	2,525	2,784

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

	For the nine-month period ended september 30,	
	2020	2019
	US$000 (Unaudited)	US$000 (Unaudited)
Cost of sales (Note 18)	33,488	48,247
Selling expenses and distribution (Note 19)	17,747	22,508
Administrative expenses (Note 20)	55,640	70,866
	106,875	141,621

22 OTHER INCOME AND EXPENSES

This item comprises:

	For the nine-month period ended September 30,	
	2020	2019
	US$000 (Unaudited)	US$000 (Unaudited)
Other income -		
Claims and / or compensation (insurance / default)	2,777	14,883
Recovery of provision for civil claim	-	1,921
Maritime operations services	2,516	2,448
Fee recovery for use of the loading port in Pucallpa	660	-
Labor provision recovery	49	96
Recovery of losses in oil pipeline	1,384	-
Others	1,768	3,949
	9,154	23,297

	For the nine-month period ended September 30, 2020 US$000 (Unaudited)	2019 US$000 (Unaudited)
Other expenses -		
Obsolescence of supplies	(4,122)	-
Provision for losses in oil pipeline (Note 15 - a)	(371)	(11,960)
Voluntary termination program (Note 15)	(2,207)	-
Net cost of disposal of assets held for sale	(138)	(377)
Other provisions	-	(11)
	(6,838)	(12,348)

23 INCOME TAX

Income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for fiscal years 2020 and 2019 is -6% and 34%, respectively.

The 2020 tax rate of -6% is caused by the exchange rate fluctuation that affects temporary items arising from non-monetary items (mainly property, plant and equipment) and determination of the current taxable base for income tax due to that the Company pays income tax in a different currency (Sol) than its functional currency (US$). In 2020, the United States dollar has an unusual significant appreciation with respect to the Sol, as a result of the national and international economic situation, which has modified the effective rate significantly compared to 2019. The tax rate at which the Company is affected according to the Income tax law is 29.5%.

24 CONTINGENCIES

At September 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 (Unaudited)	2019 US$000
Civil	21,344	22,858
Tax and customs claims	33,761	49,324
Labor-related	2,386	2,589
	57,491	74,771

The movement of contingencies is detailed below:

	Balance at January 31, 2020 US$000	Additions US$000 (Unaudited)	Deductions US$000 (Unaudited)	Balance at September 30, 2020 US$000 (Unaudited)
Civil	22,858	100	(1,614)	21,344
Tax and customs claims (*)	49,324	102	(15,665)	33,761
Labor-related	2,589	-	(203)	2,386
	74,771	170	(17,482)	57,491

(*) In 2020, the Company decided to pay tax contingencies of a possible qualification to SUNAT to benefit from the gradual regime without losing the right to continue with the appeal.

25 BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

The calculation for the nine-month period ended September 30, 2020 and 2019 of earnings per basic and diluted share shows the same value as there are no shares with dilutive effect is as follows:

	(Loss) / profit US$000	Weighted average number of common shares (thousand)	(Losses) / Earnings per share
For the nine-month period ended September 30, 2020 (Unaudited)			
Basic and diluted losses per share	(116,606)	4,850,895	(0.024)
For the nine-month period ended September 30, 2019 (Unaudited)			
Basic and diluted earnings per share	145,078	4,448,416	0.033

26 GUARANTEES AND COMMITMENTS

Guarantees and performance bonds -

At September 30, 2020 the Company has given performance bonds backed by local financial institutions to suppliers for a total US$34,797 thousand and S/100,669 thousand.

Guarantees related to borrowings are disclosed in Note 13.

27 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.

Compensation of the Company's key management was as follows:

	For the nine-month period ended september 30,	
	2020 US$000 Unaudited)	2019 US$000 (Unaudited)
Short-term employee benefits:		
Salaries of key management (Excluding remuneration of Directors)	3,643	5,112
Remuneration of Directors (all of which are non - executives)	154	119

There were no post-employment benefits, long-term benefits, termination benefits and share-based payments in 2020 and 2019.

28 SUBSEQUENT EVENTS

Between September 30, 2020 and the date of approval for release of these condensed interim financial statements, no significant events have occurred that may require additional disclosures or adjustments other than those already reported.