

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS (“QIBs”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, AS AMENDED (THE “SECURITIES ACT”)) OR (2) NON-U.S. PERSONS (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) OUTSIDE THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum following this page, and you are advised to read this important notice carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR A SOLICITATION OF AN OFFER TO BUY SECURITIES BY ANY PERSON IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE SECURITIES DESCRIBED IN THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA (THE “EEA”). FOR THESE PURPOSES, A “RETAIL INVESTOR” MEANS A PERSON WHO IS ONE (OR MORE) OF THE FOLLOWING: (I) A RETAIL CLIENT, AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, “MIFID II”); (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97 (AS AMENDED, THE “INSURANCE DISTRIBUTION DIRECTIVE”), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT, AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN REGULATION (EU) 2017/1129 (AS AMENDED, THE “PROSPECTUS REGULATION”). CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (AS AMENDED, THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE SECURITIES OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE SECURITIES OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

THE SECURITIES DESCRIBED IN THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE UNITED KINGDOM (“UK”). FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (8) OF ARTICLE 2 OF REGULATION (EU) NO 2017/565 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUROPEAN UNION (WITHDRAWAL) ACT 2018 (“EUWA”); (II) A CUSTOMER WITHIN THE MEANING OF THE PROVISIONS OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (AS AMENDED, THE “FSMA”) AND ANY RULES OR REGULATIONS MADE UNDER THE FSMA TO IMPLEMENT DIRECTIVE (EU) 2016/97, WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (8) OF ARTICLE 2(1) OF REGULATION (EU) NO 600/2014 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUWA; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN ARTICLE 2 OF REGULATION (EU) 2017/1129 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUWA (THE “UK PROSPECTUS REGULATION”). CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUWA (THE “UK PRIIPS REGULATION”) FOR OFFERING OR SELLING THE SECURITIES OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE UK HAS BEEN

PREPARED AND THEREFORE OFFERING OR SELLING THE SECURITIES OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE UK MAY BE UNLAWFUL UNDER THE UK PRIIPS REGULATION.

IN THE UK, THE FOLLOWING OFFERING MEMORANDUM IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT, QUALIFIED INVESTORS (AS DEFINED IN THE UK PROSPECTUS REGULATION) WHO ARE (I) PERSONS HAVING PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AS AMENDED, THE "ORDER"), OR (II) HIGH NET WORTH ENTITIES AND OTHER PERSONS TO WHOM IT MAY BE LAWFULLY BE COMMUNICATED FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). THE SECURITIES ARE ONLY AVAILABLE TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE THE SECURITIES IN THE UK WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. ANY PERSON IN THE UK WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THE OFFERING MEMORANDUM OR ANY OF ITS CONTENTS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF SUCH DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the offering memorandum or make an investment decision with respect to the securities, investors must be either (1) QIBs or (2) non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the United States. The offering memorandum is being sent at your request and by accepting the e-mail and accessing the offering memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons (within the meaning of Regulation S under the Securities Act) and that the electronic mail address that you gave us and to which the offering memorandum has been delivered is not located in the United States, and (2) that you consent to delivery of such offering memorandum by electronic transmission.

You are reminded that the offering memorandum has been delivered to you on the basis that you are a person into whose possession the offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the offering memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction.

The offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently neither the initial purchasers, nor any person who controls them nor any of their directors, officers, employees nor any of their agents nor any affiliate of any such person accept any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the initial purchasers.



PETRÓLEOS DEL PERÚ – PETROPERÚ S.A.

U.S.\$1,000,000,000 5.625% Notes due 2047

We are offering U.S.\$1,000,000,000 aggregate principal amount of our 5.625% Notes due 2047 (the “Notes”). Interest on the Notes will accrue at a rate of 5.625% per year and will be payable semi-annually in arrears on June 19 and December 19 of each year, commencing on June 19, 2021. The Notes will mature on June 19, 2047. The Notes will constitute a further issuance of, and be consolidated, form a single series and be fully fungible with, our outstanding U.S.\$1,000,000,000 5.625% Notes due 2047 originally issued on June 19, 2017 (the “Original Notes”). After giving effect to the issuance of the Notes offered hereby, the total principal amount of our 5.625% Notes due 2047 outstanding will be U.S.\$2,000,000,000.

The Notes will be our general unsecured obligations. The Notes will rank senior in right of payment to all of our future subordinated indebtedness and equal in right of payment with all of our present and future unsubordinated indebtedness, other than in the case of certain obligations that may be preferred by provisions of law that are mandatory and of general application.

We may redeem the Notes, at our option, in whole or in part, at any time, by paying the greater of (1) 100.0% of the outstanding principal amount of the Notes to be redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) on the Notes to be redeemed discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined under “Description of the Notes—Redemption”) plus 45 basis points, in each case, plus accrued and unpaid interest thereon, if any, to the date of redemption. In addition, if certain changes in applicable tax law occur and apply to us, we may redeem the Notes, at our option, in whole but not in part, at any time, at 100.0% of the outstanding principal amount of the Notes, plus accrued and unpaid interest due thereon, to the date of redemption. See “Description of the Notes—Redemption.”

Upon the occurrence of a Change of Control Event (as defined under “Description of the Notes”), the holders of the Notes will have the right to require that we make a Change of Control Offer (as defined under “Description of the Notes”) for all or any part of the Notes at a purchase price in cash equal to 101% of the principal amount of the Notes plus accrued and unpaid interest, if any, to the date of purchase. See “Description of the Notes—Change of Control.”

See “Risk Factors” beginning on page 24 for a discussion of certain risks you should consider in connection with an investment in the Notes.

Issue Price per Note: 114.718% plus accrued interest from December 19, 2021 to February 11, 2021, the date on which we expect to deliver the Notes, in the aggregate amount of U.S.\$8,125,000, and any additional interest if settlement occurs after February 11, 2021.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any other jurisdiction. The Notes are being offered or sold only to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act (“Rule 144A”) and to non-U.S. persons in offshore transactions in reliance on Regulation S (“Regulation S”) under the Securities Act. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A or Regulation S. For a description of certain restrictions on the transfer of the Notes, see “Plan of Distribution” and “Transfer Restrictions.”

We do not intend to register the Notes or this offering memorandum with the Peruvian Securities Market Superintendency (*Superintendencia del Mercado de Valores*, the “SMV”) or the Lima Stock Exchange (*Bolsa de Valores de Lima*, or the “BVL”). Accordingly, the Notes cannot be offered or sold in Peru unless such offering is considered a private offering under the securities laws and regulations of Peru. The Notes may not be offered or sold in Peru or any other jurisdiction except in compliance with the securities laws thereof.

We intend to apply for the listing and quotation of the Notes on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). The SGX-ST assumes no responsibility for the correctness of any of the statements made, or opinions expressed or reports contained in this offering memorandum. Admission of the Notes to the Official List of the SGX-ST and the quotation of the Issuer on the SGX-ST are not to be taken as an indication of the merits of the issuer or the Notes.

The delivery of the Notes will be made to investors in book-entry form through the facilities of The Depository Trust Company (“DTC”), for the accounts of its direct and indirect participants, on or about February 11, 2021.

Joint Bookrunners

HSBC

J.P. Morgan

Santander

The date of this offering memorandum is February 4, 2021.

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NOTICE TO INVESTORS

In this offering memorandum, unless otherwise indicated or the context otherwise requires, all references to:

- “Petroperu,” “our company,” “we,” “our,” “us” or similar terms are to Petróleos del Perú—Petroperú S.A.;
- “Peru” are to the Republic of Peru; and
- “Initial Purchasers” are to HSBC Securities (USA) Inc., J.P. Morgan Securities LLC and Santander Investment Securities Inc., in their capacities as initial purchasers of the Notes.

See also “Glossary of Technical, Regulatory and Other Terms” for the definitions of certain other terms used in this offering memorandum.

This offering memorandum is highly confidential and has been prepared solely for use in connection with the proposed offering of the Notes described herein. This offering memorandum does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes. This offering memorandum may only be used for the purpose for which it has been prepared. We reserve the right to withdraw this offering of the Notes at any time, and we and the Initial Purchasers reserve the right to reject any commitment to purchase the Notes, in whole or in part, for any reason. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Notes.

This offering memorandum is based on information provided by Petroperu and other sources that Petroperu believes to be reliable. After having made all reasonable inquiries, Petroperu confirms that the information contained in this offering memorandum is true and correct in all material respects, that the opinions and intentions expressed in this offering memorandum are honestly held, that there are no other facts the omission of which would make this offering memorandum as a whole misleading, and that Petroperu accepts responsibility for this offering memorandum accordingly. This offering memorandum contains summaries of certain documents, which summaries are believed to be accurate, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of certain documents referred to herein will be made available to prospective purchasers of the Notes, free of charge, upon request to Petroperu or at the offices of any paying agent.

Neither we nor the Initial Purchasers or any of their respective affiliates have authorized any other person to provide you with different information or to make any representation not contained in this offering memorandum, and neither we nor the Initial Purchasers take any responsibility for any other information that others may give to you. You should assume that the information contained in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum (or such earlier date as may be specified in this offering memorandum). Our business, financial condition, results of operations and prospects may have changed since such dates. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstance imply that the information contained herein is correct as of any date after the date of this offering memorandum (or such earlier date as may be specified in this offering memorandum).

The Initial Purchasers and their respective affiliates make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. You should not rely upon the information contained in this offering memorandum as a promise or representation by any of the Initial Purchasers or any of their respective affiliates or advisors whether as to the past, present or future.

The Notes have not been and will not be registered under the Securities Act. For the sale of the Notes in the United States, we and the Initial Purchasers are relying upon an exemption from registration under the Securities Act. Neither the SEC nor any U.S. state securities commission has approved or disapproved of these securities or determined if this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

Neither we nor the Initial Purchasers are making an offer to sell the Notes in any jurisdiction except where such an offer and sale is permitted. This offering memorandum is not an offer to sell the Notes and neither we nor the Initial Purchasers are soliciting an offer to buy the Notes in any jurisdiction where the offer or sale is not permitted.

By purchasing Notes, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Transfer Restrictions.” As a prospective purchaser of the Notes, you should be aware that you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

We intend to apply for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering memorandum. Admission of the Notes to the Official List of the SGX-ST and the quotation of the Issuer on the SGX-ST are not to be taken as an indication of the merits of the Issuer or the Notes. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if any Note issued in the form of a registered note in global form is exchanged for a note in physical, certificated form, the Issuer will appoint and maintain a paying agent in Singapore, where the certificated notes may be presented or surrendered for payment or redemption. In addition, if any Note issued in the form of a registered note in global form is exchanged for a note in physical, certificated form, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the certificated notes, including details of the paying agent in Singapore. The Notes will be traded on the SGX-ST in a minimum board lot size of SGD\$200,000 (or its equivalent in foreign currencies) for so long as the Notes are listed on the SGX-ST.

In making an investment decision, you must rely on your own examination of us, our business, the terms of the Notes and the terms of this offering, including the merits and risks involved.

Neither we, nor the Initial Purchasers, or any of our or their respective affiliates or representatives, make any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own legal counsel, accountant, business advisor and tax advisor for legal, tax, business and financial advice regarding any investment in the Notes.

You must comply with all applicable laws and regulations in force in your jurisdiction and you must obtain any consent, approval or permission required to be obtained by you for the purchase, offer or sale of the Notes under the laws and regulations in force in the jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor the Initial Purchasers will have any responsibility therefor.

Neither the contents of our website nor of any website mentioned in this offering memorandum are part of, or are incorporated by reference into, this offering memorandum.

NOTICE TO RESIDENTS OF PERU

THE NOTES WILL NOT BE OFFERED PURSUANT TO A PUBLIC OFFERING IN PERU. THEREFORE, THIS OFFERING MEMORANDUM HAS NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE SMV OR THE LIMA STOCK EXCHANGE. PERUVIAN SECURITIES LAWS AND REGULATIONS ON PUBLIC OFFERINGS WILL NOT BE APPLICABLE TO THE OFFERING OF THE NOTES AND THEREFORE, THE DISCLOSURE OBLIGATIONS SET FORTH THEREIN WILL NOT BE APPLICABLE TO THE ISSUER OR THE SELLERS OF THE NOTES BEFORE OR AFTER THEIR ACQUISITION BY PROSPECTIVE INVESTORS. THIS OFFERING MEMORANDUM AND OTHER OFFERING MATERIALS RELATING TO THE OFFER OF THE NOTES ARE BEING SUPPLIED TO THOSE PERUVIAN INSTITUTIONAL INVESTORS (AS DEFINED BY PERUVIAN LAW) WHO HAVE EXPRESSLY REQUESTED THEM. SUCH MATERIALS MAY NOT BE DISTRIBUTED TO ANY PERSON OR ENTITY OTHER THAN THE INTENDED RECIPIENTS. ACCORDINGLY, THE NOTES CANNOT BE OFFERED OR SOLD IN PERU EXCEPT IF (I) SUCH NOTES WERE PREVIOUSLY REGISTERED WITH THE SMV, OR (II) SUCH OFFERING IS CONSIDERED A PRIVATE OFFERING UNDER THE PERUVIAN SECURITIES LAWS AND REGULATIONS. THE PERUVIAN SECURITIES LAWS ESTABLISH, AMONG OTHER THINGS, THAT AN OFFER DIRECTED EXCLUSIVELY TO INSTITUTIONAL INVESTORS QUALIFIES AS A PRIVATE OFFERING.

INSTITUTIONAL INVESTORS, MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING OF THE NOTES IN ORDER TO DETERMINE THEIR LEGAL ABILITY TO INVEST IN THE NOTES.

NO OFFER OR INVITATION TO SUBSCRIBE FOR OR SELL THE NOTES OR BENEFICIAL INTERESTS THEREIN CAN BE MADE IN THE REPUBLIC OF PERU, EXCEPT IN COMPLIANCE WITH THE PERUVIAN SECURITIES LAWS AND REGULATIONS.

PROHIBITION OF SALES TO EUROPEAN ECONOMIC AREA RETAIL INVESTORS

The Notes may not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “EEA”). For these purposes, a “retail investor” means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “Prospectus Regulation”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS

The Notes may not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“EUWA”); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the “FSMA”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the “UK Prospectus Regulation”). Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

In the UK, this offering memorandum is being distributed only to, and is directed only at, qualified investors (as defined in the UK Prospectus Regulation) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Order”), or (ii) high net worth entities and other persons to whom it may be lawfully be communicated falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the Notes in the UK will be engaged in only with, relevant persons. Any person in the UK who is not a relevant person should not act or rely on this offering memorandum or any of its contents.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA (Chapter 289 of Singapore), we have determined, and hereby notify all relevant persons (as defined in Section 309A of the SFA) that the Notes are “prescribed capital markets products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

AVAILABLE INFORMATION

We are not subject to the information requirements of the Exchange Act, and the Notes have not been and will not be registered under the Securities Act. In order to preserve the exemptions from registration under the Securities Act available to Noteholders for resale and transfers of the Notes under Rule 144A, we have agreed that while any Notes remain outstanding, we will make available, upon request, to any beneficial owner and any prospective purchaser of Notes the information required pursuant to Rule 144A(d)(4) under the Securities Act, unless at such time we are subject to the reporting requirement of Section 13 or 15(d) of the Exchange Act or exempt from such requirements pursuant to Rule 12g3-2(b) under the Exchange Act. Requests for such information should be directed to us at our address listed on the back cover of this offering memorandum, and, for so long as the Notes are listed on the SGX-ST, through the Singapore Listing Agent.

Our Class B shares are currently registered with the Public Registry of Capital Markets (*Registro Público del Mercado de Valores*) of the SMV. Accordingly, we are required to file certain financial information, such as quarterly and annual reports, as well as notices of material events (*hechos de importancia*) in Spanish with the SMV. All such reports and notices are available at www.smv.gob.pe, www.bvl.com.pe and on our website at www.petroperu.com.pe. However, any past or future financial information and reports filed with the SMV and/or the BVL, and included in the above-mentioned websites, are not and will not form part of this offering memorandum and are not incorporated by reference herein.

ENFORCEABILITY OF CIVIL LIABILITIES

General

We are a corporation (*sociedad anónima*) existing under the laws of Peru. All of our shares are owned directly by Peru, a sovereign state. All of our directors and officers reside outside the United States, and a substantial portion of our and their assets are located outside the United States. As a result, it may not be possible for you to effect service of process within the United States upon us or such persons, including with respect to matters arising under the federal securities laws of the United States, or to enforce against us or such persons, including judgments that are predicated upon the civil liability of the federal securities laws of the United States.

We reserve the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against us under United States federal securities laws or any state securities laws. Accordingly, you may not be able to obtain a judgment in a U.S. court against us under such laws unless the U.S. court determines that we are not entitled to sovereign immunity with respect to that action.

Judgments Obtained Outside Peru

We have been advised by our Peruvian counsel, Rubio, Leguía, Normand Abogados, that any final and conclusive judgment for a fixed and final sum obtained against us in any court outside of Peru having jurisdiction in respect of any suit, action or proceeding against us for the enforcement of any of our obligations under the Indenture or the Notes, which are governed by New York law, will, upon request, be deemed valid and enforceable in Peru through an *exequatur* judiciary proceeding (which does not involve the reopening of the case or reexamination of the merits of the case) *provided* that: (1) there is a treaty in effect between the country where said foreign court sits and Peru regarding the recognition and enforcement of non-Peruvian judgments; or (2) in the absence of such a treaty, the original judgment is recognized by the Peruvian courts (*Cortes de la República del Perú*). Such recognition will occur *provided* that the following conditions and requirements are met:

- (a) the foreign judgment does not resolve matters under the exclusive jurisdiction of Peruvian courts (and the matters contemplated by the Indenture or in respect of this offering memorandum or the Notes are not matters under the exclusive jurisdiction of Peruvian courts);
- (b) such foreign court had jurisdiction under its own private international conflicts of law rules and under general principles of international procedural jurisdiction;
- (c) we received service of process in accordance with the laws of the place where the proceeding took place, were granted a reasonable opportunity to appear before such foreign court and were guaranteed due process rights;
- (d) the foreign judgment has the status of *res judicata* as defined in the jurisdiction of the court rendering such judgment;
- (e) no pending litigation in Peru between the same parties for the same dispute was initiated before the commencement of the proceeding that concluded with the foreign judgment;
- (f) the foreign judgment is not incompatible with another judgment that fulfills the requirements of recognition and enforceability established by Peruvian law, unless such foreign judgment was rendered first;
- (g) the foreign judgment is not contrary to public policy (*orden público*) or good morals (*buenas costumbres*) of Peru;
- (h) it is not proven that such foreign court denies enforcement of Peruvian judgments or engages in a review of the merits thereof;
- (i) the judgment has been duly apostilled by the competent authority of the jurisdiction of the issuing court, in the case of jurisdictions that are parties to the Hague Apostille Convention; or, certified by Peruvian consular authorities, in case of jurisdictions that are not parties to the Hague Apostille

Convention, and is accompanied by a certified and officially translated copy of such judgment into Spanish by a Peruvian certified translator; and

- (j) the applicable court taxes and fees have been paid.

We have no reason to believe that any of our obligations relating to the Indenture or the Notes would be contrary to public policy (*orden público*) or good morals (*buenas costumbres*) of Peru and international treaties binding upon Peru or generally accepted principles of international law.

Some of our properties could be subject to the exemption set forth under Article No. 616 of the Peruvian Civil Procedure Code (Legislative Decree No. 768, whose sole unified text was approved through Ministerial Resolution No. 10-93-JUS), pursuant to which the property of any private entity assigned to render essential public services may not be subject to preliminary attachments (*medida cautelar*) that could affect the normal rendering of such services.

In the past, Peruvian courts have enforced judgments rendered in the United States based on legal principles of reciprocity and comity. However, the United States does not currently have a treaty with Peru providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, unless the above-mentioned requirements are satisfied, a final judgment for payment of money rendered by a federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, may not be enforceable, either in whole or in part, in Peru. However, if the party in whose favor such unenforced final judgment was rendered brings a new suit in a competent court in Peru, such party may submit to the Peruvian court the final judgment rendered in the United States. Under such circumstances, a judgment by a federal or state court of the United States against us may be regarded by a Peruvian court only as evidence of the outcome of the dispute to which such judgment relates, and a Peruvian court may choose to re-hear the dispute. In addition, awards of punitive damages in actions brought in the United States or elsewhere are unenforceable in Peru.

We will appoint Corporation Service Company as our agent for service of process in New York in connection with any action arising out of or based upon the Indenture, the Notes or the transactions contemplated thereby. See “Description of the Notes—Dispute Resolution and Waiver of Immunities.”

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, particularly under “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business.” Although we believe that these statements are based upon reasonable current assumptions and expectations, no assurance can be given that the future results referred to by the forward-looking statements will be achieved. If one or more of the assumptions underlying our forward-looking statements proves incorrect, then actual results, levels of activity, performance and achievements could differ significantly from those expressed in, or implied by, the forward-looking statements contained in this offering memorandum. The words “anticipates,” “believes,” “estimates,” “will,” “expects,” “intends,” “project,” “target” and similar expressions are intended to identify those forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties. There are important factors that could cause actual results to differ materially from those in forward-looking statements, certain of which are beyond our control. The most significant of the risks, uncertainties and other factors are discussed under the heading “Risk Factors” and you are urged to consider these factors carefully.

These factors include, but are not limited to:

- the general economic, business, political, demographic, social and other conditions in Peru, as well as the effects of world events, climate events or variations, catastrophic accidents and natural disasters;
- the outbreak of communicable diseases such as the ongoing coronavirus (COVID-19) pandemic, the government measures taken in response thereto, and the impact of the foregoing on the global economy and the Peruvian economy in general, and in our business (including the Talara Refinery Modernization Project), financial condition and/or results of operations, in particular;
- market or other trends affecting our financial condition or results of operations;
- changes in international crude prices;
- whether the Talara Refinery Modernization Project is successfully completed on time and within budget and the performance of the Talara Refinery following completion of the Talara Refinery Modernization Project;
- access to financing and capital resources for our operations and in connection with the financing of the Talara Refinery Modernization Project and related works (including the Auxiliary Services Units and Additional Works) including, but not limited to, proposed financing by export credit agencies and other entities;
- maintenance, leakage, downtime and other problems associated with our Norperuano Pipeline (as defined herein) and related repair, clean-up and environmental and social effects of such problems;
- performance by third parties involved in our operations, including our suppliers, customers and contractors;
- maintaining an optimum level of inventory of our refined products and exposure to variations in prices of crude and refined products;
- the impact of adverse legislative or regulatory changes;
- changes in our management, policies and/or strategy;
- costs associated with maintaining compliance with stringent environmental and safety laws and regulation and resolving potential liabilities under such laws and regulations;
- operating hazards that are common in the oil and gas refining, transportation and storage industries;

- maintaining the key members of our management team;
- ability to hire and retain certain key personnel;
- costs associated with exchange rate fluctuations and hedging strategies;
- unexpected increases in our capital expenditures; and
- other factors discussed under the heading “Risk Factors.”

We caution you that the foregoing list of factors is not exhaustive and that other risks and uncertainties may cause actual results to differ materially from those in forward-looking statements.

You are cautioned not to place undue reliance on these forward-looking statements, which reflect our views, as the case may be, only as of the date they are made, and we do not undertake any obligation to update them or publicly to release the result of any revisions to these forward-looking statements in light of new information or future developments after the date of this offering memorandum.

PRESENTATION OF FINANCIAL AND STATISTICAL INFORMATION

Unless otherwise specified, references herein to “U.S. dollars” or “U.S.\$” are to United States dollars, the legal currency of the United States of America, and references to “soles” or “S/” are to Peruvian *soles*, the legal currency of Peru. We carry out substantially all of our business in Peru and we maintain our books and records in *soles*.

Our Financial Statements

This offering memorandum includes:

- our interim unaudited financial statements as of September 30, 2020 and for the nine-month periods ended September 30, 2020 and September 30, 2019 (our “Unaudited Interim Financial Statements”); and
- our audited annual financial statements as of and for the years ended December 31, 2019, 2018 and 2017 (our “Annual Financial Statements” and, together with our Unaudited Interim Financial Statements, our “Financial Statements”).

Our Annual Financial Statements have been prepared in accordance with international financial reporting standards (“IFRS”), as issued by the IASB (“IFRS-IASB”), and our Unaudited Interim Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, in accordance with IFRS-IASB.

The negative effects of the COVID-19 pandemic on the Peruvian economy and on our business triggered the need to conduct impairment testing in compliance with IAS 36 in connection with the preparation of our Unaudited Interim Financial Statements. In measuring the effect of impairment, IAS 36 requires that the recoverable amount of an asset or cash generating unit (“CGU”) be compared to the asset’s or the CGU’s carrying value. The recoverable amount is the higher of: (i) fair value less costs of disposal, and (ii) value in use of the asset or CGU. If either of these exceeds the book value of the asset or CGU, it would not be necessary to estimate the other and the relevant asset or CGU would not be impaired.

We performed impairment testing of the Talara Refinery Modernization Project as a CGU through its value in use. In doing so, we focused on the Talara Refinery Modernization Project’s expected revenue using a discounted cash flow methodology, which allows present value calculations of expected cash flows through the use of a discount rate that takes into consideration company and sector specific risks. In performing the impairment testing, we used a 7.25% discount rate and took into consideration: (i) the change in the expected completion date of the Talara Refinery Modernization Project due to delays, including temporary suspension of the works as a result of the COVID-19 pandemic, and (ii) decreased prices for the purchase and sale of crude oil and slower projected price increases relative to the expectation in prior years. As a result, our Unaudited Interim Financial Statements as of September 30, 2020 include a U.S.\$71.4 million asset impairment corresponding to the Talara Refinery Modernization Project. See Note 5 to our Unaudited Interim Financial Statements and “Summary—Recent Developments—Recent developments related to the COVID-19 pandemic.”

Exchange Rates

Solely for the convenience of the reader, we have translated some amounts included in this offering memorandum from *soles* into U.S. dollars. Unless otherwise indicated, we have translated certain *soles* amounts included in this offering memorandum into U.S. dollars using: (i) for financial position items as of December 31, 2019, and for comprehensive income, changes in equity and cash flow items for the year ended December 31, 2019, a rate of S/3.317 to U.S.\$1.00, based on the exchange rate published by the *Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones* (Peruvian Superintendency of Banks, Insurance and Private Pension Fund Administrators, the “SBS”) for December 31, 2019, and (ii) for financial position items as of September 30, 2020, and for comprehensive income, changes in equity and cash flow items for the nine months ended September 30, 2020, a rate of S/3.599 to U.S.\$1.00, based on the exchange rate published by SBS for September 30, 2020.

We have also translated certain *Euro* and *Yen* amounts included in this offering memorandum into U.S. dollars using: (i) for financial position items as of December 31, 2019, a rate of €0.89 to U.S.\$1.00 and ¥108.53 to

U.S.\$1.00, respectively, based on the exchange rates published by the Bureau of the Fiscal Service of the U.S. Department of the Treasury for December 31, 2019 and (ii) for financial position items as of September 30, 2020, a rate of €0.85 to U.S.\$1.00 and ¥105.70 to U.S.\$1.00, respectively, based on the exchange rates published by the Bureau of the Fiscal Service of the U.S. Department of the Treasury for September 30, 2020.

The U.S. dollar equivalent information presented in this offering memorandum is provided solely for your convenience and should not be construed as implying that the amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate. The *sol* to U.S. dollar, *euro* to U.S. dollar and *yen* to U.S. dollar exchange rates may fluctuate widely and the exchange rates described in this offering memorandum may not be indicative of future exchange rates. See “Exchange Rates.”

Special Note Regarding Non-IFRS Financial Measures

This offering memorandum sets forth certain non-IFRS measures, namely EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin. These measures are not recognized measures under IFRS-IASB and do not have standardized meanings prescribed by IFRS-IASB. Rather, these measures are provided as additional information to complement IFRS-IASB measures by providing further understanding of our results of operations from management’s perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS-IASB. EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin have important limitations as analytical tools and you should not consider them, in isolation, as indicative of the cash available to us to make payments on the Notes or as a substitute for analysis of our results under IFRS-IASB. In addition, because other companies may calculate EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin (or similarly titled measures) differently than we do, these measures may not be comparable to measures reported by other companies. Moreover, our definition of these measures in this offering memorandum may not necessarily be the same as those we use for purposes of establishing covenant compliance under our financing agreements or for other purposes.

Our EBITDA consists of our profit or loss for the period *plus* income tax, workers’ profit sharing (which is a mandatory payment to our labor force pursuant to Peruvian law equal to 10.0% of our taxable income), net finance income and costs (finance income *less* finance costs) and amortization and depreciation.

Our Adjusted EBITDA consists of our EBITDA:

- *plus* net other income and expenses, which are income and expenses resulting from transactions and other events that differ in frequency, potential for gain or loss and predictability. In particular, net other income and expenses includes:
 - income from insurance proceeds, indemnification payments, the recovery of provisions for certain contingencies considered to be remote, certain payments to us previously considered unrecoverable, certain sales of property, income from various services that we provide and certain other income, in each case not occurring in the ordinary course of business; *less*
 - expenses from land expropriations dictated by Peru in favor of other public entities, provisions and other expenses for maintenance and environmental remediation efforts in connection with oil spills of the Norperuano Pipeline, pensions to former employees assumed by us by special mandate of Peru, devaluation of certain investments, provisions for obsolete materials and certain other expenses, in each case not occurring in the ordinary course of business;
- *plus* net exchange difference, which includes adjustments for exchange rate fluctuations arising from obligations denominated in currencies other than U.S. dollars.

Our Adjusted EBITDA Margin consists of Adjusted EBITDA *divided by* our total gross revenue.

The following table sets forth our EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin for the years indicated, as reconciled to our profit or loss for such years.

	Nine-Month Period ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(U.S.\$ in millions, except percentages)</i>				
Reconciliation:					
Profit/loss	(116.6)	145.1	171.0	119.6	185.1
Income tax	6.8	76.4	82.8	57.7	63.0
Workers' profit sharing ⁽¹⁾	—	26.2	43.4	2.8	30.8
Finance income ⁽²⁾	(13.3)	(13.1)	(18.1)	(16.0)	(1.9)
Finance costs ⁽³⁾	26.1	26.5	36.8	48.9	51.8
Amortization and depreciation	45.0	47.6	87.6	50.6	49.8
EBITDA	(52.1)	308.7	403.4	263.5	378.5
Other income ⁽⁴⁾	(9.2)	(23.3)	(38.3)	(135.5)	(68.8)
Other expenses ⁽⁵⁾	78.3	12.3	36.2	33.5	35.5
Net exchange difference ⁽⁶⁾	28.4	4.7	(6.9)	6.7	2.0
Adjusted EBITDA	45.4	302.4	394.5	168.1	347.3
Adjusted EBITDA Margin⁽⁷⁾	2.0%	8.6%	8.5%	3.4%	8.6%

- (1) Workers' profit sharing is a mandatory payment to our labor force pursuant to Peruvian law equal to 10.0% of our taxable income. We account for our workers' profit sharing similarly to a tax, but it is a deductible expense for income tax purposes, and therefore, it does not overlap with income tax. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Revenue and Sales by Volume—Cost of Sales."
- (2) Finance income consists of interest earned on amounts on deposit with financial institutions and income earned on derivative financial instruments. Specifically, finance income consists of the following items for the periods indicated:

	Nine-Month Period ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(U.S.\$ in millions)</i>				
Finance income:					
Income earned on derivative financial instruments	12.0	9.8	13.5	12.1	0.5
Interest earned on amounts on deposit with financial institutions	1.3	3.3	4.8	4.2	1.7
Interest earned on receivables	3.7	0.7	0.8	0.7	1.2
Total finance income	17.1	13.8	19.1	17.0	3.4

- (3) Finance costs consists of interest and other expenses payable on loans by financial institutions and losses earned on derivative financial instruments. Specifically, finance cost consists of the following items for the periods indicated:

	Nine-Month Period Ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(U.S.\$ in millions)</i>				
Finance costs:					
Interest and other expenses payable on loans by financial institutions	19.5	25.8	30.5	31.9	31.6
Losses earned on derivative financial instruments	6.5	0.7	6.3	17.0	20.2
Interest on commercial obligations	0.6	—	0.6	0.0	0.1
Total finance costs	26.7	26.5	37.4	48.9	51.8

- (4) Other income is income resulting from transactions and other events that differ in frequency, potential for gain or loss and predictability. Specifically, other income consists of the following items for the periods indicated:

	Nine-Month Period Ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	(U.S.\$ in millions)				
Other Income					
Other management income ⁽ⁱ⁾	2.8	5.1	12.6	23.9	26.2
Claims and/or indemnification payments for contractual breach.....	2.8	14.9	17.5	105.2	35.1
Services for maritime operations ⁽ⁱⁱ⁾	2.5	2.4	3.4	4.0	3.5
Guarantee Letter.....	0.8	0.0	0.2	0.0	0.1
Recovery of provisions.....	—	—	0.6	0.5	0.0
Recovery of payments on doubtful accounts.....	—	0.1	0.1	0.7	2.0
Collateral rental services ⁽ⁱⁱⁱ⁾	0.1	0.2	0.3	0.6	0.6
Administrative services ^(iv)	0.1	0.1	0.1	0.1	0.2
Contaminated products reprocessing ^(v)	0.1	—	0.0	0.0	0.0
Real estate, machinery and equipment sales ^(vi)	—	0.5	4.1	0.5	0.9
Provision obsolete material.....	—	—	(0.5)	—	—
Total other income.....	9.2	23.3	38.3	135.5	68.8

- (i) Other management income includes the recovery of certain provisions relating to third-party services.
- (ii) Services for maritime operations relates to income that we receive from docking services that we provide for ships in ports throughout Peru.
- (iii) Collateral rental services relates to income that we receive from reimbursements for maintenance, housekeeping and utilities bills that we pay on behalf of third-party tenants who rent offices in our headquarters.
- (iv) Administrative services relates to income that we receive equal to (a) 20.0% of the variations in the costs of fuel transportation and (b) 15.0% of income generated by collateral rental services, as described in (iii) above.
- (v) Contaminated products reprocessing relates to income that we receive from services that we provide in certain of our laboratories to reprocess contaminated materials for third parties.
- (vi) Real estate, machinery and equipment sales relates to income that we receive from sales of real estate, machinery and equipment that we no longer use.
- (5) Other expenses relates to expenses for transactions and other events that differ in frequency, potential for gain or loss and predictability. Specifically, other expenses consists of the following items for the periods indicated:

	Nine-Month Period Ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	(U.S.\$ in millions)				
Other Expenses					
Impairment of assets ⁽ⁱ⁾	71.4	—	—	—	—
Provisions for incidents – Norperuano Pipeline ⁽ⁱⁱ⁾	0.4	12.0	28.2	8.2	33.7
Real estate, machinery and equipment disposal ⁽ⁱⁱⁱ⁾	0.1	0.4	1.8	0.1	1.8
Environmental remediation.....	—	—	—	22.5	—
Environmental provision.....	—	—	—	2.6	—
Provisions for obsolete materials.....	4.1	—	—	—	—
Voluntary Disengagement Program.....	2.2	—	6.3	—	—
Others.....	—	—	—	—	0.1
Total other expenses.....	78.3	12.3	36.2	33.5	35.5

- (i) Impairment corresponding to the Talara Refinery Modernization Project CGU.
- (ii) Expenses for crude spills and provisions for incidents – Norperuano Pipeline refer to expenses incurred in connection with the cleanup and remediation efforts related to certain crude spills from the Norperuano Pipeline. See “Business—Legal Proceedings—Environmental proceedings.”
- (iii) Real estate, machinery and equipment disposal relates to expenses for certain losses on assets that have become obsolete not otherwise calculated in our depreciation. In 2019, all of our real estate, machinery and equipment disposal expenses related to the SBN's expropriation and transfer to the MTC of eight hectares (approximately 19.8 acres) of the land belonging to the Callao Terminal pursuant to Legislative Decree No. 1192.
- (6) Net exchange difference comprises adjustments for exchange rate fluctuations arising from obligations denominated in currencies other than the U.S. dollar.
- (7) Adjusted EBITDA Margin consists of Adjusted EBITDA divided by our total gross revenue.

Assumptions Regarding Estimated Costs of the Talara Refinery Modernization Project

Throughout this offering memorandum we discuss the cost of completing the Talara Refinery Modernization Project, including the Auxiliary Services Units and the Additional Works (each as defined below). When we refer to financing sources that would account for a percentage of the total cost of the Project, these percentages assume the completion of the offering of the Notes in the amount stated on the cover hereto.

Market and Other Statistical Information

We obtained the information contained in this offering memorandum regarding the Peruvian oil refining industry, our participation in the market and some of the statistical information and data related to our business from established public sources, such as government agencies, including the MEF, the MEM and OSINERGMIN (each as defined below), among others. None of Petroperu or any of the Initial Purchasers or their respective affiliates has independently verified such information and data and, therefore, none of Petroperu or any of the Initial Purchasers can ensure its accuracy or completeness.

Rounding

We have made rounding adjustments to reach some of the figures included in this offering memorandum. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that precede them. Percentage figures and variations have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. As a result, percentage amounts may vary from those obtained by performing the same calculations using the figures included in this offering memorandum.

GLOSSARY OF TECHNICAL, REGULATORY AND OTHER TERMS

Additional Works	<p>Certain additional works that are being performed at the Talara Refinery in connection with the Talara Refinery Modernization Project, including:</p> <ul style="list-style-type: none"> • construction of an office space and laboratory; • construction of administrative buildings; • construction of sanitation works; • installation of a kerosene caustic treatment unit (TKT Unit) and all necessary interconnections to integrate it to the Talara Refinery; • installation of a sulfurized spent caustic soda unit (OX Unit) and all necessary interconnections to integrate it to the Talara Refinery; • construction of foundation for fuel tanks; • implementation of a dynamic operator training simulator (OTS System); • electromagnetic works for distillation and refining equipment; and • electromechanical works for interconnections both within the Talara Refinery and offsite.
API gravity	An indication of density of crude oil or other liquid hydrocarbon as measured by a system recommended by the American Petroleum Institute (“API”), measured in degrees. The lower the API gravity, the heavier the compound.
Auxiliary Services Units	<p>Certain facilities for the production and supply of products and services necessary for the completion of the Talara Refinery Modernization Project and operation of the Talara Refinery, including:</p> <ul style="list-style-type: none"> • a facility for the treatment of sulfuric acid; • hydrogen and nitrogen production units; • a desalination plant; • a chemical and waste treatment plant; • an electric generator; and • updates to Talara Refinery’s port facilities.
barrels.....	A barrel of crude oil, including condensates and natural gas liquids.
Bladex	Banco Latinoamericano de Comercio Exterior, S.A.
blending.....	The physical mixture of a number of different liquid hydrocarbons to produce a finished product with certain desired characteristics.
blending margin.....	The difference between the average price of the refined products and the price of Intermediate Products used in the production of refined products.
BVL.....	The Lima Stock Exchange (<i>Bolsa de Valores de Lima</i>).
CDT.....	Consorcio Deloitte Talara, a consortium consisting of Deloitte Touche Tohmatsu Ltda., Deloitte Consulting S.L.U. and Deloitte Corporate Finance S.A.C.
CESCE	<i>Compañía Española de Seguros de Crédito</i> , a Spanish export credit agency.

charge	The volume of inputs a refinery receives for processing.
CNPC Peru	China National Petroleum Corporation, a supplier of petroleum products, formerly Petrobras.
COFIDE	<i>Corporación Financiera de Desarrollo S.A.</i> , a Peruvian state-owned development bank.
Consortio Cobra.....	Consortio Cobra SCL UA&TC, an international general contractor based in Peru, composed of the Cobra Instalaciones y Servicios S.A., a company of the Cobra International Group based in Spain and Sinohydro Corporation Limited, a corporation based in China.
Consortio Cobra EPC Contract.....	The EPC Contract for the Construction of the Auxiliary Services Units and Additional Works entered into between Petroperu and Consortio Cobra dated January 30, 2018, as amended, for the engineering, procurement of equipment and materials, construction and implementation of certain works in connection with the Auxiliary Services Unit and the Additional Works for the Talara Refinery Modernization Project.
conversion	A series of refining processes that alter the chemical structure of the base oil fractions produced by distillation.
CORPESA.....	Corporación Petrolera SAC.
Corporate Optimization Plan.....	The comprehensive corporate optimization plan for our company approved by our board of directors on May 29, 2015, mandated by Law No. 30130 based on recommendations from the international consulting firm, Wood Mackenzie.
Corporate Reorganization Plan	A component of our Corporate Optimization Plan that consists of the implementation of a new corporate structure for our company.
crude.....	Crude oil.
Deloitte.....	Consortio Deloitte & Touche S.R.L. – Deloitte Asesores y Consultores Ltda., the consulting company conducting our Corporate Reorganization Plan.
DGH.....	The Directorate General of Hydrocarbons (<i>Dirección General de Hidrocarburos</i>) of the MEM.
distillate	Liquid hydrocarbons distilled from crude or condensates.
distribution terminal	A storage facility, often operated by a third party, used to blend, store and distribute intermediate and refined hydrocarbon products, as applicable.
DTC.....	The Depository Trust Company.
EIA	The Environmental Impact Assessment delivered by Walsh Perú S.A. Ingenieros y Científicos Consultores, in December 2009, in connection with the Talara Refinery Modernization Project.
EMT	Elements Materials Technology, an international firm specialized in advance laboratory testing.
EPC Contractors.....	Collectively, (i) Técnicas Reunidas and (ii) Consortio Cobra, and their respective affiliates, the general contractors for the Talara Refinery Modernization Project.
EPC Contracts	Collectively, the Técnicas Reunidas EPC Contract and the Consortio Cobra EPC Contract.
Exchange Act	The U.S. Securities Exchange Act of 1934, as amended.

FONAFE	Peru's National Fund for Financing of State's Commercial Activity (<i>Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado</i>).
Fuel Price Stabilization Fund	The fund created by Peruvian Urgency Decree No. 010-2004 (<i>Fondo para la Estabilización de Precios de los Combustibles derivados del Petróleo</i>) to prevent the volatility of crude oil prices and their derivatives from being transferred to consumers. This is a mechanism for stabilizing prices of LPG distributed in cylinders, diesel B5 for vehicular use, diesel B5 for electric generation in isolated electrical systems and industrial petroleum 6 for electric generation in isolated electrical systems.
GDP	Gross domestic product.
Graña y Montero	Graña y Montero Perú S.A., the operator of our terminals in the northern and central regions of Peru.
HOGBS	High Octane Gasoline Blending Stock.
IFO 380	Intermediate fuel oil composed of 88.0% residual oil and 12.0% distillate oil.
import parity price.....	The import parity price published by OSINERGMIN on a weekly basis for each product covered by the Fuel Price Stabilization Fund, which is calculated by reference to the prices charged by U.S. Gulf Coast refineries for the product and the costs of delivering that product from the U.S. Gulf Coast to the relevant market, including freight, taxes, hedging costs and logistics.
Intermediate Products.....	According to Supreme Decree No. 032-2002-EM, Intermediate Products are hydrocarbons produced in the processes of crude oil distillation and natural gas liquid fractionation or natural gas used in refineries, processing plants or in the petrochemical industry for processing into other goods. Intermediate Products can only be commercialized in the domestic market among producers and may not be marketed as finished products.
ISO	International Organization for Standardization, an international standard-setting body composed of representatives from various national standards organizations.
ISO 14001	Requirements issued by ISO for environmental management systems to enable organizations to develop and implement a policy and objectives which take into account legal and other requirements to which the organization subscribes, and information about significant environmental aspects.
KBPD	Thousands of barrels per day.
LAMOR	Larsen Marine Oil Recovery, an international firm specialized in oil leak remediation.
Law No. 28694.....	Peruvian Law No. 28694, which regulates the sulfur content in diesel fuel (<i>Ley que regula el contenido de azufre en el combustible diésel</i>).
Law No. 30130.....	Peruvian Law No. 30130, which declares the modernization of the Talara Refinery a national interest and public necessity (<i>Ley que declara de interés nacional y necesidad pública la modernización de la Refinería de Talara</i>).
light crude.....	Crude oil having an API gravity of 30° or more, as defined by the relevant exchange.
LPG	Liquefied petroleum gas.

Maple Gas	Maple Gas Corporation del Perú S.R.L, the lessor of our Pucallpa Refinery.
MCC Technology	MCC Technology S.A.C., a management consulting firm hired to determine the causes of several oil leaks in the Norperuano Pipeline.
MEF.....	The Ministry of Economy and Finance (<i>Ministerio de Economía y Finanzas</i>) of Peru.
MEM	The Ministry of Energy and Mines (<i>Ministerio de Energía y Minas</i>) of Peru.
MGO	Pure distillate oil known as Marine Gas Oil.
MINAM.....	The Ministry of the Environment (<i>Ministerio del Ambiente</i>) of Peru.
Norperuano Pipeline.....	<i>Oleoducto Norperuano</i> , Peru's main oil pipeline, which we own and operate.
OEFA	The Agency of Environmental Evaluation and Supervision (<i>Organismo de Evaluación y Fiscalización Ambiental</i>) of Peru.
OHSAS.....	Occupational Health and Safety Assessment Series, a consulting organization that specializes in best practices regarding health and safety in the workforce.
OHSAS 18001:2007.....	Minimum requirements for a best practice occupational health and safety management system, as set out by OHSAS.
Oiltanking Perú	Oiltanking Perú S.A.C., the operator of our terminals located in the southern region of Peru.
OPEC.....	Organization of Petroleum Exporting Countries.
OSINERGMIN.....	The Supervisory Body of Energy and Mining Investment (<i>Organismo Supervisor de la Inversión en Energía y Minería</i>) of Peru.
PECSA	A conglomerate of Peruvian companies including Peruana de Combustibles S.A., Peruana de Petróleo S.A.C., Peruana de Estaciones de Servicios S.A.C. and Gases Naturales Peruanos S.A.C.
Perupetro	Perupetro S.A., the state-owned company that grants licenses for exploration and production of hydrocarbons in Peru.
Petrored	A network of independent service stations throughout Peru that sell refined products to customers.
Pluspetrol.....	Pluspetrol Perú Corporation S.A., a supplier of petroleum products.
Pluspetrol Norte.....	Pluspetrol Norte S.A., the operator of Block 8.
ppm.....	Parts per million.
Primax	Corporación Primax S.A., a purchaser of refined products.
refining margin.....	The difference between the average price of the refined products produced from a barrel of crude and the average purchase price of a barrel of crude and unit operating cost.
Relapasa	Refinería La Pampilla S.A.A., a producer of refined products in Peru.
Repsol.....	Repsol, S.A., Relapasa's parent company.
sales plant.....	A storage facility, affiliated with one of our refineries, used to blend, store and distribute intermediate and refined products, as applicable.
Sapet.....	Sapet Development Peru Inc., a supplier of petroleum products.

Savia Peru.....	Savia Peru S.A., the lessor of our assets for offshore production.
SBN	National Superintendence of State Goods (<i>Superintendencia Nacional de Bienes Estatales</i>).
SBS.....	The Peruvian Superintendency of Banking, Insurance and Private Pension Fund Administrators (<i>Superintendencia de Banca, Seguros y Administradoras de Fondos Privados de Pensiones</i>).
SEC	The U.S. Securities and Exchange Commission.
Securities Act	The U.S. Securities Act of 1933, as amended.
SGX-ST	The Singapore Exchange Securities Trading Limited.
SMV	The Peruvian Securities Market Superintendency (<i>Superintendencia del Mercado de Valores</i>).
station	A place along a pipeline containing one or more electric pumping units that adjust the pressure, pump the product along the line and monitor flow and other information about the transmittal of the product.
SUNAT	The Peruvian Tax Administration Entity (<i>Superintendencia Nacional de Aduanas y de Administración Tributaria</i>).
Talara Refinery.....	<i>Refinería de Talara</i> .
Talara Refinery Modernization Project or the Project.....	The Talara Refinery modernization project (<i>Proyecto de Modernización de la Refinería Talara</i>).
tank farm	An industrial storage facility that typically contains above-ground or underground storage tanks used to store oil and other petrochemical products and gantries used to discharge products into road tankers, pipelines or other vehicles.
Técnicas Reunidas.....	Técnicas Reunidas S.A., an international general contractor based in Spain.
Técnicas Reunidas EPC Contract.....	The <i>Contrato EPC—Proyecto Modernización Refinería Talara</i> entered into between Petroperu and Técnicas Reunidas dated May 29, 2014, as amended, for the engineering, procurement of equipment and materials, construction and implementation of certain works in connection with the Talara Refinery Modernization Project.
<i>Unidades Impositivas Tributarias</i> (UIT)	The tax unit used by Peruvian regulatory agencies for the imposition of sanctions, among other uses. For 2020, each such tax unit amounted to S/4,300.00 and, for 2021, each such tax unit amounts to S/4,400.00, as approved by Supree Decree No. 392-2020-EF.

SUMMARY

This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not purport to contain all of the information you should consider before investing in the Notes. You should carefully read this entire offering memorandum, including, without limitation, “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Description of the Notes” and the accompanying notes before making a decision about whether to invest in the Notes.

Overview

We are the largest hydrocarbon producer in Peru in terms of revenue and the largest single enterprise wholly-owned by the Peruvian sovereign. We are also Peru’s second-largest refiner in terms of refining capacity and form a critical part of the country’s energy infrastructure and economy. We have the largest distribution network for crude oil and refined products in Peru and we are the sole provider of refined petroleum products to certain areas of Peru, as well as to the Peruvian military and the national police force. We are also the owner and operator of Peru’s main oil pipeline, known as the “Norperuano Pipeline,” which connects the crude oil production fields in the northern rainforest of Peru with our facilities in the Port of Bayóvar near our Talara Refinery. In addition, we own five refineries in Peru as well as distribution terminals, sales plants and offshore production assets.

Our business is comprised primarily of midstream and downstream petroleum activities, including:

- the refining and blending of crude and intermediate hydrocarbon products (such as cracked naphtha, high octane gasoline, and medium distillates for blending);
- the distribution and sale of refined products (including diesel, automotive gasoline, LPG, industrial oil and asphalts) through our wholesale distributors and associated retail service stations and direct sales;
- the transportation of crude through the Norperuano Pipeline; and
- the leasing of certain of our facilities to third parties.

In the nine-month period ended September 30, 2020 and the year ended December 31, 2019:

- our total gross revenue was U.S.\$2,256.9 million and U.S.\$4,668.0 million, respectively,
- our gross profit was U.S.\$136.3 million and U.S.\$528.1 million, respectively, and
- our Adjusted EBITDA was U.S.\$45.4 million, and U.S.\$394.5 million, respectively.

In the nine-month period ended September 30, 2020 and the year ended December 31, 2019, our revenue was U.S.\$2,199.2 million and U.S.\$4,568.3 million, respectively, our volume sold was 117 KBPD and 144 KBPD, respectively, and our total refining capacity was 27.5 KBPD and 94.5 KBPD, respectively. In the nine-month period ended September 30, 2020, our EBITDA was initially negatively impacted by decreased sales volume and a significant drop in the price of international crude oil brought on by the effects of the COVID-19 pandemic, but began recovering starting in July 2020 with the implementation of the economic reactivation program in Peru and the resulting increase in traffic and fuel consumption in the country.

Additional principal financial indicators for our business are set forth below for the periods indicated.

	Nine-Month Period Ended September 30, 2020	Year Ended December 31, 2019
<i>(U.S.\$ in millions, except percentages and production data)</i>		
Revenue ⁽¹⁾	2,199.2	4,568.3
Total gross revenue ⁽¹⁾	2,256.9	4,668.0
Gross profit ⁽²⁾	136.3	528.1
Total comprehensive income (loss) for the period.....	(116.6)	171.0
EBITDA.....	(52.1)	403.4
Adjusted EBITDA ⁽³⁾	45.4	394.5
Adjusted EBITDA Margin (%) ⁽³⁾	2.0%	8.5%
Refined products (KBPD) ⁽⁴⁾	18.0	99.2
Refining margin (U.S.\$ per barrel) ⁽⁵⁾	12.90	5.93
Total assets.....	7,004.0	7,087.0
Total liabilities.....	5,212.4	5,178.8
Total debt.....	4,463.3	4,163.7

(1) Revenue reflects income from sales of refined products generated by our production and trading segment. Total gross revenue means our revenue plus our other operating revenue.

(2) Means total gross revenue minus cost of sales.

(3) See "Presentation of Financial and Statistical Information—Special Note Regarding Non-IFRS Financial Measures."

(4) Total volume of refined products produced by one complete cycle of the refining process. See "Business—Production and Trading Segment—Our refineries—Capacity, production and utilization."

(5) Means the difference between the price of crude oil purchased for our refining operations and the price of our refined products produced from such crude.

Our business consists of three principal operating segments:

- petroleum production and trading;
- leased and privatized units; and
- oil pipeline operations.

Production and trading is our largest segment accounting for 98.5% and 98.1% of our total gross revenue in the nine-month period ended September 30, 2020 and the year ended December 31, 2019, respectively. Our leased and privatized units segment accounted for 0.8% and 0.9% of our total gross income in the nine-month period ended September 30, 2020 and the year ended December 31, 2019, respectively. Our oil pipeline operations segment accounted for 0.8% and 1.0% of our total gross revenue in the nine-month period ended September 30, 2020 and the year ended December 31, 2019, respectively.

We own and operate the Norperuano Pipeline, Peru's main crude transportation pipeline. In addition, according to our internal data, as of September 30, 2020, we had a 20.0% share of the oil refining market in Peru as measured by installed refining capacity. As of September 30, 2020, 77.1% of the total facilities in Peru for the distribution of refined products and 12.8% of the total retail service stations in Peru purchased refined products exclusively from us, according to data obtained from OSINERGMIN. In 2019, we had a 48.0% share of the market for the sale of refined petroleum products in Peru, based on our sales data and information obtained from the MEM. We also lease our offshore production assets to Savia Peru.

As part of the Peruvian government's national initiative to increase our petroleum refining capacity, improving our margins and reducing the environmental impact of our products and operations, we are upgrading our largest refinery, the Talara Refinery. Following completion of the Talara Refinery Modernization Project, we believe that the Talara Refinery will be the most technologically advanced and sustainable refineries in Peru. The Talara Refinery Modernization Project is an engineering megaproject that consists of installing new processing units, industrial services and facilities designed to allow us to produce refined fuel products in accordance with the technical and environmental standards set forth in Law No. 28694 and to produce greater volumes of higher-value-added products. See "Business—Talara Refinery Modernization Project."

We do not currently engage in the exploration and production of crude, but we expect to do so in the future; starting with Block 64 and/or Block 192. We do not expect to begin petroleum extraction from Block 192 until the second quarter of 2021 and Block 64 until 2025. Though Law No. 30130 limits our ability to invest in new projects,

we are permitted to engage in certain exploration and production projects pursuant to certain legal exceptions and independent authorizations. See “Business—Potential Future Exploration and Oil Production” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures and Investments—Investment in existing facilities.”

Production and Trading Segment

Production and trading is our largest segment and involves the process of refining crude and selling refined products. For the nine-month period ended September 30, 2020, our production and trading segment accounted for 98.3% of our total gross revenue and 1,628.3% of our gross profit, compared to 98.1% of our total gross revenue and 867.2% of our gross profit for the nine-month period ended September 30, 2019.

Our refining activity takes place at three of our five refineries. As of September 30, 2020, our Conchán and Iquitos refineries operated at 31.3% and 52.5% utilization, respectively. The Talara Refinery was not operating due to the Talara Refinery Modernization Project. As of September 30, 2019, the Talara, Conchán and Iquitos refineries operated at 78.0%, 46.0% and 71.8% utilization rates, respectively. Utilization represents the portion of our refining capacity used during the period.

Until January 2015, we also carried out refining activity at El Milagro. We suspended operations at our El Milagro Refinery in January 2015 because significant decreases in crude production levels in the region, increases in the price of local crude relative to international crude and decreases in freight costs for road transport have made it unprofitable to continue operating this refinery. On February 20, 2020, through Board Agreement N° AD-021-2020-PP, we definitively ceased operations at the El Milagro Refinery because its operation was not profitable. Demand in the region surrounding the El Milagro Refinery is being satisfied by delivering products from the Talara Refinery. Pucallpa, our fifth refinery, was previously on lease for a 10-year period, through March 29, 2024, to Maple Gas; however, this lease was terminated on August 21, 2019 after we formalized the contract termination with Maple Gas due to failure by Maple Gas to make lease payments and breach of contract. We initiated arbitration proceedings against Maple Gas to recover all of the Pucallpa installations (Pucallpa Refinery and Pucallpa Sales Plant) and received a favorable decision in October 2020. See “Business—Production and Trading Segment—Our refineries—Pucallpa Refinery.”

Our refineries process domestic and international crude purchased from third parties. In the nine-month period ended September 30, 2020, 96.9% and 3.1%, respectively, of the crude we processed was of domestic and international origin and, in 2019, 67.3% and 32.7%, respectively, was of domestic and international origin. Following the completion of the Talara Refinery Modernization Project, we expect to be able to process a higher percentage of the less expensive domestic crude, which we expect to have a positive impact on our operating margins. Our ability to purchase more of this less expensive crude once the Talara Refinery Modernization Project is completed will depend on the continued availability of such crude at favorable prices.

We distribute and sell our refined products domestically and some of them internationally. We produced 48.1 KBPD and 99.8 KBPD of refined products and Intermediate Products in the nine-month periods ended September 30, 2020 and 2019, respectively, and distributed 86.8 KBPD and 124.2 KBPD of refined products and Intermediate Products to the Peruvian market in the nine-month periods ended September 30, 2020 and 2019, respectively.

Our production and trading segment operates through a nationwide network of transportation, storage and distribution facilities. These facilities, which serve all of Peru’s territory, include distribution terminals, sales plants and tank farms. Each of our refineries serves a specific geographic area, which we refer to as the refinery’s “area of influence,” through distribution terminals located near the coast and through sales plants connected to the refineries or located in the highlands and in the rainforest. For information on storage capacity and a map showing the location of our terminals and sales plants see “Business—Production and Trading Segment—Transportation and distribution of refined products to our customers.”

We price our products and calculate our margins in part based on our operating costs and in part based on the cost of our inventory. Our profitability is determined predominately by our refining margin, which is the difference between the selling price of our refined products and the price of the crude we purchase and the unit operating cost. In the case of the products that we import directly into our distribution terminals, profitability is determined by our blending margin (the difference between the selling price of our refined products and the price of the Intermediate

Products we purchase and blend into refined products). See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Margins and product pricing.”

Leased and Privatized Units Segment

Our leased and privatized units segment involves the leasing of certain of our facilities to third parties. In the nine-month period ended September 30, 2020, our leased and privatized units segment accounted for 0.8% of our total gross revenue and 10.8% of our gross profit, compared to 0.9% of our total gross revenue and 6.9% of our gross profit for the nine-month period ended September 30, 2019. In the year ended December 31, 2019, our leased and privatized units segment accounted for 0.9% of our total gross revenue and 8.0% of our gross profit, compared to 0.9% of our total gross revenue and 11.3% of our gross profit in 2018.

We report revenue from this segment as other operating income. The other operating income from this segment includes payments we receive:

- by leasing other assets for offshore production, such as oil platforms located in northern Peru to Savia Peru; and
- pursuant to our operation contracts with Consorcio Terminales del Peru, comprised of Graña y Montero and Oiltanking Perú, for our distribution terminals in the north of Peru and Callao Terminal.

Savia Peru instituted an arbitration proceeding relating to lease of our offshore production assets in northern Peru seeking a review of the lease payment amount. Our contract with Savia Peru to lease our offshore production assets has expired, but it has been automatically renewed by law indefinitely while we negotiate the lease payments.

Oil Pipeline Operations Segment

The Norperuano Pipeline, which we own and operate, is the main oil pipeline in Peru. It serves Block 192, Block 8, Block 67 and Block 95, Peru’s main operating petroleum blocks, and it is located near Block 39, Block 64 and Block 131, the petroleum blocks that are located in the northern region of Peru, which, according to DGH, have the most significant reserves of crude in the country. Because our refining competitors do not own oil pipelines and pay us for the use of the Norperuano Pipeline, we believe that the Norperuano Pipeline provides us with a significant competitive advantage.

Our oil pipeline operations segment involves the transportation of crude from oil-producing blocks in the northern rainforest of Peru to the coast and the collection of freely-negotiated fees for transporting and delivering crude for other parties in Peru. In the nine-month period ended September 30, 2020, our oil pipeline operations segment accounted for 0.8% of our total gross revenue and 13.8% of our gross profit, compared to 7.3% of our total gross revenue and 0.8% of our gross profit for the nine-month period ended September 30, 2019. In the year ended December 31, 2019, our oil pipeline operations segment accounted for 1.0% of our total gross revenue and 2.3% of our gross profit, compared to 2.1% of our total gross revenue and 13.5% of our gross profit in 2018.

Revenue from our pipeline operations segment is reported as other operating income.

Talara Refinery Modernization Project

Overview

The Talara Refinery Modernization Project was declared a matter of national public interest by Law No. 30130 on December 18, 2013 because of the importance of the project for the preservation of air quality and the protection of public health in Peru. This project is expected to increase the efficiency of our production process and reduce the environmental impact of our existing operations by reducing the Talara Refinery’s sulfur dioxide emissions and solid particle pollution. See “Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations.” In addition, the Talara Refinery Modernization Project is one of our primary strategic objectives. We expect that the Talara Refinery Modernization Project will be completed in 2021.

The Talara Refinery Modernization Project is an engineering megaproject that consists of installing new processing units, industrial services and facilities to achieve our main objectives:

- bringing the Talara Refinery into compliance with the technical and environmental standards set forth in Law No. 28694, which regulates the sulfur content in diesel fuel, and generally minimizing the social and environmental impact of the Talara Refinery;
- increasing production capacity of the Talara Refinery from 65 KBPD to 95 KBPD; and
- upgrading the production units at the Talara Refinery to process the less costly heavy crude that is indigenous to Peru into lighter, high-value-added refined products such as LPG, gasoline and diesel with a sulfur content below 50 ppm, or diesel B5 S50.
- with a sulfur content below 50 ppm, or diesel B5 S50.

The Talara Refinery Modernization Project is the first large-scale engineering and construction project we have undertaken. Given our lack of experience and expertise with projects of this scale and complexity, we are highly dependent on the experience and capabilities of our contractors and developers. As of September 30, 2020, the total cost of the Project, exclusive of financing costs, any applicable fees and commissions and the economic impact of the COVID-19 pandemic (which remains under evaluation, but was estimated at approximately U.S.\$300 million as of December 31, 2020), is expected to be approximately U.S.\$4,700.0 million. The total cost for the development of the Project is as follows:

- U.S.\$2,798.4 million under the Técnicas Reunidas EPC Contract, divided into three fixed payments of U.S.\$1,802.0 million, €721.8 million and ¥5,051.0 million, as such was stipulated in our agreement with Técnicas Reunidas;
- U.S.\$977.6 million under the Consorcio Cobra EPC Contract consisting of U.S.\$784.0 million for the Auxiliary Services Units and U.S.\$193.6 million for the Additional Works; and
- other expenses attributable to the complementary investments for process and auxiliary units, management of the EPC Contracts, insurance policies, social projects related to community relations, licenses for the use of new technologies, and land sanitation, among others.

We have entered into two EPC contracts for the construction of the Talara Refinery Modernization Project. When we first entered into the Técnicas Reunidas EPC Contract in 2014, it included the Auxiliary Services Units and the Additional Works, and estimated that the cost of the Técnicas Reunidas EPC Contract would be U.S.\$2,732 million (calculated at an exchange rate as of June 24, 2013 of €0.725 per U.S.\$1.00 and ¥98.23 per U.S.\$1.00). As of September 30, 2020, the contract price under the Técnicas Reunidas EPC Contract has increased to U.S.\$2,798.0 million as a result of the delay in the start of the Auxiliary Services Units that were initially included in the Técnicas Reunidas EPC Contract. In 2018, when we entered into the Consorcio Cobra EPC Contract after Técnicas Reunidas was unable to complete the Auxiliary Services Units and the Additional Works, we estimated that the cost of the Consorcio Cobra EPC Contract would be U.S.\$936 million (U.S.\$742 million for the Auxiliary Services Unit and U.S.\$194 million for the Additional Works). As of September 30, 2020, the cost for completion of works under the Consorcio Cobra EPC Contract has increased to U.S.\$977.6 million as a result of increased costs related to contractual administration expenses, among other factors. See “Business—Talara Refinery Modernization Project.”

Current status and progress

As of September 30, 2020, actual project completion across all categories of tasks was 92.74%. The table below sets forth the actual and projected percentages of completion for the various categories of tasks as of December 31, 2020.

Talara Refinery Modernization Project: Percentage of Completion

Task	Actual	Projected
Engineering, construction and procurement prescribed by the EPC Contract with Técnicas Reunidas ⁽¹⁾	95.84%	95.58%
Engineering, construction and procurement prescribed by the EPC Contract with Consorcio Cobra ⁽¹⁾	81.48%	84.43%
Completion of the Project	92.74%	93.10%

(1) See “—EPC Contracts,” below.

EPC Contracts

In March 2008, we launched a competitive bidding process for the development of the Talara Refinery Modernization Project that resulted in the selection of Técnicas Reunidas a global leader in the design and construction of oil and gas facilities. Since its creation in 1972, Técnicas Reunidas has designed and built hundreds of industrial plants worldwide.

In July 2017, we began the process of engaging a new EPC contractor for the construction of the Auxiliary Services Units and Additional Works that resulted in the selection in December 2017 of Consorcio Cobra at an EPC contract price of U.S.\$936 million.

As such, there are two EPC contracts in regard to the Talara Refinery Modernization Project: the Técnicas Reunidas EPC Contract for the construction of the processing units and the Consorcio Cobra EPC Contract for the construction of the auxiliary services units and additional works.

Our agreement with each EPC Contractor comprises the engineering, acquisition of equipment and materials, construction and implementation of all the works to be carried out by Técnicas Reunidas in regard to the Técnicas Reunidas EPC Contract (the “Técnicas Reunidas EPC Works”) and by Consorcio Cobra in regard to the Consorcio Cobra EPC Contract (the “Consorcio Cobra EPC Works” and, collectively with the Técnicas Reunidas EPC Works, the “EPC Works”). Pursuant to each EPC Contract, Técnicas Reunidas and Consorcio Cobra are each entitled to receive sole and exclusive compensation for the performance of its obligations under their applicable EPC Contract (in regard to Técnicas Reunidas, the “Técnicas Reunidas EPC Price,” in regard to Consorcio Cobra, the “Consorcio Cobra EPC Price” and, collectively, the “EPC Price”). Each EPC Price includes all costs and taxes, except for applicable Peruvian VAT, Peruvian import duties, and other costs specifically assumed by us under the applicable EPC Contract. See “Business—Talara Refinery Modernization Project—EPC Contracts—Project works and compensation.”

As of September 30, 2020, we had invested an aggregate U.S.\$4,407.2 million (excluding interest expenses) in the Talara Refinery Modernization Project, of which U.S.\$2,689.6 million was paid to Técnicas Reunidas and U.S.\$737.6 million to Consorcio Cobra, with remaining being invested in complementary works and administrative processes, among others. As of December 31, 2019, we had invested U.S.\$3,556.1 million (excluding interest expenses), of which U.S.\$2,522.6 million was paid to Técnicas Reunidas and U.S.\$536.6 million to Consorcio Cobra, with remaining being invested in complementary works and administrative processes, among others.

Auxiliary Services Units and Additional Works

The Auxiliary Services Units consist of facilities for the production and supply of products and services necessary for the completion of the Project and operation of the upgraded Talara Refinery that consist of the following:

- a facility for the treatment of sulfuric acid;
- hydrogen and nitrogen units;

- a desalination plant;
- a chemical and waste treatment plant;
- an electric generator; and
- upgrades to the Talara Refinery's port facilities.

In addition, in connection with the Project, Consorcio Cobra is performing the Additional Works, that consist of the following:

- construction of administrative buildings;
- implementation of certain operational renovation works;
- installation of a kerosene caustic treatment unit (*TKT Unit*) and all necessary interconnections to integrate it with the Talara Refinery;
- installation of a sulfurized spent caustic soda unit (*OX Unit*) and all necessary interconnections to integrate it with the Talara Refinery;
- construction of foundations for fuel tanks;
- implementation of a dynamic operator training simulator (*OTS System*);
- electromagnetic works for distillation and refining equipment; and
- electromechanical works for interconnections both within the Talara Refinery and offsite.

Financing of the Talara Refinery Modernization Project

As of September 30, 2020, the total cost of the Talara Refinery Modernization Project, exclusive of financing costs, any applicable fees and commissions and the economic impact of the COVID-19 pandemic (which remains under evaluation), is expected to be approximately U.S.\$4,700.0 million. The total cost includes U.S.\$2,798.0 million payable under the Técnicas Reunidas EPC Contract, and estimated U.S.\$784.0 million for the Auxiliary Services Units and U.S.\$193.6 million for the Additional Works under the Consorcio Cobra EPC Contract. We have financed the payments made to the EPC Contractors to date through the following sources:

- U.S.\$1,995.0 million in net proceeds from two series of notes issued in 2017 due 2032 and 2047, which we have used in full for the Project;
- U.S.\$1,226.0 million from a syndicated amortizing loan guaranteed by CESCE, of which U.S.\$1,212.8 million has been disbursed and used for the Project and U.S.\$13.1 million remains available for disbursement; and
- U.S.\$325.0 million in capital contributions from Peru in January 2017, which we have used in full for the Project.

We expect that the balance of costs for the Talara Refinery Modernization Project will be financed using cash on hand, proceeds from available credit facilities and/or other financings, as well as through the additional issuance of debt securities in the domestic and international capital markets. We expect to use the proceeds of this offering to cover short-term debt of the Project estimated to be approximately U.S.\$439 million and any remaining proceeds to fund other costs of the Project.

In addition, we are negotiating a U.S.\$284.0 million loan with OECD to be guaranteed by the F.C.P.J. Company Internationalization Fund (FIEM), which we expect to enter into shortly after the issuance of the Notes. We cannot assure you, however, that we will be able to enter into this loan with OECD.

Competitive Strengths

We have an excellent track record in refining operations

We have consistently and reliably delivered fuel to the Peruvian market for more than 50 years. Our Talara, Conchán and Iquitos refineries are certified in compliance with the quality, environment and health and safety standards established by the ISO 9001, ISO 14001 and ISO 45001 standards. This has been due to our implementation in 2017 of an Integrated Corporate Management System at those refineries. In addition, we have been certified for four consecutive years for compliance with the Equator Principles and the International Finance Corporation (IFC) Environmental and Social Performance Standards, which endorse our environmental performance during the Talara Refinery Modernization Project. Likewise, we have successfully verified our greenhouse gas emissions (GHG) inventories from 2013 to September 30, 2020, demonstrating our commitment to monitoring and controlling the emissions resulting from its activities. While in 2020, the Talara Refinery was not in operation due to the development of the Project, in 2019, the Talara Refinery operated at an average utilization rate of 78.7% in its atmospheric distillation unit, 81.5% in its vacuum distillation unit and 84.6% in its catalytic cracking unit.

We receive support from the Peruvian government

We are wholly-owned by Peru which has demonstrated support for the Talara Refinery Modernization Project and has made a substantial capital contribution of S/1,056 million (U.S.\$325.0 million) to help us finance the Project.

In addition, pursuant to Law No. 30130 and its implementing regulations, Peru, acting through the MEF, has been authorized to irrevocably guarantee the due and punctual payment of our financial liabilities incurred in connection with up to a total of U.S.\$1,000 million and no more than five payments of up to U.S.\$200.0 million per year. Neither the Notes nor any of our debt securities, however, are or will be guaranteed by Peru or benefit from any other type of credit support. Under Law No. 30130, the guarantee is created through an independent agreement entered into between the applicable creditors and MEF, subject to the issuance of a report (*informe previo*) from the *Contraloría General de la República*. As of December 31, 2020, this guarantee has not been triggered. See “Description of the Notes—Covenants—Limitations on issuance of securities benefiting from a Sovereign Guarantee.”

There has been an increase in the number of vehicles in Peru in the last several years

Peru experienced a 7% compound annual growth in the number of vehicles circulating in the country between 2011 and 2014, which slowed down to a 4% compound annual growth rate between 2015 and 2019. As of December 31, 2019, the number of vehicles in circulation had increased to 3.0 million units. Furthermore, in 2019, total domestic demand for diesel increased by 3.0% over 2018, from 113.6 KBPD to 117.4 KBPD. Despite the fact that sales of new light and heavy vehicles experienced a 26% decrease in 2020 compared to 2019 mainly due to the effects of the COVID-19 pandemic, we expect new vehicle sales to resume its pre-COVID-19 growth considering the rate of new vehicle sales in the last quarter of 2020. We believe that, once the effects of the COVID-19 pandemic dissipate, the positive growth trend in the number of motor vehicles in Peru and the related demand for diesel will result in increased domestic demand for our refined products.

There are substantial barriers to entry for potential competitors

We have an extensive network for the transportation and distribution of refined products throughout Peru, including operating the main oil pipeline in Peru, five refineries and a wide-reaching network of distribution terminals and sales plants. We believe that our distribution network is significantly more extensive than that of our competitors and that this infrastructure allows us to serve the demand for our products in all areas of Peru at a lower cost than our competitors. We believe that the Norperuano Pipeline, which we own and operate, provides us with a significant competitive advantage, since our refining competitors do not own oil pipelines. In addition to the Norperuano Pipeline, we have substantial crude storage capacity in our Bayóvar Terminal, which allows to be more flexible and to respond quicker to our refineries’ needs for crude and makes us less susceptible to unfavorable weather conditions. In addition, we have been operating in this market for more than 50 years, and we believe that we have developed a seasoned commercialization strategy and a favorable reputation with our customers.

Companies looking to compete against us in Peru would be confronted with substantial economic barriers to entry because it would be comparatively more expensive for them to transport and distribute products in Peru without making substantial investments to build a refinery and a transportation and distribution network. In addition, competing against us in the Peruvian oil refining industry would involve additional costs and investments in establishing these networks due to the size and complexity needed to meet Peru's demand for refined petroleum products and inventory requirement regulations. They would also face additional costs related to Peruvian environmental regulations and restrictions.

We have established relationships with our principal customers and are the exclusive supplier of refined products for some of them

We have established relationships with our principal customers. As of September 30, 2020, our main wholesale customers were Primax, Numay S.A., and Sociedad Minera Cerro Verde S.A.A., accounting, respectively, for 29.6%, 12.3% and 3.8% of our revenue of refined products by volume during the period. In 2019, our main wholesale customers were Primax, Numay S.A., and Sociedad Minera Cerro Verde S.A.A., accounting, respectively, for 30.8%, 9.5% and 3.0% of our revenue of refined products by volume in 2019. We have entered into three- to five-year sales contracts with our principal wholesale customers that enable us to maintain a steady stream of sales. The contract with Primax has a remaining term of seven years and either Primax or us can terminate the contract for any reason after February 5, 2021. We are currently negotiating an amendment to this contract with Primax and the terms of that amendment could be less favorable to us than the current contractual terms.

In addition to our wholesale customers, we sell our products to a variety of businesses that ultimately resell them to end consumers, including through the Petrored service stations, which represented 20.2% of our revenue for the nine-month period ended September 30, 2020. The largest of these service stations by purchase volume, which has been our client for 18 years, has a three-year exclusivity agreement, renewable automatically for consecutive one-year periods. Our agreements with the other Petrored service stations have similar terms. Pursuant to these exclusivity agreements, in addition to selling our product, the Petrored service stations bear the Petroperu emblem and colors.

We also have long-term contracts with the Peruvian National Police (*Policía Nacional del Perú*) and have been the exclusive fuel supplier for Peru's Armed Forces (Navy, Army and Air Force) since our incorporation in 1969.

Our management consists of highly experienced and dedicated members of the public and private sectors

Our management team consists of qualified professionals with an average of more than 20 years of experience in transportation, refining, distribution and marketing of fuels. Our senior managers have extensive experience in both the public and private sectors in Peru. Several of our directors and officers have held managerial positions in the Peruvian public sector. See "Management."

We have a robust organizational model that responds well to challenges faced by our organization

Our organizational model is aligned with our strategic priorities and responds to the challenges faced by the organization, which has a dynamic and functional structure that allows the creation of value and is oriented towards good corporate governance practices. For example, we have created the Compliance Office, which supervises the design, implementation and operation of our System for the Prevention of Asset Laundering and Financing of Terrorism (SPLAFT). In addition, our Compliance Office supervises the Internal Audit and Risk Body, which is an independent unit tasked with supervising our acts, processes and results and our compliance with established internal regulations in order to mitigate any identified risks, improve operations and meet our institutional objectives. The Compliance Office also implements and manages our Internal Control Systems, as well as the Information Security and Integral Risk Management functions of our company.

Business Strategies

Implement our Corporate Optimization Plan

We are undergoing a corporate modernization, as mandated by Law No. 30130. See "Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations." To assist with this mandate, the international consulting firm, Wood Mackenzie, evaluated our organization and formulated a strategic plan for us

to implement a corporate modernization through 2030 that seeks to transform our company into an integrated, sustainable enterprise. On May 29, 2015, based on Wood Mackenzie's recommendations, our board of directors approved a comprehensive corporate optimization plan for our company (the "Corporate Optimization Plan"). This plan was then validated by the MEM on August 20, 2015, and in compliance with law, on May 13, 2016, the final report on the implementation of the Corporate Optimization Plan was sent to the MEM. Among other things, Wood Mackenzie recommended measures to:

- improve our corporate governance in line with international standards;
- promote the professional development of our personnel; and
- increase day-to-day administrative autonomy from the Peruvian government in our decision-making.

In line with the Corporate Optimization Plan, we have modified our organizational structure to increase efficiency and we expect that our modernized management structure will help us reduce costs by decreasing administrative and operating expenses. Further, the successful completion of the Project is expected to provide cost efficiencies and increase our margins in the long-term by equipping the Talara Refinery to produce high-value added refined products from low-cost raw materials through more efficient production processes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Corporate modernization."

Complete the Talara Refinery Modernization Project on its current schedule to optimize the Talara Refinery operations

We expect that the successful implementation of the Talara Refinery Modernization Project will allow us to comply with environmental standards, increase the capacity and the utilization of the Talara Refinery and our efficiency, and promote collaboration among our refineries by using Talara Refinery's new hydrodesulfurization unit to refine diesel produced at our other refineries.

Currently, our refineries are not currently equipped to produce refined products that comply with environmental requirements. Specifically, we cannot obtain diesel with sufficiently low sulfur content (50 ppm) to be sold throughout the country, where sulfur content restrictions are in effect. We must export diesel we produce and import low-sulfur diesel to comply with these restrictions. For these reasons, since 2013, the Talara Refinery has not operated at its full diesel-producing capacity. Following completion of the Talara Refinery Modernization Project, we expect to be able to refine heavy crude and to produce low-sulfur diesel that complies with currently applicable environmental regulations. The hydrodesulfurization unit will have a processing capacity of 41 KBPD and will be able to receive and process up to 40,000 barrels per month of high sulfur diesel from the Conchán Refinery.

As of December 31, 2020, the Talara Refinery Modernization Project was 92.74% complete and entered the next phase of development, which consists of the implementation of the Auxiliary Services Units. Once the last auxiliary service unit begins construction (projected for the third quarter of 2021), the Project will enter into its final phase, which will consist of the sequential implementation of the process units (projected for the last quarter of 2021). We expect the Project to complete its contractual phase in September 2022.

The completion of the Project is expected to bring the Talara Refinery into full compliance with applicable environmental requirements and equip the Talara Refinery to operate at full diesel-production capacity. See "Business—Talara Refinery Modernization Project."

Generate more predictable cash flows and increase our margins to gradually deleverage through the expansion of our Talara Refinery

Following completion of the Talara Refinery Modernization Project, we expect to be able to refine heavy crude and to produce low-sulfur diesel that complies with currently applicable environmental regulations. Accordingly, we expect to increase domestically-produced heavy crude as well as produce low-sulfur diesel and high-value-added refined products, which we expect will give greater flexibility to our refining operations and improve our margins. We also believe that an increase in the Talara Refinery's refining capacity will allow us to better serve fuel demand in Peru.

Additionally, we expect the Project will improve our margins by allowing us to process the less expensive heavy crude into high-value-added refined products and to further reduce our exposure to exchange rate risks and to crude price fluctuations by reducing our need to import light crude and low-sulfur diesel and allowing us to avoid the volatility of the international markets of crude and Intermediate Products.

Furthermore, we expect the completion of the Talara Refinery Modernization Project to result in an increase in cash flows, mainly through a combination of additional revenues and better refining margins, which we believe will allow us to gradually and sustainably deleverage our company.

Increase and maintain market share in gasoline sales through optimizing wholesale and direct sales channels

Our aim is to reach and maintain a 65.0% market share of the gasoline market in Peru through our wholesale and direct sales channels. We have expanded our access to Petrored, from 654 service stations in 2019 to 662 as of September 30, 2020, by entering into exclusivity arrangements with additional gas stations, and we also plan to revise our commercial and discount policies to strengthen our sales. In 2019, we increased gasoline sales made through wholesalers and direct sales by 1.0% from 2018 to 33.1 KBPD, representing a market share of 64.0% in 2019. In the nine-month period ended September 30, 2020, our total sales of gasoline was 24 KBPD or 65.0% of domestic demand. See “Business—Production and Trading Segment—Principal customers of our refined products—Direct Sales.”

Use vertical integration to maximize the value of our company

We engage in the midstream activities of the hydrocarbon refining process: transportation, refining, and distribution. Because we do not currently engage in exploration and production of crude, we must purchase all of the crude we refine from domestic producers and in the international market either at negotiated prices pegged to the prices of certain international benchmarks or at spot market prices. To maximize value and reduce dependence on oil produced by third parties, we began exploration and production activities in 2017, which we believe will help further the vertical integration of our operations. We expect to enter into a license arrangement with an operating partner for the exploration and production of crude at Block 192. See “Business—Potential Future Exploration and Oil Production.”

Maintain compliance with international quality, environmental, health and safety standards

In November 2019, our Integrated Management System (“SIG-C”) performed a maintenance audit that resulted in our decision to migrate to the ISO 45001:2018 standard, replacing the OHSAS 18001:2007 standard and expanding the scope of the quality management system, which now includes supervision over the export of crude oil and derivatives from refineries. The SIG-C has enabled us to standardize, simplify, optimize and enhance the efficacy and effectiveness of all our operational and administrative processes, using existing synergies to reduce duplication of functions, responsibilities, documents and resources.

As a result, SGS del Perú issued a recommendation for re-certification after we successfully met the requirements of its external audit. We have also been certified in the Quality Management System ISO 9001:2015, Environmental Management System ISO 14001:2015 and Occupational Health and Safety Management System ISO 45001:2018. Furthermore, the APN has granted us certification of the Port Facilities of Talara, Norperuano Oil Pipeline, Conchán and Iquitos with the Code PBIP/IPE/RED 10-2007, and, our Talara, Conchán and Iquitos refineries comply with the quality, environment and health and safety standards established by the ISO 9001, ISO 14001 and ISO 45001 standards. Moreover, our laboratory at the Talara Refinery is ISO 17025 certified for 12 different test methods.

We believe that our focus on compliance with international quality, environmental health and safety standards, including obtaining and renewing ISO certifications, add value to our operations by enhancing our credibility, allowing us to meet the social and environmental responsibility requirements of the mining industry and providing more and broader access to markets and suppliers. ISO are international standards whose compliance is strictly voluntary. Some of these standards have become binding through their incorporation into Peruvian law, such as Law No. 27943 (National Port System Law), which requires port operators to comply with ISO 9001 standards and Law No. 29783 (Health and Safety Law at Work), which requires all companies to establish systems to promote health and safety at work. See “Regulatory Framework—Environmental Matters.”

History

We are a state-owned corporation subject to private law, incorporated as a corporation under the laws of Peru on December 9, 1981, pursuant to Supreme Decree No. 034-81-EM/DGM. Our current corporate bylaws were approved by our general board of shareholders on October 18, 2010. Peru is the sole owner of 100.0% of our capital stock, which consists of Class A (80.0% of our total capital stock) and Class B shares (20.0% of our total capital stock). Pursuant to our bylaws, only our Class B shares are required to be registered in the Public Registry of Capital Markets of the SMV and have been registered since April 27, 2010 in accordance with Legislative Decree No. 1031. We are, therefore, under the supervision of the SMV.

At the general shareholders' meeting held on January 14, 2017, the shareholders approved a capital increase of U.S.\$316.4 million (an equivalent of S/1,056.0 million) which was contributed from our company's additional capital. Furthermore, at the general shareholders' meeting held on April 18, 2017, our sole shareholder approved a capital increase of U.S.\$121.4 million (an equivalent of S/406.7 million), which was increased by transferring the balance of additional capital. On August 14, 2017, we announced that such capital increase was registered in the Peruvian Public Registry. At the general shareholders' meeting held on June 27, 2018, our sole shareholder approved a capital increase of U.S.\$166.6 million (equivalent to S/520.7 million), which was increased by transferring the balance of additional capital. At the general shareholders' meeting held on March 29, 2019, our sole shareholder approved a capital increase of U.S.\$107.6 million (equivalent to S/402.5 million), which was increased by transferring the additional capital balance.

Pursuant to Law No. 30130, we are authorized to publicly sell or issue voting shares representing up to 49.0% of our company's stock through an initial public offer, which we will carry out when the new Talara refinery has reached a stable and adequate integration into our operations. The incorporation of minority private shareholders would guarantee the incorporation of corporate governance policies that aim at efficiency, opportunity and value generation within the management of our company.

In carrying out our corporate purpose, we act with economic, financial and administrative autonomy and in accordance with our objectives, policies and strategies, which are approved by the MEF and the MEM. As an example of our compliance with the principles of good corporate governance, during 2019, we obtained a Good Corporate Governance index of 83.7%, surpassing the target of 80.0% for the same year.

During 2019 and 2020, our company has been executing corporate action plans to achieve the economic and financial objectives of our company, whose main measures are aimed at optimizing the cost structure in the purchase of raw materials and products, strategies in commercial management, operational management, inventory management and budget optimization plan of operating expenses and prioritization of investments.

Recent Developments

Recent developments related to the COVID-19 pandemic

On March 15, 2020, the Peruvian government declared through Supreme Decree No. 044-2020-PCM a state of national emergency in connection with the global COVID-19 pandemic, closing the country's borders and establishing a mandatory national quarantine, which was subsequently extended several times. This decree implemented a series of restrictions designed to protect the population against the spread of the COVID-19. In May 2020, through Supreme Decree No. 080-2020-PCM, and then in June, through Supreme Decree No. 101-2020-PCM, Supreme Decree No. 110-2020-PCM and Supreme Decree No. 117-2020-PCM, the gradual and progressive resumption of economic activity was approved within the framework of this state of emergency. However, on January 14, 2020, through Supreme Decree No. 002-2021-PCM, the Peruvian government approved a four level alert regime that designates provinces an alert level depending on the severity of the number COVID-19 cases in the region, the fourth level being the most severe, and applies varying degrees of restrictions accordingly. After an increase of COVID-19 cases and news outlets announcing a second wave of cases due to the COVID-19 pandemic, on January 26, 2020, President Francisco Sagasti announced new additional measures to contain the spread of COVID-19 in Peru. Accordingly, through Supreme Decree 008-2021-PCM published on January 27, 2020 and going into effect on January 31, 2020, the Lima Province was assigned the fourth level under the alert regime and the Piura Province, where the Talara Refinery is located, the second level of the quarantine measures. These restrictions allow for essential activities, such as the works in the Talara Refinery, to continue being carried out.

As of the date of this offering memorandum, the national state of emergency and a series of restrictions are still in force. The COVID-19 pandemic and the mandatory quarantine measures adopted to contain the pandemic in Peru have had, and are expected to continue to have, a material adverse impact on many sectors of the Peruvian economy, including the oil and gas sector and our company.

Our business involves the distribution of crude oil and refined products in Peru, and it is highly susceptible to changes in the price of crude and demand for fuel. In 2020, benchmark prices for the Oman, Forties and Suez Blend crude basket fell below U.S.\$50.00 per barrel to a low of U.S.\$20.00 per barrel due primarily to the negative impact of the COVID-19 pandemic on the worldwide economy, which caused a drastic reduction in global economic activity and fuel demand and consumption. As a result, our gross profit and revenue decreased accordingly. In addition, the COVID-19 pandemic has had an adverse impact on our personnel and our contractors' and developers' employees, and has caused logistical and coordination issues with vendors and suppliers, generating additional costs and expenses relating to containment, mitigation and response efforts. Moreover, as a result of the declaration of a nation-wide lockdown in Peru, work on the Talara Refinery Modernization Project was suspended from March 16, 2020 to June 14, 2020 and the operation of the Norperuano Pipeline was suspended due to *force majeure* events from April 30, 2020 to July 31, 2020. We resumed our pumping operations on the Norperuano Pipeline on August 1, 2020, but due to social unrest involving members of several communities adjacent to Pump Station 5, the pipeline further suspended operations on two occasions, from August 2, 2020 to August 15, 2020 and from September 28, 2020 to December 27, 2020.

In response to the COVID-19 pandemic, we created a Plan for Monitoring, Prevention and Control of COVID-19. We estimate an approximate U.S.\$1.6 million budget for the enactment of this plan, which implements measures to combat the effects of the COVID-19 pandemic including the purchase of face masks, disinfecting materials, among others. As a result of the impact of this plan, we have decreased our operation expense budget by an estimated U.S.\$116 million and have decreased our investment budget by an estimated U.S.\$288 million. Moreover, we have made a series of management decisions and adopted a number of measures, including:

- allowing approximately 37.0% of our permanent employees to work from home;
- supplementing critical process trainings for our teams and contractors;
- cancelling most business-related domestic and international travel;
- restricting the entry of our personnel and third parties to our facilities;
- updating our business contingency plans (including additional alternative centers of control, the distribution of our workforce in groups to prevent any disruption of our operations and the adoption of alternative work schedules); and
- increasing sanitation efforts in public and private spaces of our facilities in compliance with the regulations issued by the Peruvian government.

The Peruvian government has adopted several measures to help counteract the negative effects and disruption to the economy caused by the COVID-19 pandemic. These include:

- the approval of Ministerial Resolution No. 128-2020-MINEM-DM, which requires mining, power, and oil and gas companies, including us, to draft, approve and execute plans to monitor and prevent the spread of COVID-19 at the workplace;
- the approval of Emergency Decree No. 033-2020, which allows Banco de la Nación to provide temporary relief in the form of liquidity, through credit lines to be granted in favor of state-owned companies like ours, up to December 31, 2020;
- funding local governments, currently suffering from reduced revenue streams;
- eliminating tariffs on medical supply imports;

- granting direct subsidies to families and individuals;
- providing disability subsidies to COVID-19 patients;
- providing benefits to furloughed workers;
- reducing some tax burdens in favor of individuals and companies; and
- granting certain subsidies to fund company payrolls and funding reactivation plans for tourism, culture and agricultural industries.

The negative effects of the COVID-19 pandemic on the Peruvian economy and on our business triggered the need to conduct impairment testing in compliance with IAS 36 in connection with the preparation of our Unaudited Interim Financial Statements. In measuring the effect of impairment, IAS 36 requires that the recoverable amount of an asset or CGU be compared to the asset's or the CGU's carrying value. The recoverable amount is the higher of: (i) fair value less costs of disposal, and (ii) value in use of the asset or CGU. If any of these exceeds the book value of the asset or CGU, it would not be necessary to estimate the other and the relevant asset or CGU would not be impaired.

We performed impairment testing of the Talara Refinery Modernization Project as a CGU through its value in use. In doing so, we focused on the Talara Refinery Modernization Project's expected revenue using a discounted cash flow methodology, which allows present value calculations of expected cash flows through the use of a discount rate that takes into consideration company and sector specific risks. In performing the impairment testing, we used a 7.25% discount rate and took into consideration: (i) the change in the expected completion date of the Talara Refinery Modernization Project due to delays, including temporary suspension of the works as a result of the COVID-19 pandemic, and (ii) decreased prices for the purchase and sale of crude oil and slower projected price increases relative to the expectation in prior years. As a result, our Unaudited Interim Financial Statements as of September 30, 2020 include a U.S.\$71.4 million asset impairment corresponding to the Talara Refinery Modernization Project CGU. See Note 5 to our Unaudited Interim Financial Statements included elsewhere in this offering memorandum and "Presentation of Financial and Statistical Information—Our Financial Statements."

The COVID-19 pandemic and governmental measures undertaken to contain the spread of the virus have resulted and may continue to result in decreased demand for our products, additional logistical and operational issues, disruption to the provision of goods and services by key suppliers and increased unavailability of staff, due to the mandatory quarantine restrictions or otherwise, all of which have and may continue to adversely affect our business, financial condition and results of operations.

Recent political developments in Peru

On September 11, 2020, the Peruvian Congress voted to begin removal proceedings against Peru's President, Martín Vizcarra, alleging that President Vizcarra intended to obstruct an ongoing preliminary criminal investigation involving Richard Cisneros, a musician who had been awarded contracts by the Peruvian Ministry of Culture to give motivational and leadership talks over the course of the last three years. The Peruvian Congress initiated the proceedings on the basis of Article No. 113 of the Peruvian Constitution, which provides a cause for impeachment of the President for "permanent moral incapacity" at the discretion of Congress.

The call for a vote to begin proceedings to apply Article No. 113 was followed by the release of audio recordings in which President Vizcarra allegedly discussed a strategy with certain government officials to alter the number of meetings that he would publicly admit that he had with Cisneros in order avoid the appearance of impropriety regarding his relationship with Cisneros. The vote passed with 65 members of the Peruvian Congress in favor. As a result, the Peruvian Congress summoned President Vizcarra to present his defense statement to Congress, scheduling such appearance for September 18, 2020.

In response to the actions of the Peruvian Congress, the executive branch filed a lawsuit before the Constitutional Tribunal on September 14, 2020, petitioning the court to interpret Article No. 113 of the Peruvian Constitution, and seeking an injunction temporarily suspending the impeachment proceedings until a final decision had been issued by the court regarding the merits of the case. On September 17, 2020, the Constitutional Court

admitted the lawsuit for review but denied the injunction request as it found no evidence of clear and present danger regarding the likelihood of the President's impeachment.

As a result, on September 18, 2020, after President Vizcarra presented his defense statement before Congress, Congress proceeded to debate and vote whether to impeach him which would require the favorable vote of at least two-thirds (or 87 members) of the members of the Peruvian Congress. Only 32 votes in favor were obtained and thus the impeachment proceedings came to an end.

On November 2, 2020, after new allegations of corruption emerged from President Vizcarra's time as Regional Governor of Moquegua, a vote was held and approved to begin new impeachment proceedings against him and on November 9, 2020, President Vizcarra appeared before Congress and presented new defense statements. Following his appearance, Congress held a new vote to impeach President Vizcarra, obtaining 105 votes in favor and removed him from office, declaring him permanently morally incapacitated. That same day, President Vizcarra held a press conference in which he accepted the Peruvian Congress's decision and resigned.

Under Article No. 115 of the Peruvian Constitution, which regulates the presidential line of succession, if the incumbent President and the Vice Presidents are incapacitated or impeded from holding the office of the Presidency of the Republic, the President of Congress must assume the functions of the President. Pursuant to this regulation, on November 10, 2020, Manuel Merino, the sitting President of the Peruvian Congress, was sworn in as acting President. Mr. Merino resigned from the presidency on November 16, 2020 following wide-spread protests across the country which resulted in the deaths of two students and the resignation of several cabinet members and top government officials, including the Minister of Finance and Economy and the Minister of Energy and Mines. Likewise, all members of the Directive Committee of Congress, comprised of the President of Congress and three Vice-Presidents, also resigned.

As a result of the resignation of Mr. Merino and the Directive Committee of Congress, Congress held elections to renew the Directive Committee of Congress, electing by a significant majority, the list of candidates led by Francisco Sagasti. As a consequence of his appointment as President of Congress, on November 18, 2020, President Francisco Sagasti was sworn in as President of the Republic for the remaining presidential term, which ends in July 2021. On November 18, 2020, President Francisco Sagasti appointed the members of his cabinet, which were ratified by Congress (*voto de confianza*) on December 3, 2020.

Although Petroperu is an autonomous entity, because it is a state-owned company, changes in the presidency or Congress could have a direct impact on our management if an incoming president or acting president makes changes in the cabinet, including the appointment of a Minister of Energy and Mines, who serves as the President of our board of directors, or the appointment of a Minister of Economy and Finance, Vice-Minister of Energy or Vice-Minister of Economy and Finance, all of whom are members of our board of directors. Continued uncertainty with respect to the political and governmental leadership of Peru could result in uncertainty with respect to our management. See "Risk Factors—Risks Related to Our Operations—We depend on key members of our management team and other key personnel for the success of our business" and "Risk Factors—Risks Related to Peru—Economic, political and social developments in Peru could materially and adversely affect us."

Recent developments related to our indebtedness

CESCE Financing

As part of a comprehensive financing plan for the Talara Refinery Modernization Project, we obtained a syndicated amortizing loan in an amount of up to U.S.\$1,300 million in total disbursements guaranteed by CESCE. The process with CESCE began in 2010 and remains subject to approvals from the CESCE risk committee and the government of Spain, including approval of the Commission Delegate for Economic Affairs of the Spanish Government (*Comisión Delegada del Gobierno para Asuntos Económicos*), at the request of Spain's Minister of Economy and Commerce (*Ministerio de Economía y Competitividad*). Additionally, the CESCE financing is subject to the negotiation and execution of the financing documentation. See "Risk Factors—Risks Related to Our Operations—The Talara Refinery Modernization Project requires substantial capital and we have not secured all sources of financing required to complete the project" and "Description of Certain Indebtedness of the Issuer—CESCE Financing."

Since the effectiveness of the CESCE financing, the following disbursements under the CESCE loan have been received:

- (i) on November 9, 2018, U.S.\$1,174,837,123.40;
- (ii) on January 28, 2020, U.S.\$40,110,883.32 and
- (iii) on November 27, 2020, U.S.\$14,087,869.60.

Recent developments related to our operations

Natural Gas Distribution Pipeline Network of the Southwest Concession

On December 14, 2020, the Official Gazette published Supreme Decree No. 029-2020-EM under which Petroperu was granted, through a special mandate, provisional management of the Natural Gas Distribution Pipeline Network of the Southwest Concession (the “Southwest Concession”), which encompasses the operation and management of the Southwest Concession for natural gas distribution by grid in the regions of Arequipa, Moquegua and Tacna. The Supreme Decree expressly provides that resources required for the execution of this special mandate, shall be granted by the Ministry of Energy and Mines.

The special mandate will be in effect for a maximum term of three years, following expiration of the Southwest Concession. Furthermore, Petroperu will receive from the prior concession holder, the goods and property of the Southwest Concession listed under its inventory, in order to continue distributing natural gas in the Southwest Concession’s applicable area.

See “Business—Natural Gas Distribution Pipeline Network of the Southwest Concession.”

Exploration of Block 64

On July 15, 2020, Geopark announced its withdrawal from the exploration and production of crude at Block 64. We have agreed the terms of Geopark’s license assignment and are currently working to finalize the assignment agreement which will stipulate the various aspects of Geopark’s withdrawal from Block 64. In addition, we have sent a joint letter to Perupetro communicating that we have reached an agreement regarding the assignment and requested Perupetro to confirm whether additional information is required regarding our qualification to assume a 100% participation in the licensing agreement for Block 64. See “Business—Potential Future Exploration and Oil Production— Exploration and production of hydrocarbons in Block 64.”

Exploration of Block 192

Block 192 is under a service contract between Perupetro and Frontera Energy which is set to expire in the first quarter of 2021. Pursuant to Law No. 30357, we expect to enter into an exploitation license contract with Perupetro, under which we would become the new operators of Block 192 for a period of 30 years. We are currently undertaking a consultation process with the neighboring communities and the MEM. Upon conclusion of such process, we expect to complete a bidding process for a new partner to operate Block 192. In October 2020, Perupetro communicated the restart of the prior consultation process for Block 192. By means of Official Letter No. 442-2020-MINEM/OGGS/OGDPC published on November 19, 2020, the Office for the Management of Dialogue and Citizen Participation of MEM reached an agreement with indigenous communities on the timetable for carrying out the stages of the prior consultation process, and informed that it could undergo variations depending on the internal decisions of the indigenous communities. In the last meeting held with Perupetro on January 4, 2021, the MINEM informed that the timetable has been delayed and they estimate that the prior consultation will be completed by April 2021.

See “Business—Potential Future Exploration and Oil Production—Block 192.”

Recent developments relating to our business and results of operations in the fourth quarter of 2020

As described above, the COVID-19 pandemic and governmental measures undertaken to contain the spread of the virus, including the mandatory quarantine restrictions, have resulted in decreased demand for our products, generated logistical and operational issues, caused disruption to the provision of goods and services by key suppliers

and increased unavailability of staff, which had a material adversely effect on our business and results of operations for the nine-month period ended September 30, 2020. As of the date of this offering memorandum, we have not prepared financial statements for the fourth quarter of 2020 and/or the year ended December 31, 2020. However, as a result of the flexibilization of some of the COVID-19 governmental measures undertaken to contain the spread of the virus and the resulting increase in economic activity in Peru, we have experienced increased demand for our products in the fourth quarter of 2020 compared to the first nine months of the year. For example, there was an increase in sales of new motor vehicles in the fourth quarter of 2020, which is normally correlated with increased domestic demand for our refined products. In addition, we expect a modest reduction in administrative and operating expenses as a result of recent changes in our organizational and management structure to increase efficiency in line with our Corporate Optimization Plan. Furthermore, we expect that the recent implementation of our new vision identity as part of our comprehensive modernization and commercial strategy will help improve our competitiveness and maintain and recover market share. We cannot assure you, however, that our results of operations for the fourth quarter of 2020 and/or the year ended December 31, 2020 will show an increase in sales with respect to prior periods and/or will be as anticipated herein.

Our Principal Headquarters

Our executive offices are located at Avenida Enrique Canaval Moreyra 150, Lima 27, Peru. We can be contacted by telephone at +51 1-614-5000, and our website is <http://www.petroperu.com.pe/>. The information on our website is not considered part of this offering memorandum and is not incorporated by reference herein.

THE OFFERING

The following is a brief summary of certain terms of this offering and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing throughout this offering memorandum. For a more complete description of the terms of the Notes, and the definitions of certain capitalized terms used below, see “Description of the Notes.”

Issuer	Petróleos del Perú—Petroperú S.A.
Notes Offered	U.S.\$1,000,000,000 aggregate principal amount of 5.625% Notes due 2047.
	<p>The Notes will constitute a further issuance of, and be consolidated, form a single series and be fully fungible with, our outstanding U.S.\$1,000,000,000 5.625% Notes due 2047 originally issued on June 19, 2017. After giving effect to the issuance of the Notes offered hereby, the total principal amount of our 5.625% Notes due 2047 outstanding will be U.S.\$2,000,000,000.</p> <p>Until the expiration of the 40-day distribution compliance period commencing on the issue date, the Notes offered hereby and sold in compliance with Regulation S will be issued and maintained under a temporary CUSIP number and a temporary ISIN. Upon the expiration of the 40-day distribution compliance period, the Notes offered hereby and the Original Notes will share the same CUSIP number and ISIN and be fully fungible.</p>
Issue Date	February 11, 2021.
Issue Price.....	114.718% of the principal amount, plus accrued interest from December 19, 2020 to February 11, 2021, the date on which we expect to deliver the Notes, in the aggregate amount of U.S.\$8,125,000, and any additional interest from that date if settlement occurs after February 11, 2021.
Maturity Date	June 19, 2047.
Interest Rate.....	5.625% per annum.
Interest Payment Dates	Interest on the Notes will be payable semi-annually in arrears on June 19 and December 19 of each year, commencing on June 19, 2021.
Ranking	The Notes will rank senior in right of payment to all of our future subordinated indebtedness and equal in right of payment with all of our present and future unsubordinated indebtedness, other than in the case of certain obligations as may be preferred by provisions of law that are both mandatory and of general application.
Payments of Additional Amounts	All payments by us in respect of the Notes, whether of principal, interest or premium, if any, will be made free and clear of, and without withholding or deduction for or on account of any Taxes imposed, levied, collected, withheld or assessed by, within or on behalf of Peru or any other jurisdiction in which we (or our successor) is organized or is a resident for tax purposes, or any political subdivision or Governmental Authority thereof having power to tax or any jurisdiction through which payment is made at our direction, or any political subdivision or Governmental Authority thereof having power to tax, unless such withholding or deduction is required by law, in which case,

subject to specified exceptions and limitations, we will pay such additional amounts as may be necessary to ensure that the net amount received by the holders of the Notes, including additional amounts, after any such withholding or deduction of Taxes will equal the amounts which would have been received in respect of the Notes in the absence of any such withholding or deduction. See “Description of the Notes—Payment of Additional Amounts.”

Certain Covenants The indenture pursuant to which the Notes will be issued contains certain covenants, including limitations on liens; limitations on sale and leaseback transactions; limitations on consolidation, mergers or sales; covenants concerning periodic reports and available information; and limitations on guaranteed debt. See “Description of the Notes—Covenants.”

Optional Redemption..... We may redeem the Notes, at our option, in whole or in part, at any time, by paying the greater of (1) 100% of the outstanding principal amount of the Notes to be redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) on the Notes to be redeemed discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined in the Indenture) plus 45 basis points, in each case, plus accrued and unpaid interest thereon, if any, to the date of redemption. See “Description of the Notes—Redemption.”

Tax Redemption In the event that, as a result of certain changes in or amendments to the laws or regulations of a Relevant Taxing Jurisdiction or any generally applicable change in the application or official interpretation of such laws or regulations applicable to payments under the Notes, (a) we become or will become obligated to pay additional amounts in excess of those that would be payable were payments of interest on such Notes subject to a 4.99% withholding tax or (b) payment of principal, premium, if any, or interest on the Notes is subject to Peruvian value added tax, and we are not entitled to a tax credit with respect to such paid value added tax due to an action or event not attributable to us, we may, at our option, redeem the Notes, in whole, but not in part, at any time upon notice, at 100.000% of the principal amount of the Notes plus accrued and unpaid interest thereon, if any, to the date of redemption. See “Description of the Notes—Redemption—Redemption for Taxation Reasons.”

Change of Control Upon the occurrence of a Change of Control Event, holders of the Notes will have the right to require that we make a Change of Control Offer for all or any part of the Notes at a purchase price in cash equal to 101.000% of the principal amount thereof, plus accrued and unpaid interest thereon, if any, to, but excluding, the purchase date and any Additional Amounts payable with respect thereto.

If holders of not less than 90% in aggregate principal amount of the outstanding Notes validly tender and do not withdraw such Notes in a Change of Control Offer and we, or any third party making a Change of Control offer in lieu of us, purchase all of the Notes validly tendered and not withdrawn by such holders, we or such third party will have the right to redeem all Notes that remain outstanding following such purchase on a date (the “Second Change of Control Payment Date”) at a price in cash equal to the Change of Control Payment in respect of the Second Change of Control Payment Date. See “Description of the Notes—Change of Control.”

Further Issuances	The Issuer may, from time to time without the consent of holders of the Notes, issue additional Notes having the same terms and conditions as the Notes offered hereby in all respects, except that the issue date, the issue price and the first payment of interest thereon may differ; <i>provided, however</i> , that unless such additional Notes are issued under a separate CUSIP number, either such additional Notes are part of the same “issue” as the Original Notes and the Notes offered hereby for United States Federal income tax purposes or will be issued pursuant to a “qualified reopening” for United States Federal income tax purposes. Additional Notes issued in this manner will increase the aggregate principal amount of, and be consolidated with and form a single series with, the Original Notes and the Notes offered hereby.
Transfer Restrictions	The Notes have not been and will not be registered under the Securities Act and are subject to transfer restrictions. See “Transfer Restrictions.”
Form and Denomination	<p>The Notes will be issued in fully registered book-entry form, with a minimum denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.</p> <p>The Notes sold in the United States in reliance on Rule 144A will be evidenced by one or more notes in global form (collectively, the “Restricted global note”), which will be deposited with a custodian for, and registered in the name of a nominee of, DTC. The Notes sold outside of the United States in reliance on Regulation S will be evidenced by one or more notes in global form (collectively, the “Regulation S global note”), which also will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Transfer of beneficial interests between the Restricted global note and the Regulation S global note will be subject to certain certification requirements.</p>
Use of Proceeds	We will use the net proceeds from the offering of the Notes, together with available cash and, to the extent and in the amounts necessary, additional financings, to finance the completion of the Talara Refinery Modernization Project. See “Use of Proceeds.”
Listing.....	We intend to apply for the listing and quotation of the Notes on the SGX-ST. No assurance can be given that such application will be granted or that such listing will be maintained.
Trustee, Paying Agent and Registrar	The Bank of New York Mellon.
Governing Law	The Indenture is, and the Notes will be, governed by, and construed in accordance with, the laws of the State of New York.

* * *

Risk Factors

Prospective purchasers of the Notes should consider carefully all of the information set forth in this offering memorandum and, in particular, the information set forth under “Risk Factors” in this offering memorandum, before making an investment in the Notes.

SUMMARY FINANCIAL AND OTHER INFORMATION

The following tables present our summary financial and other information as of and for each of the dates and periods indicated. This data is qualified in its entirety by reference to, and should be read together with, our Financial Statements and the notes thereto. The following data as of December 31, 2019, 2018 and 2017 and for each of the years ended December 31, 2019, 2018 and 2017 have been derived from our Audited Financial Statements. The data as of September 30, 2020 and for the nine month periods ended September 30, 2020 and 2019 have been derived from our Interim Financial Statements, which are not necessarily indicative of the results to be expected for the year ended December 31, 2020 or any other period and should be read together with our Audited Financial Statements. We have prepared the Interim Financial Statements on the same basis as our Audited Financial Statements and, in our opinion, have included all adjustments necessary to present fairly in all material respects our financial position and results of operations. The financial data presented in this offering memorandum should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as "Presentation of Financial and Statistical Information."

Selected Statement of Profit or Loss Data

	For the Nine Month Period Ended September 30,		For the Year Ended December 31,		
	2020	2019	2019	2018	2017
			(U.S.\$ in millions)		
Revenue from ordinary activities...	2,199.2	3,449.3	4,568.3	4,884.0	3,979.3
Other operating revenue	57.7	62.5	99.7	81.1	72.3
Total gross revenue	2,256.9	3,511.8	4,668.0	4,965.1	4,051.6
Cost of sales	(2,120.6)	(3,113.8)	(4,139.9)	(4,617.6)	(3,537.1)
Gross profit	136.3	397.9	528.1	347.5	514.5
Selling and distribution expenses...	(43.1)	(56.0)	(78.9)	(77.4)	(70.2)
Administrative expenses.....	(95.9)	(114.0)	(186.1)	(156.2)	(179.0)
Other income	9.2	23.3	38.3	135.5	68.8
Other expenses	(78.3)	(12.3)	(36.2)	(33.5)	(35.5)
Total operating expenses	(208.1)	(159.0)	(263.0)	(131.6)	(215.9)
Operating profit (loss).....	(71.8)	238.9	265.2	215.8	298.6
Finance income.....	17.1	13.8	19.1	17.0	3.4
Finance costs	(26.7)	(26.5)	(37.4)	(48.9)	(51.8)
Exchange difference, net	(28.4)	(4.7)	6.9	(6.7)	(2.0)
Profit (loss) before income tax.....	(109.8)	221.5	253.8	177.3	248.1
Income tax	(6.8)	(76.4)	(82.8)	(57.7)	(63.0)
Profit (loss) for the period/year ..	(116.6)	145.1	171.0	119.6	185.1

Selected Statement of Financial Position Data

	As of September 30,		For the Year Ended December 31,		
	2020	2019	2019	2018	2017
	(U.S.\$ in millions)				
Current assets:					
Cash	154.3	261.3	375.7	528.7	666.1
Trade accounts receivable, net ...	248.0	328.4	362.6	438.7	343.3
Other accounts receivable, net	151.9	725.8	174.0	1,455.8	661.2
Inventories	356.1	597.8	654.4	590.5	643.6
Prepaid expenses	1.3	6.4	3.7	0.4	4.9
Assets held for sale	0.6	2.0	0.6	2.0	—
Total current assets	912.2	1,921.8	1,571.0	3,016.1	2,319.2
Non-current assets:					
Other accounts receivable	407.4	299.7	363.6	241.8	215.2
Investments in properties	9.6	70.1	9.6	9.6	9.5
Property, plant and equipment, net	5,628.7	4,594.0	5,094.6	4,043.0	3,361.4
Intangible assets	37.1	35.2	36.8	33.6	33.5
Right of use assets	9.0	—	11.5	—	—
Other assets	0.0	—	—	—	0.1
Total non-current assets	6,091.8	4,999.0	5,516.0	4,327.9	3,619.6
Total assets	7,004.0	6,920.8	7,087.0	7,344.0	5,938.7
Current liabilities:					
Other Financial Liabilities	1,261.8	960.7	1,010.0	1,673.1	1,319.2
Trade accounts payable	553.0	661.4	739.1	529.8	772.2
Other accounts payable	65.8	109.0	139.3	105.1	115.2
Provisions	28.9	32.2	37.9	34.7	59.6
Lease liabilities	5.4	—	8.8	—	—
Total current liabilities	1,915.0	1,763.2	1,935.2	2,342.7	2,266.2
Non-current liabilities:					
Other financial liabilities	3,201.5	3,151.6	3,153.7	3,147.6	1,985.1
Provisions	11.5	7.3	11.7	7.1	14.5
Income tax liability	82.3	116.3	75.5	109.3	55.3
Lease liabilities	2.1	—	2.7	—	—
Total non-current liabilities	3,297.4	3,275.2	3,243.6	3,264.0	2,054.9
Total liabilities	5,212.4	5,038.4	5,178.8	5,606.7	4,321.1
Equity:					
Issued Capital	1,445.6	1,338.0	1,445.6	1,338.0	1,171.4
Other capital reserves	69.2	52.1	52.1	40.2	21.7
Other equity reserves	153.9	107.6	—	—	(0.2)
Retained earnings	123.0	384.7	410.6	359.2	424.7
Total equity	1,791.7	1,882.4	1,908.3	1,737.3	1,617.6
Total liabilities and equity	7,004.0	6,920.8	7,087.0	7,344.0	5,938.7

Statement of Changes in Equity Data

	For the Nine Month Period Ended September 30,		For the Year Ended December 31,		
	2020	2019	2019	2018	2017
	(U.S.\$ in millions)				
Balances as of the beginning of the period/year	1,908.3	1,737.3	1,737.3	1,617.6	1,115.9
Profit for the period/year	(116.6)	145.1	171.0	119.6	185.1
Total comprehensive income	—	—	—	0.2	0.2
Capitalization of additional capital	153.9	107.6	—	—	—
Transfer to capital stock	—	—	107.6	166.6	—
Transfer to legal reserve	17.1	12.0	12.0	18.5	—
Capitalization of retained earnings	(171.0)	(119.6)	(119.6)	(185.1)	—
Total transactions with stockholders	—	—	—	—	316.4
Balances as of the end of the period	1,791.7	1,882.4	1,908.3	1,737.3	1,617.6

Other Financial Data

	For the Nine Month Period Ended September 30,		For the Year Ended December 31,		
	2020	2019	2019	2018	2017
<i>(U.S.\$ in millions, except percentages)</i>					
EBITDA	52.1	308.7	403.4	263.5	378.5
Adjusted EBITDA ⁽¹⁾	45.4	302.4	394.5	168.1	347.3
Adjusted EBITDA Margin ⁽¹⁾	2.0%	8.6%	8.5%	3.4%	8.6%
Amortization and Depreciation	45.0	47.6	87.6	50.6	49.8
Net cash (used in) provided by operating activities	235.2	597.6	645.7	(134.4)	165.0
Net cash used in investing activities ...	(688.9)	(116.0)	(131.4)	(1,501.5)	(1,228.5)
Net cash provided by financing activities	242.2	(749.0)	(668.3)	1,500.9	1,652.7

(1) See "Presentation of Financial and Statistical Information—Special Note Regarding Non-IFRS Financial Measures."

The following table presents our operating data for the periods indicated.

	As of the Nine Month Period Ended September 30,		As of the year ended December 31,		
	2020	2019	2019	2018	2017
Operating Data:					
Refining capacity (in KBPD) ⁽¹⁾	27.5	94.5	94.5	94.5	94.5
Refinery utilization (in KBPD) ⁽²⁾	11.1	66.5	66.5	67.4	69.4
Refined products (in KBPD) ⁽³⁾	18.0	99.8	99.2	110.4	104.7
Average crude price (U.S.\$ per barrel) ⁽⁴⁾	40.07	63.41	62.90	70.41	53.40
Average diesel price (U.S.\$ per barrel) ⁽⁵⁾	98.13	110.98	110.36	106.58	93.60
Average LPG price (U.S.\$ per barrel) ⁽⁵⁾	40.24	42.67	42.62	50.88	45.19
Average fuel oil price (U.S.\$ per barrel) ⁽⁵⁾	63.63	72.67	72.34	68.55	56.28
Average jet fuel price (U.S.\$ per barrel) ⁽⁵⁾	81.62	99.95	100.68	100.47	84.66
Refining margin (U.S.\$ per barrel) ⁽⁶⁾	12.90	6.10	5.93	2.28	7.28
Capacity utilization rate ⁽⁷⁾	40.3%	70.3%	70.4%	71.3%	73.4%
Days of inventory	62	51	53	47	59
Days of receivables	30	21	21	20	18
Days of payables	58	40	42	37	47
Inventory (U.S.\$ millions)	356.12	597.83	654.42	590.54	643.61
Receivables (U.S.\$ millions)	248.00	328.41	362.63	438.70	343.30
Payables (U.S.\$ millions)	553.02	661.38	739.13	529.80	772.25
Employees ⁽⁸⁾	1,982	2,199	2,141	2,221	2,264

(1) Total amount of crude introduced into the first step of the refining process, referred to as atmospheric distillation.

(2) Total amount of inputs, including crude and other raw materials, introduced throughout one complete cycle of the refining process.

(3) Total amount of refined products produced by one complete cycle of the refining process, including blending. In 2020, blending is not included.

(4) Average purchase price of crude.

(5) Average sale price in the Peruvian national market.

(6) Means the differential between the price of crude oil purchased for our refining operations, plus the unit operating cost, and the price of our refined products extracted from such crude.

(7) Defined as crude refinery utilization (in thousands of average barrels per day for the period) divided by atmospheric distillation refining capacity.

(8) Staff hired under indefinite term employment contracts.

RISK FACTORS

An investment in the Notes involves a substantial degree of risk. You should consider carefully the following risks, as well as all other information in this offering memorandum before deciding to invest in the Notes. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The risks described below are those that are known to us and what we currently believe may materially adversely affect us. Additional risks not presently known to us or that we currently consider immaterial may also materially impair our business. As a general matter, investing in the securities of an issuer, for which substantially all of its operations and assets are in a developing country such as Peru, involves a higher degree of risk than investing in securities of issuers with substantially all of their operations and assets in the United States or other developed jurisdictions.

Risks Related to Our Operations

We depend on the EPC Contractors and other contractors and developers to complete the Talara Refinery Modernization Project and we cannot guarantee that the project will be completed on time, within the EPC Price or in accordance with our expectations.

The Talara Refinery Modernization Project is a megaproject and the only large-scale engineering project we have undertaken. Given our lack of experience and expertise with projects of this scale and complexity, we are highly dependent on the experience and capabilities of our contractors and third-party developers. As of September 30, 2020, the total cost of completion of the Project, exclusive of financing costs, any applicable fees and commissions and the economic impact of the COVID-19 pandemic (which remains under evaluation), is expected to be approximately U.S.\$4,700.0 million. The total cost consists of U.S.\$2,798.0 million under the Técnicas Reunidas EPC Contract and U.S.\$784.0 million for the Auxiliary Services Units and U.S.\$193.6 million for the Additional Works under the Consorcio Cobra EPC Contract.

We have contracted with the EPC Contractors to complete the Talara Refinery Modernization Project (including the construction and installation of the Auxiliary Services Units and the applicable Additional Works) pursuant to the EPC Contracts and other fixed-price turnkey contracts. Although we are committed to engaging and working with reputable and experienced contractors and developers for the completion of the Project, the Auxiliary Services Units and the Additional Works, we cannot assure you that we will be able to continue to engage contractors and developers in a cost-effective manner or on terms that we would customarily expect. See “Business—Talara Refinery Modernization Project.”

The timely completion and success of the Talara Refinery Modernization Project largely depends on the ability of the EPC Contractors and other contractors and developers to comply with their respective timetables, as well as their ability to successfully interconnect the different project units, including the Talara Refinery, the Auxiliary Services Units and the Additional Works. Because the complex of works and services to be developed are closely interlinked, any delay, cost overrun or default in the execution of any component of the works would have a direct adverse impact on the timely completion of the Project and our ability to generate cash flows from the expansion of the Talara Refinery.

Factors that have affected and could affect the ability of our contractors and developers to complete their respective portions of the Project successfully and on a timely and cost-effective basis, include the following:

- interruptions, problems or delays by the EPC Contractors, developers, vendors, suppliers or other third parties;
- difficulties or delays in obtaining required licenses and/or complying with applicable regulations, including environmental licenses and regulations;
- occurrence of unforeseen technical and/or operational difficulties;
- delays in the delivery of third-party equipment or services by the EPC Contractors’ and/or developers’ vendors or suppliers or failure to meet their obligations within required timetables;

- failure of the equipment supplied to comply with specifications;
- variations or changes in the scope or terms of the EPC Contracts and negotiations of cost overruns;
- unforeseen events such as the COVID-19 pandemic and its adverse implications on the Project, including, but not limited to, the adverse impact on our personnel and our contractors' and developers' employees, logistical and coordination issues with vendors and suppliers and additional costs and expenses resulting from required health and safety measures, delays, and our containment, mitigation and response efforts; and
- other unforeseen occurrences, such as pandemics, accidents, weather and natural disasters, and worker strikes, civil demonstrations and other *force majeure* events.

We cannot assure you that the EPC Contractors or any of our other contractors and developers will complete the Project, the Auxiliary Services Units and the Additional Works on time and/or within budget or that they will not default on their obligations, abandon their work, declare bankruptcy or become insolvent during the construction period of the project.

Moreover, each EPC Contract provides that the relevant EPC Contractor is not responsible for cost overruns in all circumstances. We would be required to cover such cost overruns if caused by delays resulting from events outside of the EPC Contractors' control, such as a default by us under the relevant EPC contract, *force majeure* events, or a delay in the delivery of any Additional Works required for the completion of the works by the EPC Contractors. As of the date of this offering memorandum, we are in the process of amending each EPC Contract to include cost overruns caused by the COVID-19 pandemic. We cannot assure you that the actual costs required to complete the Talara Refinery Modernization Project, including the Auxiliary Services Units and the Additional Works, will not exceed our estimates or that we will have sufficient resources or access to financing to cover such additional costs. We have previously dealt with cost overruns through the mechanisms put in place in our agreements, such as any agreed principles. Any cost overrun or delay, in addition to those already caused by the COVID-19 pandemic, could materially adversely affect the successful implementation of the Talara Refinery Modernization Project, our business, financial condition, results of operations and our ability to make payments on the Notes.

Moreover, even if the Project is completed within the revised timeline and the new estimated budget, it may not achieve or maintain the expected full operating capacity in accordance with the terms of the EPC Contracts. See "Regulatory Framework—Regulatory Regime—Talara Refinery Modernization Project." Our failure to comply with the requirements of Law No. 30130 is a breach of law and could result in personal liability for our directors and officers. See "Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations."

We may therefore not realize the expected returns on our investment in the Talara Refinery Modernization Project within the timeframes we expect or at all, which in turn could have a material adverse effect on our business, financial condition, results of operations and our ability to make payments on the Notes.

We depend on the Talara Refinery for a substantial portion of our production and revenue.

The Talara Refinery is our largest refining facility in terms of production capacity. For the nine-month periods ended September 30, 2020 and 2019, the Talara Refinery represented an average of 0.0% and 78.0%, respectively, of our utilized refining capacity, producing 0 KBPD and 50.7 KBPD, respectively. We did not process any crude in 2020 due to the suspension of production at the Talara Refinery as a consequence of the construction work related to the Talara Refinery Modernization Project. For the years ended December 31, 2019 and 2018, the Talara Refinery represented an average of 76.9% and 76.1%, respectively, of our utilized refining capacity, producing 58.6 KBPD and 58.6 KBPD, respectively. As a result, we are highly dependent on the successful operation of the Talara Refinery, as it represents a substantial portion of our production and revenue.

The Talara Refinery is subject to common operational risks and unforeseen operational difficulties such as the adverse effects of the COVID-19 pandemic. In addition, the Project involves many common construction risks such as increased risks of fires, explosions and other hazards associated with projects of this magnitude and complexity. See "—As part of the Talara Refinery Modernization Project, we are exposed to general construction risks." Given the importance of the Talara Refinery to our operations, any harm to the Talara Refinery or disruptions

to its operations during development of the Project, as a result of the COVID-19 pandemic or otherwise could have a material adverse effect on our business, financial condition, results of operations and our ability to make payments on the Notes.

The Talara Refinery Modernization Project requires substantial capital and we have not secured all sources of financing required to complete the project.

As of September 30, 2020, the total cost of the Talara Refinery Modernization Project, exclusive of financing costs, any applicable fees and commissions and the economic impact of the COVID-19 pandemic (which remains under evaluation), is expected to be approximately U.S.\$4,700.0 million. The total cost includes U.S.\$2,798.0 million payable under the Técnicas Reunidas EPC Contract, and estimated U.S.\$784.0 million for the Auxiliary Services Units and U.S.\$193.6 million for the Additional Works under the Consorcio Cobra EPC Contract. We have financed the payments made to the EPC Contractors to date through the following sources:

- U.S.\$1,995.0 million in net proceeds from two series of notes issued in 2017 due 2032 and 2047, which we have used in full for the Project;
- U.S.\$1,226.0 million from a syndicated amortizing loan guaranteed by CESCE, of which U.S.\$1,212.8 million has been disbursed and used for the Project and U.S.\$13.1 million remains available for disbursement; and
- U.S.\$325.0 million in capital contributions from Peru in January 2017, which we have used in full for the Project.

We expect that the balance of costs for the Talara Refinery Modernization Project will be financed using cash on hand, proceeds from available credit facilities and/or other financings, as well as through the additional issuance of debt securities in the domestic and international capital markets. We expect to use the proceeds of this offering to cover short-term debt of the Project estimated to be approximately U.S.\$439 million and any remaining proceeds to fund other costs of the Project.

In addition, we are negotiating a U.S.\$284.0 million loan with OECD to be guaranteed by the F.C.P.J. Company Internationalization Fund (FIEM), which we expect to enter into shortly after the issuance of the Notes. We cannot assure you, however, that we will be able to enter into this loan with OECD.

We cannot assure you that we will obtain the necessary financing for the Talara Refinery Modernization Project on terms that are acceptable to us or at all. Any delay in obtaining or failure to obtain the appropriate financing for the Talara Refinery Modernization Project could have a material adverse effect on our ability to make payments to our contractors and developers and our ability to complete the Project and related works, on time or at all. This in turn could have a material adverse effect on our business, financial condition, results of operations and our ability to make payments on the Notes.

Our estimates of the total cost of the Talara Refinery Modernization Project are based on certain assumptions which may be incorrect or may change in the future, including as a result of the adverse effects of the COVID-19 pandemic.

Our estimates of the total cost of the Talara Refinery Modernization Project are based on the EPC Price and other costs associated with the execution of the project, including, without limitation, the costs associated with the Auxiliary Services Units, other Additional Works and any additional costs in connection with the EPC Contracts and/or the adverse effects of the COVID-19 pandemic on the project. See “Business—Talara Refinery Modernization Project—EPC Contracts.” As of the date of this offering memorandum, we are in the process of amending each EPC Contract to include cost overruns caused by the COVID-19 pandemic. Although the Project is close to completion and most of the logistical and construction risks associated with the project have diminished, we are still subject to risks associated with the final stage of the Project. We cannot assure you that the actual costs required to complete the Talara Refinery Modernization Project will not substantially exceed our estimates or that we will have resources or access to financing sufficient to cover such additional costs. In addition, we cannot predict the duration and related adverse effects of the COVID-19 pandemic on the project, including any additional costs and expenses resulting from delays and the many logistical and operational challenges presented by the pandemic. Any of the foregoing could

adversely affect our ability to complete the Talara Refinery Modernization Project on time or at the currently estimated total cost, which in turn could have a material adverse effect on our business, financial condition, results of operations and our ability to make payments on the Notes.

The operations of the Norperuano Pipeline expose us to risks associated with the transportation of crude, including risks in connection with leaks of crude that resulted in the suspension of the pipeline's operations and environmental proceedings.

The Norperuano Pipeline began operations in 1976 and has a remaining life expectancy of 30 to 40 years. Due to its location in the northern jungle of Peru, the Norperuano Pipeline is exposed to social risks related to third parties (such as damage to the pipeline and theft of crude oil), geodynamic risks (such as fissures in the pipeline due to instability of the ground, high humidity, displacement of rocks and/or hydraulic action of the rivers) and corrosion risk (such soil erosion and/or internal anaerobic bacteria in oil water), which can generate oil leaks that result in the suspension of the Norperuano Pipeline operations and the initiation of administrative sanctioning procedures by the control entities. Since 2013, the Norperuano Pipeline has suffered more than 53 oil leaks during its history, the most notable being eight oil leaks in 2014 and 13 leaks in 2016. Some of these leaks have required us to shut down the Norperuano Pipeline to undertake repair.

As of the date of this offering memorandum, we estimate that approximately 20,095 barrels of crude have been released into surrounding areas because of pumping activities in the Norperuano Pipeline. In particular, we determine the volume of crude released from the pipeline by subtracting the volume of crude remaining in the pipeline after a leak from the volume in the pipeline before the leak. We are able to measure crude volume in the pipeline by measuring the volume that is subsequently pumped through our pumping stations when the Norperuano Pipeline is in operation. Accordingly, we will only be able to calculate total crude volume released when we resume operations of the Norperuano Pipeline.

We have been subject to a number of administrative proceedings initiated by Peruvian regulators with respect to these leaks. We currently estimate that we could be fined up to 8,307 UIT (approximately S/35.7 million or U.S.\$10.6 million) in connection with pending OSINERGMIN and OEFA administrative proceedings relating to the Norperuano Pipeline. See "Business—Legal Proceedings—Environmental proceedings—2016 oil leaks of Norperuano Pipeline." In addition, preliminary criminal investigations with respect to certain of our former executives, in their capacity as officers of our company, have been instituted by certain provincial prosecutor's offices as a result of certain events which may have impacted the environment, including the 2014 and 2016 spills. These investigations could result in criminal indictments and convictions for environmental crimes. Even though our company has not been included as a liable third party in these proceedings, we may nevertheless be held jointly liable if that restitution is ultimately imposed. See "Business—Legal Proceedings—Criminal proceedings."

In addition, as a result of the maintenance and repairs needed in connection with the 2016 spills pursuant to orders issued by OSINERGMIN, the operations of certain segments of the Norperuano Pipeline were suspended in the past. Because we do not use the Norperuano Pipeline to transport crude to our refineries, the suspension of the pipeline's operations has not affected our refining operations and we do not expect it do so in the future. Nonetheless, we cannot assure you that no administrative proceedings will result in future suspension of operations of the Norperuano Pipeline.

We are required to invest substantial amounts in the modernization and maintenance of the Norperuano Pipeline and have completed several investment projects. Over the next five years, we expect to invest approximately U.S.\$360 million on maintenance and upgrades to the Norperuano Pipeline in accordance with applicable regulations, in which 50.0% of our investments will be directed to cyclical investments for inspection and maintenance of stations and the pipeline and the other 50.0% will be invested in ensuring safe and reliable operation of the Norperuano Pipeline. We cannot, however, assure you that these infrastructure expenditures will be effective or sufficient in upgrading the Norperuano Pipeline to reduce the risk of damage, deterioration or leaks, such as those caused by mudslides and earthquakes or intentional damage and theft of crude.

More recently, in 2018, four events were registered in the Norperuano Pipeline, three of them caused by third parties (as a consequence of a mechanical action) and one caused by geodynamic factors. The related cost of these four events was approximately of S/43 million. In 2019, we recorded nine events, three of which were caused by third parties cutting into the pipeline, two by geodynamic factors, and the remaining by technical aspects such as corrosion.

The cost resulting from these nine events was approximately of S/55 million. During 2020, residents of neighboring communities near Pump Station 5 invaded and took control of the pump, as a measure to force the government of Peru to address their grievances (mainly related to the closing of gaps in health, education, among others). On December 28, 2020, we resumed our crude transport operations in Branch I of the Norperuano Pipeline after the government of Peru, through the Presidency of the Ministers' Council (*Presidencia del Consejo de Ministros*, or the "PCM"), regained control of the facilities at Pump Station 5 in the Loretan province of Datem del Marañón.

As a result of the suspension of the pipeline's operations and the related loss of fees from transportation of third-party crude, the revenue from our oil pipeline operations segment for 2019 decreased 53.9% to U.S.\$48.8 million from U.S.\$105.9 million for 2018 and the revenue from our oil pipeline operations segment for the nine-month period ended September 30, 2020 decreased 34.9% to U.S.\$18.9 million from U.S.\$29.0 million for the comparable period in 2019. Until all segments of the Norperuano Pipeline resume operations, we do not expect to receive the full revenue potential from our oil pipeline operations segment, which in 2019 accounted for 1.0% of our total gross revenue and 9.2% of our gross profit. See "—Results of Operations for the Year ended December 31, 2019 Compared to the Year Ended December 31, 2018—Other operating income" and "—Results of Operations for the Nine-month Period Ended September 30, 2020 Compared to the Nine-month Period Ended September 30, 2019—Other operating income."

Additionally, we cannot assure you that we will be able to resume operations on our expected timeline or without substantial additional investment or delay. Any additional major leaks or oil spills could expose us to fines by various agencies, civil liability to affected populations, clean-up costs, allegations of misconduct (whether or not founded), criminal liability of our officers and delays in our ability to resume operations, any of which could have a material adverse effect on our reputation, business, results of operations, financial condition and/or ability to make payments on the Notes. See "Business—Oil Pipeline Operations Segment."

We face risks relating to the effects of oil leaks on local and indigenous communities.

We face risks relating to the effects of leaks on local and indigenous communities, including protests, fines, civil or criminal lawsuits, requirements to pay indemnification or compensatory damages and negative publicity. These local and indigenous communities along the three branches of the Norperuano Pipeline, have protested the government's failure to comply with social commitments and have taken hostile measures against our facilities and installations on various occasions. The most significant of these have resulted in meaningful interruptions of our pipeline operations.

For example, on March 6, 2016, the Mayuriaga indigenous community protested the government's failure to identify it as a community affected by the Norperuano Pipeline leaks by temporarily blocking access to a helicopter that we were using to deliver food and water to the affected communities. In addition, on June 25, 2016, the Mayuriaga community detained, for a 24-hour period, a number of our employees and representatives of the MEM and the PCM in protest of socioeconomic conditions in the community. In contrast with the protest on March 6, 2016, this protest was unrelated to the leaks and was ultimately resolved the following day when the representative of the PCM offered to initiate an organized dialogue led by the PCM. This offer was formalized via Ministerial Resolution No. 144-2016-PCM and, to date, representatives of the Mayuriaga community have met with representatives of our company, the MEM and the PCM without incident. In November 2018, community leaders and those of other neighboring communities seized the Morona Station for several days and threatened to cut off the Northern Branch of the Norperuano Pipeline if the government of Peru did not address their grievances. We requested governmental authorities to provide police protection to our facilities, especially the Morona Station, and tried to enter the affected area. However, the situation worsened because members of the Mayuriaga community did not allow our personnel to repair the pipeline and contain the oil leak. The community further prevented the performance of cleaning activities in the area, demanding a series of requirements to allow the works. In April 2019, our pump Station #5 was taken by the Mayuriaga community.

Furthermore, we have faced two additional protests by indigenous communities located outside the leak areas, including the Saramurillo communities (located approximately 20 kilometers from the location of the leak of November 12, 2016 (km 15) of Branch I) and the town of Maypuco (located approximately 30 kilometers from the leak of November 11, 2016 (km 24) of Branch I), in each case located in the district of Urarinas, Loreto Province, Loreto.

In late August 2016, indigenous federations from the Chambira and Marañón rivers in Saramurillo comprising approximately 30 indigenous communities initiated protests over the absence of basic services such as potable water, education and infrastructure and the operation of an alleged “old pipeline.” Approximately 1,000 protesters took control of the Marañón River for approximately 90 days, preventing supplies from reaching the local population and hindering commerce in the region, particularly in the city of Iquitos. Representatives from several government ministries and our company initiated an organized dialogue among the representatives of the indigenous communities, the Peruvian Prime Minister and other members of the Peruvian government. Protesters took control of Station No. 1 of the Norperuano Pipeline, located about one kilometer from Saramurillo, from September 1, 2016 until November 30, 2016. The government eventually committed to engage an independent consultant to prepare a report on the pipelines in Blocks 8 and 192 and on the condition of the Norperuano Pipeline, and to implement a monitoring system that would employ community members to patrol and monitor the Norperuano Pipeline along the Marañón River basin. As a result, implementation of the measures agreed with the Saramurillo community is the responsibility of the Ministry of Energy and Mines. In 2019, a resurgence of issues with the Saramurillo community led to a 44-day shutdown of Station No. 1 and Branch I of the Norperuano Pipeline, and the shutdown of Station No. 5, which suspended operations for 17 days. At the beginning of 2020, there was a stoppage and blockade of the Marañón River for ten days, which affected the reception and dispatch of crude oil at Station No. 1. In recent months, there was a takeover of Stations No. 5 and Morona. The neighboring communities are requesting that the Peruvian government approve the Gap Closure Plan in the Amazon.

The recent events in various sectors of Branch I and the Northern Branch of the Norperuano Pipeline have increased operational uncertainty and have limited the execution of maintenance, cleaning and patrolling activities, which are critical to the optimal pipeline condition. We cannot guarantee that these incidents or others that may impact the operation of the pipeline will cease these activities. Any additional conflicts with these local and indigenous communities could result in protests and allegations of misconduct and subject us or our officers to potential liability, any of which could have a material adverse effect on our reputation, business, financial condition, results of operations, and/or our ability to make payments on the Notes.

We face allegations of the employment of minors in connection with oil leak remediation activities.

We have been subject to allegations of illegal employment of minors from the local and indigenous communities in connection with oil clean-up efforts. In connection with the June 2014 leak, the Regional Work and Development of Labor Office of the Piura Region (*Dirección Regional de Trabajo y Promoción del Empleo – Gobierno Regional Piura*) fined us S/760,000 for the illegal employment of two minors for five days in connection with remediation efforts. We appealed this decision on July 2, 2015 and expect final determination by the Fourth Civil Court of Piura (*Cuarto Juzgado Civil de Piura*) in 2021. See “Business—Legal Proceedings—Administrative proceedings.” Additionally, there have been certain allegations that minors were illegally employed in connection with the clean-up of the January 2016 leak.

In response to these allegations, the Peruvian National Superintendence on Employment Matters (*Superintendencia Nacional de Fiscalización Laboral*, or “SUNAFIL”) initiated an investigation and ultimately issued a report on April 14, 2016, indicating that it had found no evidence that we, or any of our representatives, had hired minors in connection with these remediation efforts.

We cannot assure you that we will not be subject to additional complaints or similar allegations in the future, or that similar allegations or situations will not arise in connection with future oil leaks or other events. In addition, we could be exposed to sanctions by other regulatory authorities and international organizations that protect the rights of minors. If we are found to have acted improperly toward local or indigenous populations, we may be subject to fines, civil or criminal lawsuits, or the requirement to pay indemnification or compensatory damages, any of which could materially adversely affect our reputation and our ability to make payments on the Notes.

We depend on suppliers for all of the crude and Intermediate Products used in our refining operations.

Because we do not currently engage in the exploration and production of crude, we are entirely dependent on our suppliers for the raw materials for our refining operations. We purchase all the crude and Intermediate Products we process in our refineries through contracts with a limited number of domestic and international suppliers through the spot market, which subjects us to price volatility. As of September 30, 2020, our main domestic suppliers of crude by volume were CNPC Peru (representing 32.2% of our total crude purchases), Savia Peru (14.9% of our total crude

purchases) and Petrotal Peru S.R.L. (“Petrotal”) (14.9% of our total crude purchases), and our main international supplier of crude by volume was BB Energy (representing 3.1% of our total crude purchases). In the nine-month period ended September 30, 2020, our largest single domestic supplier of intermediate and final products by volume was La Pampilla Refinery (representing 5.5% of total purchases) and our main international suppliers of such products by volume were Tesoro (18.6% of total), Motiva (18.0% of total) and Exxon Mobil (17.2% of total). See “Business—Production and Trading Segment—Purchase of crude and Intermediate Products—Supply of Crude.”

We may be negatively affected by actions by any of our suppliers in Peru and/or other jurisdictions which we cannot control, including wrongful or illegal actions by such suppliers in their commercial relationships with third parties that may indirectly affect our reputation. In any such instance, we may decide to discontinue our commercial relationship with and/or exclude any such supplier from our list of approved suppliers, in compliance with the objectives of our internal policies and contractual procedures. Because we have a limited number of suppliers, many represent a significant source of the crude and Intermediate Products that we use. If any of our suppliers is unable to provide us with the crude and Intermediate Products that we need, we face the risk of having to contract with alternative suppliers at increased prices, which could affect our profit margins, or we may not find alternative suppliers at all, which could have a material adverse effect on our business, results of operations and our ability to make payments on the Notes.

Our margins are highly dependent on prices of crude and refined products, which are very volatile.

Our revenue and results of operations depend substantially on our refining and blending margins. Our refining margin is the difference between the average price of the refined products produced from a barrel of crude and the international market price of a barrel of crude and the unit operating cost. We pay our suppliers variable amounts per barrel of crude sold we purchase on the Oman, Forties and Suez Blend basket, the Minas and Arjuna basket, the WTI and the Dated Brent spot market prices, or other related international markets, each of which have experienced volatility in the last three years and in the nine-month period ended September 30, 2020. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Our Results of Operations—General—Our cost structure.”

Because it takes approximately 50 days to complete the refining, commercialization and sale of our refined products, it is possible that during such time the price of refined products could fluctuate relative to the price at which the barrels of crude were purchased, thus impacting our refining margin. In addition, while we price our products based on the prices at which we purchase our raw materials, there is no certainty that we will be able to transfer increased costs to our customers. Prices of crude and Intermediate Products are generally not regulated and remain subject to market pressures.

Prices of crude and refined products have fluctuated very rapidly in the past and will likely continue to do so in the future due to various factors that are beyond our control, including:

- changes in global supply and demand for crude and refined products;
- changes in global oil and gas reserves;
- the availability and price of competing commodities;
- international economic trends;
- fluctuations in the exchange of the *sol* to U.S. dollar;
- inflation;
- oil leaks, natural disasters or environmental catastrophes;
- the actions of commodity markets traders;
- geo-political events in major oil-producing and consuming nations; and

- the effects of unforeseen events such as of the COVID-19 pandemic and its implications on the global oil and gas sector, the Peruvian economy and our operations.

Fluctuations in the prices of crude and refined product could have a material adverse effect on our profit margins, our business, financial condition, results of operations and our ability to make payments on the Notes.

Our business requires substantial capital expenditures and maintenance expenses and is subject to financing risks in addition to financing risks related to the Talara Refinery Modernization Project.

Our business is capital intensive and our success, even without considering the Talara Refinery Modernization Project, depends on our ability to access the credit and capital markets and obtain financing at cost-effective rates to make capital investments and to cover our maintenance expenses. For example, we expect to invest approximately U.S.\$50.3 million over the next three years in a number of capital investment projects other than the Talara Refinery Modernization Project, including:

- the construction of our Pasco (Ninacaca) sales plant;
- the construction of our Puerto Maldonado sales plant;
- the construction of our Ilo distribution terminal;
- the exploration and production of the area known as Block 64 (*Lote 64*, or “Block 64”); see “Business—Potential Future Exploration and Oil Production—Exploration and production of hydrocarbons in Block 64;” and
- the exploration and production of the area known as Block 192 (*Lote 192*, or “Block 192”). See “Business—Potential Future Exploration and Oil Production—Block 192.”

We have not yet determined how these investments will be financed. See “Business—Production and Trading Segment—Transportation and distribution of refined products to our customers—New Facilities.”

In addition, we expect to incur approximately U.S.\$235.8 million over the next six years for maintenance of and upgrades to the Norperuano Pipeline in accordance with the regulations contained in Supreme Decree 081-2007-EM.

The processing, refining and distribution of refined products and the maintenance of the machinery and equipment necessary for our operations require substantial capital expenditures, which, among other things, are largely dependent on market prices for crude we purchase and refined products we sell. Since 2018, we have invested approximately 0.9% of our gross revenue in maintenance capital expenditures. In 2021, we expect to invest approximately 2.1% of our revenue in maintenance capital expenditures. Our ability to finance our capital expenditures is limited by our debt and cash flows and is dependent on a number of factors, many of which we cannot control, including changes in:

- our credit ratings;
- interest rates;
- commercial financial markets;
- market perceptions of our company or of the oil industry;
- tax rates due to new tax laws or changes to existing tax laws;
- foreign exchange and investment controls and restrictions; and
- market prices for oil products.

If we are unable to finance our capital expenditures or maintenance needs on conditions that are favorable to us or at all, it would have a material adverse effect on our business, financial condition, results of operations and on our ability to make payments on the Notes.

Our business requires substantial working capital and our working capital needs may fluctuate widely.

We rely on short-term credit from our crude suppliers and from various financial institutions to finance our inventory cycle. Under such consideration, we have extended to up to 180 days the period of time for payments related to the acquisition of derivative products of crude oil from international suppliers. In addition, we have negotiated with local crude oil producers to also extend the payment period from 15 to 30 days and up to 240 days, in some circumstances, our purpose is to match the maturity of all these commercial obligations with our company's collection cycle. Furthermore, we have conducted some supply chain finance transactions which extended even more the payment period while maintaining the obligation as commercial debts.

With respect to short-term bank loans, our company has extended the average maturity of financial obligations in order to reduce any liquidity risk pressure. Since the working capital needs have been reduced, the volume of funding required per month has also been reduced. Increases in crude prices and other costs of our business, among other factors (including unexpected liquidity for long-term investments, shortening of debt maturities and unexpected changes in policy implemented by entities that regulate our operations), create significant increases in our working capital needs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Our Results of Operations—General—Our cost structure."

As of September 30, 2020, we had U.S.\$102.3 million aggregate principal amount of short-term bank loans outstanding (U.S.\$596.0 million and U.S.\$403.2 million in U.S. dollar equivalents). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt—Short-term Debt." However, we cannot assure you that our suppliers or our other sources of financing will continue to extend us credit as our working capital needs increase. If we are unable to finance our working capital needs, this may adversely impact our ability to pay our suppliers for crude and refined products purchases, materially adversely affecting our business, financial condition, results of operations and our ability to make payments on the Notes.

We are subject to risks pursuant to the terms of our EPC Contracts.

The terms of our EPC Contracts expose us to a number of risks, including cost overruns, delay costs or other circumstances, limitations of the Parent Guarantee (as defined herein) provided thereunder, early termination provisions, limitation on liabilities of the EPC Contractors and limitation on penalties, financing shortfalls, among others.

Each EPC Contractor is generally responsible for the costs of construction and services pursuant to its EPC Contract. However, each EPC Contract provides that the relevant EPC Contractor is not responsible for cost overruns in all circumstances. We are responsible for cost overruns if they are caused by delays resulting from events outside of the EPC Contractors' control, such as a default by us under an EPC Contract, *force majeure* events, or a delay in the delivery of any Additional Works required for the completion of the works by the Consorcio Cobra EPC Contractor, or for any cost overruns or delay costs exceeding 20.0% of the Técnicas Reunidas EPC Price or Consorcio Cobra EPC Price under the applicable EPC Contract (including amounts payable by the applicable EPC Contractor as penalties for delays or non-performance, in each case, equivalent to 10.0% of the applicable EPC Price) and for certain unforeseen costs, such as increases in the scope of the EPC Works or unforeseeable changes in applicable Peruvian legislation. As of the date of this offering memorandum, we are in the process of amending each EPC Contract to include cost overruns caused by the COVID-19 pandemic. Any cost overrun, in addition to those already caused by the COVID-19 pandemic, would materially adversely affect the successful implementation of the Talara Refinery Modernization Project, our business, financial condition, results of operations, and our ability to make payments on the Notes.

Técnicas Reunidas has provided a joint and several guarantee of the obligations and responsibilities of each of its affiliates under the Técnicas Reunidas EPC Contract (the "Parent Guarantee"). Even though the Parent Guarantee is subject to Peruvian law and any controversy that arises in connection with the Parent Guarantee will be subject to an arbitration proceeding in Lima, Peru, under the International Chamber of Commerce procedures, because Técnicas Reunidas does not have any assets in Peru, if it breaches its obligations under the Parent Guarantee, we may not be

able to recover the amounts owed in full. Furthermore, Técnicas Reunidas and its affiliates are required to deliver to us and maintain certain bank performance guarantees, which may expose us to risks associated with the selected banks' credit. The Consorcio Cobra EPC Contract, requires the delivery of bank guarantees, which exposes us to risks associated with the banks' credit. The Consorcio Cobra EPC Contract also provides for arbitration in Lima, Peru, under the regulations of the International Chamber of Commerce.

Additionally, each EPC Contract permits early termination at the option of the relevant EPC Contractor if a breach by us causes an event of default that is not timely cured or if a *force majeure* event arises and continues for 180 consecutive days or 270 non-consecutive days. Moreover, the liability of the EPC Contractors under or related to the relevant EPC Contract may not exceed 20.0% of the applicable EPC Price (including penalties) and certain penalties that each EPC Contractor may have lower limits. Any early termination of an EPC Contract by the relevant EPC Contractor or the limitation of its liability thereunder could adversely affect the completion of the Talara Refinery Modernization Project at the contracted costs and on the timeline set forth in the relevant EPC Contracts.

We may also terminate either EPC Contract if Técnicas Reunidas or Consorcio Cobra, as applicable, or their respective affiliates trigger an event of default specified in the corresponding EPC Contract that is not timely cured. These events of default include, among others:

- the EPC contractor failing to replace a bank guarantee delivered by the EPC contractor in connection with the EPC contract on the terms specified therein;
- abandoning the EPC Works;
- ceasing to implement the EPC Works without a reasonable cause;
- subcontracting all of the EPC Works or assigning or creating a lien over any EPC Contract;
- declaring bankruptcy or becoming insolvent, or requesting the declaration of its insolvency or liquidation;
- offering or incurring illegal payments;
- unjustifiably delaying the performance of the EPC Works;
- delaying completion of the EPC Works; and
- incurring liability in excess of the liability limits specified in either EPC Contract.

In addition, we may terminate either EPC Contract, at any time, without cause. If we complete the Project and related works within 12 months following the termination date, the relevant EPC Contractor is entitled to an indemnification payment in an amount of up to 4.0% value of the contracted works that were not completed as of the termination date. Our termination of either EPC Contract could result in liability for us and could adversely affect the budget and timetables of the Project. See “Business—Talara Refinery Modernization Project—EPC Contracts—Events of Default.”

Even though we have achieved 92.74% completion of the Project as of the date of this offering memorandum, there may be risks regarding the spread of COVID-19 during the final phase of construction. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Trend Information—COVID-19 pandemic.” Furthermore, if an early termination of any EPC Contract occurs before completion of the Project, we will be required to hold a new round of bids to select new contractors for completion of the remainder of the Project, which would cause additional delays and increased costs and we cannot assure you that we will be able to engage contractors with similar experience or under similar or favorable commercial terms.

Any of the foregoing risks could materially adversely affect the completion of the Talara Refinery Modernization Project, which in turn could have a material adverse effect on our business, results of operations and our ability to make payments on the Notes.

The Talara Refinery Modernization Project may have a negative social and environmental impact in the Talara region, which could lead to liability, delays and increased costs.

The Talara Refinery Modernization Project is a large engineering and construction project that is expected to affect the local communities surrounding the Talara Refinery, both during the construction stage and its subsequent operation. Our contractors are obligated to comply with the recommendations made in the EIA, the Equator Principles and all applicable environmental laws. Among others, the EIA recommends implementing a waste management plan, an environmental monitoring plan, training programs and contingency plans. The Equator Principles comprise a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and are primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. We cannot assure you that, in connection with the Project, the obligation to which our contractors are subject will be effective in eliminating or reducing all adverse environmental and social impact of the project in the Talara region and on its communities or that our contractors and/or developers will comply with these obligations, any of which could result in, among other things:

- pollution of marine sediment from leaks;
- significant increases in noise and particle levels during construction;
- water pollution due to accidentally releasing solid residue in the Talara Port;
- breaches of our commitments under the EIA and the Equator Principles;
- social conflicts and labor claims by the Talara community, labor unions and others; and
- increased security risks, including possible kidnappings and extortions.

Any failure in the contingency measures that we have adopted or failure by our contractors and/or developers to comply with their obligations in connection therewith could result in significant adverse environmental and social impact in the region and/or the communities. If these events were to occur, we could become liable for damages or judgments relating to any adverse environmental or social impact. Also, any such events could cause delays and increased costs in the completion of the Talara Refinery Modernization Project, as well as its post-completion operations, which in turn could have a material adverse effect on our business, results of operations and our ability to make payments on the Notes. See “Business—Talara Refinery Modernization Project—Contingency measures.”

As part of the Talara Refinery Modernization Project, we are exposed to general construction risks.

The Talara Refinery Modernization Project is a large and complex engineering and construction project. Accordingly, its implementation involves many common construction risks, including, among others:

- potential labor shortages, work stoppages or labor union disputes;
- construction accidents that could result in personal injury or loss of life;
- acts of God, seismic and weather events;
- engineering, environmental or geological problems;
- delays in the delivery of equipment and supplies;
- lack of adequate and qualified personnel to execute the project;
- the implications of the COVID-19 pandemic and any additional outbreaks; and
- permit delays for the start-up and operation of the project.

Any of these events or conditions could create delays in the completion of the project or increased costs. In addition, any works relating to the Talara Refinery Modernization Project could cause damage to our existing facilities, which may result in reduced performance, shutdowns, or other adverse effects on our operations. The occurrence of any of the above mentioned construction related risks could result in unforeseen delays and increased costs in excess of the budget for the project, which in turn would have a material adverse effect on our business, financial condition, results of operations and our ability to make payments on the Notes.

We are exposed to transportation, storage and refining risks inherent in our operations.

We are subject to equipment risks that are common to transporting and storing crude and refined products, as well as other risks and operating hazards inherent in refining operations. In particular, our transportation, storage and refining operations are subject to the risk of:

- mechanical failures, equipment inadequacy or obsolescence;
- continued pipeline deterioration;
- pipeline explosions and ruptures;
- additional oil or chemical leaks, leaks and pollution;
- leakages in our storage tanks, which would cause contamination of water systems;
- fires and explosions in refineries;
- suspension of refinery operations for unscheduled maintenance and repairs;
- security breaches, including cybersecurity attacks; and
- third-party interference, including civil strikes, sabotage and acts of theft.

The occurrence of any of these events could result in:

- substantial disruption to our operations;
- personal injury or loss of life;
- significant environmental damage, including harm to indigenous and other communities, resulting in remediation costs and expenses, claims, sanctions or fines; or
- other significant damage to our property or the property of others, in each case resulting in a material adverse effect on our results of operations and financial condition.

If any of the above were to occur, it would have a material adverse effect on our transportation, storage, and refining operations, which in turn could have a material adverse effect on our business, results of operations and our ability to make payments on the Notes.

We face risks related to our operation of the Southwest Concession such as the successful transition of operation and compliance with regulatory frameworks.

On December 14, 2020, the Official Gazette published Supreme Decree No. 029-2020-EM pursuant to which we were granted provisional management of the Southwest Concession, which encompasses the operation and management of the Southwest Concession for natural gas distribution by grid in the regions of Arequipa, Moquegua and Tacna. See “Business—Natural Gas Distribution Pipeline Network of the Southwest Concession.” We have been authorized to enter into the assignment of agreements previously entered into by Naturgy Peru S.A. for the supply and acquisition of goods and services, and to carry out administrative proceedings before the applicable administrative entities in charge of granting the applicable authorizations and permissions to carry out the mandate.

Notwithstanding the special mandate, we will be required to comply with the applicable legal framework regarding the distribution of natural gas through pipeline networks including safety, environmental, quality of service and any other aspects. We will also be exposed to operational risks associated with distribution of natural gas. In addition, the provisional management of the Southwest Concession will require additional time and effort by our management and employees. Failure to implement a successful transition from Naturgy Peru S.A. to us, or comply with applicable law, could subject us to delays and penalties, and have an adverse effect on our business, financial condition and results of operations.

We may be subject to cybersecurity threats and/or attacks.

We rely on information systems to operate our business. We may experience operational problems with the information systems as a result of system failures, viruses, ransomware, computer “hackers” or other causes. Cybersecurity risks have significantly increased because of the proliferation of new technologies, the use of the Internet and telecommunications technologies for monitoring and adequately providing services, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Some of such risks have been increased as a result of our employees’ remote working due to the COVID-19 pandemic. As we rely on sophisticated information and processing systems, the implementation of technological changes and upgrades to maintain existing information and processing systems or integrate new systems could increase our risk of cybersecurity attacks. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our customers with delays or errors, which could negatively affect our business and could materially and adversely affect our results of operations and financial condition.

We maintain insurance coverage for protection against some, but not all, potential risks.

Our refining, oil pipeline, transport, distribution and commercial operations are subject to various hazards common to the oil and gas industry, including explosions, fires, toxic emissions and other pollution, chemical hazards and natural catastrophes and third party actions. In 2017, Jardine Lloyd Thompson Group Plc (now Marsh Rehder) assisted us as part of our insurance program in the management and renewal of our insurance policies. Such insurance policies are facultative in nature and are placed in international markets and contracted locally through a fronting process, allowing us to know which reinsurers participate in the process, their rates and the exposure we face in the international markets.

Our insurance program consists of 18 insurance policies, including property and loss of profits (coverage up to U.S.\$500 million), liability (coverage up to U.S.\$100 million) and sabotage and terrorism (coverage up to U.S.\$200 million). Since 2017, our insurance policies also cover malicious damage and aspects related to environmental remediation. Moreover, per the provisions of the Técnicas Reunidas EPC Contract, we have additional insurance coverage including a professional liability insurance policy, construction risk insurance, and third-party liability insurance. As such, our insurance policies provide coverages against some, but not all, of our potential losses and liabilities.

Regarding the Auxiliary Services Units and Additional Works, in May 2018, we contracted a construction all risk insurance policy that covers advance loss of profit coverage with an indemnity limit of U.S.\$588 million and delay start-up coverage with a limit compensation of U.S.\$392 million.

As a result of prevailing market conditions, premiums and deductibles for many insurance policies have increased substantially. In some instances, certain insurance policies could become unavailable or available only for reduced amounts of coverage or with material deductibles that may be insufficient for our needs. We cannot assure that our insurance coverage will be sufficient to cover all of our risks. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our financial condition.

We may not be able to maintain a legally required minimum inventory of refined products at all times.

Peruvian regulations require us to maintain a minimum inventory of our refined products. Specifically, at each of our distribution terminals and sales plants, we must maintain (i) a minimum monthly average inventory of refined products that is equivalent to 15 calendar days of our daily average dispatch for the six calendar months preceding the month of calculation, and (ii) a minimum inventory of refined products equivalent to at least five calendar days of the daily average dispatch of refined products during the previous six calendar months. Any non-

compliance with these obligations can result in administrative fines and temporary suspensions of activities at the facilities where the inventory requirements have been breached. We have 30 administrative processes initiated against us pending before OSINERGMIN as a result of alleged non-compliance with the inventory requirements in the Talara Refinery. If decided against us, these administrative proceedings could represent an aggregate liability of S/44,412,765 million. See “Business—Legal Proceedings—Administrative proceedings.” We cannot assure you that we will maintain the required minimum inventory of our refined products at all times and at each of our distribution terminals and sales plants.

In order to prevent non-compliance with inventory regulations, we customarily maintain a monthly average of refined products higher than the 15-day legal requirement. However, maintaining a greater inventory than the legal requirement exposes us to risks related to fluctuations in the prices of crude, intermediate products and/or refined products, which could significantly adversely affect the value of our inventory and in turn reduce our margins. See “Risks Factors—Risks Related to our Operations—Our margins are highly dependent on prices of crude and refined products which are very volatile.” We are revising the policies based on which we will design our hedging strategies to decrease our exposure to commodity risk. Any losses related to our hedging activities could have a material adverse effect on our financial condition, results of operations, and our ability to make payments on the Notes. See “—Our hedging strategy has resulted in losses in the past and could result in additional market and credit losses.”

Additionally, we consider future demand for our products in setting our inventory levels in order to optimize the production and commercialization of our products. We consider the following factors in formulating our forecasts:

- Peruvian GDP;
- our analyses of the different market segments;
- historical demand trends;
- seasonality of our products and operating segments;
- current trends in the market and with our main customers; and
- unforeseen events such as the COVID-19 pandemic and its adverse implications on our demand.

We cannot assure you that our assumptions and forecasts will accurately predict actual demand for our refined products. In the event of an unexpected increase in demand for our refined products, including, but not limited to shipping interruptions or other delays on imports of crude or Intermediate Products, our inventory levels may be insufficient to supplement our ongoing refining activity. Unexpected increases in demand could also materially adversely affect our margins, as we would need to incur additional costs by making more transfers among our refineries to meet the increased demand. Conversely, if demand is lower than our forecast, we could have excess inventory and increased our exposure to fluctuations in the prices of crude, intermediate products and/or refined products, in which case the value of our inventory and our margins could be significantly reduced. Further, we could also have difficulties finding sufficient storage capacity for refined and imported products at our refineries or elsewhere. Any of the above could have a material adverse effect on our business, results of operations and our ability to make payments on the Notes.

We face competition in the importation, refining, distribution and commercialization of crude and refined products.

Our only competitor for refined products in Peru is Relapasa which operates the La Pampilla Refinery. According to reports prepared by DGH, Relapasa accounts for 80.0% of the crude refining capacity in Peru as of September 30, 2020 and therefore had a significant presence in the market. Since Relapasa also has a significant share of the refining and distribution markets, any of its pricing policies impact the market, and thus, our refining margin. In addition, unlike our company, Relapasa has an integrated retail network. Accordingly, we may be adversely affected if Relapasa decides to lower the price of its refined products as we would need to lower our prices as well in order to remain competitive.

In addition, there are no restrictions on the importation of refined products and any of our customers may choose to import refined products directly. In particular, we face competition from a number of importers, including

Cinque Terre Sucursal del Perú and Pure Biofuels del Peru S.A.C. (“Pure Biofuels”). As of December 31, 2019, we owned 77.1% of facilities for the distribution of refined products by volume capacity, we had exclusivity agreements with 12.8% of the retail service stations in Peru, and we had a 43.8% market share in Peru in the sale of refined products, according to DGH. We cannot assure you that we will maintain our current market share in any segment of our business. Any loss of our market share could have a material adverse effect on our ability to sell our products to our customers, which in turn could have a material adverse effect on our business, results of operations and our ability to make payments on the Notes.

We have a significant amount of indebtedness outstanding.

We have a significant amount of indebtedness outstanding, which amounted to U.S.\$4,463.3 million for the nine-month period ended September 30, 2020, which we expect to be refinanced, in part, with the proceeds of the Notes. We also expect to incur substantially more debt to finance the Talara Refinery Modernization Project. Our indebtedness could materially adversely affect our financial condition and results of operations by:

- limiting our ability to obtain additional financing to fund our working capital requirements, capital expenditures, debt service, general corporate expenses or other obligations;
- limiting our ability to raise capital in order to finance important strategic initiatives, including to complete the Talara Refinery Modernization Project;
- requiring a substantial portion of our cash flows from operations to be used for the payment of principal and interest on our debt, therefore reducing funds available to us for operations or other capital needs;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate because our available cash flow after paying principal and interest on our debt may not be sufficient to make the capital and other expenditures necessary to address these changes;
- increasing our vulnerability to general adverse economic and industry conditions because, during periods in which we experience lower earnings and cash flow, we will be required to devote a proportionally greater amount of our cash flow to paying principal and interest on our debt; and
- making it difficult for us to refinance our indebtedness or to refinance such indebtedness on competitive terms.

In addition, we will incur additional long-term indebtedness in connection with the financing of the Talara Refinery Modernization Project. As of September 30, 2020, the total cost of the Talara Refinery Modernization Project, exclusive of financing costs, any applicable fees and commissions and the economic impact of the COVID-19 pandemic (which remains under evaluation), is expected to be approximately U.S.\$4,700.0 million (not including the economic impact of the COVID-19 pandemic, which is under evaluation). This cost includes U.S.\$2,798.0 million for the Técnicas Reunidas EPC Contract, and U.S.\$784.0 million for the Auxiliary Services Units and U.S.\$193.6 million for the Additional Works under the Consorcio Cobra EPC Contract. We intend to finance the remaining outstanding cost of the Talara Refinery Modernization Project using the net proceeds of the Notes offered hereby, capital contributions received from Peru, cash on hand and financing from a number of other sources, as needed. See “—The Talara Refinery Modernization Project requires substantial capital and we have not secured all sources of financing required to complete the project.”

Any of the above could have a material adverse effect on our financial condition and results of operations, and our ability to make payments on the Notes.

Our hedging strategy has resulted in losses in the past and could result in additional market and credit losses.

We enter into derivative transactions to hedge risks associated with fluctuations in exchange rates, and we may in the future implement hedging policies to hedge interest rate and commodity price risks. We are implementing our hedging strategy gradually. In 2019, we entered into 123 forward transactions for an aggregate of U.S.\$1,655.8 million to hedge exchange rate risk in connection with our obligations denominated in currencies other than U.S. dollars resulting in net loss of \$/19 million as of December 31, 2019. Furthermore, our hedging strategy

involved an investment of S/24.9 million for 15 forward transactions during the nine-month period ended September 30, 2020. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Hedging arrangements expose us to the risk of financial loss in situations where our counterparty defaults on its obligations or, in the case of exchange-traded contracts, where there is a change in the expected differential between the underlying price in the hedging agreement and the actual prices paid or received by us or the price our counterparties will pay.

Additionally, hedging activities can themselves result in losses when a position is purchased in a declining market or a position is sold in a rising market. This risk increases to the extent volatile market conditions exist. We are and expect to continue to be subject to demands on our financial resources arising from hedging activities. In spite of our hedging efforts, we have experienced losses from market risk in the past and we may experience similar losses again in the future, and we cannot assure you that our future hedging policies will protect us from price fluctuations.

During the nine-month period ended September 30, 2020, we entered into put option transactions to hedge commodity price risk for an aggregate nominal amount of U.S.\$32.0 million. We have developed hedging policies concerning commodity risks, which established a coverage ratio up to 20.0% of our crude oil inventory. As of December 31, 2019, we had entered into put option transactions for an aggregate nominal amount of U.S.\$77 million, in order to hedge the company against oil crude price reductions, allowing us to benefit from price increases. Such actions maintain liquidity risk under control, as the company was able to anticipate any payment to be made under these transactions. None of the put option transactions were executed.

Any losses related to our hedging activities could have a material adverse effect on our results of operations and our ability to make payments on the Notes.

We operate in a highly regulated environment and our operating results could be adversely affected by actions by governmental entities or changes to regulations and legislation.

Our main business activities are highly regulated. For example, we have been under a corporate modernization mandate imposed by Law No. 30130 and Legislative Decree No. 1292, since December 29, 2016. The international consulting firm Wood Mackenzie evaluated our organization and formulated a strategic plan for our corporate modernization and transformation through 2030 into an integrated, sustainable enterprise. See “Business—Business Strategies.” However, Peruvian law requires us to comply with the corporate modernization mandate and/or the recommendations of Wood Mackenzie and, as a result, we face regulatory hurdles in our ability to implement these recommendations. Until we produce sufficient cash flow to ensure payment of our obligations related to the Talara Refinery Modernization Project and have sold at least 40.0% of our equity to the public, our capital expenditures are limited by Law No. 30130 and Legislative Decree No. 1292. See “Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations.” Because we require capital expenditures for our operations and continued growth, our successful operations could be adversely affected by our limitation on capital expenditures. See “—Our business requires substantial capital expenditures and maintenance expenses and is subject to financing risks in addition to financing risks related to the Talara Refinery Modernization Project.”

Moreover, the performance of our operating activities may be adversely affected by the decisions of the MEM, OSINERGMIN, OEFA or any other competent regional or local government, such as denials of permits and licenses, as well as amendments to applicable laws and regulations. Any additional regulatory requirements could significantly increase our expenditures or require us to operate our business in a substantially different manner. We cannot predict future actions of our regulators or any other competent regional or local government, and we can make no assurances about how such actions may affect our business, results of operations and our ability to make payments on the Notes. See “Business—Legal Proceedings—Environmental proceedings.”

For example, on August 7, 2015, the Ministry of the Environment issued Supreme Decree No. 009-2015-MINAM, which prohibited the commercialization in certain parts of Peru of diesel B5 with a sulfur content above 50 ppm since January 1, 2016. Once the Talara Refinery Modernization Project is completed, the Talara Refinery will be capable of producing diesel that meets these specifications. However, in the short term, these limitations on the sale of high sulfur diesel may require us to limit our refinery utilization and to suspend operations at our refineries for a few days each month to avoid producing an excess of high sulfur diesel. Until the Talara Refinery Modernization Project is completed, this may have an economic impact on our operations with respect to the commercialization of

diesel. Even after its modernization, the Talara Refinery may not comply with all of the required specifications, and we may have to undertake additional work at the refinery to meet all of these specifications. In addition, new specifications that the Peruvian government could choose to adopt include the environmental standards established by the EU Directive 98/70/EC. See “Regulatory Framework—Environmental Matters—Euro IV applicability.”

It is possible that in the future we may not be able to comply with these requirements. Moreover, relevant applicable laws and regulations, and the interpretation thereof, may change in the future and it may be difficult or impossible for us to comply with such amended law, regulation or interpretation. Further, we may not be able to renew or maintain all licenses, permits and approvals required to operate our assets and for our business. The failure to renew or maintain any required licenses, permits or approvals or our inability to satisfy any applicable legal requirements may result in the suspension of operations, the imposition of fines and/or remedial measures, as well as potential administrative, civil and criminal penalties, which may significantly increase compliance costs and the need for additional capital expenditures. See “—Risks Related to Peru—Policy changes by future administrations may adversely affect us.”

Given the possibility of unanticipated regulatory or other developments, including more stringent environmental laws, the amount and timing of future environmental compliance expenditures could vary substantially from their current levels. These variations could limit the availability of our funds and resources for other purposes. We can make no assurances about how any of the above could affect our business, results of operations and our ability to make payments on the Notes.

Our business and the Talara Refinery Modernization Project are subject to stringent environmental and safety regulations.

A wide range of general and industry-specific Peruvian environmental laws and regulations govern our operations and facilities, including requirements governing:

- the preparation of environmental impact assessments for our projects and operations;
- the generation, storage, handling and disposal of hazardous materials;
- the discharge of pollutants; and
- the remediation of contamination.

In line with international trends, Peruvian environmental and safety regulations have become increasingly stringent in recent years, particularly in connection with the approval of new projects and compliance supervision, and this trend is likely to continue. For example, the average utilization of the Talara Refinery has decreased in recent years due to a lower demand for high sulfur diesel B5, which has primarily been a result of more stringent environmental regulations that limit, in certain regions of Peru, the sale of diesel with a sulfur content higher than 50 ppm.

In particular, due to the technical and environmental standards set forth in Law No. 28694, in the short term, limitations on the sale of high sulfur diesel may require us to limit our refinery utilization and to suspend operations at our refineries for a few days each month to avoid producing an excess of high sulfur diesel. Until the Talara Refinery Modernization Project is completed, this may have an economic impact on our operations with respect to the commercialization of diesel. Additionally, even after the Talara Refinery Modernization Project is completed, we may not comply with all Euro IV specifications, and we may have to engage in a complementary project to meet all of the Euro IV specifications if the Peruvian government chooses to adopt the same standards.

Accordingly, we may be subject to stricter environmental and safety enforcement, and such laws and regulations may become more stringent in the future. See “—Risks Related to Peru—Policy changes by future administrations may adversely affect us.” We have made, and expect to continue to make, expenditures in projects required to comply with new and existing environmental and safety requirements. In addition, compliance with environmental and safety laws may require us to adjust our plans. Future developments in the establishment or implementation of environmental and safety requirements could result in operating or compliance costs or otherwise adversely affect our business and our ability to make payments on the Notes.

From time to time, we may not be in compliance with all such requirements at all of our facilities. There could be instances when regulations are breached which could result in substantial costs or liabilities, including claims for damages and/or civil or criminal penalties or sanctions ranging from fines to closure orders. Pollution resulting from current and past waste disposal, emissions and other operating practices may occur, requiring us to remediate contamination or to retrofit our facilities at substantial cost.

In addition, we are required to obtain and maintain permits and/or authorizations, undergo environmental impact assessments, implement environmental, health and safety plans and programs, mitigation measures and specific procedures to control construction and operation risks. There are certain environmental inspections conducted in our facilities that are generally subject to periodic renewal and may be challenged by third parties. While we believe we have all environmental and safety permits required at the current stage of the Talara Refinery Modernization Project, some permits or authorizations obtained may need to be amended in the future if the project is modified. Any delay or failure to obtain these permits or approvals or the imposition of more stringent conditions in such permits or approvals could prevent our continued operation of the Talara Refinery or result in additional costs. In addition, if we were required to modify the Talara Refinery Modernization Project to comply with environmental, health and safety laws or regulations, an expenditure of funds or additional indebtedness could be necessary. We cannot assure you that we will be able to obtain all required regulatory permits and authorizations, including any necessary modifications to existing regulatory approvals, or maintain or renew the required approvals.

Furthermore, Peruvian labor laws and regulations subject us to health and safety laws relating to our employees. According to the Peruvian Law on Safety and Health in the Workplace (*Ley de Seguridad y Salud en el Trabajo*), Law No. 29783 and its regulations approved by Supreme Decree No. 005-2012-TR, we are required to adopt certain measures to safeguard the health and safety of our employees, as well as those of third parties, at our facilities. Numerous Peruvian government entities have issued rules and regulations that result in increased costs associated with compliance and carry substantial penalties for non-compliance, including fines and criminal charges.

We also rely on the experience and expertise of contractors to comply with certain contingency protocols, including response measures and remediation practices in connection with events such as leaks on the Norperuano Pipeline. See “Business—Legal Proceedings—Environmental proceedings—2016 oil leaks of Norperuano Pipeline” and “Risk Factors—Risks Related to Our Operations—The operations of the Norperuano Pipeline expose us to risks associated with the transportation of crude, including risks in connection with leaks of crude that resulted in the suspension of the pipeline’s operations.” Although we believe we contract with reputable contractors that are experienced in clean-up protocols and environmental damage containment, we cannot assure you that these contractors will always comply with our policies and all applicable health and safety laws and regulations. If they fail to comply with applicable policies, laws and regulations, our reputation and financial condition could be adversely affected, which could affect our ability to make payments on the Notes.

In addition, we cannot assure you that:

- public opposition associated with environmental issues will not result in delays, modifications to or cancellation of any project or license;
- laws or regulations will not change in a manner that increases our compliance costs beyond what is discussed above or that materially affects our operations or plants; or
- governmental authorities will approve our environmental management instruments when they are required to implement proposed changes to operational projects.

Violations of environmental and safety regulations may give rise to significant liability, including fines, damages, fees and expenses, and site closures, any of which could adversely affect our business and results of operations, and our ability to make payments on the Notes.

The Peruvian government may fail to make payments pursuant to the Fuel Price Stabilization Fund.

The Fuel Price Stabilization Fund was created in 2004 pursuant to Urgency Decree No. 010-2004 to prevent the high volatility of crude prices and their derivatives from being transferred to Peruvian consumers and to stabilize the prices of a variety of hydrocarbons sold to end users. Currently, the Fuel Price Stabilization Fund only applies to

fuel oil 6. For the nine-month period ended September 30, 2020 and for the year ended December 31, 2019, these products collectively represented 26.0% and 29.8% of our sales volume and 29.0% and 31.2% of our revenue, respectively. To implement this mechanism, OSINERGMIN establishes a price band every month within which the price of each fuel may fluctuate. OSINERGMIN publishes an import parity price for each product on a weekly basis, which is calculated, among other factors, by taking into consideration the prices charged by U.S. Gulf Coast refineries for the product and the costs of delivering that product from the U.S. Gulf Coast to the relevant market, including freight, taxes, hedging costs and logistics. If the import parity price falls outside of the established band, we are entitled to either receive compensation from or make contributions to the Peruvian government through the Fuel Price Stabilization Fund, which is managed through a trust mechanism administered by an independent trustee.

In the past, during periods of high crude price volatility, we were adversely affected by significant delays in the amounts owed to us pursuant to the terms of the Fuel Price Stabilization Fund. We therefore cannot assure you that the Peruvian government will make payments to us from this fund on time or at all. Additionally, if price volatility increases, we may be asked to contribute more to this fund, receive less, or be paid more slowly or not at all, any of which could have a material adverse effect on our business, financial condition and results of operations and our ability to make payments on the Notes.

Failure to comply with anti-corruption laws could subject us to penalties and other adverse consequences.

As a state-owned enterprise, we and our employees are subject to Peruvian anti-corruption laws in Peru and we may be subject to other similar anti-bribery laws, including the U.S. Foreign Corrupt Practices Act of 1977, as amended, which generally prohibit companies and their intermediaries from making improper payments to government officials and other persons for the purpose of obtaining or retaining business, or receiving improper payments. We and our employees maintain significant and direct contact and ongoing commercial relationships with government officials and private third parties. We cannot assure you that our internal controls, policies and procedures will be effective in detecting and preventing violations of these laws. Violations of anti-corruption laws constitute criminal offenses under Peruvian law and expose us to liability. In addition, such violations, or allegations of such violations by us or any of our directors, officers or employees, could adversely affect our reputation and disrupt our business, which could in turn have an adverse effect on our business, financial condition and results of operations and our ability to make payments on the Notes.

We are exposed to behaviors incompatible with our ethics and compliance standards. Our policies and procedures may not be able to detect bribery, money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to fines, liabilities and reputational risk.

Given the large number of contracts that we are a party to with local and foreign suppliers and contractors, the geographic distribution of our operations and the great variety of actors that we interact with in the course of business, we are subject to the risk that our employees, suppliers, contractors, or any person having relations with us may misappropriate our assets, manipulate our assets or information, make improper payments or engage in bribery, money laundering or the financing of terrorism, for such person's personal or business advantage.

We are required to comply with applicable anticorruption laws, anti-money laundering laws, anti-terrorism financing laws and other regulations in Peru. While we have adopted policies and procedures aimed at detecting and preventing corruption, money laundering and other illegal activities by terrorists, terrorist-related organizations and individuals, generally such policies and procedures may not completely eliminate instances where they may be used by other parties to engage in corruption, money laundering and other illegal or improper activities.

In addition, our systems for identifying and monitoring these risks may not be effective to fully mitigate them in all situations. If we fail to comply with applicable laws and regulations, we may be subject to fines and other penalties. In addition, any such acts may result in material financial losses or reputational harm to us which could in turn have an adverse effect on our financial condition and results of operation.

We intend to engage in exploration and production activities, which will expose us to additional risks.

We do not currently engage in the exploration and production of crude, but we may do so in the future following completion of the Talara Refinery Modernization Project and the ongoing development plans for Blocks 64 and 192. See "Business—Potential Future Exploration and Oil Production." We anticipate that the development of

Blocks 64 and 192 and other hydrocarbon deposits will require capital expenditures and expose us to risks common to crude oil exploration and production including:

- accidents, including blow-outs (which are sudden, violent explosions of oil or water from a drilling well, followed by an uncontrolled flow from the well), fires, cratering (which is the caving in and collapse of the earth's structure around a blow-out well) and explosions;
- mechanical failures and collapsed holes, particularly in horizontal wellbores;
- work stoppages;
- unscheduled maintenance and repairs;
- pipeline and transportation failures, including oil spills and leaks;
- adverse natural conditions and unfavorable weather conditions, including abnormally pressured formations;
- unforeseen exploration and production costs, shortages or delays in the delivery of equipment, and compliance with governmental requirements;
- decline in reserves, reassessment of the type of reserve (from conventional to non-conventional), predictability of estimates of reserves and acquisition of exploratory acreage;
- environmental hazards such as oil leaks, gas leaks, ruptures or discharges of toxic gases; and
- third-party interference, including social unrest, civil strikes and sabotage.

In accordance with customary industry practice, we intend to contract insurance policies covering some, but not all, of our material risks relating to the exploration and production of crude. However, we cannot guarantee that our insurance coverage will be sufficient to satisfy all potential liabilities that may result from these risks. See “—We maintain insurance coverage for protection against some, but not all, potential risks.”

The occurrence of any of the aforementioned events could result in:

- substantial disruption to our operations, personal injury or loss of life;
- significant environmental damage resulting in remediation costs and expenses, claims, sanctions or fines;
- other significant damage to our property or the property of others; or
- a material adverse effect on our results of operations and financial condition.

In addition, social and environmental conflicts may arise within the exploration and production areas, potentially affecting our productivity and creating liabilities for us. The expenses associated with these potential investments and/or liabilities could have a material adverse effect on our business, results of operations and our ability to make payments on the Notes.

A large portion of our sales is represented by a limited number of customers.

As of September 30, 2020, our largest customers were:

- Primax, a wholly-owned subsidiary of the Romero Group of Peru, one of the country's largest business conglomerates, which accounted for 29.6% of our revenue of refined products by volume during such period;

- Numay S.A., a Peruvian company engaged in wholesale of solid, liquid and gaseous fuels and related products, which accounted for 12.3% of our revenue of refined products by volume during such period; and
- Sociedad Minera Cerro Verde S.A.A., a Peruvian mining company, part of the Free Port Mc. Moran group, one of the largest producers and marketers of copper and molybdenum with operations in Chile, the United States, Indonesia and Africa, which accounted for 3.2% of our revenue of refined products by volume during such period.

During the same period, our sales to customers in the industrial sector accounted for 20.2% of our revenue of refined products by volume, sales to non-associated service stations accounted for 14.8%, and sales to LPG stations accounted for 1.4%. See “Business—Production and Trading Segment—Principal customers of our refined products—Our largest customers.”

Any failure or delay in payment by any of our principal customers or our inability to recover amounts owed by such principal customers, or our loss, or a decrease in our commercial relationship with, any of our principal customers, could have a material adverse effect on our financial condition and results of operations and on our ability to make payments on the Notes.

We depend on key members of our management team and other key personnel for the success of our business.

We depend on key members of our management team for the successful operation of our business. However, we periodically implement changes in management to improve our performance and as part of the political process, particularly when a new president takes office. Our by-laws provide that the Minister of Energy and Mines serves as the president of our general board of shareholders and the remaining four members of our general board of shareholders are appointed by Peru. Our general board of shareholders consists of the Minister of Energy and Mines (President), the Minister of Economy and Finance, the Vice-Minister of Energy, the Vice-Minister of Economy and Finance and the General Secretary of the MEM. In turn, our general board of directors appoints five out of six members of our board of directors for terms of three years, which can be renewed following a performance review. The sixth member of our board is appointed to a two-year term by our employees. We expect that some or all members of our general board of shareholders or the general board of directors could change, even frequently, because of political decisions of the executive branch, over which we have no control. Any new appointments to our boards could trigger further changes to the composition of our boards and executive officers.

On July 28, 2016, former president Pedro Pablo Kuczynski took office. On March 21, 2018, Mr. Kuczynski resigned from office following allegations that he attempted to bribe certain members of Congress to vote in his favor in an upcoming impeachment vote, which stemmed from allegations of improper payments made by a construction company. On March 23, 2018, Mr. Kuczynski’s vice-president, Martín Vizcarra, was sworn in as president of Peru. Later, on November 9, 2020, Martín Vizcarra was impeached and removed from office by the Congress after allegations of corruption emerged from his time serving as Regional Governor of Moquegua and subsequently, on November 10, 2020, in accordance with the Peruvian presidential line of succession, Manuel Merino, the sitting President of Congress, was sworn in as acting President. Mr. Merino resigned from the presidency on November 16, 2020 following wide-spread protests across the country which resulted in the deaths of two students and the resignation of several cabinet members and top government officials, including the Minister of Finance and Economy and the Minister of Energy and Mines. Likewise, all members of the Directive Committee of Congress, comprised of the President of Congress and three Vice-Presidents, also resigned.

As a result of the resignation of Mr. Merino and the Directive Committee of Congress, Congress held elections to renew the Directive Committee of Congress, electing by a significant majority, the list of candidates led by Francisco Sagasti. As a of his appointment as President of Congress, on November 18, 2020, President Francisco Sagasti was sworn in as President of the Republic for the remaining presidential term, which ends in July 2021. On November 18, 2020, President Francisco Sagasti appointed the members of his cabinet which were ratified by Congress (*voto de confianza*) on December 3, 2020. There have been no changes in our board of directors resulting from the appointment of the current President of Peru.

In 2020, the General Shareholders’ Meeting, in its session held on February 26, accepted the resignation of Mr. Carlos Eduardo Paredes Lanatta from his position as director and president of the Board, appointing Mr. Carlos

Alfredo Barrientes Gonzales as interim. Subsequently, on April 3, the General Shareholders' Meeting appointed Mr. Eduardo Alfredo Guevara Dodds as director and president of the Board of Directors and accepted the resignation of Mr. Carlos Alfredo Barrientes Gonzales, who resumed the position of General Manager. While we do not expect, in the near future, changes to our general board or shareholders, our board of directors or our management to significantly alter our company's objectives, we cannot assure you that our new board of directors, our new general board of shareholders and the administration of President Sagasti will continue to have a productive relationship with each other and our executive officers. In addition, in April 2021, Peru will hold elections to choose a new President and we cannot assure you that our management team will not suffer modifications after the new president takes office.

In addition, as part of our corporate modernization and in accordance with the recommendations of Wood Mackenzie since May 2016, we are in the process of modernizing our management structure through the implementation of our Corporate Optimization Plan. Pursuant to Legislative Decree No. 1292, we are required to implement measures to maximize the value of our company, facilitate the administrative reorganization of our business units to promote the sustainability of our operations in accordance with international standards in the hydrocarbons sector, and establish mechanisms to ensure the participation of independent specialists in our board of directors. The reorganization plan mandated by Legislative Decree No. 1292 was required to be completed within 720 days from the date of enactment and was completed by the fourth quarter of 2018. We cannot assure you that the changes made as part of our Corporate Optimization Plan will ensure the successful operation of our business.

As of the date of this offering memorandum, Mr. Carlos Alfredo Barrientos Gonzales is our General Manager, effective as of August 5, 2020. See "Management."

The loss of any key members of our management team could have a material adverse effect on our cash flow, financial condition and results of operations and could have a material adverse effect on our ability to make payments on the Notes.

We may be adversely affected by disputes with our labor unions and activist groups.

Our relationships with the communities in which we operate are important to ensure the success of our existing operations and the development of our current and future projects. Adverse publicity generated by non-governmental organizations or local communities related to the petrochemical industry in general, or to our operations and contingency and to other internal policies specifically, could have an adverse effect on our reputation or financial condition and may impact our relationships with the communities in which we operate.

As of September 30, 2020, we had 2,525 employees, 62% of whom were members of unions. See "Business—Employees and Labor Relations." During the last five years, there have been no employee work stoppages. We define the positions we believe to be "essential" in case of stoppage, which together with information of unions and workers, we report to the Ministry of Labor and Employment Promotion ("MTPE"). In case of a work stoppage, a communication is sent to the MTPE notifying the measure adopted by the unions, a letter to the unions is sent exhorting them to cancel the strike, and a communication to essential workers with a reminder of the importance of their positions, urging them to stay in their posts, with the corresponding security measures in place.

However, we cannot assure you that we will not experience occasional work slowdowns, work stoppages, strikes or other labor disputes in the future, particularly in the context of the renegotiation of our collective agreements, which could have a material adverse effect on our reputation, our business and our ability to make payments on the Notes. We may be exposed to the risk of blockages of access to the Talara Refinery and obstructions in the local roads and highways, any of which could have a material adverse effect on our business, results of operations and our ability to make payments on the Notes.

We are subject to litigation and other legal proceedings.

We are party to a number of labor, tax, environmental, administrative and criminal proceedings that, either alone or in combination with other proceedings, could, if resolved in whole or in part adversely against us, result in the imposition of material costs, fines, judgments or other losses. As of September 30, 2020, there was a total of S/307,778,883.28 and U.S.\$132 million in judicial and arbitration claims outstanding against us, of which S/10.9 million and U.S.\$159,564 correspond to contingencies classified as probable. As of September 30, 2020, there was a total of S/3,000 million in contingencies, of which S/30.2 million correspond to contingencies classified as

probable. See “Business—Legal Proceedings.” In addition, we are subject to the risk of future legal claims and proceedings and regulatory enforcement actions in the ordinary course of our business. The results of these proceedings cannot be predicted with certainty. If the costs and expenses of our liabilities in regulatory proceedings grossly exceed our estimates and the available insurance coverage, these costs and expenses may have a material adverse effect on our business, results of operations and our ability to make payments on the Notes.

We are subject to more limited financial reporting and securities disclosure requirements than companies regulated in the United States.

While we submit quarterly and annual financial reports to the SMV, under IFRS-IASB, financial reporting and securities disclosure requirements in Peru differ in certain significant aspects from those requirements required for reporting companies in the United States. In addition, we are a reporting company in Peru that is subject to the disclosure and reporting rules contained in the Peruvian securities market law and the regulations of the BVL. These laws and regulations are more limited than those in the United States in certain important respects. Although Peruvian law imposes restrictions on insider trading and price manipulation, applicable Peruvian laws are different from United States laws, and the Peruvian securities markets are not as highly regulated and supervised as the U.S. securities markets. Accordingly, the information about our company available to you will not be the same as the information available to holders of securities issued by a U.S. company.

Risks Related to Our Shareholder

Peru controls us and our annual budget and financing program is subject to government approval.

We are a state-owned company. Although we act with financial and administrative autonomy, Peru and its agencies closely supervise our operations. In particular, our policies and strategic objectives are subject to approval by the MEM. Our general board of shareholders consists of the MEM, which appoints the Minister and Vice-Minister as representatives. Consequently, the Peruvian government is lawfully entitled to determine substantially all matters requiring approval by a majority of our shareholders, including the election of a majority of our directors. As a state-owned enterprise, we cannot assure you that the interests of the Peruvian government, our controlling shareholder, will align with your interests as Noteholders. In circumstances involving a conflict of interest between our controlling shareholder and the Noteholders, our controlling shareholder may exercise its ability to control us in a manner that may be adverse to the Noteholders.

In addition, pursuant to Law No. 30130 and its implementing regulations, we have certain limitations on our ability to enter into new investment projects and are required to comply with certain obligations relating to, among other matters, our corporate organization, subject to the exceptions provided for in Law No. 30357. See “Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations.” As a result of our relationship with Peru, political considerations may have a more significant influence on our board of directors than the boards of directors of privately owned companies.

Furthermore, we cannot assure you that the new or any future administration will continue to support us or will act in our best interests or those of the Noteholders. Unsupportive actions by the government that are not in our best interests may adversely affect our business, results of operations and our ability to make payments on the Notes. For more about political and social risks in Peru, see “—Risks Related to Peru—Policy changes by future administrations may adversely affect us” and “—Risks Related to Peru—Economic, political and social developments in Peru could materially and adversely affect us.”

The Peruvian government may privatize us and this may have an effect on our relationship with Peru.

Pursuant to Law No. 30130 and its implementing regulations, Peru has been authorized to sell to the public up to 49.0% of our equity through an initial public offering. See “Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations.” We are not currently considering a public offering of our shares; however, if we complete a public offering of our shares in the future, we cannot predict whether such event will affect our relationship with Peru. A change in our relationship with the Republic of Peru could adversely impact our business, results of operations and our ability to make payments on the Notes. For the avoidance of doubt, a sale of 49.0% of our outstanding stock would not constitute a “Change of Control” under the Notes and would therefore not require us to make a Change of Control Offer.

Risks Related to Peru

The worldwide outbreak of communicable diseases such as coronavirus, and measures taken in response thereto, may lead to higher volatility in the global financial markets and economies, which may materially and adversely affect our business, financial condition and results of operations.

The outbreak of communicable diseases on a global scale, such as the coronavirus outbreak that began in early 2020, has negatively affected and may continue to negatively affect investment sentiment and result in sporadic or sustained volatility in global financial markets and economies. In addition, the coronavirus outbreak has resulted in restrictions on travel and public transport and prolonged closures of workplaces which has had and may continue to have a material adverse effect on the global economy in general and in certain industries in particular. Any material change in global financial markets, regional economies and/or in Peru as a result of these events or developments may continue to materially and adversely affect our business, financial condition and results of operations. See “Summary—Recent Developments—Recent developments related to the COVID-19 pandemic.”

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus disease, COVID-19, which resulted in a global pandemic. The spread of coronavirus has had disruptive effects worldwide, impacting the global economy widely and causing increased volatility and a decline in financial markets, including in Peru. Faced with this crisis, governments and central banks have adopted unconventional measures such as the lockdown of economic activity, monetary stimulus actions, with zero interest in many cases, and fiscal expansion measures seeking to mitigate the impacts of the pandemic. However, these actions may not prevent a global recession in 2020, in particular if the pandemic is prolonged, or further diseases emerge that give rise to similar effects. Global economic activity is expected to contract severely in 2020 (leading to the worst economic downturn since the great depression), which has affected and will continue to affect Peru’s main trade partners, including China and the United States. Moreover, Peru’s export prices will also be negatively affected due to lower global demand.

As a result of the COVID-19 pandemic, the Peruvian economy has been and may continue to be severely disrupted by various factors, including: (i) the effects on the international economic environment (such as economic growth rates of Peru’s main trade partners like China and the United States, as well as lower commodity prices), and (ii) the local effect of government measures to contain the COVID-19 pandemic.

In response to the COVID-19 pandemic, on March 1, 2020 the President of Peru decreed a state of emergency and imposed several measures to contain the outbreak, including a mandatory quarantine, business closures, travel restrictions and cancellations of gatherings and events. Minor exceptions were made for key sectors (such as food supply, health and banking). Even though the Peruvian economy has one of the strongest macroeconomic fundamentals among emerging markets, the quality of the health system in Peru is below the average for the region. We cannot predict the impact that these and any other measures the government may adopt in the future could have on the Peruvian economy in general and on our business, financial condition and results of operations, in particular.

In addition, to address the major health and safety and economic shock derived from the COVID-19 pandemic, the Peruvian Ministry of Finance, the Peruvian Central Bank and the Peruvian Congress have announced and are implementing measures directed at stimulating the economy, equivalent to approximately 25% of Peru’s GDP. These measures have included funding local governments, eliminating tariffs on medical supply imports, granting direct subsidies to families and members of the population, providing disability subsidies to coronavirus patients, providing benefits to furloughed workers, reducing tax burdens to individuals and companies, certain subsidies to company payrolls, funding reactivation plans to support the tourism, culture and agriculture sectors and access to private savings, among various other measures.

On October 8, 2020, Law No. 31050 was published, which establishes the extraordinary provisions for the rescheduling and freezing by financial institutions of debt in order to provide relief to individuals and medium- and small-sized companies (“MYPES”) for the adverse economic consequences they have experienced as a result of the COVID-19 pandemic. Within the framework of this Law, the MEF published the Operating Regulations of the COVID-19 Guarantee Program, through Ministerial Resolution No. 296-2020-EF/15, for the rescheduling of consumer and mortgage debt of individuals and MYPES.

On November 3, 2020, the Congressional Budget Committee approved a bill that would allow the return of up to 1 UIT (approximately S/4,300) of contributions to affiliates of the Peruvian Social Security Normalization Office

(ONP). In addition, Congress rejected by eight votes the proposal to reform the public pension system submitted by the executive branch. A plenary debate on the bill proposed by the Congressional Budget Committee and the executive branch proposal has yet to be scheduled.

On December 30, 2020, the Peruvian Congress approved a law stating that the Peruvian Central Bank is entitled to set maximum and minimum interest rates every six months in order to regulate the loan market, specifically regarding consumer lending, small amount consumer lending and lending to small and medium sized businesses. Small amount consumer lending are loans of no greater than 2 UITs. The executive branch has up to 15 days to make observations or enact this law.

The Peruvian government may adopt additional measures aimed at assisting businesses during the pandemic, imposing mandatory grace periods and/or limiting financial institutions' ability to charge interest and fees.

We may also face further restrictions imposed by regulators and authorities, difficulties related to employee absences resulting in insufficient personnel, impacting the quality and continuity of our business, and disruption of our supply chain. As of September 30, 2020, approximately 37% of our employees under indefinite term work agreements worked remotely, and 23% of them have returned to our offices as of the date of this offering memorandum. We have implemented all the necessary protocols established by the Peruvian Health Ministry (MINSA) in order to ensure a secure working environment for those employees that have returned to our offices and we aim to increase and improve our tools to facilitate remote work in the near future. We may need to adopt further contingency measures or eventually suspend certain operations, which may have a material adverse impact on our business, financial condition or results of operations.

There are no comparable recent events which may provide guidance as to the effect of the spread of the coronavirus and a global outbreak, and, as a result, the ultimate impact of the coronavirus outbreak or a similar health pandemic is highly uncertain and subject to change.

The negative effects of the COVID-19 pandemic on the Peruvian economy and on our business triggered the need to conduct impairment testing in compliance with IAS 36 in connection with the preparation of our Unaudited Interim Financial Statements. In measuring the effect of impairment, IAS 36 requires that the recoverable amount of an asset or CGU be compared to the asset's or the CGU's carrying value. The recoverable amount is the higher of: (i) fair value less costs of disposal, and (ii) value in use of the asset or CGU. If any of these exceeds the book value of the asset or CGU, it would not be necessary to estimate the other and the relevant asset or CGU would not be impaired.

We performed impairment testing of the Talara Refinery Modernization Project as a CGU through its value in use. In doing so, we focused on the Talara Refinery Modernization Project's expected revenue using a discounted cash flow methodology, which allows present value calculations of expected cash flows through the use of a discount rate that takes into consideration company and sector specific risks. In performing the impairment testing, we used a 7.25% discount rate and took into consideration: (i) the change in the expected completion date of the Talara Refinery Modernization Project due to delays, including temporary suspension of the works as a result of the COVID-19 pandemic, and (ii) decreased prices for the purchase and sale of crude oil and slower projected price increases relative to the expectation in prior years. As a result, our Unaudited Interim Financial Statements as of September 30, 2020 include a U.S.\$71.4 million asset impairment corresponding to the Talara Refinery Modernization Project CGU. See Note 5 to our Unaudited Interim Financial Statements included elsewhere in this offering memorandum and "Presentation of Financial and Statistical Information—Our Financial Statements."

Though we continue monitoring the developments of the pandemic, we cannot yet assess and/or predict the full extent of the impacts that the COVID-19 pandemic will have on the global economy, on the Peruvian economy and/or on our business, financial condition and results of operations. The COVID-19 pandemic has had, and may continue to have, a material adverse impact on our business, financial condition and results of operations.

Policy changes by future administrations may adversely affect us.

The president of Peru has considerable power in determining governmental policies and actions that relate to the Peruvian economy and our company. See "—Risks Related to Our Operations—We depend on key members of our management team and other key personnel for the success of our business." During the last years Peru has

experienced political instability that has included the dissolution of the Congress and a succession of administrations in less than three years, although maintaining the same economic policies and programs.

On March 21, 2018, former president Pedro Pablo Kuczynski resigned from office. On March 23, 2018, Mr. Kuczynski's vice-president, Martín Vizcarra, was sworn in as president of Peru. On September 30, 2019, President Vizcarra dissolved Congress and called for early legislative elections. On that same date, Congress voted to suspend President Vizcarra and swore Vice President Mercedes Araoz in as acting President. Ms. Araoz resigned as acting President and as Vice President on October 1, 2019.

Later, on November 9, 2020, Martín Vizcarra was impeached and removed from office by the Congress. Under article 115 of the Peruvian constitution, which regulates the presidential line of succession, in case the incumbent President and the Vice Presidents are incapacitated or impeded from holding the office of the Presidency of the Republic, the President of Congress shall assume the functions of President. Pursuant this regulation, on November 10, 2020, Manuel Merino, the sitting President of Congress, was sworn in as acting President. Mr. Merino resigned from the presidency on November 16, 2020 following wide-spread protests across the country which resulted in the deaths of two students and the resignation of several cabinet members and top government officials, including the Minister of Finance and Economy and the Minister of Energy and Mines. Likewise, all members of the Directive Committee of Congress, comprised of the President of Congress and three Vice-Presidents, also resigned.

As a result of the resignation of Mr. Merino and the Directive Committee of Congress, Congress held elections to renew the Directive Committee of Congress, electing by a significant majority, the list of candidates led by Francisco Sagasti. As a of his appointment as President of Congress, on November 18, 2020, President Francisco Sagasti was sworn in as President of the Republic for the remaining presidential term, which ends In July 2021. On November 18, 2020, President Francisco Sagasti appointed the members of his cabinet, which were ratified by Congress (*voto de confianza*) on December 3, 2020.

In addition, as ratified by President Sagasti in his opening speech before Congress during his swearing-in ceremony, in April 2021, Peru will hold elections to choose a new President and a new Congress, each of which will hold office for a term of five years. Although recent administrations in Peru have maintained open-market economic policies, a responsible fiscal policy and an autonomous monetary policy, we cannot assure you that the newly elected authorities will refrain from adopting new policies that could have an adverse effect on the Peruvian economy or on us. Future government policies could include, among others, expropriation, nationalization, suspension of the enforcement of creditors' rights and new taxation regimes. Any of these new policies could materially adversely affect the Peruvian economy, our business, results of operations and our ability to make payments on the Notes.

Economic, political and social developments in Peru could materially and adversely affect us.

All of our operations and most of our customers are located in Peru and our results of operations and financial condition are dependent on economic, political and social developments in Peru, and are affected by economic and other policies of the Peruvian government, including devaluation, depreciation, currency exchange controls, inflation, economic downturns, political instability, social unrest and terrorism. Declining economic activity in Peru, the depreciation of the *sol* and increases in inflation or domestic interest rates may reduce our customers' ability to acquire our products which could materially reduce our net earnings and capital levels.

During the past several decades, Peru has experienced political instability that included a succession of regimes with differing economic policies. Previous governments have imposed controls on prices, exchange rates, local and foreign investment and international trade, restricted the ability of companies to dismiss employees, expropriated private sector assets and prohibited the remittance of profits to foreign investors. We cannot assure you that the Peruvian government will continue to pursue open market economic policies that are designed to foster and stimulate economic growth and social stability.

On July 28, 2016, former president Pedro Pablo Kuczynski took office. Less than two years later, on March 21, 2018, Mr. Kuczynski resigned from office following allegations that he attempted to bribe certain members of Congress to vote in his favor in an upcoming impeachment vote, which stemmed from allegations of improper payments made by a construction company. Subsequently, on March 23, 2018, Mr. Kuczynski's vice-president, Martín Vizcarra, was sworn in as president of Peru.

On September 30, 2019, President Vizcarra dissolved the Congress and called for early legislative elections. On that same date, the Congress voted to suspend President Vizcarra and swore Vice President Mercedes Araoz in as acting President. Notwithstanding, Ms. Araoz resigned as acting President on October 1, 2019.

On October 10, 2019, the President of the Permanent Commission of Congress, Pedro Olaechea, filed a claim before the Constitutional Court seeking the Court to declare President Vizcarra's dissolution of Congress as unconstitutional. However, on January 14, 2020, the Peruvian Constitutional Court decided that the dissolution of the Congress ordered by President Vizcarra was valid under the Peruvian Constitution. The ruling of the Peruvian Constitutional Court was a split decision as three out of seven members voted against the validity of the dissolution of the Congress.

On January 26, 2020, legislative elections were held in Peru. The elected congresspersons will hold office until July 2021 and, in addition to all the usual congressional powers, will have the authority to review any Urgent Decree issued by the executive branch.

On September 14, 2020, after several allegations were made public against former President Vizcarra and investigations from the Congress began to emerge, he filed an administrative competence lawsuit before the Constitutional Tribunal to determine, *inter alia*, the scope of powers of the Congress to impeach the President. Such lawsuit included an injunction request to stop the Congress from impeaching the President.

On September 17, 2020, the Constitutional Tribunal admitted the lawsuit for review but denied the injunction request as it found no evidence of clear and present danger regarding the likelihood of the President's impeachment.

On November 9, 2020, Martín Vizcarra was impeached by the Congress and removed from office. That same day, President Vizcarra held a press conference in which he accepted the Congress' decision and resigned from office. Under article 115 of the Peruvian Constitution, which regulates the presidential line of succession, in case the incumbent President and the Vice Presidents are incapacitated or impeded from holding the office of the Presidency of the Republic, the President of Congress shall assume the functions of the President. Pursuant to this regulation, on November 10, 2020, Manuel Merino, the sitting President of Congress, was sworn in as acting President. Mr. Merino resigned from the presidency on November 16, 2020 following widespread protests across the country which resulted in the deaths of two students and the resignation of several cabinet members and top government officials, including the Minister of Finance and Economy and the Minister of Energy and Mines. Likewise, all members of the Directive Committee of Congress, comprised of the President of Congress and three Vice-Presidents, also resigned.

As a result of the resignation of Mr. Merino and the Directive Committee of Congress, Congress held elections to renew the Directive Committee of Congress, electing by a significant majority, the list of candidates led by Francisco Sagasti. As a result of his appointment as President of Congress, on November 18, 2020, President Francisco Sagasti was sworn in as President of the Republic for the remaining presidential term, which ends in July 2021. On November 18, 2020, President Francisco Sagasti appointed the members of his cabinet, which were ratified by Congress (*voto de confianza*) on December 3, 2020.

In April 2021, Peru will hold elections to choose a new President and a new Congress, each of which will hold office for a term of five years. President Sagasti in his opening address to Congress ratified that elections would be held on such date. The newly elected authorities will be entitled to enact, amend or derogate laws and regulations that may apply to us. Although Peruvian government and members of Congress elected in the last 20 years have generally maintained economic policies based on free market, contractual liberty and minimal governmental intervention in the Peruvian economy and all these principles are set forth in the Peruvian Constitution, we cannot assure that the new President or the new Congress will maintain such policies. In consequence, a new administration may pursue policies that are detrimental to the Peruvian economy and/or negatively affect our industry in general, and our results of operations, in particular.

We expect that some of the political parties hold favorable views towards a controlled market and more assertive governmental intervention in the economy. Although a drastic change in the current economic model would require the amendment of the economic regime set forth in the Peruvian Constitution, we cannot assure that policies against free market and minimal intervention of the government in the Peruvian economy will not be taken by the new administration or the new Congress. Furthermore, we cannot assure that such authorities will not enact, amend or

derogate laws and regulations currently applicable to us and our business that could have an adverse effect on us or the Notes.

In the past, the possibility of a political outsider being elected President has been a source of political instability in Peru, with negative economic consequences. Increased political turmoil or an electoral victory by a Presidential candidate perceived to come from outside the traditional political party system may have an adverse effect on investors' perception of the country's risk.

Any changes in the Peruvian economy or the Peruvian government's economic policies may have a negative effect on our business, financial condition and results of operations.

The Peruvian economy could be adversely affected by economic developments in Latin American or global markets and the perception of higher risk.

Financial and securities markets in Peru are influenced, to varying degrees, by economic and market conditions in Latin American or global markets. Although economic conditions vary from country to country, investors' perceptions of the events occurring in one country may substantially affect capital flows into, and the demand for securities issued by issuers in other countries, including Peru. Recently, emerging markets have seen investors significantly reduce their exposure to those markets as a result of rising interest rates in the United States, political turmoil and concerns that emerging market economies as a whole have not reformed fast enough to make growth sustainable. Peru's economy continues to be affected by events in the economies of its major regional partners, in the economies of developed countries that are its trading partners, or that affect the global economy.

In 2020, the global economy was negatively affected by the COVID-19 pandemic. As a consequence, the Peruvian economy will be severely disrupted by two factors: (i) the effects on the international economic environment (such as the economic growth rates of Peru's main trade partners like China and the United States, as well as lower commodity prices), and (ii) the local effect of government measures to contain the COVID-19 pandemic. The COVID-19 pandemic has uniformly affected global markets and could substantially affect large economies, such as the United States' and Europe's. This new economic and financial crisis could affect the Peruvian economy and, consequently, materially adversely affect our business, financial condition and operating results.

Additionally, adverse developments in regional or global markets, including, for example, political and economic events, such as the recent crises in Brazil, Venezuela, Ecuador, Bolivia, Chile and Argentina, or global markets or an increase in the perceived risks associated with investing in emerging markets in the future could adversely affect the Peruvian economy and, as a result, adversely affect our businesses.

A decline in the prices of certain commodities in the international markets could have a negative impact on our business.

Traditional exports, in particular, mineral products, fishing products, agricultural products and petroleum and its derivatives, represented 72.6% and 70.8% of Peru's total exports in 2018 and 2019, respectively, according to the Peruvian Central Bank figures. In the nine-month period ended September 30, 2020 and 2019, these commodities represented 69.1% and 71.1% of Peru's total exports, respectively. A decline in commodity prices in the international markets, especially traditional minerals, which represented 58.9% of exports by value in 2019 and 59.3% for the nine-month period ended September 30, 2020, may adversely impact government finances, which could affect both investor confidence and the sustainability of government expenditure. Thus, a decline in commodity prices could, ultimately, affect the political environment in Peru, especially as regional and local governments are particularly reliant on tax revenue from mining concerns. In particular, the Peruvian economy has recently suffered the effects of lower commodity prices in the international markets, a decrease in export volumes, a decrease in foreign direct investment inflows and, as a result, a decline in foreign reserves and an increase in its current account deficit. Adverse developments in regional or global markets in the future could adversely affect the Peruvian economy and, as a result, adversely affect our business, results of operations and our ability to make payments on the Notes.

The re-implementation of certain laws by the Peruvian government, most notably restrictive exchange rate policies, could adversely affect us.

Since 1991, the Peruvian economy has experienced a significant transformation from a highly protected and regulated system to a free market economy. The Peruvian economy has, in general, responded well to this transformation, growing at an average annual rate of over 4.9% during the period from 2001 to 2019. Exchange controls and restrictions on remittances of profits, dividends, and royalties have ceased. Prior to 1991, Peru exercised control over foreign exchange markets by imposing restrictions to multiple exchange rates and restrictions to the possession and use of foreign currencies. In 1991, President Alberto Fujimori's administration eliminated all foreign exchange controls and unified the exchange rate into a market where the price of foreign currency is set by supply and demand. Currently, foreign exchange rates are determined by market conditions, with regular operations by the Peruvian Central Reserve Bank (*Banco Central de Reserva del Perú*, or "Peruvian Central Bank"), in the foreign exchange market in order to reduce volatility in the value of Peru's currency against the U.S. dollar. Since the early 1990s, protectionist and interventionist laws and policies have been gradually dismantled to create a liberal economy dominated by market forces.

The Peruvian government may institute restrictive exchange rate policies in the future. Any such restrictive exchange rate policy could affect our ability to engage in foreign exchange activities, and could also materially and adversely affect us.

There is no certainty that new administrations in Peru will pursue the same monetary policies as the current administration. If the Peruvian government were to institute restrictive exchange rate policies in the future, we might be obligated to seek an authorization from the Peruvian government to make payments on the Notes. We cannot assure you that such an authorization would be obtained. Any such exchange rate restrictions or the failure to obtain such an authorization could materially and adversely affect our ability to make payments on the Notes.

Inflation could adversely affect us.

In the past, Peru has suffered through periods of high and hyper-inflation, which has materially undermined the Peruvian economy and the government's ability to create conditions that would support economic growth. A return to a high inflation environment would undermine Peru's foreign competitiveness, with negative effects on the level of economic activity and employment. Additionally, in response to increased inflation, the Peruvian Central Bank, which sets the Peruvian base interest rate, may increase or decrease the base interest rate in an attempt to control inflation or foster economic growth.

As of December 31, 2018 and December 31, 2019, the Peruvian economy experienced annual rates of inflation averaging approximately 2.2% and 1.9%, respectively, as measured by the Peruvian Consumer Price Index. For the nine-month period ended September 30, 2020 and 2019, the Peruvian economy experienced inflation averaging 0.8% and 2.0%, respectively. This index is calculated by the INEI and measures variations in prices of a selected group of goods and services typically consumed by Peruvian families. We cannot assure you, however, that inflation will remain at these levels.

If Peru experiences substantial inflation in the future, our costs of goods could increase and our operating margins could decrease, which could materially and adversely affect us and our ability to make payments on the Notes. Inflationary pressures may also limit our ability to access foreign financial markets and may cause government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Peruvian economy, which could materially and adversely affect our ability to make payments on the Notes.

Corruption and high-profile corruption investigations may hinder the growth of the Peruvian economy and have a negative impact on our business, operations and/or reputation.

Peruvian authorities are currently conducting several high-profile corruption investigations relating to the activities of certain Brazilian companies and their Peruvian partners in the construction and infrastructure sectors, which have resulted in suspension or delay of important infrastructure projects, which were otherwise operational and permitted. The overall delay relating to such projects has resulted in a drop in projected GDP growth and overall infrastructure investment. Furthermore, corruption and corruption investigations could directly affect the Peruvian

government, divert resources that would otherwise be focused on developing the economy, create political instability, and result in slower or negative economic growth, such as has happened in Brazil.

Changes in tax laws and regulations may increase our tax burden.

The Peruvian government regularly implements changes to tax laws and regulations. These changes may include modifications in the tax rates and, on occasion, the enactment of temporary taxes that in some cases have become permanent. The oil sector is an important source of tax revenue in Peru. Future changes in Peruvian tax laws and regulations could lead to an increase in the amount of taxes payable by our company, impacting our margins and net income.

The effects of any tax reforms proposed in the future and any other changes that result from the enactment of additional reforms have not been, and cannot be, quantified. Pursuant to the last major tax reform enacted in December 2016, the tax rate on business income increased from 28.0% to 29.5%. Although this rate became applicable on January 1, 2017 and is not expected to change in upcoming years, we cannot assure you that future administrations will retain the tax reform. Any current and future changes to our tax regime may result in increases to our overall costs and/or our overall compliance costs, which could negatively affect our business, financial condition and our ability to make payments on the Notes.

The climatic phenomenon El Niño and other natural phenomena, such as earthquakes and floods, may have a material and adverse effect on us.

El Niño is an oceanic and atmospheric phenomenon that causes temperatures in the Pacific Ocean to rise, resulting in heavy rains off the coast of Peru and Ecuador and various other effects in other parts of the world. The effects of *El Niño*, which typically occurs every two to seven years around the end of December, include abnormally bad weather, flooding in the northern coast of Peru and drought in the rainforest and southern mountainous areas of the country, with significant impact on fishing and agriculture activities. The strongest *El Niño* events of the 20th century occurred in 1982-1983 and in 1997-1998. Since January 2017, record rainfalls related to *El Niño Costero*, a type of *El Niño* common in coastal areas, have caused devastating floods in Peru. During the three quarters of 2020, these floods caused significant damage to Peruvian infrastructure leading to substantial delays in the delivery of products transported by land. As a result, large regions of Peru suffered food and water shortages and commercial activity in these regions dropped dramatically. The damage to roads and highways forced hundreds of trucks and buses to cease activities for long periods until access to the regions affected by rain was restored, resulting in a substantial drop in LPG and diesel consumption during the three quarters of 2020. We cannot assure you that another *El Niño* event will not cause severe damage to our properties or other oil distribution assets, or that the supply of products will not be affected by closed ports along the Peruvian coast. In particular, any particularly heavy rains caused by *El Niño* and flooding could impact construction of the Talara Refinery Modernization Project, including the port and any landfill activities as well as damage the Norperuano Pipeline enough to cause additional oil leaks.

In addition, Peru has experienced other natural phenomena in the past such as earthquakes and floods and droughts caused by low rainfall. Notwithstanding the fact that we carry earthquake insurance, the occurrence of an earthquake, tsunami or any other natural disaster could delay the completion of the Talara Refinery Modernization Project. If such events occur in the future, we may suffer damage to, or destruction of, properties and equipment, or losses not covered by our insurance policies, as well as temporary disruptions to our services, which may materially and adversely affect us.

Furthermore, our insurance policies have compensation limits and deductibles. If one or more significant natural disasters occurred, our policy coverage could be insufficient to cover our losses. The occurrence of any of the above mentioned construction-related risks could result in unforeseen delays and increased costs in excess of the budget for the Talara Refinery Modernization Project, which could have an adverse impact on our results of operations and ability to make payments on the Notes.

Market volatility generated by distortions in the international financial markets may affect the Peruvian capital markets.

The international financial conditions in 2008 and 2009 increased the volatility of the BVL. In recent years, the BVL has experienced increased participation from local and international retail investors that react rapidly to the

effects from international markets. The general index of the BVL increased by 28.3% in 2017, decreased by 3.1% in 2018 and increased by 6.1% in 2019 (each compared to the previous year), according to information provided by Bloomberg and the S&P/BVL Peru General Index. Further volatility in the international markets may also adversely affect the Peruvian capital markets. The Peruvian banking system has not experienced significant liquidity problems as a result of the international financial conditions, primarily because the major source of funds for local banks is represented by their deposit base. Nevertheless, we may, in the future, rely on funding from the local capital markets and limited liquidity in those markets as a result of future market volatility could adversely affect our ability to raise funds at the price or level we consider necessary to fund our operations.

The perception of higher risk in other countries may adversely affect the Peruvian economy, our business and the market price of Peruvian securities issued by Peruvian issuers, including the Notes.

Emerging markets like Peru are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt business in Peru and adversely affect the price of the Notes. Moreover, financial turmoil in any important emerging economy may adversely affect prices in stock markets and prices for debt securities of issuers in other emerging economies as investors move their money to more stable, developed markets. An increase in the perceived risks associated with investing in Latin American or other emerging markets could dampen capital flows to Peru, adversely affect the Peruvian economy in general, and dissipate the interest of investors in securities issued by Peruvian issuers. We cannot assure you that the value of the Notes will not be negatively affected by events in Latin American or other emerging markets or the global economy in general.

Risks Related to the Notes

The Notes are not and will not be guaranteed by a Sovereign Guarantee (as defined herein), nor will they benefit from any other guarantee or credit support.

The Notes do not and will not have the benefit of a Sovereign Guarantee or be guaranteed by any other means by Peru or benefit from any other type of credit support. Pursuant to Law No. 30130 and its implementing regulations, Peru, acting through the Ministry of Economy (in such capacity, the “Sovereign Guarantor”), has been authorized to irrevocably guarantee the due and punctual payment of our financial liabilities incurred for the development, construction, implementation, commissioning, operation or maintenance of the Talara Refinery Modernization Project for up to a total of U.S.\$1,000 million and in the form of payments of up to U.S.\$200.0 million per year. Furthermore, the Indenture provides that we may issue, assume or incur any financial liabilities for the development, construction, implementation, commissioning, operation or maintenance of the Talara Refinery Modernization Project, which financial liabilities may benefit from a Sovereign Guarantee (as defined herein), provided that we may not issue any debt securities benefitting in any form from any Sovereign Guarantee. See “Description of the Notes—Covenants—Requirements with respect to Sovereign Guarantees.” In the event we issue, assume or incur such guaranteed financial obligations, we have no obligation to provide a similar guarantee for the benefit of the Notes. See “Description of the Notes—Covenants—Limitations on Issuance of Securities Benefiting from a Sovereign Guarantee.”

Furthermore, if we default on such guaranteed financial obligations and payments are made under a Sovereign Guarantee, the Sovereign Guarantor could become our creditor if it seeks reimbursement from us for payments made under the Sovereign Guarantee, in which case, such reimbursement rights would rank *pari passu* with the rights of Noteholders to receive payment under the Notes. Accordingly, we may pay all or a portion of such reimbursement rights to the Sovereign Guarantor before the Notes and, as a result, Noteholders may not receive payment in full under the Notes before or at the same time as the Sovereign Guarantor is reimbursed in connection with the Sovereign Guarantee.

Our obligations under the Notes will be subordinated to certain statutory liabilities, secured liabilities and liabilities of any future subsidiaries.

Under Peruvian Bankruptcy Law (*Ley General del Sistema Concursal*), Law No. 27809, as amended, our obligations under the Notes are subordinated to certain statutory preferences. In the event of our liquidation, such statutory preferences, including claims for salaries, wages, social security, secured obligations (to the extent of the value of the assets securing such indebtedness), taxes and court fees and expenses related thereto, will have preference over any other claims, including claims by any investor in respect of the Notes. See “Regulatory Framework—Bankruptcy Regulations.”

In addition, our creditors may hold negotiable instruments or other instruments governed by Peruvian law that grant rights to attach our assets at the inception of judicial proceedings in Peru, which attachment is likely to result in priorities benefitting those creditors when compared to your rights as Noteholders.

The Notes will rank equal in right of payment with all of our other existing and future senior unsecured debt, other than as described above, and will be subordinated in right of payment to any of our existing or future secured debt, to the extent of the assets securing such debt. Moreover, the Notes will not be guaranteed by our future subsidiaries and, as a result, payment by us in respect of the Notes will be structurally subordinated to the payment of secured and unsecured debt and other creditors of any of our future subsidiaries.

We may not have sufficient funds to consummate a Change of Control Offer and, in certain circumstances, if we consummate a Change of Control Offer, we may have the option to redeem all of the Notes that remain outstanding following such Change of Control.

We are required to make an offer to repurchase the Notes upon the occurrence of a Change of Control Event (as defined herein). See “Description of the Notes—Change of Control.” We cannot assure you that we will have sufficient funds to purchase all of the principal, together with accrued and unpaid interest, under the Notes that we are required to purchase under the terms of the Indenture following the occurrence of a Change of Control Event. Our failure to purchase, or to make an offer to purchase, the required amount of the Notes would result in an Event of Default under the Indenture.

Furthermore, if holders of not less than 90.0% in aggregate principal amount of the outstanding Notes validly tender and do not withdraw such Notes in a Change of Control Offer and we consummate a Change of Control of such tendered Notes, we will have the right to redeem all Notes that remain outstanding and that were not tendered as part of the first Change of Control following such purchase at a price in cash equal to the Change of Control Payment (as defined herein) in respect of the second Change of Control. See “Description of the Notes—Change of Control.”

The Indenture and other instruments that govern our outstanding or future indebtedness may restrict or limit our operations and affect our liquidity and our ability to make payments on the Notes and previously we have had to seek waivers for defaults under the covenants of other financings.

The Indenture contains a number of significant covenants that could adversely affect our ability to operate our business, as well as significantly affect our liquidity, and therefore could adversely affect our results of operations. These covenants restrict, among other things, our ability to:

- issue, assume or guarantee any indebtedness for money borrowed or money secured by a lien on any Principal Property;
- enter into any Sale and Lease-back Transaction with respect to any Principal Property (as defined in “Description of the Notes”);
- consolidate with or merge into any other entity or convey or transfer any of our properties and assets; and
- issue any debt securities which benefit in any form from any Sovereign Guarantee.

These covenants are subject to important exceptions and qualifications as described under “Description of the Notes—Covenants.” In addition, the applicable instruments governing our other outstanding indebtedness contain, and the financing agreements that we may enter into in the future to finance the Talara Refinery Modernization Project may contain, covenants and obligations that may restrict or limit our operations and adversely affect our liquidity. For a description of certain of our other outstanding indebtedness, see “Description of Certain Indebtedness of the Issuer.”

The breach of any covenant or obligation under the Indenture or the instruments governing our other outstanding or future indebtedness that is not otherwise waived or cured could result in a default and could trigger acceleration of those obligations, which in turn could trigger cross-defaults under other instruments governing our outstanding or future indebtedness.

Any default under the Indenture or the applicable instruments governing our other outstanding indebtedness could adversely affect our financial condition, results of operations and our ability to make payments on the Notes.

Except for certain limited circumstances, the Indenture does not limit the amount of indebtedness that we may incur or require us to comply with any financial covenants.

We will not be restricted from incurring additional debt or other liabilities, including additional senior debt, under the Indenture, except for the incurrence of indebtedness which benefit in any form from any Sovereign Guarantee in connection with the Talara Refinery Modernization Project. See “Description of the Notes—Covenants—Requirements with respect to Sovereign Guarantees.” As of September 30, 2020, we had U.S.\$4,463.3 million of indebtedness outstanding. If we incur additional debt or liabilities, our ability to pay our obligations on the Notes could be adversely affected.

Furthermore, the Indenture will not contain any provisions restricting our ability to sell assets (other than certain restrictions on our ability to consolidate, merge or sell all or substantially all of our assets and certain restrictions on our ability to enter into any Sale and Lease-back Transaction with respect to any Principal Property) or to enter into transactions with affiliates. See “Description of the Notes—Covenants—Limitations on sale and lease-back transactions” and “Description of the Notes—Covenants—Consolidation, merger, sale or conveyance.” Additionally, the Indenture will not require that we adhere to any financial tests or ratios or specified levels of net worth. You will not be protected under the Indenture in the event of a highly leveraged transaction, reorganization, restructuring, merger or similar transaction that may adversely affect you, except to the limited extent described under “Description of the Notes.”

It may be difficult to enforce civil liabilities against us, or our directors and executive officers, in connection with the Notes.

We are a *sociedad anónima* organized under the laws of Peru. Substantially all of our directors and executive officers reside outside the United States. In addition, all or a substantial portion of our assets and the assets of our directors and executive officers are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon these persons or entities or to enforce judgments in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States against them.

In addition, judgments of U.S. courts for civil liabilities based upon U.S. federal securities laws or of courts of other jurisdictions for civil liabilities based upon other securities laws may not be enforceable in courts in Peru. We have been advised by our Peruvian external legal counsel that there is doubt as to the enforceability, in original actions in Peruvian courts and in original actions or in actions for enforcement of judgments obtained in courts of jurisdictions outside of Peru, of civil liabilities under the laws of any jurisdiction outside of Peru, including any judgment predicated solely upon the federal securities laws of the United States or any state or territory within the United States.

We will irrevocably waive and agree not to plead any immunity, including sovereign immunity, from the jurisdiction of certain U.S. courts arising out of, or based upon, the Notes or the Indenture governing the Notes. In the absence of a waiver of immunity by us with respect to such actions, it may not be possible to obtain a U.S. judgment in such action unless a court were to determine that we are not entitled to sovereign immunity under the Immunities Act with respect to that action. Moreover, it may not be possible to enforce a judgment obtained under the Immunities Act against our property located in the United States except under the limited circumstances specified in the Immunities Act. See “Enforceability of Civil Liabilities.”

The remedies available to you may be limited in bankruptcy.

We believe we are subject to the Peruvian insolvency regime applicable to all corporations under Law No. 27809, *Ley General del Sistema Concursal*. See “Regulatory Framework—Bankruptcy Regulations.” Bankruptcy and insolvency laws in Peru differ in certain significant respects from those in the United States. If we seek the protection of bankruptcy or insolvency laws, or if one of our creditors begins a bankruptcy proceeding against us, our ability to make payments in respect of the Notes is likely to be significantly impaired. In addition, we cannot predict how long payments on the Notes could be delayed, or if any payments on the Notes would be made, following the commencement of a bankruptcy case against us.

The Noteholders may not be able to sell the Notes at the price that the holders paid or at all.

There can be no assurance that a secondary market in the Notes will be sustained. If such a trading market is not maintained, Noteholders may experience difficulty in reselling the Notes or may be unable to sell them at all. The liquidity of any market for the Notes will depend on the number of Noteholders, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, we cannot assure you as to the development or liquidity of any market for the Notes. If an active trading market does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price depending upon prevailing interest rates, the market for similar securities, general economic conditions, our performance and business prospects and other factors.

We will be subject to applicable disclosure standards for debt securities listed on the SGX-ST, which may be different from those applicable to debt securities listed in certain other countries.

We will be subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different from those imposed by securities exchanges in other countries or regions. As a result, the information that is available may not correspond to that which Noteholders may be accustomed.

The Notes are subject to transfer restrictions.

The offer and sale of the Notes have not been registered under the Securities Act or the securities laws of any other jurisdiction and the Notes are being offered and sold only to qualified institutional buyers within the meaning of Rule 144A and in offshore transactions to non-U.S. persons in accordance with Regulation S and, in each case, in compliance with the conditions for transfer set forth herein. See “Transfer Restrictions.”

The Notes will not be offered pursuant to a public offering in Peru and this offering memorandum has not been, and will not be, registered with the SMV or the Lima Stock Exchange. Accordingly, the Notes cannot be offered or sold in Peru, except if (i) the Notes were previously registered with the SMV, or (ii) the offering of the Notes is considered a private offering under the Peruvian securities laws and regulations of Peru. The Peruvian securities market law establishes, among other things, that an offer of securities that is directed exclusively to Peruvian institutional investors (as defined by Peruvian law) qualifies as a private offering. The Notes may not be offered or sold in Peru or in any other jurisdiction except in compliance with the securities laws thereof. Therefore, Peruvian Private Pension Funds’ Administrators and other Peruvian institutional investors must rely on their own examination of us and the terms of the placement of the Notes in order to determine their ability to invest in the Notes. Prospective investors should be aware that investors may be required to bear the financial risks of this investment for an indefinite period of time. See “Notice to Investors.”

You may be adversely affected if your Notes are repaid earlier or later than you expect.

You may receive payment of your Notes earlier or later than expected. If your Notes are repaid earlier than you expect, you may be unable to reinvest amounts received on your Notes at a yield that is equal to the yield on your Notes included in the quarterly payments. If your Notes are repaid later than you expect, you will be unable to use the amount of your investment at the time that you expected, and you may miss the opportunity to reinvest the money in other investments. If you acquire your Notes at a discount, the repayment of your Notes later than anticipated will result in a lower than anticipated yield.

Our credit ratings may be lowered or withdrawn for any reason.

The credit ratings of our Notes may not reflect the potential impact of all risks relating to the value of the Notes. In addition, the credit ratings of the Notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. As part of the process of obtaining ratings for the Notes offered hereby, we had initial discussions with and submitted certain materials to certain rating agencies. Based on preliminary feedback from those rating agencies at that time, we selected S&P Global Ratings and Fitch Ratings Ltd. to rate the Notes offered hereby. Had we selected other rating agencies, the ratings those agencies assigned to the Notes may have been lower than the ratings we ultimately received from S&P Global Ratings and Fitch Ratings Ltd. Real or anticipated

changes in our credit ratings or the credit ratings of the Notes will generally affect the market value of the Notes. Thus, even though we are making interest payments when due, the price of the Notes in the secondary market that may develop may be considerably less than the price paid for by investors in the Notes.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency and for any reason, including a lowering of our credit ratings or the credit ratings of the Notes. An explanation of the significance of such ratings may be obtained from the rating agencies.

USE OF PROCEEDS

The estimated net proceeds from the offering of the Notes will be U.S.\$1,145 million after deducting discounts and commissions payable to the Initial Purchasers and other offering expenses payable by us, and excluding accrued interest from December 20, 2020 to February 11, 2021 in the aggregate amount of U.S.\$8,125,000. We will use such net proceeds, together with available cash and, to the extent and in the amounts necessary, additional financings, to finance the completion of the Talara Refinery Modernization Project. In particular, we intend to use a portion of the net proceeds from this offering of Notes to repay in full our short-term debt originally incurred to finance the Talara Refinery Modernization Project totalling U.S.\$439.0 million and any remaining net proceeds to make required payments under the EPC Contracts. See “Plan of Distribution—Certain Relationships,” “Summary—Talara Refinery Modernization Project—Financing of the Talara Refinery Modernization Project,” and “Risk Factors—The Talara Refinery Modernization Project requires substantial capital and we have not secured all sources of financing required to complete the project.”

EXCHANGE RATES

Peruvian law does not currently impose any restrictions on the ability of companies carrying out operations in Peru to transfer foreign currencies from Peru to other countries, to convert *soles* into any foreign currency or to convert any foreign currency into *soles*. Companies may freely remit interest and principal payments outside Peru and investors may repatriate capital from liquidated investments. However, in the past, Peruvian law imposed restrictions on the conversion of Peruvian currency to foreign currency and the transfer of funds outside Peru. Therefore, we cannot assure that Peruvian law will continue to allow such payments, transfers, conversions or remittances without any restrictions.

The following table sets forth the high, low, average and period-end exchange rates for the indicated periods, expressed in *soles* per U.S. dollar. Exchange rates are based on the selling rate exchange rates reported by the SBS, for *soles* per U.S. dollar.

	Low	High	Period Average ⁽¹⁾	Period End
Year ended December 31:				
2016.....	3.250	3.538	3.377	3.360
2017.....	3.232	3.392	3.263	3.317
2018.....	3.208	3.386	3.288	3.379
2019.....	3.285	3.405	3.339	3.317
2020.....	3.305	3.405	3.339	3.317
Months ended:				
August 2020	3.540	3.593	3.566	3.547
September 2020.....	3.527	3.599	3.557	3.599
October 2020	3.580	3.615	3.598	3.615
November 2020	3.577	3.662	3.611	3.610
December 2020	3.587	3.624	3.606	3.624
January 2021	3.608	3.653	3.627	3.642

Source: SBS.

(1) Calculated as the average of the month-end or day-end exchange rates during the relevant period, as applicable.

On January 29, 2021, the exchange rate was S/3.642 per U.S. dollar.

We make no representation that the Peruvian *sol* or the U.S. dollar amounts referred to herein actually represent, could have been or could be converted into U.S. dollars or Peruvian *soles*, as the case may be, at the rates indicated above, at any particular rate or at all.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2020 (i) on a historical basis and (ii) as adjusted to reflect the issuance of the Notes offered hereby. The as adjusted column in the table below does not reflect our intended use of a portion of the net proceeds from this offering to repay in full our short-term debt incurred to finance the Talara Refinery Modernization Project as described under “Use of Proceeds.” This table should be read together with “Selected Financial and Other Data,” and our Financial Statements and the notes thereto included elsewhere in this offering memorandum.

	As of September 30, 2020	
	Actual	As Adjusted
	<i>(U.S.\$ in millions)</i>	
Long-term loans and financings, excluding current portions ⁽¹⁾	3,202	3,202
5.625% Notes due 2047, offered hereby	—	998
Total long-term loans and financings, excluding current portion	3,202	4,200
Capital stock.....	1,446	1,446
Additional capital.....	154	154
Legal reserve	69	69
Other equity reserves.....	—	—
Retained earnings.....	123	123
Total equity	1,792	1,792
Total capitalization	4,994	5,992

(1) Includes non-current portion of the Original Notes.

On July 31, 2020, our Board of Directors approved a capital increase of U.S.\$153.9 million (S/517.5 million), resulting from the capitalization of our profits for the year ended December 31, 2019, which increased our issued share capital to U.S.\$1,446 million (S/4,851 million) as of September 30, 2020. Other than this capital increase, there have been no material changes in our capitalization as of September 30, 2020.

SELECTED FINANCIAL AND OTHER INFORMATION

The following tables present our selected financial and other information as of and for each of the dates and periods indicated. This data is qualified in its entirety by reference to, and should be read together with, our Financial Statements and the notes thereto. The following data as of December 31, 2019, 2018 and 2017 and for each of the three years ended December 31, 2019, 2018 and 2017 have been derived from our Audited Financial Statements. The data as of September 30, 2020 and for the nine-month periods ended September 30, 2020 and 2019 have been derived from our Interim Financial Statements, which are not necessarily indicative of the results to be expected for the year ended December 31, 2020 or any other period and should be read together with our Audited Financial Statements. We have prepared the Interim Financial Statements on the same basis as our Audited Financial Statements and, in our opinion, have included all adjustments necessary to present fairly in all material respects our financial position and results of operations. The financial data presented in this offering memorandum should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Presentation of Financial and Statistical Information.”

Selected Statement of Profit or Loss Data

	For the Nine Month Period Ended September 30,		For the Year Ended December 31,		
	2020	2019	2019	2018	2017
			(U.S.\$ in millions)		
Revenue from ordinary activities...	2,199.2	3,449.3	4,568.3	4,884.0	3,979.3
Other operating revenue	57.7	62.5	99.7	81.1	72.3
Total gross revenue	2,256.9	3,511.8	4,668.0	4,965.1	4,051.6
Cost of sales	(2,120.6)	(3,113.8)	(4,139.9)	(4,617.6)	(3,537.1)
Gross profit	136.3	397.9	528.1	347.5	514.5
Selling and distribution expenses...	(43.1)	(56.0)	(78.9)	(77.4)	(70.2)
Administrative expenses.....	(95.9)	(114.0)	(186.1)	(156.2)	(179.0)
Other income	9.2	23.3	38.3	135.5	68.8
Other expenses	(78.3)	(12.3)	(36.2)	(33.5)	(35.5)
Total operating expenses	(208.1)	(159.0)	(263.0)	(131.6)	(215.9)
Operating profit (loss).....	(71.8)	238.9	265.2	215.8	298.6
Finance income.....	17.1	13.8	19.1	17.0	3.4
Finance costs	(26.7)	(26.5)	(37.4)	(48.9)	(51.8)
Exchange difference, net	(28.4)	(4.7)	6.9	(6.7)	(2.0)
Profit (loss) before income tax.....	(109.8)	221.5	253.8	177.3	248.1
Income tax	(6.8)	(76.4)	(82.8)	(57.7)	(63.0)
Profit (loss) for the period/year ..	(116.6)	145.1	171.0	119.6	185.1

Selected Statement of Financial Position Data

	As of September 30,		For the Year Ended December 31,		
	2020	2019	2019	2018	2017
	(U.S.\$ in millions)				
Current assets:					
Cash	154.3	261.3	375.7	528.7	666.1
Trade accounts receivable, net ...	248.0	328.4	362.6	438.7	343.3
Other accounts receivable, net	151.9	725.8	174.0	1,455.8	661.2
Inventories	356.1	597.8	654.4	590.5	643.6
Prepaid expenses	1.3	6.4	3.7	0.4	4.9
Assets held for sale	0.6	2.0	0.6	2.0	—
Total current assets	912.2	1,921.8	1,571.0	3,016.1	2,319.2
Non-current assets:					
Other accounts receivable	407.4	299.7	363.6	241.8	215.2
Investments in properties	9.6	70.1	9.6	9.6	9.5
Property, plant and equipment, net	5,628.7	4,594.0	5,094.6	4,043.0	3,361.4
Intangible assets	37.1	35.2	36.8	33.6	33.5
Right of use assets	9.0	—	11.5	—	—
Other assets	0.0	—	—	—	0.1
Total non-current assets	6,091.8	4,999.0	5,516.0	4,327.9	3,619.6
Total assets	7,004.0	6,920.8	7,087.0	7,344.0	5,938.7
Current liabilities:					
Other Financial Liabilities	1,261.8	960.7	1,010.0	1,673.1	1,319.2
Trade accounts payable	553.0	661.4	739.1	529.8	772.2
Other accounts payable	65.8	109.0	139.3	105.1	115.2
Provisions	28.9	32.2	37.9	34.7	59.6
Lease liabilities	5.4	—	8.8	—	—
Total current liabilities	1,915.0	1,763.2	1,935.2	2,342.7	2,266.2
Non-current liabilities:					
Other financial liabilities	3,201.5	3,151.6	3,153.7	3,147.6	1,985.1
Provisions	11.5	7.3	11.7	7.1	14.5
Income tax liability	82.3	116.3	75.5	109.3	55.3
Lease liabilities	2.1	—	2.7	—	—
Total non-current liabilities	3,297.4	3,275.2	3,243.6	3,264.0	2,054.9
Total liabilities	5,212.4	5,038.4	5,178.8	5,606.7	4,321.1
Equity:					
Issued Capital	1,445.6	1,338.0	1,445.6	1,338.0	1,171.4
Other capital reserves	69.2	52.1	52.1	40.2	21.7
Other equity reserves	153.9	107.6	—	—	(0.2)
Retained earnings	123.0	384.7	410.6	359.2	424.7
Total equity	1,791.7	1,882.4	1,908.3	1,737.3	1,617.6
Total liabilities and equity	7,004.0	6,920.8	7,087.0	7,344.0	5,938.7

Statement of Changes in Equity Data

	For the Nine Month Period Ended September 30,		For the Year Ended December 31,		
	2020	2019	2019	2018	2017
	(U.S.\$ in millions)				
Balances as of the beginning of the period/year	1,908.3	1,737.3	1,737.3	1,617.6	1,115.9
Profit for the period/year	(116.6)	145.1	171.0	119.6	185.1
Total comprehensive income	—	—	—	0.2	0.2
Capitalization of additional capital	153.9	107.6	—	—	—
Transfer to capital stock	—	—	107.6	166.6	—
Transfer to legal reserve	17.1	12.0	12.0	18.5	—
Capitalization of retained earnings	(171.0)	(119.6)	(119.6)	(185.1)	—
Total transactions with stockholders	—	—	—	—	316.4
Balances as of the end of the period	1,791.7	1,882.4	1,908.3	1,737.3	1,617.6

Other Financial Data

	For the Nine Month Period Ended September 30,		For the Year Ended December 31,		
	2020	2019	2019	2018	2017
<i>(U.S.\$ in millions, except percentages)</i>					
EBITDA	52.1	308.7	403.4	263.5	378.5
Adjusted EBITDA ⁽¹⁾	45.4	302.4	394.5	168.1	347.3
Adjusted EBITDA Margin ⁽¹⁾	2.0%	8.6%	8.5%	3.4%	8.6%
Amortization and Depreciation	45.0	47.6	87.6	50.6	49.8
Net cash (used in) provided by operating activities	235.2	597.6	645.7	(134.4)	165.0
Net cash used in investing activities ...	(688.9)	(116.0)	(131.4)	(1,501.5)	(1,228.5)
Net cash provided by financing activities	242.2	(749.0)	(668.3)	1,500.9	1,652.7

(1) See "Presentation of Financial and Statistical Information—Special Note Regarding Non-IFRS Financial Measures."

The following table presents our operating data for the periods indicated.

	As of the Nine Month Period Ended September 30,		As of the year ended December 31,		
	2020	2019	2019	2018	2017
Operating Data:					
Refining capacity (in KBPD) ⁽¹⁾	27.5	94.5	94.5	94.5	94.5
Refinery utilization (in KBPD) ⁽²⁾	11.1	66.5	66.5	67.4	69.4
Refined products (in KBPD) ⁽³⁾	18.0	99.8	99.2	110.4	104.7
Average crude price (U.S.\$ per barrel) ⁽⁴⁾	40.07	63.41	62.90	70.41	53.40
Average diesel price (U.S.\$ per barrel) ⁽⁵⁾	98.13	110.98	110.36	106.58	93.60
Average LPG price (U.S.\$ per barrel) ⁽⁵⁾	40.24	42.67	42.62	50.88	45.19
Average fuel oil price (U.S.\$ per barrel) ⁽⁵⁾	63.63	72.67	72.34	68.55	56.28
Average jet fuel price (U.S.\$ per barrel) ⁽⁵⁾	81.62	99.95	100.68	100.47	84.66
Refining margin (U.S.\$ per barrel) ⁽⁶⁾	12.90	6.10	5.93	2.28	7.28
Capacity utilization rate ⁽⁷⁾	40.3%	70.3%	70.4%	71.3%	73.4%
Days of inventory	62	51	53	47	59
Days of receivables	30	21	21	20	18
Days of payables	58	40	42	37	47
Inventory (U.S.\$ millions)	356.12	597.83	654.42	590.54	643.61
Receivables (U.S.\$ millions)	248.00	328.41	362.63	438.70	343.30
Payables (U.S.\$ millions)	553.02	661.38	739.13	529.80	772.25
Employees ⁽⁸⁾	1,982	2,199	2,141	2,221	2,264

(1) Total amount of crude introduced into the first step of the refining process, referred to as atmospheric distillation.

(2) Total amount of inputs, including crude and other raw materials, introduced throughout one complete cycle of the refining process.

(3) Total amount of refined products produced by one complete cycle of the refining process, including blending. In 2020, blending is not included.

(4) Average purchase price of crude.

(5) Average sale price in the Peruvian national market.

(6) Means the differential between the price of crude oil purchased for our refining operations, plus the unit operating cost, and the price of our refined products extracted from such crude.

(7) Defined as crude refinery utilization (in thousands of average barrels per day for the period) divided by atmospheric distillation refining capacity.

(8) Staff hired under indefinite term employment contracts.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations as of September 30, 2020 and 2019 and December 31, 2019, 2018 and 2017 and for the nine-month periods ended September 30, 2020 and 2019, and for the years ended December 31, 2019, 2018 and 2017 should be read in conjunction with our Financial Statements and the notes thereto, prepared in accordance with IFRS-IASB, and included elsewhere in this offering memorandum, as well as the information presented under "Presentation of Financial and Statistical Information" and "Selected Financial and Other Data."

The discussion in this section contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of certain events may differ materially from those anticipated in these forward-looking statements as a result of various factors. See "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors."

Operating Segments

For accounting purposes, our business consists of three operating segments, which reflect the cash-generation capacity of our operations:

- our production and trading segment, which consists of refining petroleum and the sale of refined products and generates revenue from the distribution and sale of our refined products;
- our leased and privatized units segment, which consists of the leasing of certain of our facilities to third parties, and generates revenue from (i) the leasing of our Pucallpa Refinery and our assets for offshore production and (ii) the fees from operation contracts for our distribution terminals; and
- our oil pipeline operations segment, which consists of the transportation of crude through the Norperuano Pipeline and generates revenue from fees charged to third parties for the use of the Norperuano Pipeline.

Production and trading is our largest segment and accounted for 98.5% and 98.4% of our total gross revenue in the nine-month periods ended September 30, 2020 and 2019, respectively, and 98.1%, 97.1% and 98.7% of our total gross revenue in the years ended December 31, 2019, 2018 and 2017, respectively. Our leased and privatized units segment accounted for 0.8% and 0.9% of our total gross revenue in the nine-month periods ended September 30, 2020 and 2019, respectively, and 0.9%, 0.9% and 1.1% of our total gross revenue in the years ended December 31, 2019, 2018 and 2017, respectively. Our oil pipeline operations segment accounted for 0.8% and 0.8% of our total gross revenue in the nine-month periods ended September 30, 2020 and 2019, respectively, and for 1.0%, 2.4% and 0.3% of our total gross revenue in the years ended December 31, 2019, 2018 and 2017, respectively.

Segment revenue

Revenue from our production and trading segment is included in our Statement of Profit or Loss and Other Comprehensive Loss as revenue; however, revenue from our oil pipeline operations segment and our leased and privatized units segment are included in our Statement of Profit or Loss and Other Comprehensive Loss as other operating income.

- Revenue from our production and trading segment decreased by 35.7%, to U.S.\$2,219.4 million for the nine-month period ended September 30, 2020 from U.S.\$3,451.1 million for the nine-month period ended September 30, 2019, decreased by 4.9%, to U.S.\$4,577.1 million for the year ended December 31, 2019 from U.S.\$4,814.5 million in the year ended December 31, 2018 and increased by 20.6%, to U.S.\$4,814.5 million for the year ended December 31, 2018 from U.S.\$3,998.0 million in the year ended December 31, 2017.
- Other operating income from our leased and privatized units segment decreased by 41.0%, to U.S.\$18.7 million for the nine-month period ended September 30, 2020 from U.S.\$31.7 million for the nine-month period ended September 30, 2019, decreased by 5.8%, to U.S.\$42.1 million for the year ended December 31, 2019 from U.S.\$44.8 million in the year ended December 31, 2018 and decreased

by 2.7%, to U.S.\$44.8 million for the year ended December 31, 2018 from U.S.\$46.0 million in the year ended December 31, 2017.

- Other operating income from our oil pipeline operations segment decreased by 25.4%, to U.S.\$18.8 million for the nine-month period ended September 30, 2020 from U.S.\$15.0 million for the nine-month period ended September 30, 2019, increased by 56.9%, to U.S.\$34.7 million for the year ended December 31, 2019 from U.S.\$22.1 million in the year ended December 31, 2018 and increased significantly to U.S.\$22.1 million for the year ended December 31, 2018 from U.S.\$3.4 million in the year ended December 31, 2017.

Segment profit (loss) before income tax

The following table sets forth our profit or loss before income tax by segment for the periods indicated:

	Nine-Month Period ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(U.S.\$ in millions)</i>				
Profit (loss) before income tax:					
Production and trading segment.....	(92.3)	210.1	255.0	125.7	290.0
Oil pipeline operations segment.....	(29.3)	(10.7)	(30.9)	19.7	(85.1)
Leased and privatized units segment.....	11.9	22.0	29.6	31.9	43.2
Total.....	(109.8)	221.5	253.8	177.3	248.1

Nine-month period ended September 31, 2020 compared to the nine-month period ended September 31, 2019

Profit (loss) from our production and trading segment decreased to a loss of U.S.\$92.3 million for the nine-month period ended September 30, 2020 from a profit of U.S.\$210.1 million in the nine-month period ended September 30, 2019. This decrease resulted primarily from a U.S.\$1,056.8 million decrease in our domestic sales from U.S.\$3,062.3 million in the nine-month period ended September 30, 2019 to U.S.\$2,005.5 million in the nine-month period ended September 30, 2020, primarily due to a significant decrease in sales volume in the domestic market as a result of decreased economic activity in Peru following the declaration of the state of national emergency in response to the COVID-19 pandemic.

Moreover, our oil pipeline operations segment recorded a significantly increased loss of U.S.\$29.3 million for the nine-month period ended September 30, 2020 from a loss of U.S.\$10.7 million for the nine-month period ended September 30, 2019. This loss resulted primarily from a U.S.\$13.9 million decrease in crude oil sales from U.S.\$14.0 million in the nine-month period ended September 30, 2019 to U.S.\$0.1 million in the nine-month period ended September 30, 2020, as a result of the temporary suspension of operation of the Norperuano Pipeline from April 30, 2020 through July 31, 2020, as a result of our response to the COVID-19 pandemic.

Profit from our leased and privatized units segment decreased to U.S.\$11.9 million for the nine-month period ended September 30, 2020 from U.S.\$22.0 million in the nine-month period ended September 30, 2019. This decrease resulted from a U.S.\$13.0 million decrease in external revenue to U.S.\$18.7 million in the nine-month period ended September 30, 2020 from U.S.\$31.7 million in the nine-month period ended September 30, 2019 as a result of the expiration of our operation contract with Consorcio Terminales del Peru in the Southern Terminal, which led to recording this as revenue for our production and trading segmentation.

Fiscal year ended December 31, 2019 compared to fiscal year ended December 31, 2018

Profit from our production and trading segment increased by 102.9%, to U.S.\$255.0 million for the year ended December 31, 2019 from U.S.\$125.7 million in the year ended December 31, 2018. This increase resulted primarily from:

- a 83% increase in our gross margin in 2019 relative to 2018, due to an increase in the differential between the price of our purchases and the prices of our goods sold at U.S.\$13.00 per barrel in 2019 from U.S.\$9.00 per barrel in 2018;

- a U.S.\$9.0 million increase in service revenues primarily from oil transportation due to a 4,481 KBPD increase in the volume of oil transported through the Norperuano Pipeline for Pacific Stratus Energy del Peru, Perenco Peru Petroleum Limited Sucursal del Peru (“Perenco”), Petrotal and the Peruvian National Police;
- a U.S.\$11.0 million decrease in financial expenses, mainly due to income from exchange rate hedging instruments; and
- a U.S.\$10.0 million increase from exchange rate difference caused by the appreciation of the *sol* against the U.S. dollar from S/3.379 to U.S.\$1.00 on December 31, 2018 to S/3.317 to U.S.\$1.00 on December 31, 2019.

Moreover, profit from our oil pipeline operations segment decreased significantly to U.S.\$30.9 million in losses for the year ended December 31, 2019 from U.S.\$19.7 million in profit in the year ended December 31, 2018. These losses resulted primarily from a significant decrease in crude oil sales to U.S.\$14.1 million in the year ended December 31, 2019 from U.S.\$83.7 million in the year ended December 31, 2018.

Profit from our leased and privatized units segment decreased by 7.0%, to U.S.\$29.6 million for the year ended December 31, 2019 from U.S.\$31.9 million in the year ended December 31, 2018, primarily because on November 3, 2019, we began to directly operate the Pisco, Mollendo, Ilo, Cusco and Juliaca Terminals (together, the “Southern Terminals”) directly following expiration of our operation contract with Consorcio Terminales del Peru (a joint venture of Graña y Montero and Oiltanking Perú) and began to record revenue from the operation of the Southern Terminals as revenue for our production and trading segment.

Fiscal year ended December 31, 2018 compared to fiscal year ended December 31, 2017

Profit from our production and trading segment decreased from U.S.\$290.0 million in 2017 to U.S.\$125.7 million in 2018. This decrease resulted primarily from:

- a U.S.\$49.5 million decrease in the value of inventories due to the sharp fall in international prices of crude oil and products registered in the last quarter of the year given that the value of inventories is calculated at the lesser of cost of inventories or market value;
- a 48.2% decrease in our gross margin in 2018 relative to 2017, as a result of sales prices increasing proportionately less than the increase of acquisition prices of crude oil and products;
- a U.S.\$3.2 million decrease from exchange rate difference of the U.S. dollar against the *sol*; and
- a decrease in profit from our leased and privatized units segment by 26.2%, from U.S.\$43.2 million in 2017 to U.S.\$31.9 million in 2018. This decrease resulted mainly from an increase in expenses relating to storage and delivery of our products.

We do not have any subsidiaries or payments due to any related parties, joint ventures or partnerships. See “Principal Shareholder and Related Party Transactions—Related Party Transactions.”

Factors Affecting Our Results of Operations

General

Our results of operations are directly influenced by:

- our cost structure;
- the pricing of our products; and
- the demand for our refined products.

The volatility of the price of crude has a direct and significant impact on our results of operations through its effect on the various stages of our refining operations, including the price at which we purchase crude, the value of our inventory, the price at which we sell our products and the demand for our products. Our results of operations are particularly affected by the significant lag time between when we price the crude that we purchase and when we price the refined products that we sell.

Historically, decreases in the price of crude have resulted in greater decreases in our cost of sales than in the prices of our refined products, resulting in higher margins. However, an increase in the price of crude will not necessarily cause our margins to decrease. Because the prices of our refined products are also influenced by factors that are additional to and independent from the price of crude such as global supply and demand for refined products, the prices of our refined products, and therefore the margins we obtain from sales of these products, may increase, decrease or remain stable when the price of crude increases. Sufficiently large increases in the price of crude are reflected in increased prices for our refined products, which helps us to maintain positive margins for refined product sales.

Furthermore, because the majority of the crude we purchase is domestic crude pegged to benchmarks other than U.S. Gulf Coast benchmarks and adjusted for quality, our refining margin is partially insulated from the volatility of international prices.

Our cost structure

Price of crude we purchase

Our most significant cost is the crude that we purchase and refine, representing 21.7% and 34.8% of our costs in sales in the nine-month period ended September 30, 2020 and September 30, 2019, respectively; and 34.8%, 34.3% and 35.0% of our costs of sales in the years ended December 31, 2019, 2018 and 2017, respectively. We purchase crude from domestic suppliers pursuant to supply contracts and from international suppliers at spot market prices through international bidding processes. Both the prices we pay under our supply contracts and the prices we pay through international bids are pegged to certain international crude benchmarks. Under our domestic supply contracts, the prices we pay for crude are pegged to the Oman, Forties and Suez Blend basket benchmark, the Minas and Arjuna basket benchmark, the WTI crude benchmark and the Dated Brent crude benchmark, each adjusted to take into account the quality of the crude purchased. The prices we pay for international crude purchased directly from suppliers through bidding processes are generally pegged to the Dated Brent crude benchmark or the WTI crude benchmark. Prices for international crude are generally higher than prices for domestic crude because the ultimate price we pay must account for freight costs and other expenses related to the delivery of the crude to our refineries. When domestic crude production decreases, we generally purchase higher volumes of international crude. See “Business—Production and Trading Segment—Purchase of crude and Intermediate Products—Supply of Crude.”

The tables below show the amounts we purchased, both pursuant to domestic supply contracts and through international bids, under each benchmark in each of the domestic and international markets, by percentage of volume and cost:

Domestic Crude Purchases

	Nine-Month Period Ended September 30, 2020				Year Ended December 31, 2019			
	(Barrels)	(U.S.\$ in millions)	(% total purchases) (Barrels)	(% purchase price in U.S. dollars)	(Barrels)	(U.S.\$ in millions)	(% total purchases) (Barrels)	(% purchase price in U.S. dollars)
Oman & Forties & Suez Blend	6,300,359	307.3	54.8%	56.8%	9,513,523	705.8	41.5%	43.7%
Ice Brent	3,266,596	144.0	28.4%	26.6%	2,869,501	210.0	12.5%	13.0%
WTI NYMex + Differential								
Crude Oil Equivalent	593,933	29.3	5.2%	5.4%	1,609,787	119.4	7.0%	7.4%
Dated Brent.....	965,721	45.6	8.4%	8.4%	1,583,620	116.3	6.9%	7.2%
Total Domestic Purchases.....	11,126,609	526.1	96.9%	97.3%	15,576,431	1151.5	68.0%	71.2%

International Crude Purchases

	Nine-month Period Ended September 30, 2020				Year Ended December 31, 2019			
	(Barrels)	(U.S.\$ in millions)	(% total purchases) (Barrels)	(% purchase price in U.S. dollars)	(Barrels)	(U.S.\$ in millions)	(% total purchases) (Barrels)	(% purchase price in U.S. dollars)
Dated Brent	361,650	14.4	3.1%	2.7%	1,177,552	77.3	5.1%	4.8%
WTI	—	—	—	—	6,159,241	388.1	26.9%	24.0%
Total International Purchases	361,650	14.40	3.1%	2.7%	7,336,793	465.3	32.0%	28.8%
Total Domestic & International	11,488,259	540.55	100.0%	100.0%	22,913,224	1,617.0	100.0%	100.0%

In the nine-month period ended September 30, 2020 and in the years ended December 31, 2019 and 2018, the crude we purchased using the Oman, Forties and Suez Blend basket and the WTI (adjusted for quality) benchmarks accounted for the largest portion of our purchases of crude by cost.

The average Oman, Forties and Suez Blend basket benchmark price, as reported by Platts McGraw Hill Financial, was:

- U.S.\$40.50 per barrel in the nine months ended September 30, 2020 (with a maximum of U.S.\$63.10 and a minimum of U.S.\$18.90);
- U.S.\$63.50 per barrel in the nine months ended September 30, 2019 (with a maximum of U.S.\$70.50 and a minimum of U.S.\$58.40);
- U.S.\$63.04 per barrel in 2019 (with a maximum of U.S.\$70.51 and a minimum of U.S.\$58.38);
- U.S.\$69.35 per barrel in 2018 (with a maximum of U.S.\$79.33 and a minimum of U.S.\$56.84); and
- U.S.\$52.83 per barrel in 2017 (with a maximum of U.S.\$62.27 and a minimum of U.S.\$45.54).

The average WTI benchmark price, as reported by Platts McGraw Hill Financial, was:

- U.S.\$38.12 per barrel in the nine-months ended September 30, 2020 (with a maximum of U.S.\$63.27 and a minimum of U.S.\$37.63);
- U.S.\$57.08 per barrel in the nine-months ended September 30, 2019 (with a maximum of U.S.\$66.45 and a minimum of U.S.\$46.54);
- U.S.\$57.03 per barrel in 2019 (with a maximum of U.S.\$66.45 and a minimum of U.S.\$46.54);
- U.S.\$65.20 per barrel in 2018 (with a maximum of U.S.\$76.43 and a minimum of U.S.\$44.61); and
- U.S.\$50.79 per barrel in 2017 (with a maximum of U.S.\$60.42 and a minimum of U.S.\$42.33).

From 2017 to 2019, average crude oil prices oscillated between U.S.\$52.80 and U.S.\$63.00 per barrel (using the benchmark of the Oman, Forties and Suez mix basket), largely due to downward pressure on prices resulting from the China-U.S. trade war and increased shale production and supply. On the other hand, upward pressure came from strong gross demand from China and OECD countries, OPEC's production cuts and geopolitical supply shocks in Venezuela and Iran. From 2017 to 2018, average crude oil prices were U.S.\$52.80 and U.S.\$69.30. WTI's average oil price has gradually increased throughout the year; however, in recent months it declined due to high global crude oil inventories, as well as record production projections from the United States and Russia.

In 2020, benchmark prices for the Oman, Forties and Suez Blend crude basket fell below U.S.\$50.00 per barrel to a low of U.S.\$20.00 per barrel due to the negative impact of COVID-19 on the global economy, which affected the demand and supply of fuel in all countries. The negative economic effects are expected to persist until the middle or end of next year.

The following tables set forth the average price of crude based on the Oman, Forties and Suez Blend basket and the WTI benchmarks for the periods indicated:

Oman, Forties and Suez Blend Basket Monthly Crude Spot Average

	Year Ended December 31,			
	2020	2019	2018	2017
	<i>(in U.S. dollars per barrel)</i>			
January	63.07	58.38	67.08	53.19
February	54.28	63.31	62.98	53.91
March	30.80	65.37	63.45	50.30
April	18.86	70.51	69.01	51.54
May	29.99	69.70	74.55	49.30
June	40.25	61.67	73.10	45.54
July	42.72	63.04	72.65	47.22
August	43.75	58.83	71.43	50.17
September	40.37	61.06	77.41	53.91
October	39.87	58.38	79.33	55.65
November	42.55	62.07	64.33	60.97
December	48.92	64.13	56.84	62.27
Average	41.29	63.04	69.35	52.83
Maximum	63.07	70.51	79.33	62.27
Minimum	18.86	58.38	56.84	45.54

Source: Platts McGraw Hill Financial

WTI NYMEX + Differential Crude Oil Equivalent (Oriente Crude Oil)

	Year Ended December 31,			
	2020	2019	2018	2017
	<i>(in U.S. dollars per barrel)</i>			
January	57.72	53.81	61.85	47.92
February	49.16	59.76	60.99	48.95
March	26.79	62.22	61.59	45.39
April	9.98	67.69	66.36	46.57
May	24.10	64.61	70.31	44.20
June	36.78	57.67	68.54	40.92
July	39.34	59.92	71.37	43.79
August	39.59	56.37	68.01	46.14
September	37.58	59.24	71.20	49.29
October	37.60	56.12	73.31	51.59
November	40.26	58.87	59.81	56.56
December	46.85	60.44	51.90	56.82
Average	37.15	59.73	65.44	48.18
Maximum	57.72	53.81	51.90	51.90
Minimum	9.98	67.69	73.31	73.31

Source: Platts McGraw Hill Financial

Currently, we are implementing our hedging strategy risk associated with fluctuations in international crude prices by purchasing options, and we are considering other commodity price-hedging strategies. See “—Market Risk Analysis—Commodity price risk.” Additionally none of the products we import is subject to import duties.

Refining costs and inventory management

Our next-most significant costs are the costs of operating our refineries and costs resulting from reductions in the value of our inventory of refined products which, together with the cost of any supplies we consume, comprise our cost of sales.

The cost of operating our refineries includes labor costs, the cost of operating our industrial equipment and the cost of auxiliary services. To improve efficiency and reduce our refinery operating costs, we have implemented a series of reforms over the last several years. For example, we have improved the performance and quality of the

cracked naphtha that we produce by optimizing the speed of our catalyst regenerator in our catalytic cracking unit. This optimization process involved regulating the flow of injected water vapor, resulting in a reduction in thermal cracking reactions and dry natural gas production and, as a result, the production of high-value added refined products at the Talara Refinery. We also reduced costs associated with time lag in the loading and unloading process by installing a pumping system to reduce the loading time for fuel oils in the Conchán Refinery. We improved the efficiency of our diesel blending processes by blending the low-sulfur diesel produced at the Talara Refinery with 5.0% biodiesel produced at our other refineries to produce refined diesel that meets the applicable environmental standards. In addition, in accordance with Legislative Decree No. 1292, we have begun performing activities intended to increase security of the operations of the Norperuano Pipeline, enhance our corporate social responsibility, and develop new policies for hiring and the acquisition of goods and services. However, we are currently developing a plan to implement the reorganization required under Legislative Decree No. 1292. See “—Trend Information—Corporate modernization.”

The two primary factors that affect the total value of our inventory are the international price of crude and the volume of our inventory. Fluctuations in the international price of crude affect the value of both the products we purchase and the products we produce. When international crude prices decrease, the value of the products we purchase decreases. The value of the products we produce also decreases (although to a lesser extent). A decrease in the list price of the products we produce decreases their net realizable value, so the value of these products will decrease even if the cost of production stays the same. Therefore, a decrease in international prices of crude places downward pressure on the value of our inventory. The longer the time lag between the time when we initially place our refined products in inventory and when our inventory is sold, the greater the risk that we will suffer a loss from changes in the value of that inventory. In the nine-month period ended September 30, 2020 and, in the year, ended December 31, 2019, we maintained an average of 63 days and 47 days of inventories, respectively, and a 35 and 32-day conversion cycle, respectively. We define “conversion cycle” as the time period from when we purchase crude and when we collect payments for the refined products we produce.

The cost of any reduction in the value of our inventory is a function, in part, of how we calculate its value. We calculate the value of our inventory differently depending on whether we purchase or produce the product. We calculate the value of the products we produce on a product-by-product basis based on the lower of the product’s cost of production or its net realizable value. The cost of production of each product is its *pro rata* share, based on volume and list price, of our total operating cost and cost of supplies and materials. The net realizable value of each product is the list price of that product minus individual transportation costs and costs of sale.

We calculate the value of the products we purchase at their average purchase price, and we value our inventory of these products based on the first-in-first-out accounting method for inventory management pursuant to which, we use or sell inventory in the order in which we acquire it, so the value of our inventory remaining at any given time reflects the most-recent purchase prices of crude.

Our inventory volume also affects inventory value. Higher volume increases the value of our inventory, which decreases our cost of sales. However, higher inventory volumes also expose us to a higher risk of loss from changes in the value of the inventory caused by fluctuations in international crude prices. The optimal volume of inventory is what is sufficient to satisfy demand for our products without exceeding our storage capacity even when delays in importing crude interrupt our production levels, but not so high that we are exposed to losses from changes in the international price of crude. Current law requires us to maintain certain inventory volumes. We attempt, therefore, to maintain a stable inventory volume that complies with these requirements but minimizes our exposure to risk of loss from fluctuations in international crude prices. See “Risk Factors—Risks Related to Our Operations—We may not be able to maintain a legally required minimum inventory of refined products at all times.”

Margins and product pricing

In general, we set the prices of our refined and imported products using an import parity price methodology. This methodology incorporates the prices charged by refineries in the U.S. Gulf Coast and adjusts them to account for shipping costs, insurance, associated terminal costs, differences in quality, costs relating to ship demurrages and prices charged by competitors in Peru, including both local producers and importers. We review these prices periodically and project their economic impact on our results of operations.

Our profitability is determined predominantly by our refining margin, which is the difference between the selling price of our refined products and the price of the crude we purchase and the unit operating cost. In the case of products that we import directly into our distribution terminals, profitability is determined by our blending margin. The blending margin is the difference between the selling price of our refined products and the price of the Intermediate Products we purchase and blend into refined products. Because of the interplay between the price of crude and the price of our refined products, a decrease in the price of crude can result in greater refining margin and greater revenue for us. Historically, when the international price of crude falls, the prices of our refined products have fallen at lower rates, thus increasing our refining margin. For example, in 2017, when international crude prices based on the WTI benchmark increased to U.S.\$50.79 per barrel on average, our refining margin was U.S.\$7.28 while our refining margin decreased to U.S.\$2.28 in 2018 as international crude prices increased to an average of U.S.\$65.20. In 2019, our refining margin increased to U.S.\$5.93 as international crude prices decreased to an average of U.S.\$57.03.

For certain of our products, the prices we are able to charge our customers has historically been stabilized by the Peruvian government through a Fuel Price Stabilization Fund. As of April 28, 2020, the only product subject to the Fuel Price Stabilization Fund is industrial #6 fuel oil used for electric generation in isolated electrical systems. The government of Peru created the Fuel Price Stabilization Fund to protect consumers from volatility in the prices of these products. Every other month, the OSINERGMIN publishes an allowable price band for each of these products, and each week, it publishes an import parity price for each of them. If the import parity price falls outside of the established band, we are either entitled to receive compensation from (if the import parity price exceeds the set range) or required to make contributions to (if the import parity price falls below the set range) the Fuel Price Stabilization Fund. These compensation and contribution payments are calculated on a monthly basis and netted at the end of the year to produce a single payment that is included in our revenue.

As a result of the application of the Fuel Price Stabilization Fund, for the nine-month period ended September 30, 2020, we made a contribution of U.S.\$33.5 million (1.5% of our sales revenue), and made a contribution of U.S.\$21.3 million (0.6% of our sales revenue) for the comparable period in 2019. In 2019, we made a contribution of U.S.\$20.5 million (0.45% of our sales revenue), and received a compensation of U.S.\$38.8 million (0.8% of our sales revenue) in 2018. See “—Demand for our refined products” and “Business—Production and Trading Segment—Transportation and distribution of refined products to our customers—Pricing Strategy.”

Demand for our refined products

Demand for our refined products is largely dependent on demand in Peru. In the nine-month period ended September 30, 2020, we had U.S.\$2,005.5 million in domestic sales (representing 91.2% of our revenue, net of applicable discounts and payments made to the Fuel Price Stabilization Fund (“net sales”)) and U.S.\$193.7 million in international sales (representing 8.8% of our total net sales). In the year ended December 31, 2019, we had U.S.\$4,098 million in domestic sales (representing 89.7% of our net sales) and U.S.\$471 million in international sales (representing 10.3% of our total net sales).

Our refined products include diesel, gasoline, LPG, industrial oil, jet fuel and industrial solvents, with diesel and gasoline being our top-selling products in terms of revenue and sales volume. In the nine-month period ended September 30, 2020, our revenue from diesel sales decreased by 22.6% to 49.2 KBPD compared to the nine-month period ended September 30, 2019. In 2019, our revenue from diesel sales decreased by 5.3% to 63.9 KBPD from 67.4 KBPD in 2018. In the nine-month period ended September 30, 2020, our total volume of gasoline revenue decreased by 27.9% to 24.1 KBPD from 33.4 KBPD in the nine-month period ended September 30, 2019. The decrease in our sales volume of our top products in the nine-month period ended September 30, 2020 was mainly due to a decrease in economic activity and fuel consumption caused by the COVID-19 pandemic. Nevertheless our diesel and gasoline sales began to recover by the end of the nine-month period ended September 30, 2020, reaching pre-pandemic levels in the month of September 2020.

In 2019, our revenue volume of gasoline increased by 3.0% to 34 KBPD from 33 KBPD in 2018. This decrease was mainly due to (i) a decrease in wholesale sales as a result of increased competition from importers in the local market, (ii) the expiration of our wholesale fuel supply contracts with Petr leos de Am rica S.A. and Peruana de Combustibles S.A. and (iii) a decrease in fuel consumption as a result of decreased fishing activity. These decreases were partially offset by an 11.3% increase in sales to the mining sector and a 3.6% increase in sales to Petrored service stations.

The table below sets forth our revenue for the periods indicated:

	Nine-Month Period Ended September 30,		Year Ended December 31,	
	2020	2019	2019	2018
	<i>(U.S.\$ in millions)</i>			
Domestic sales.....	2,039.1	3,083.6	4,118.3	4,330.5
Fuel Price Stabilization Fund Contribution.....	(33.5)	(21.3)	(20.5)	38.7
Total domestic sales	2,005.5	3,062.3	4,097.8	4,369.3
International sales.....	193.7	387.0	470.6	514.7
Revenue⁽¹⁾	2,199.2	3,449.3	4,568.3	4,884.0

(1) Revenue in this table does not include revenue from our oil pipeline operations segment or our leased and privatized units segment because revenue from those segments is reported in our Statement of Profit or Loss and Other Comprehensive Loss as other operating income.

When our production and inventory is not sufficient to serve the Peruvian market's demand for refined products, we purchase the relevant products, mainly ultra-low-sulfur diesel, biodiesel, cracked naphtha and HOGBS, in the international or domestic markets, as applicable. In the nine-month period ended September 30, 2020, these purchases amounted to U.S.\$1,056.9 million (or 87.5% of our total purchases), a 35.2% decrease compared to U.S.\$1,631.3 million (or 91.5% of our total purchases) in the nine-month period ended September 30, 2019. In 2019, these purchases amounted to U.S.\$2,128.4 million (or 90.1% of our total purchases), a 11.5% decrease compared to U.S.\$2,404.1 million (or 90.1% of our total purchases) in 2018, which, in turn, represented a 31.5% increase compared to U.S.\$1,827.9 million (or 85.7% of our total purchases) in 2017.

Peruvian economic environment and macroeconomic trends

All of our operations and most of our customers are located in Peru. Our results of operations and financial condition are dependent on economic, political and social developments in Peru, and are affected by economic and other policies of the Peruvian government, including devaluation, depreciation, currency exchange controls, inflation, economic downturns, political instability, social unrest and terrorism.

During the 1980s, Peru experienced a severe economic crisis and high levels of inflation. Beginning in the 1990s, however, the Peruvian government implemented a series of structural reforms, which contributed to the stabilization of the Peruvian economy, GDP growth, low inflation, lower interest rates, stable currency and significantly improved public finances. As a result, according to the World Bank, the Peruvian economy has been one of the fastest growing and most stable economies in Latin America throughout the 2000-2010 decade.

Nonetheless, Peru has experienced, since 2009, a modest slowdown in economic activity to historical growth, mainly due to lower domestic demand, as a result of a lower growth in private investment. This slowdown was intensified during 2017 due to three factors: (i) a strong *El Niño* phenomenon, which adversely affected agricultural production, transportation services, tourism and commercial activity, and resulted in a 1.5% GDP contraction in 2017 relative to 2016; (ii) corruption scandals related to the activities of certain Brazilian and Peruvian companies in the construction sector, which have resulted in suspension or delay of important infrastructure projects, which were otherwise under construction and had their permits; and (iii) political disputes between the government and the opposition, which resulted in the resignation of former President Pedro Pablo Kuczynski in March 2018 and the appointment of former Vice President Martín Vizcarra as the new President of Peru, who, on September 30, 2019, dissolved Congress and called for early legislative elections, which took place on January 26, 2020. Despite these factors and corruption scandals related to the Peruvian judiciary system and other political figures, the Peruvian economy experienced a recovery during 2018, reaching growth levels similar to those experienced in 2016, supported by strong growth in domestic demand, a positive increase in private mining investment, a sustained positive trend in domestic demand and the development of infrastructure projects.

However, the Peruvian economy suffered another slowdown in 2019, although it performed better than its regional peers (Chile, Mexico, Brazil, etc.). Peru's GDP grew 2.2%, its lowest rate in a decade. This was due mainly to contraction in two key sectors of the economy: (i) fishing (-25.9%) and (ii) manufacturing (-1.7%). In addition, trade war tensions between the United States and China affected the potential demand from the Asian economy, negatively impacting prices of commodities such as copper, Peru's principal export.

The table below sets forth additional details regarding Peru's recent economic performance:

	As of December 31,				
	2019	2018	2017	2016	2015
Peruvian real GDP growth rate	2.2%	4.0%	2.5%	4.0%	3.3%
Internal demand growth	2.3%	4.2%	1.6%	1.1%	2.6%
Gross fixed investment	2.7%	4.7%	(0.2%)	(0.2%)	(4.6%)
Private consumption growth	3.0%	3.8%	2.6%	3.7%	4.0%
Reference interest rate	2.3%	2.8%	3.3%	4.3%	3.8%
Fiscal (deficit) (as a % of GDP)	(1.6%)	(2.3%)	(3.0%)	(2.3%)	(1.9%)
Variation in Consumer Price Index	1.9%	2.2%	1.4%	3.2%	4.4%
Unemployment rate	5.4%	5.7%	6.9%	7.0%	6.2%
Disposable income growth	2.4%	3.8%	3.2%	3.8%	1.7%
Public external debt (as a % of GDP)	8.5%	8.8%	8.8%	10.4%	11.1%
Net international reserves (U.S.\$ in millions)	68,316	60,121	63,621	61,686	61,485

Sources: Peruvian Central Bank, INEI and the MEF.

As of the date of this offering memorandum, Peru has an investment grade rating by each of S&P, Moody's and Fitch. The strong prospects for economic recovery, the strengths of the country's external accounts, as well as a good and long history of credible and consistent macroeconomic policies have helped Peru maintain its investment grade ratings by Moody's (A3), S&P (BBB+) and Fitch (BBB+). On December 15, 2020, Fitch accounted that it would maintain Peru's BBB+ rating but changed its long-term outlook to negative, driven mainly by: (i) the deterioration of the predictability of policies as a result of the approval of populist measures by Peru's congress in recent months and (ii) the expectation of continued challenges to reduce fiscal deficits to levels consistent with debt stabilization. Peru's credit ratings are subject to periodic review, and may be revised or lowered in the future.

In December 2020, the Peruvian Central Bank estimated a decrease in real GDP growth for Peru of 11.5% for 2020 and an increase of 11.5% for 2021, supported mainly by the recovery of exports, the reversal of the supply shocks that affected primary sectors and by the onset of operations of new mines, as well as a greater increase in public investment.

However, since mid-March 2020, the Peruvian government has adopted strict health measures to contain the spread of COVID-19 in the country, including mandatory social isolation and the cessation of activities considered non-essential. These measures led to a severe contraction in the income of economic agents and a massive loss of jobs with a profound deterioration in consumer and business confidence. As a result, the GDP of the first semester contracted by 17.4% with disruptions in the production of most economic sectors. For its part, domestic demand contracted by 15.1% during the same period of time, as a result of reduced household spending and the interruption of private and public investment projects due to the restrictions imposed.

The extended closure of the economy from mid-March 2020 and April 2020 led to a fall in GDP that was unprecedented in recent history (-39.9%). With the beginning of the gradual reopening of the economy in four phases, at a rate of one phase per month since May 2020 for the initial three phases and a focus on more focused quarantines in regions and provinces, the economy began to register lower inter-annual contractions as more sectors restarted activities. As a result, in July 2020, the GDP was 11.7% lower than the GDP for the same month in 2019. Under a synchronized scenario of efficient reopening of the economy, significant fiscal stimuli, maintenance of expansive financial conditions and recovery of consumer and business confidence, a smaller reduction in GDP is expected in the second half of the year (-8.4%). With this, it is estimated that the GDP will contract by 12.7% in 2020 and grow by 11.0% in 2021.

The negative effects of the COVID-19 pandemic on the Peruvian economy and on our business triggered the need to conduct impairment testing in compliance with IAS 36 in connection with the preparation of our Unaudited Interim Financial Statements. In measuring the effect of impairment, IAS 36 requires that the recoverable amount of an asset or CGU be compared to the asset's or the CGU's carrying value. The recoverable amount is the higher of: (i) fair value less costs of disposal and (ii) value in use of the asset or CGU. If any of these exceeds the book value of the asset or CGU, it would not be necessary to estimate the other and the relevant asset or CGU would not be impaired.

We performed impairment testing of the Talara Refinery Modernization Project as a CGU through its value in use. In doing so, we focused on the Talara Refinery Modernization Project's expected revenue using a discounted

cash flow methodology, which allows present-value calculations of expected cash flows through the use of a discount rate that takes into consideration company and sector-specific risks. In performing the impairment testing, we used a 7.25% discount rate and took into consideration: (i) the change in the expected completion date of the Talara Refinery Modernization Project due to delays, including temporary suspension of the works as a result of the COVID-19 pandemic, and (ii) decreased prices for the purchase and sale of crude oil and slower projected price increases relative to the expectation in prior years. As a result, our Unaudited Interim Financial Statements as of September 30, 2020 include a U.S.\$71.4 million asset impairment corresponding to the Talara Refinery Modernization Project CGU. See Note 5 to our Unaudited Interim Financial Statements included elsewhere in this offering memorandum and “Presentation of Financial and Statistical Information—Our Financial Statements.”

See “Summary—Recent Developments—Recent developments relating to the COVID-19 pandemic” and “Risk Factors—Risks Related to Peru—The worldwide outbreak of communicable diseases such as coronavirus, and measures taken in response thereto, may lead to higher volatility in the global financial markets and economies, which may materially and adversely affect our business, financial condition and results of operations.”

Closing of the Norperuano Pipeline and related leaks and remediation measures

The Norperuano Pipeline ceased operations pursuant to certain administrative orders issued by OSINERGMIN in February and March 2016, as a result of the maintenance and repairs needed in connection with certain oil leaks that occurred in 2016. OSINERGMIN’s order mandated that certain segments of the Norperuano Pipeline cease operation until certain actions were completed to OSINERGMIN’s satisfaction. The Northern Branch of the Norperuano Pipeline resumed operations on February 6, 2017, Branch I on June 15, 2017 and Branch II on September 26, 2017.

In 2018 and 2019, we registered three and six new oil leaks, respectively. Currently, we are conducting a joint investigation with OSINERGMIN regarding such leaks and have recorded a provision of U.S.\$10.9 million and have disbursed U.S.\$23.6 million. As of December 31, 2019 and 2018, our expenses for environmental remediation were U.S.\$48.7 million and U.S.\$16.6 million, respectively.

In addition, we have suspended the operation of the Norperuano Pipeline due to the occurrence of *force majeure* events from April 30, 2020 to July 31, 2020 related to the COVID-19 pandemic. We resumed our pumping operations on August 1, 2020, but due to social unrest involving members of several communities adjacent to Pump Station 5, the pipeline further suspended operations on two occasions, from August 2, 2020 to August 15, 2020 and from September 28, 2020 to December 27, 2020.

Because we do not use the Norperuano Pipeline to transport crude to our refineries but only to transport third-parties’ crude, the suspension of the pipeline’s operations did not affect our refining operations, but it did result in a loss of fees from transportation of third-party crude. Revenue from the Norperuano Pipeline represents on average 1.1% of our revenue and as a result, its shutdown does not significantly affect our financial results.

Trend Information

COVID-19 pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus disease, COVID-19, which resulted in a global pandemic. On March 15, 2020, the Peruvian government declared through Supreme Decree No. 044-2020-PCM a state of national emergency in connection with the coronavirus, closing the country’s borders and establishing a mandatory temporary quarantine, which was subsequently extended various times to last until November 30, 2020, and some restrictions were lifted gradually. This decree implemented a series of restrictions designed to protect the population against the spread of COVID-19. In May 2020, through Supreme Decree No. 080-2020-PCM, and then in June, through Supreme Decree No. 101-2020-PCM, Supreme Decree No. 110-2020-PCM and Supreme Decree No. 117-2020-PCM, the gradual and progressive resumption of economic activity was approved within the framework of this state of emergency. As of the date of this offering memorandum, the national state of emergency and a series of restrictions are still in force. This has impacted several indicators such as demand for electricity and public investment. Nonetheless, the Peruvian government has implemented a number of measures to mitigate and stimulate the economy, equivalent to approximately 25% of Peru’s GDP. These measures include funding local governmental authorities suffering from reduced revenue, eliminating tariffs on medical supply imports,

granting direct subsidies to families and members of the population, providing disability subsidies to coronavirus patients, providing benefits to furloughed workers, reducing tax burdens to individuals and companies, certain subsidies to company payrolls, funding reactivation plans to support the tourism, culture and agriculture sectors and access to private savings, among others. It should be noted that, as a result of the gradual economic reactivation that began in May, in October, the 12-month GDP growth expectations increased to 5.3%.

Supreme Decree No. 044-2020-PCM guaranteed the continuity of key industries during the state of emergency. Therefore, industries such as health services and food supply and complementary industries have been operating regularly. Our services are considered complementary and related to food acquisition, production and supply, as well as to the provision of health services. Therefore, we have continued with our operation regularly during the state of emergency. Accordingly, we do not believe that it will be necessary to adjust our 2019 financial statements as a consequence of the pandemic. In addition, based on information available as of the date of this offering memorandum, we expect that our 2020 revenues and costs will be significantly affected as a result of a lower sales and purchases volumes of its products, as well as the variations in local and international crude oil and refined products prices.

As a result of the effects of the COVID-19 pandemic, we recorded losses in each of February, March and April 2020 of U.S.\$80 million, U.S.\$57 million and U.S.\$41 million, respectively, due to low crude oil prices. This was caused by inventory accumulation and the contraction of demand generated by the social isolation measures implemented around the world, with a 40.2% reduction in the price of Brent crude oil in April 2020 compared to December 2019, along with negative values for WTI, and below U.S.\$20.00 per barrel for Brent.

Furthermore, due to continuing extensions of the state of emergency in Peru throughout 2020, there was a significant reduction in domestic demand and an increase in inventories, generating operational restrictions on the storage capacity of our crude oils and products in our facilities at a corporate level. The exchange rate also rose significantly through mid-March, reaching S/3.57 per U.S.\$1.00.

In order to deal with this adverse scenario, we activated the Crisis Committee and implemented a Corporate Action Plan, which included the necessary economic, financial, strategic and operational adjustments in order to ensure a sustainable operation, improve cash flow and comply with financial covenants. This Corporate Action Plan envisaged the following actions: review of the supply and production plan in order to ensure profitable production; postponement and cancellation of shipments not required to meet current and forecast demand for the coming months; optimization of product purchases; execution of strategic coverage; reduction of the operating expenses budget by U.S.\$116 million and the reduction of the investment budget by U.S.\$288 million, considering the prioritization of strategic projects to preserve the fulfilment of our objectives, prioritizing those of a normative nature and linked to maintaining the operability of the business, the securing of new short-term financing lines with both local and international banks to meet our obligations with our creditors; refinancing of debt to customers in various sectors; rescheduling of obligations with suppliers and creditors; and the gradual transfer of international price variations to our list prices, since this affects the realization and valorization of our inventories.

Pursuant to Supreme Decree N° 044-2020-PCM, Peru qualified hydrocarbon activity as essential and thus it was not suspended. According to Vice-Ministerial Resolution No. 014-2020-MINEM-VMH, during the term of the declaration of National Emergency, the participants in hydrocarbon activities such as exploitation, processing, transportation through pipelines, distribution of natural gas through a network of pipelines, among others, and of hydrocarbon marketing activities, at the national level, must activate and execute the safety protocols intended to safeguard the health of their personnel, contractors and/or third parties.

In addition, the participants in hydrocarbon activities must prioritize the continuity of the supply of hydrocarbons in Peru for the purpose of ensuring the supply of the national market and the attention of public services, as well as process before the competent authority, in accordance with the regulations, the necessary accreditation documents that allow them to transit and/or move by any means of transportation to perform the necessary activities, in order to guarantee the safety and continuity of the supply of hydrocarbons in the national market and the attention of public services.

Finally, the resolution establishes that during the term of the declaration of the National Emergency, the participants in hydrocarbons activities must make available to the Hydrocarbons General Direction (*Dirección General de Hidrocarburos*) and OSINERGMIN the information related to the hydrocarbon inventories they have, the

state of operation of their facilities, the main communication routes used for the transportation of supplies and hydrocarbons, as well as the minimum necessary personnel, contractors and/or third parties required for the development of their operations. Such information must be sent daily and/or at the sole request of the Hydrocarbons General Direction (*Dirección General de Hidrocarburos*) and OSINERGMIN.

In sanitation matters, the participants in hydrocarbons activities must submit to the Ministry of Health, the Plan of Vigilance, Prevention and Control of COVID-19, according to the protocol established by Ministerial Resolution N° 128-2020-MINEM/DM, as amended.

See “Risk Factors—Risks Related to Peru—The worldwide outbreak of communicable diseases such as coronavirus, and measures taken in response thereto, may lead to higher volatility in the global financial markets and economies, which may materially and adversely affect our business, financial condition and results of operations.”

Corporate income and other taxes

Under Peruvian law, beginning on January 1, 2020, we are subject to a general corporate income tax at a rate of 29.5%. In 2019 and 2018, our effective income tax rate was 54.6% and 29.0%, respectively.

We are also subject to a tax on profits we distribute to any party other than legal entities domiciled in Peru. This tax rate is equivalent to: (i) 4.1% for dividends paid out of profits generated before December 31, 2014; (ii) 6.8% for dividends paid out of profits generated between January 1, 2015 and December 31, 2016; and (iii) 5.0% for dividends paid out of profits generated after January 1, 2017. However, Law No. 28840 and its implementing regulations require that our general board of shareholders approve the reinvestment of our annual profits in modernization and expansion projects in accordance with our five-year objectives. Our general board of shareholders is required to reinvest any profits that are not invested. Therefore, we do not expect to make any profit distributions that would subject us to this tax so long as Law No. 28840 and its implementing regulations remain unchanged.

Value added tax

Prior to September 2015, pursuant to Supreme Decree No. 005-99-EF, purchasers of imported products were generally entitled to deduct from their taxes any VAT incurred on the purchase of certain imports. However, this decree did not extend to purchases of petroleum, natural gas or their derivatives. On September 24, 2015, the Peruvian government issued Supreme Decree No. 266-2015-EF “*Modificación del Decreto Supremo No. 005-99EF, que aprueba las normas reglamentarias para la aplicación de los beneficios tributarios a la venta de petróleo, gas natural y sus derivados*” (Modification of Supreme Decree No. 005-99EF, which approves regulatory norms for the application of tax benefits to the sale of petroleum, natural gas and its derivatives). This decree expanded the tax deduction to include VAT incurred on purchases of petroleum, natural gas and their derivatives sold in Loreto, Ucayali and Madre de Dios located in the Amazon region of Peru and went into effect on October 1, 2015, and was applied to our Annual Financial Statements for the years ended December 31, 2017 and 2016. Prior to this decree, VAT related to purchases made in this region was reported as a tax expense; therefore, the ability to deduct VAT payments in future accounting periods is expected to reduce our income tax expenses in future accounting periods.

Pension liabilities

Pursuant to the law that sets forth the budget for the public sector for fiscal year 2016 (*Ley de Presupuesto del Sector Público para el año fiscal 2016*), approved on December 5, 2015, the *Oficina de Normalización Provisional* (the “ONP”), the government office that administers the national pension system and the national pension fund, monitors the administration and payment of pension obligations arising under Decree Law No. 20530. Because all of our pension liabilities arise under Decree Law No. 20530, we are required to transfer to the ONP all of our pension liabilities as well as all information and documentation necessary to administer the payment of these pensions. As a result of this decree, we did not have a provision for pension plans, which is reflected as a reduction in the “provisions and other liabilities” line item of our financial statements. Starting in January 2016, we ceased to recognize pension liabilities arising under Decree Law No. 20530. As a result, we have greater cash flow to invest in projects that further our strategic objectives. As of December 31, 2019, we had no provision for pension liabilities.

Corporate modernization

Pursuant to Law No. 30130, we are required to undergo a corporate modernization. See “Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations.” To comply with this mandate, we engaged Wood Mackenzie, an international consulting firm, to evaluate our organization and formulate a strategic plan for us to implement a corporate modernization through 2030 that seeks to transform our company into an integrated, sustainable enterprise. Wood Mackenzie created a general diagnostic report on our company, developed a corporate strategy and recommended a new organizational structure for our company.

On May 29, 2015, our board of directors approved our Corporate Optimization Plan, comprising (i) the implementation of a new corporate structure, including the development and execution of a Corporate Reorganization Plan, (ii) the implementation of performance metrics for our operating segments, (iii) the optimization of the Talara Refinery Modernization Project and (iv) the implementation of a widespread internal and external media relations and publicity campaign. As of now, our audited financial statements for the year ended 2017, 2018 and 2019 do not reflect any impact derived from our Corporate Optimization Plan, but we expect the impact of the plan to be reflected in the coming years.

Moreover, pursuant to corporate modernization mandates of Legislative Decree No. 1292 of December 29, 2016, we are required to implement measures to maximize the value of our company, facilitate the administrative reorganization of our business units to promote the sustainability of our operations in accordance with international standards in the hydrocarbons sector and establish mechanisms to ensure the participation of independent specialists on our board of directors. The reorganization plan mandated by Legislative Decree No. 1292 was required to be completed within 720 days from the date of enactment and was completed by the fourth quarter of 2018.

We expect to have higher efficiency and reduced costs as a result of our corporate modernization. This cost is being financed with our own resources, including available cash. In addition, in accordance with Legislative Decree No. 1292, we have begun performing activities intended to increase security of the operations of the Norperuano Pipeline and enhance our corporate social responsibility, and we have begun to develop a new policy for hiring and acquisition of goods and services. However, we are currently developing a plan to implement the reorganization required under Legislative Decree No. 1292.

Critical Accounting Policies

The preparation of our Financial Statements in conformity with IFRS-IASB requires us to make judgments, estimates and assumptions to determine the reported balances of assets and liabilities, exposure of contingent assets and liabilities as of the date of the Financial Statements, and the reported amounts of assets, liabilities, income and expenses. We have identified certain key accounting policies under IFRS-IASB that have a material impact on our financial position and results of operations.

Accounting estimates very rarely will be the same as their respective actual results. In our opinion, these estimates were made based on the best understanding of relevant facts and circumstances as of the date of the preparation of the Financial Statements; however, final results may differ from our estimates. Although a change in these estimates and assumptions could affect the value of our assets, liabilities, shareholder’s equity and earnings, as well as our contingent assets and liabilities, we do not expect variation, if any, to have a significant effect on our financial position and results of operations.

Estimates and assumptions may result in adjustments to the balances of reported assets and liabilities and critical judgments in the application of accounting policies are presented as follows:

Impairment of assets

Impairment of financial assets

At the end of each period, we analyze the value of our assets to determine whether there is any evidence of impairment. A financial asset or group of financial assets is impaired if a loss event occurred after the initial recognition of the asset, and that loss had a negative impact on the estimated future cash flows of the financial asset

or the group of financial assets, as can be estimated reliably. If evidence of impairment exists, we estimate the recoverable amount of the assets to determine the amount of the correction that would need to be reflected.

Evidence of impairment can be an indication of significant financial difficulties, defaults or delays in payments of interest or principal, or the likelihood of entering bankruptcy proceedings or other financial reorganizations. Significant decreases in estimated future cash flows such as changes in delays or economic conditions are often correlated with unpaid accounts.

Impairment losses of loans and accounts receivable are measured as the difference between the asset carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate of the financial asset. The carrying amount of the asset is reduced and losses are recognized in the Statement of Profit or Loss and Other Comprehensive Loss.

If, in a further period, the impairment loss decreases and such decreases are objectively related to an event after the recognition of the impairment, the reversal of the previously recognized impairment loss is recognized in the Statement of Profit or Loss and Other Comprehensive Loss.

Impairment of non-financial assets

At the end of each period, we assess the net carrying amount of long-lived tangible and intangible assets to determine whether there is an impairment loss for such assets. We estimate of the impaired asset's recoverable amount to determine the extent of the impairment loss. If it is not possible to estimate the recoverable amount of an individual asset, we determine the recoverable amount of the cash-generating unit to which it belongs. The recoverable amount is the higher of the value of the asset in use and its market value. We recognize impairment losses of assets related to continuing operations on our statement of profit or loss within the expenses category to which the impaired asset belongs.

At the end of each year, we also evaluate whether impairment losses that have previously been recognized have been partially or fully reversed. If impairment losses have been reversed, we calculate the recoverable amount of the asset whose carrying amounts had been previously reduced. Impairment is reversed only if the increase in the recoverable amount of the asset resulted from changes the estimates used when the impairment loss was recognized. The reversal of an impairment loss is recognized in our statement of profit or loss.

Recoverable value of property, plant and equipment

We calculate the recoverable value of our property, plant and equipment on an annual basis. We organize our business into three cash-producing units: (i) production and trading, (ii) oil pipeline operations and (iii) leased and privatized units, and we estimate their recoverable value by grouping together the assets relevant to each cash-producing unit and estimating the net recoverable value of each group of assets. We calculate recoverable value of these cash-producing units as the present value of the cash flows expected to be produced through the continuous use of the assets corresponding to each cash-producing unit over the course of 10 years. We base these calculations on assumptions regarding relevant factors including macroeconomic indicators, sales prices and volumes, production volumes, operating costs and capital expenditures.

Provision for contingencies

By definition, contingent liabilities will be confirmed with the occurrence or non-occurrence of one or more uncertain future events not wholly within our management's control. The determination of whether a contingency should result in the recognition of a provision inherently involves the exercise of judgments and the use of assumptions of the outcome of future events that may or may not materialize. Provisions are recognized when: (i) there is present obligation (legal or constructive) as a result of a past event, (ii) it is probable (*i.e.*, more likely than not) that an outflow of resources embodying economic benefits will be necessary to satisfy the obligation and (iii) the amount of the obligation can be reliably estimated. On that basis, we classify each contingency as probable, possible or remote based on the probability that the events required to generate each contingency will materialize, and we estimate the amount of the liability that would arise with respect to each contingency. We recognize provisions, which are present obligations that demand a payout, in our statement of financial position for contingencies that we have classified as probable.

The amounts we recognize as provisions for contingencies are our estimates of the amount of the obligation (when the amount of the obligation can be reliably estimated) as of the last date of the period covered by the relevant financial statements. Estimating provisions for contingencies involves making rational assumptions based on the best available information as of the date of the relevant financial statements, considering the risks and uncertainties that inevitably surround such a valuation.

Provision for environmental remediation

As a result of the privatization process that we underwent in the 1990s, since 1996, we have assumed the task of environmental remediation in areas impacted during our administration of privatized units. These remediation projects are in the final stages of their execution and others are undergoing the approval process of the relevant authorities. We have also completed the remediation projects of Terminales del Norte and the Talara electrical and natural gas plants. Collectively, these projects will cost U.S.\$80.2 million. As of December 31, 2019 and as of September 30, 2020, we had invested U.S.\$68.4 million and U.S.\$70.1 million, respectively, on these projects. Pursuant to Laws No. 28840 and 30114, we are entitled to receive reimbursements from Peru for these expenses, which we recognize as capital contributions. In 2019, we did not perform qualifying environmental remediation works and therefore did not receive reimbursements. Similarly, we do not expect to receive any reimbursements from Peru in 2020 for these expenses. We cannot estimate when we will perform these works and receive their respective reimbursements because Laws No. 28840 and 30114 do not provide a term for performing the works or receiving reimbursement. During 2020, the remediation works could not be executed as a result of the National State of Emergency prevailing in Peru as a result of the COVID-19 pandemic. However, we have requested MEM to reimburse the additional amount executed to date.

In the mid-1990s, we began making provisions for the environmental remediation of our operative units with the goal of anticipating potential future changes in Peru's environmental regulatory framework. Environmental regulations have since increased in both quantity and stringency, and these provisions have allowed us to continue investigation and remediation works that are satisfactory under new standards of environmental quality. We revise these provisions periodically based on the needs of our operative units. As of September 30, 2020, we had recognized provisions for an aggregate U.S.\$23.6 million in environmental remediation matters. As of September 30, 2020, we made U.S.\$13.7 million in environmental remediation payments. For the remainder of 2020, we made U.S.\$9.9 million in environmental remediation payments.

Calculation of income tax and deferred tax assets

Income tax expense comprises current and deferred income taxes, recognized in our Statement of Profit or Loss and Other Comprehensive Loss. Current income tax is calculated and recognized in conformity with the current Peruvian tax system.

We determine deferred income tax using the liability method, in which temporary differences arise between the taxable basis of assets and liabilities and their respective recorded values. However, deferred income tax is not recorded if it arises from the initial recognition of an asset or a liability in a transaction that is not related to a business combination and that at the moment of the transaction does not affect our profit or accounting or taxable loss.

Deferred income tax is determined using tax rates and legislation applicable as of the date on which the deferred tax asset is realized or the income tax liability is settled.

Deductible temporary differences in accumulated tax losses generate deferred tax assets to the extent that it is likely that the tax losses will be applied against the income tax of future taxable periods. The carrying amounts of deferred tax assets are reviewed on the date of each financial statement and are reduced to the extent that it is no longer likely that there will be sufficient taxable profit against which it is possible to offset the deferred asset. Deferred tax assets that have not been recognized are reassessed at the date of each financial statement.

Balances of deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when income taxes relate to the same tax authority.

Market risk analysis and hedging policies

As of September 30, 2020, we have entered into unsecured International Swaps and Derivatives Association (“ISDA”) hedging agreements with 10 counterparties as part of our crude oil hedging strategy aimed at managing our exposure to commodities risk relating to the price of the Brent and WTI crude benchmarks. Our hedging agreements comply with all ISDA requirements, including the documentation of our hedging relationships and the description of the hedge’s objective, its characteristics, accounting recognition and effectiveness. We apply cash flow hedge accounting in regard to our hedging arrangements. See “—Market Risk Analysis.”

Revenue and Sales by Volume

The following tables set forth our revenue and sales volume for each of the periods indicated, and as a percent of revenue and sales volume, as applicable:

Revenue by Volume

	Nine-Month Period Ended September 30,				Year Ended December 31,					
	2020		2019		2019		2018		2017	
	(U.S.\$ in millions, except percentages)									
Domestic sales										
LPG	66.4	3.0%	92.8	2.7%	131.2	2.9%	183.2	3.8%	198.9	5.0%
Turbo and kerosene	22.7	1.0%	78.7	2.3%	96.6	2.1%	125.8	2.6%	101.6	2.6%
Gasoline	548.5	24.9%	858.6	24.9%	1,150.1	25.2%	1,132.2	23.2%	961.0	24.2%
Diesel – various	1,221.9	55.6%	1,829.8	53.0%	2,451.0	53.7%	2,508.7	51.4%	2,165.0	54.4%
Industrial oil	71.5	3.3%	122.3	3.5%	155.3	3.4%	159.9	3.3%	116.2	2.9%
Crude	196.4	8.9%	13.6	0.4%	13.6	0.3%	40.3	0.8%	—	—
Asphalts	20.0	0.9%	55.2	1.6%	74.1	1.6%	65.9	1.3%	45.4	1.1%
Solvents	8.0	0.4%	12.8	0.4%	17.5	0.4%	16.8	0.3%	14.7	0.4%
Cutting material	—	—	107.5	3.1%	155.8	3.4%	214.1	4.4%	44.4	1.1%
Fuel alcohol	0.6	0.0%	—	—	—	—	—	—	—	—
Primary naphtha	4.3	0.2%	3.9	0.1%	7.5	0.2%	—	—	—	—
Others ⁽¹⁾	(154.9)	(7.0)%	(112.8)	(3.3)%	(155.0)	(3.4)%	(77.7)	(1.6)%	(61.6)	(1.5)%
Total domestic sales	2,005.5	91.2%	3,062.3	88.8%	4,097.8	89.7%	4,369.3	89.5%	3,585.5	90.1%
International sales										
Virgin naphtha	—	0.0%	52.2	1.5%	63.1	1.4%	98.9	2.0%	90.9	2.3%
Turbo	21.0	1.0%	27.3	0.8%	36.1	0.8%	38.4	0.8%	31.6	0.8%
Diesel – various	32.8	1.5%	126.4	3.7%	147.5	3.2%	126.6	2.6%	100.6	2.5%
Industrial oil	16.8	0.8%	162.0	4.7%	199.2	4.4%	165.2	3.4%	151.7	3.8%
Reduced crude	6.8	0.3%	—	—	—	—	—	—	—	—
Asphalts	0.9	0.0%	2.8	0.1%	3.6	0.1%	6.2	0.1%	5.5	0.1%
Solvents and others ⁽¹⁾	—	—	0.5	0.0%	0.5	0.0%	4.1	0.1%	0.6	0.0%
Cracked naphtha	—	—	—	—	—	—	2.5	0.1%	—	0.0%
Gasohol 90	4.1	0.2%	15.7	0.5%	20.6	0.4%	2.4	0.1%	3.6	0.1%
Elementary residual OLE	19.2	0.9%	—	—	—	—	—	—	—	—
Crude	92.1	4.2%	—	0.0%	—	—	70.4	1.4%	9.2	0.2%
Total international sales	193.7	8.8%	386.9	11.2%	470.6	10.3%	514.7	10.5%	393.7	9.9%
Total	2,199.2	100.0%	3,449.3	100.0%	4,568.3	100.0%	4,884.0	100.0%	3,979.3	100.0%

(1) Includes discounts made to our customers and contribution and compensation payments we made and received under the Fuel Price Stabilization Fund.

Sales by Volume

	Nine Month Period Ended September 30,				Year Ended December 31,					
	2020		2019		2019		2018		2017	
	(in thousands of barrels, except percentages)									
Domestic sales										
LPG	1,656.2	5.2%	2,169.1	5.5%	3,074.8	5.9%	3,608.5	6.5%	4,385.6	8.3%
Turbo and kerosene.....	235.2	0.7%	770.4	1.9%	937.6	1.8%	1,185.7	2.1%	1,119.3	2.1%
Gasoline.....	6,595.9	20.6%	9,118.8	23.1%	12,135.8	23.1%	12,031.0	21.7%	11,325.5	21.4%
Diesel – various	13,439.2	42.0%	17,466.7	44.2%	23,425.2	44.7%	24,714.2	44.5%	25,052.6	47.3%
Industrial oil.....	1,151.7	3.6%	1,821.5	4.6%	2,307.6	4.4%	2,360.1	4.3%	2,209.2	4.2%
Crude.....	4,568.6	14.3%	201.4	0.5%	201.4	0.4%	615.4	1.1%	—	—
Asphalts.....	240.7	0.8%	608.3	1.5%	819.0	1.6%	811.1	1.5%	726.2	1.4%
Solvents.....	67.8	0.2%	100.9	0.3%	139.1	0.3%	150.3	0.3%	133.2	0.3%
Cutting material	—	—	1,409.1	3.6%	2,054.0	3.9%	2,642.1	4.8%	643.5	1.2%
Fuel alcohol.....	7.1	0.0	—	—	—	—	—	—	—	—
Primary naphtha.....	68.6	0.2%	55.4	0.1%	103.5	0.2%	—	—	—	—
Others ⁽¹⁾	—	—	—	—	—	—	4.8	0.0%	—	—
Total domestic sales	28,031.0	87.6%	33,721.5	85.3%	45,198.0	86.2%	48,123.3	86.7%	45,595.2	86.0%
International sales										
Virgin naphtha	—	—	834.2	2.1%	1,024.6	2.0%	1,477.9	2.7%	1,731.1	3.3%
Turbo.....	269.9	0.8%	293.9	0.7%	391.0	0.7%	385.5	0.7%	409.6	0.8%
Diesel – various	535.7	1.7%	1,617.7	4.1%	1,868.8	3.6%	1,397.6	2.5%	1,554.6	2.9%
Industrial oil.....	318.0	1.0%	2,815.8	7.1%	3,644.0	7.0%	2,789.4	5.0%	3,245.8	6.1%
Reduced crude	200.0	0.6%	—	—	—	—	—	—	—	—
Asphalts.....	15.2	—	46.2	0.1%	58.9	0.1%	96.2	0.2%	108.9	0.2%
Solvents and others ⁽¹⁾	—	—	7.5	0.0%	7.5	0.0%	47.5	0.1%	13.6	0.0%
Cracked naphtha	—	—	—	—	—	—	30.0	0.1%	—	—
Gasohol 90.....	52.8	0.2%	174.8	0.4%	229.9	0.4%	28.6	0.1%	40.7	0.1%
Elementary residual OLE.....	462.0	1.4%	—	—	—	—	—	—	—	—
Crude.....	2,119.1	6.6%	—	—	—	—	1,150.3	2.1%	304.8	0.6%
Total international sales	3,972.8	12.4%	5,790.1	14.7%	7,224.6	13.8%	7,403.0	13.3%	7,409.4	14.0%
Total.....	32,003.8	100.0%	39,511.6	100.0%	52,422.6	100.0%	55,526.3	100.0%	53,004.6	100.0%

(1) Includes discounts made to our customers and contribution and compensation payments we made and received under the Fuel Price Stabilization Fund.

Results of Operations for the Nine-Month Period Ended September 30, 2020 Compared to the Nine-Month Period Ended September 30, 2019

The following table presents our statement of profit or loss information for the nine-month periods ended September 30, 2020 and 2019:

	Nine-Month Period Ended September 30,		Variation
	2020	2019	
<i>(U.S.\$ in millions)</i>			<i>(%)</i>
Revenue from ordinary activities.....	2,199.2	3,449.3	(36.2)
Other operating income	57.7	62.5	(7.6)
Total gross revenue	2,256.9	3,511.8	(35.7)
Cost of sales	(2,120.6)	(3,113.8)	(31.9)
Gross profit	136.3	397.9	(65.7)
Selling and distribution expenses	(43.1)	(56.0)	(23.1)
Administrative expenses.....	(95.9)	(114.0)	(15.9)
Other income.....	9.2	23.3	(60.7)
Other expenses	(78.3)	(12.3)	534.5
Total operating expenses	(208.1)	(159.0)	30.8
Operating profit	(71.8)	238.9	(130.1)
Finance income	17.1	13.8	(24.1)
Finance costs	(26.7)	(26.5)	(0.6)
Exchange difference, net	(28.4)	(4.7)	507.6
Profit before income tax	(109.8)	221.5	(149.6)
Income tax	(6.8)	(76.4)	(91.1)
Profit for the period	(116.6)	145.1	(180.4)

As of September 30, 2020, we reported a net loss of U.S.\$116.6 million, as a result of:

- a 27.1% reduction of our sales volume of oil in the domestic market (86 KBPD in September 2020 as compared to 118 KBPD in September 2019) due to a decrease in the Peruvian demand for diesel B5S50 and gasoholes caused by the state of national emergency declared in Peru from March 16, 2020 until October 31, 2020;
- the lower inventory turnover of our main products (diesel B5S50 and gasoline);
- the decrease in the value of our inventory as a result of the decrease in the international prices through the end of April 2020 due to the COVID-19 pandemic, which negatively impacted the value of our inventories of finished and processed products;
- the U.S.\$71.4 million impairment of the Talara Refinery Modernization Project's assets following the recommendation of our independent auditors, to reflect an estimate of the impact of the COVID-19 pandemic on such project;
- the U.S.\$6.8 million provision for deferred value added tax as a consequence of an increase in the U.S.-dollar-to-*sol* exchange rate that affected non-monetary items (mainly fixed assets), stemming from us paying taxes in *soles* but our functional currency being the U.S. dollar; and
- the U.S.\$23.0 million loss caused by an increase in the exchange rate of the U.S. dollar to *sol* as a result of our higher proportion of monetary assets than monetary liabilities.

We have implemented an action plan since April 2020 that has made it possible for us to mitigate the negative results caused by the COVID-19 pandemic and the drop in international prices, including policies designed to: (i) recover the level of oil sales in the domestic market (mainly diesel and gasoline); (ii) improve pricing strategies; (iii) reduce expenditures; (iv) prioritize investments; (v) implement the plan to optimize the Norperuano Pipeline's economy; (vi) implement financial strategies aimed at reducing debt levels; (vii) voluntarily terminate labor agreements with our workers (71 agreements have been signed to date); (viii) implement projects that optimize expenses; and (ix) take actions to recover income.

We have also been implementing actions for the optimization of our expenses and our commercial strategies which have improved our economic results. Moreover, London Consulting has presented recommendations for us to reduce our expenses, mainly in the services of Land Transport, River Transport, Maritime Transport, Security and Surveillance and Non-Industrial Services, identifying potential benefits in excess of U.S.\$3 million.

Revenue from ordinary activities

Our revenue from ordinary activities reflects income from sales of refined products generated by our production and trading segment. Our revenue decreased by 36.2%, from U.S.\$3,449.3 million for the nine-month period ended September 30, 2019 to U.S.\$2,199.2 million for the nine-month period ended September 30, 2020. In the nine-month period ended September 30, 2020, our domestic net sales decreased by 33.8%, or U.S.\$1,056.8 million, from U.S.\$3,062.3 million in the nine-month period ended September 30, 2019 to U.S.\$2,005.5 million in the nine-month period ended September 30, 2019, and our international net sales decreased by 50.0%, or U.S.\$0.2 million, from U.S.\$0.4 million in the nine-month period ended September 30, 2019 to U.S.\$0.2 million in the nine-month period ended September 30, 2020. These decreases resulted primarily from a 19.0% decrease in our sales volume, from 39.5 million barrels in the nine-month period ended September 30, 2019 to 32.0 million barrels in the nine-month period ended September 30, 2020, primarily as a result of the reduction in economic activity and consumption as a result of lockdown measures imposed by the Peruvian government in response to the COVID-19 pandemic. In particular, our revenue from sales of diesel decreased by 39.1% to U.S.\$1,142.8 million in the nine-month period ended September 30, 2020 from U.S.\$1,877.3 million in the nine-month period ended September 30, 2019, our revenue from sales of gasoline decreased 37.7% to U.S.\$520.5 million in the nine-month period ended September 30, 2020 from U.S.\$835.3 million in the nine-month period ended September 30, 2019 and our revenue from sales of industrial oil decreased 72.0% to U.S.\$63.8 million nine-month period ended September 30, 2020 from U.S.\$228.3 million in the nine-month period ended September 30, 2019. These decreases were partially offset by U.S.\$288.6 million of crude sales in the nine-month period ended September 30, 2020.

Other Operating Revenue

Other operating revenue includes income not related to the sale of our refined products, such as the payments we receive for the assets we lease to terminal operators and other fees we charge for transporting crude through our Norperuano Pipeline. Our other operating income decreased by 7.6% from U.S.\$62.5 million for the nine-month period ended September 30, 2019 to U.S.\$57.7 million for the nine-month period ended September 30, 2020, primarily as a result of the impact on economic activity caused by the COVID-19 pandemic, which resulted in (i) a 20.4% decrease in our other operating income from storage and delivery services provided by our Northern, Central and Southern Distribution Terminals, (ii) a decrease in sales volume and a corresponding 34.3% decrease in recoverable freight from U.S.\$8.2 million in the nine-month period ended September 30, 2019 to U.S.\$5.4 million in the nine-month period ended September 30, 2020 and (iii) a 19.3% decrease in supply activity to the Peruvian National Police from U.S.\$5.7 million in the nine-month period ended September 30, 2019 to U.S.\$4.6 million in the nine-month period ended September 30, 2020. These decreases were partially offset by a 25.4% increase in operating revenue from our oil pipeline operations segment from U.S.\$15.0 in the nine-month period ended September 30, 2019 to U.S.\$18.8 in the nine-month period ended September 30, 2020, primarily as a result of an increase in services billed within our oil pipeline operations in the first quarter of 2020. During 2020, the Norperuano Pipeline halted its operations due to *force majeure* events from April 30, 2020 to July 31, 2020. We resumed our pumping operations on August 1, 2020, but due to social unrest involving members of several communities adjacent to Pump Station 5, the pipeline further suspended operations on two occasions, from August 2, 2020 to August 15, 2020 and from September 28, 2020 to December 27, 2020.

Cost of Sales

Our cost of sales is driven by four factors:

- the amount of crude and Intermediate Products we purchase to use as raw material;
- production and operating expenses related to the refining process;
- the change in the value of our inventory during the period; and
- our consumption of supplies during the production process.

The table below sets forth the calculation of our cost of sales for the nine-month periods ended September 30, 2020 and 2019:

	Nine-Month Period Ended September 30,	
	2020	2019
	(U.S.\$ in millions)	
Opening balance of inventory.....	589.2	556.3
Purchases of crude and products.....	1,668.5	2,867.0
Consumption of supplies.....	(12.6)	(17.0)
Production and operating expenses.....	197.3	263.6
Closing balance of inventory.....	(321.8)	(556.0)
Total	2,120.6	3,113.8

Our cost of sales decreased by 31.9% from U.S.\$3,114 million during the nine-month period ended September 30, 2019 to U.S.\$2,121 million in the nine-month period ended September 30, 2020, mainly as a result of lower prices for our purchases of crude and Intermediate Products as a result of the global decrease in oil prices caused by decreased economic activity and lower consumption resulting from the COVID-19 pandemic. Our cost of crude and Intermediate Products decreased by 42.1%, from U.S.\$556 million in the nine-month period ended September 30, 2019 to U.S.\$321 million in the nine-month period ended September 30, 2020 due to a 36.8% decrease in the average price at which we purchased crude, from an average price of U.S.\$63.41 per barrel in the nine-month period ended September 30, 2019 to U.S.\$40.07 per barrel in the nine-month period ended September 30, 2020, as well as a 28.1% decrease in the average price at which we purchased Intermediate Products, from an average price of U.S.\$82.78 per barrel in the first three quarters of 2019 to U.S.\$59.48 per barrel in the nine-month period ended September 30, 2020.

Gross profit

Our gross profit decreased by 65.7% from U.S.\$397.9 million for the nine-month period ended September 30, 2019 to U.S.\$136.3 million for the nine-month period ended September 30, 2020, primarily as a result of lower inventory profit caused by the decrease in international prices during the month of May 2020 and the decrease in economic activity and consumption caused by the COVID-19 pandemic.

As a result, our gross profit margin decreased from 11.3% in the nine-month period ended September 30, 2019 to 6.0% in the nine-month period ended September 30, 2020. Variations in our gross profit in any period result primarily from: (i) sales volume and price of our refined products, (ii) purchase volume and price of crude and other raw material, and (iii) variations in our inventory in terms of volume and price.

Our sales volume decreased by 19.0% and our purchase volume decreased by 17.7% in the nine-month period ended September 30, 2020 as compared to the nine-month period ended September 30, 2019, primarily as a result of the decrease in economic activity and consumption caused by the COVID-19 pandemic. These variations in sales and purchase volume caused our inventory volume to increase in the nine-month period ended September 30, 2020 as compared to the nine-month period ended September 30, 2019. During the same periods, our average sales price decreased by 21.3%, our average purchase price decreased by 29.3% and our average inventory price decreased by 39.5%. Thus, decreasing oil prices decreased the cost of our raw materials, which caused the value of our inventory to decrease. This decrease was partially offset by a lesser decrease in the price of our sales as compared to the price of our purchases, resulting in an overall increase of our refining margin.

Selling and distribution expenses

Our selling and distribution expenses decreased by 23.1% from U.S.\$56.0 million for the nine-month period ended September 30, 2019 to U.S.\$43.0 million for the nine-month period ended September 30, 2020, primarily because (i) our taxes payable decreased from U.S.\$14.4 million in the nine-month period ended September 30, 2019 to U.S.\$9.7 million in the nine-month period ended September 30, 2020 and (ii) we did not record workers' profit sharing for the nine-month period ended September 30, 2020 as a result of the loss we recorded for that period, whereas we recorded U.S.\$4.2 million in workers' profit sharing in the nine-month period ended September 30, 2019.

Administrative expenses

Our administrative expenses decreased by 15.9% from U.S.\$114.0 million for the nine-month period ended September 30, 2019 to U.S.\$95.9 million for the nine-month period ended September 30, 2020. This decrease was primarily a result of:

- the fact that we did not record workers' profit sharing in the nine-month period ended September 30, 2020 as a result of the loss we recorded for that period and recorded U.S.\$11.9 million in workers' profit sharing for the nine-month period ended September 30, 2019; and
- a U.S.\$8.2 million decrease in third-party services U.S.\$28.9 million in the nine-month period ended September 30, 2019 to U.S.\$20.7 million in the nine-month period ended September 30, 2020, as a result of (i) a 37.2% decrease in expenses relating to maintenance and repair contractors from U.S.\$6.9 million in the nine-month period ended September 30, 2019 to U.S.\$4.3 million in the nine-month period ended September 30, 2020 and (ii) a U.S.\$1.2 million decrease in outsourcing services from U.S.\$5.4 million in the nine-month period ended September 30, 2019 to U.S.\$4.1 million in the nine-month period ended September 30, 2020.

Other income

Our other income decreased by 60.7% from U.S.\$23.3 million for the nine-month period ended September 30, 2019 to U.S.\$9.1 million for the nine-month period ended September 30, 2020, primarily as a result of an 81.3% decrease in income for claims and indemnities from U.S.\$14.9 million in the nine-month period ended September 30, 2019 to U.S.\$2.8 million in the nine-month period ended September 30, 2020. In March 2019, we received a U.S.\$6.9 million insurance payment from Pacífico Compañía de Seguros y Reaseguros S.A. ("Pacífico Seguros") as an advance indemnification payment for an oil spill caused by flooding of the Pastaza river and another

for indemnification of an oil spill due to breaches of the Norperuano Pipeline at kilometers 20 and 87. In October and November 2019, we received a U.S.\$3.4 million advance payment from Pacifico Seguros in respect of (i) the oil spill caused by a breach in the Norperuano Pipeline at kilometers 51 and 24 and (ii) the explosion of tank 8D1 at station 8 of the pipeline.

Other expenses

Our other expenses increased by 534.5% from U.S.\$12.3 million for the nine-month period ended September 30, 2019 to U.S.\$78.3 million for the nine-month period ended September 30, 2020, as a result of (i) the U.S.\$71.4 million impairment of the Talara Refinery Modernization Project, (ii) a decrease in claims and provisions for environmental remediation in connection with leaks in the Norperuano Pipeline, which decreased from U.S.\$12.0 million in the nine-month period ended September 30, 2019 to U.S.\$0.4 million in the nine-month period ended September 30, 2020, (iii) the U.S.\$4.1 million in provisions for devaluation of in-stock materials for obsolescence and (iv) the U.S.\$2.2 million in provisions for expenses in connection with the second voluntary retirement program for our personnel.

Finance income

Our finance income increased by 24.1% from U.S.\$13.8 million for the nine-month period ended September 30, 2019 to U.S.\$17.1 million for the nine-month period ended September 30, 2020, primarily as a result of (i) an increase in hedging and financial derivative instruments from U.S.\$9.8 million in the nine-month period ended September 30, 2019 to U.S.\$12.0 million in the nine-month period ended September 30, 2020, and (ii) a higher gain from interest from accounts payable from U.S.\$0.5 million in the nine-month period ended September 30, 2019 to U.S.\$3.7 million the nine-month period ended September 30, 2020, which was partially offset by a decrease in interest income from deposits with financial institutions from U.S.\$3.3 million in the nine-month period ended September 30, 2019 to U.S.\$1.3 million in the nine-month period ended September 30, 2020.

Finance costs

Our finance costs increased slightly by 0.6% from U.S.\$26.5 million for the nine-month period ended September 30, 2019 to U.S.\$26.7 million for the nine-month period ended September 30, 2020, primarily as a result of (i) an increase in our loss on hedging and financial derivative instruments from U.S.\$0.7 million in the nine-month period ended September 30, 2019 to U.S.\$4.1 million in the nine-month period ended September 30, 2020, and (ii) a U.S.\$2.4 million expense incurred during the period in connection with crude price options we did not exercise. These expenses were partially offset by a U.S.\$6.3 million decrease in interest expenses with financial institutions from U.S.\$25.8 million in the nine-month period ended September 30, 2019 to U.S.\$19.5 million in the nine-month period ended September 30, 2020.

Exchange difference

Our loss for exchange difference increased significantly from U.S.\$4.7 million for the nine-month period ended September 30, 2019 to U.S.\$28.4 million for the nine-month period ended September 30, 2020, primarily as a result of an appreciation of the U.S. dollar against the *sol* in the nine-month period ended September 30, 2020 from S/3.317 to U.S.\$1.00 on December 31, 2019 to S/3.599 to U.S.\$1.00 on September 30, 2020 (an increase of 8.5%) as compared to an appreciation of the U.S. dollar against the *sol* in the nine-month period ended September 30, 2019 from S/3.379 to U.S.\$1.00 on December 31, 2018 to S/3.385 to U.S.\$1.00 on September 30, 2019 (an increase of 0.2%).

Income tax expense

Our income tax expense decreased by 91.1% from U.S.\$76.4 million for the nine-month period ended September 30, 2019 to U.S.\$6.8 million for the nine-month period ended September 30, 2020, primarily as a result of our loss for the period recorded in the nine-month period ended September 30, 2020. Our profit (loss) before income tax decreased from profit of U.S.\$221.4 million in the nine-month period ended September 30, 2019 to a loss of U.S.\$38.3 million the nine-month period ended September 30, 2020, which reduced our effective tax rate from 34.5% in the nine-month period ended September 30, 2019 to 72.7% in the nine-month period ended September 30, 2020.

Profit for the period

Our profit for the period changed from a profit of U.S.\$145.1 million for the nine-month period ended September 30, 2019 to a loss of U.S.\$116.6 million for the nine-month period ended September 30, 2020, for the reasons described above.

Results of Operations for the Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

The following table presents our statement of profit or loss information for the years ended December 31, 2019 and 2018:

	Year Ended December 31,		Variation
	2019	2018	
	<i>(U.S.\$ in millions)</i>		<i>(%)</i>
Revenue from ordinary activities.....	4,568.3	4,884.0	(6.5)
Other operating revenue	99.7	81.1	23.0
Total gross revenue.....	4,668.0	4,965.1	(6.0)
Cost of sales	(4,139.9)	(4,617.6)	(10.3)
Gross profit	528.1	347.5	52.0
Selling and distribution expenses	(78.9)	(77.4)	1.9
Administrative expenses.....	(186.1)	(156.2)	19.1
Other income	38.3	135.5	(71.8)
Other expenses	(36.2)	(33.5)	8.2
Total operating expenses.....	(263.0)	(131.63)	99.8
Operating profit.....	265.2	215.8	22.8
Finance income	19.1	17.0	12.4
Finance costs	(37.4)	(48.9)	(23.6)
Exchange difference, net	6.9	(6.7)	(203.2)
Profit before income tax.....	253.8	177.3	43.1
Income tax	(82.8)	(57.7)	43.5
Profit for the year	171.0	119.7	43.0

Revenue from ordinary activities

Our revenue from ordinary activities decreased by 6.5% from U.S.\$4,884 million in 2018 to U.S.\$4,568 million in 2019. This decrease was attributable to a 5.6% decrease in the sales volume for our products, including diesel, LPG and crude oil. This decrease was partially offset by a 10.3% decrease in our cost of sales to U.S.\$4,139.9 million in 2019 from U.S.\$4,617.6 in 2018.

Other operating income

Our other operating income increased by 23.0% from U.S.\$81.1 million in 2018 to U.S.\$99.7 million in 2019, primarily as a result of a 56.9% increase in our other operating income from our oil pipeline operations segment caused by an increase in the volume of oil transported on the Norperuano Pipeline from 6,425 barrels per day in 2018 to 10,906 barrels per day in 2019, primarily pursuant to supply agreements with Frontera Energy del Peru S.A., Petrotal Peru S.R.L. and Perenco. The supply agreements with Perenco and Petrotal became effective on December 9, 2019 and May 27, 2019, respectively.

Cost of sales

The table below sets forth the calculation of our cost of sales for the years ended December 31, 2019 and 2018:

	Year Ended December 31,	
	2019	2018
	<i>(U.S.\$ in millions)</i>	
Opening balance of inventory	556.3	605.3
Purchases of crude and products	3,804.9	4,255.1
Consumption of supplies	(23.1)	(22.9)
Production and operating expenses	391.1	336.4
Final balance of inventory	(589.2)	(556.3)
Total	4,139.9	4,617.6

Our cost of sales decreased by 10.3% from U.S.\$4,618 million in 2018 to U.S.\$4,140 million in 2019, as a result of a 10.6% decrease in cost per barrel of crude purchased to an average price of U.S.\$73.78 per barrel as of December 31, 2019 from an average price of U.S.\$79.37 per barrel as of December 31, 2018. This decrease in the total value of our purchases was partially offset by:

- a 5.9% increase in the value of our inventory to U.S.\$589 million in 2019 from U.S.\$556 million in 2018, caused by increasing prices of the products we sell to an average of U.S.\$87.14 per barrel as of December 31, 2019 from an average of U.S.\$87.96 per barrel as of December 31, 2018;
- a 17.4% increase in our production and operating expenses reflecting a U.S.\$22.0 million increase in depreciation expenses caused by the entry into operation of the processing units of the Talara Refinery as part of the Talara Refinery Modernization Project;
- a reversal of a U.S.\$11.5 million deterioration loss for non-financial assets in connection with the Norperuano Pipeline that took place in 2018 and not in 2019; and
- a significant increase in workers' profit sharing from U.S.\$1.1 million in 2018 to U.S.\$14.8 million in 2019 as a result of higher profit in the year ended December 31, 2019.

Workers' profit sharing refers to the share in our profits workers receive in March or April of each year, which, according to applicable legislation, is calculated as 10.0% of our net gains (or net tax base). We report workers' profit sharing under (i) production and operating expenses, (ii) selling and distribution expenses or (iii) administrative expenses depending on the type of employees involved. Workers' profit sharing that corresponds to personnel involved in our production processes and in the operation of our facilities is reported under production and operating expenses; workers' profit sharing for personnel involved in the commercialization of our products is reported under selling and distribution expenses; and workers' profit sharing corresponding to our administrative personnel is reported under administrative expenses. Workers' profit sharing is a deductible expense for income tax purposes.

Gross profit

Our gross profit increased by 52.0% from U.S.\$347.5 million in 2018 to U.S.\$528.1 million in 2019, primarily because the average price of our sales remained stable and the average price of our purchases decreased, causing our refining margin to increase. In addition, our gross profit margin increased from 7.0% in 2018 to 11.3% in 2019. Variations in our gross profit in any period result from the following factors: (i) sales volume and price of our refined products, (ii) purchase volume and price of crude and other raw materials, and (iii) variations in our inventory in terms of volume and price.

In 2019, our average sales price decreased by 0.9%, our average purchase price decreased by 7.0% and our average inventory price increased by 16.7%, in each case relative to 2018. Moreover, our sales volume decreased by 5.6% and our purchase volume increased by 3.8% in 2019 as compared to 2018. These variations in sales and purchase volume caused a corresponding decrease in our inventory volume during 2018.

The decrease in our sales volume was mainly due to an increase in the number of competing businesses in Peru. Nevertheless, we continue to implement policies designed to maintain our position as the leader, by market share, in the sale of refined petroleum products in Peru. These policies aim at increasing our sales volume, which is directly related to our purchase volume. Therefore, the simultaneous decrease of our sales volume and our purchase volume permitted our sale price to remain stable and our purchase price to decrease, increasing or refining margin and the profits of our production and trading segment.

Selling and distribution expenses

Our selling and distribution expenses increased 1.9% from U.S.\$77.4 million in 2018 to U.S.\$78.9 million in 2019. This increase was primarily the result of a U.S.\$6.2 million increase in workers' profit sharing in 2019 from U.S.\$0.5 million in 2018 to U.S.\$6.7 million in 2019 and a U.S.\$1.6 million decrease in third-party services from U.S.\$5.1 million in 2018 to U.S.\$3.5 million in 2019.

Administrative expenses

Our administrative expenses increased by 19.1% from U.S.\$156.2 million in 2018 to U.S.\$186.1 million in 2019, primarily as a result of (i) a U.S.\$20.8 million increase in workers' profit sharing from U.S.\$1.2 million in 2018 to U.S.\$21.9 million in 2018 and (ii) a U.S.\$15.2 million increase in various management charges from U.S.\$5.3 million in 2018 to U.S.\$20.4 million in 2019. This increase was partially offset by a 41.8% decrease in expenses associated with third-party financial and legal services from U.S.\$9.1 million in 2018 to U.S.\$5.3 million in 2019.

Other income

Our other income decreased by 71.4% from U.S.\$135.5 million in 2018 to U.S.\$38.3 million in 2019, primarily as a result of an U.S.\$87.7 million decrease in claims and indemnifications from U.S.\$105.2 in 2018 to U.S.\$17.5 million in 2019. In 2018, we received a U.S.\$94.8 million payment from the SUNAT for the reimbursement of interest for VAT and selective consumption tax that had been wrongly charged to us in connection with our sales of Turbo A-1 between 2011 and 2013.

Other expenses

Other expenses increased from U.S.\$2.8 million in 2018 to U.S.\$36.2 million in 2019, primarily as a result of a significant increase in expenses related to claims and provisions for environmental remediation in connection with the leaks of crude experienced in the Norperuano Pipeline during 2019, which amount to approximately S/55 million. In 2019, we incurred U.S.\$28.2 million in expenses relating to claims in connection with the leaks of crude experienced in the Norperuano Pipeline during 2019, including disbursements for cleaning, environmental monitoring, recovery and collection of materials, among others. In addition, in December 2019, we recorded a U.S.\$6.3 million provision for expenses in connection with the Voluntary Retirement Programme for Indeterminate Term Staff Year 2019, for which 96 workers were admitted into the Programme. In 2018, we recorded provisions for U.S.\$22.5 million in connection with an arbitration proceedings relating to environmental remediation contingencies in Lot 8 bought by Pluspetrol Norte.

Finance income

Our finance income increased by 12.4% from U.S.\$17.0 million in 2018 to U.S.\$19.1 million in 2019, primarily as a result of an increase in hedging and financial derivative instruments from U.S.\$12.1 million in 2018 to U.S.\$13.5 million in 2019 and an increase in interest income from deposits with financial institutions from U.S.\$4.0 million in 2018 to U.S.\$4.6 million in 2019.

Finance costs

Our finance costs decreased 23.6% from U.S.\$48.9 million in 2018 to U.S.\$37.4 million in 2019, primarily as a result of a decrease in our loss on hedging and financial derivative instruments from a U.S.\$17.0 million in 2018 to U.S.\$2.1 million in 2019, which was partially offset by a U.S.\$4.1 million increase in expenses in connection with crude price options we did not exercise.

Exchange difference

Our exchange difference changed from a loss of U.S.\$6.7 million in 2018 to a gain of U.S.\$6.9 million in 2019, primarily as a result of an appreciation of the U.S. dollar against the *sol* in 2019 from S/3.245 to U.S.\$1.00 on December 31, 2018 to S/3.379 to U.S.\$1.00 on December 31, 2019 (an increase of 4.1%), as compared to an depreciation of the U.S. dollar against the *sol* in 2018 from S/3.379 to U.S.\$1.00 on December 31, 2017 to S/\$3.317 to U.S.\$1.00 on December 31, 2018 (a decrease of 1.8%). The appreciation of the *sol* against the U.S. dollar decreased our liability under our U.S. dollar-denominated debt. We sell our refined products in *soles*, but we have incurred a portion of our debt in foreign currencies, primarily in U.S. dollars. When the *sol* appreciates or depreciates against to the U.S. dollar, our payments on our U.S. dollar denominated debt become less or more expensive, respectively. See “—Market Risk Analysis.”

Income tax expense

Our income tax expense increased from U.S.\$57.7 million in 2018 to U.S.\$82.8 million in 2019, primarily as a result of the appreciation of the U.S. dollar against the *sol* in 2019. Because we pay taxes in *soles* but our functional currency is the U.S. dollar, the appreciation of the U.S. dollar against the *sol* in 2018 resulted in a deferred income tax expense of U.S.\$54.0 million and the depreciation of the U.S. dollar against the *sol* in 2019 resulted in an income for deferred income taxes of U.S.\$33.9 million.

Profit

Our profit for the year increased 42.9% from U.S.\$119.6 million in 2018 to U.S.\$171.0 million in 2019, for the reasons described above.

Results of Operations for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

The following table presents our statement of profit or loss information for the years ended December 31, 2018 and 2017:

	Year Ended December 31,		
	2018	2017	Variation
	<i>(U.S.\$ in millions)</i>		<i>(%)</i>
Revenue from ordinary activities.....	4,884.0	3,979.3	22.7
Other operating revenue	81.1	72.3	12.1
Total gross revenue.....	4,965.1	4,051.6	22.5
Cost of sales	(4,617.6)	(3,537.1)	30.5
Gross profit.....	347.5	514.5	32.5
Selling and distribution expenses	(77.4)	(70.2)	10.3%
Administrative expenses.....	(156.2)	(179.0)	-12.7%
Other income	135.5	68.8	96.9%
Other expenses	(33.5)	(35.6)	-5.8%
Total operating expenses.....	(131.6)	(215.9)	-39.0%
Operating profit.....	215.9	298.6	-27.7%
Finance income	17.0	3.4	401.4%
Finance costs	(48.9)	(51.8)	-5.6%
Exchange difference, net	(6.7)	(2.0)	226.0%
Profit before income tax.....	177.3	248.1	-28.5%
Income tax.....	(57.7)	(63.0)	-8.3%
Profit for the year	119.6	185.1	-35.4%

Revenue from ordinary activities

Our revenue from ordinary activities increased by 22.7% from U.S.\$3,979 million in 2017 to U.S.\$4,884 million in 2018. In 2018, our domestic net sales increased by 21.9%, or U.S.\$784 million, from U.S.\$3,586

million in 2017 to U.S.\$4,369 million in 2018, and our international net sales increased by 30.7%, or U.S.\$121.0 million, from U.S.\$393.7 million in 2017 to U.S.\$514.7 million in 2018. These increases resulted primarily from:

- a 4.8% increase in sales volume from 145 million barrels per day in 2017 to 152 million barrels per day in 2018, including an increase in domestic sales from 45.6 million barrels in 2017 to 48.1 million barrels in 2018, primarily as a result of (i) a 2.0 million barrel increase in sales of cutting material from 0.6 million barrel in 2017 to 2.6 million barrels in 2018 and (ii) a 0.7 million barrel increase in sales of gasoline from 11.3 million barrels in 2017 to 12.0 million barrels in 2018; and
- a 17.2% increase in the median sales price of our products from U.S.\$75.07 in 2017 to U.S.\$87.96 in 2018, primarily as a result of an increase in international prices of crude caused by a decrease in the supply of crude worldwide. In particular, in the Peruvian market, the price of our gasoline increased by 10.9%, the price of our diesel increased by 17.5% and the price of our LPG increased 12.0%. In addition, our average international sales prices decreased by 17.2% from U.S.\$75.07 per barrel in 2017 to U.S.\$87.96 per barrel in 2018.

Other operating revenue

Our other operating revenue increased by 12.1% from U.S.\$72.2 million in 2017 to U.S.\$81.1 million in 2018, primarily due to a significant increase in other operating income from our oil pipeline operations segment from U.S.\$3.4 million in 2017 to U.S.\$22.1 million in 2018, as a result of an increase in the volume of oil transported in 2018 as compared to 2017 because of the closure of the Norperuano Pipeline for much of 2017.

Cost of sales

The table below sets forth the calculation of our cost of sales for 2018 and 2017:

	Year Ended December 31,	
	2018	2017
	<i>(U.S.\$ in millions)</i>	
Opening balance of inventory	605.3	475.4
Purchases of crude and products	4,255.1	3,371.1
Consumption of supplies	(22.9)	(19.9)
Production and operating expenses	336.4	315.8
Closing balance of inventory	(556.3)	(605.3)
Total	4,617.6	3,537.1

Our cost of sales increased by 30.5% from U.S.\$3,537 million in 2017 to U.S.\$4,618 million in 2018, primarily as a result of higher prices for our purchases of crude and Intermediate Products. Our cost of crude and Intermediate Products increased by 26.22% from U.S.\$3,371 million in 2017 to U.S.\$4,255 million in 2018. Average prices increased from U.S.\$62.68 per barrel in 2017 to U.S.\$79.32 per barrel in 2018. This increase in the average spot market price of crude was primarily due to factors that affected international prices of crude, as discussed above.

Gross profit

Our gross profit decreased from U.S.\$514.4 million in 2017 to U.S.\$347.5 million in 2018, primarily because:

- our average purchase costs increased by U.S.\$16.64 per barrel from an average of U.S.\$62.68 per barrel in 2017 to an average of U.S.\$79.32 per barrel in 2018;
- our average cost of sales increased by a lesser amount from an average of U.S.\$75.05 per barrel in 2017 to an average of U.S.\$87.96 per barrel in 2018; and
- the value of our inventory decreased by U.S.\$49 million in 2018 as a result of a 1.9 million barrel decrease in the value of our inventory as a result of a 2.5 million barrel increase in sales and a 0.17 million barrel decrease in purchases in 2018.

In addition, in 2018, the median sales price of our products increased 17.2%, the median purchase price of crude increased 26.6% and the median price of our inventory decreased 12.7%. Our inventory volume decreased 19.0%. Because our median sales price increased less than our median purchase price, our margin per barrel and the volume of our inventory decreased, reducing our refining margin and our gross profit accordingly.

Selling and distribution expenses

Our selling and distribution expenses increased by 10.3% in 2018 from U.S.\$70.2 million in 2017 to U.S.\$77.4 million in 2018, primarily as a result of a 68.1% increase in our expenses for third-party services from U.S.\$9.1 million in 2017 to U.S.\$15.3 million in 2018. Of this increase in expenses for third-party services, U.S.\$3.7 million and U.S.\$1.7 million were attributable to protection and industrial security, respectively, and U.S.\$1.6 million corresponded to maintenance and repair services.

Administrative expenses

Our administrative expenses decreased by 12.7% from U.S.\$179.0 million in 2017 to U.S.\$156.2 million in 2018. This decrease was primarily a result of (i) an U.S.\$11.6 million decrease in workers' profit sharing for our administrative employees, as a result of lower gross profit in 2018, and (ii) a U.S.\$9.4 million decrease in tax payable from U.S.\$12.7 million in 2017 to U.S.\$3.3 million in 2018.

Other income

Our other income increased by 96.9% from U.S.\$68.8 million in 2017 to U.S.\$135.5 million in 2018. This increase resulted primarily from (i) a one-time U.S.\$94.8 million payment from the SUNAT for the reimbursement of interest for VAT and selective consumption tax that had been wrongly charged to us in connection with our sales of Turbo A-1 between 2011 and 2013; (ii) a U.S.\$15 million reversal of reserves for a fine imposed by OEFA in connection with leaks of crude in Cuninico after the potential liability was modified from probable to remote; and (iii) a U.S.\$5 million reversal of reserves for arbitral proceedings related to environmental remediation contingencies initiated by the Pampilla Refinery.

Other expenses

Our other expenses decreased by 5.8% from U.S.\$35.5 million in 2017 to U.S.\$33.5 million in 2018, primarily as a result of the combined effect of (i) a U.S.\$23 million decrease in provisions for losses in Norperuano Pipeline from U.S.\$33.7 million in 2017 to U.S.\$10.8 million in 2018 for minor incidents in the Norperuano Pipeline and (ii) a U.S.\$22.5 million increase in reserves in connection with an arbitral proceeding related to an environmental contingency in Lot 8 Initiated by Pluspetrol Norte.

Finance costs

Our finance costs decreased by 5.6% from U.S.\$51.8 million in 2017 to U.S.\$48.9 million in 2018, due to the implementation of our exchange rate risk mitigation strategy. This strategy involves the use of exchange rate hedges to cover the risk arising from the fact that our functional currency is the U.S. dollar and certain of our income and expenses are denominated in *soles*. In 2017, we had a U.S.\$20.2 million loss and in 2018 we had a U.S.\$17.0 million loss from the implementation of this strategy.

As of December 31, 2017, we had U.S.\$1,312 million in bank debt, of which 50.1% (U.S.\$657 million) was denominated in foreign currencies and the remaining 49.9% in *soles*. Of this debt, our loans denominated in foreign currencies had average annual interest rates of 1.06% and our loans denominated in *soles* had average annual interest rates of 2.68%. At December 31, 2018, we had U.S.\$1,673.1 million in bank debt, 47.2% of which was denominated in foreign currencies, and the remaining 52.8% of which was denominated in *soles*. At December 31, 2018, our loans denominated in foreign currencies had an average annual interest rate of 2.96% and loans denominated in *soles* had an average annual interest rate of 3.58%. This increase in our *soles*-denominated debt caused an increase in our average cost of funding during 2017.

Exchange difference

Our loss from exchange difference significantly increased from a loss of U.S.\$2.0 million in 2017 to a loss of U.S.\$6.7 million in 2018, primarily due to the depreciation of the *sol* against the U.S. dollar from S/\$3.245 to U.S.\$1.00 on December 31, 2017 to S/3.379 to U.S.\$1.00 on December 31, 2018.

We sell our refined products in *soles*, but we hold some debt in foreign currencies, primarily in U.S. dollars. When the U.S. dollar appreciates or depreciates against the *sol*, our payments on our U.S. dollar-denominated debt become relatively more or less expensive, respectively.

Income tax expense/benefit

Our income tax expense decreased from U.S.\$62.9 million in 2017 to U.S.\$57.7 million in 2018, primarily due to the decrease in our profit before income tax expenses from U.S.\$248.0 million in 2017 to U.S.\$177.3 million in 2018. This is due to lower profit before taxes and the reimbursement of interest in an amount of U.S.\$94.8 million that SUNAT made to us as a result of a debt recovery claim, mitigated by the deferred income tax generated by updating the exchange rate differential of works in progress and the payment of the balance of worker participation observed in 2017.

Profit for the year

For the reasons discussed above, our profit for the year decreased from U.S.\$185.1 million in 2017 to U.S.\$119.6 million in 2018.

Liquidity and Capital Resources

Our business is highly dependent on the availability of capital to finance our inventory cycle, capital expenditures and other investments. In particular, our ability to finance the Talara Refinery Modernization Project, which is expected as of September 30, 2020 to cost approximately U.S.\$4,700.0 million exclusive of financing costs, any applicable fees and commissions and the economic impact of the COVID-19 pandemic (which remains under evaluation), depends on our ability to obtain funding from a number of sources in addition to this offering. We expect the remaining U.S.\$325.0 million or 7.7% of the Project cost will be funded with capital contributions from Peru, our cash on hand and, to the extent and in the amounts necessary, with future additional financing from other entities. See “Risk Factors—Risks Related to Our Operations—The Talara Refinery Modernization Project requires substantial capital and we have not secured all sources of financing required to complete the project.”

In addition, in connection with our normal operations, increases in the price of crude and our other costs may create corresponding increases in our needs for working capital. We rely on credit from various financial institutions and on cash flows from our operating activities to provide necessary financing for our ordinary course capital expenditures and other investments, as well as our working capital needs.

Economic and financial conditions in local and international capital and credit markets affect our ability to obtain short-term or long-term financing, and reduced liquidity in the credit markets could make it challenging for us to finance the Talara Refinery Modernization Project or to meet our other needs, including capital expenditures and working capital needs.

As of September 30, 2020, we had an outstanding principal balance of U.S.\$1,261.8 million of aggregate principal amount of short-term debt, which included short-term credit lines with local and foreign banks. These short-term credit lines allowed us to make purchases in the domestic and international crude markets at international prices, to fulfill other commitments and to undertake short-term financial transactions. As of December 31, 2019 and December 31, 2018, we had an outstanding principal balance of U.S.\$1,010.0 million and U.S.\$1,673.1 million, respectively, under our short-term credit lines with local and foreign banks. These credit lines allowed us to make purchases in the domestic and international crude markets at international prices, to fulfill other commitments and to undertake short-term financial transactions.

Pursuant to Law No. 28840, we are required to reinvest all of our profits in investment projects geared toward the modernization or expansion of our activities in furtherance of our annual and our five-year goals. According to

Law No. 30130, we are authorized to publicly sell or issue additional Class B shares, so long as no more than 49.0% of our total shares are held by the public, but we have not yet acted upon this authority. See “Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations.”

We believe that funds from our operating activities and financings will be sufficient to meet our working capital, debt service and capital expenditures for the foreseeable future. See “Business—Business Strategies.”

Debt

The following table summarizes our financial obligations represented by indebtedness as of September 30, 2020 and December 31, 2019, 2018 and 2017.

	As of September 30,		As of December 31,		
	2020		2019	2018	2017
	(U.S.\$ in millions)	(%) ⁽²⁾	(U.S.\$ in millions)		
Banco de Crédito del Perú ⁽¹⁾	253.5	5.7%	324.9	409.4	351.3
Banco Continental ⁽¹⁾	188.6	4.2%	188.3	198.0	195.6
Sumitomo	133.0	3.0%	—	178.6	40.3
Scotiabank ⁽¹⁾	55.8	1.2%	391.9	498.9	478.8
Natixis	90.0	2.0%	—	—	—
Sabadell	75.0	1.7%	—	—	—
Bladex	21.3	0.5%	—	—	40.9
Banco de la Nación ⁽¹⁾	52.8	1.2%	—	—	—
Corporación Andina de Fomento – CAF	75.0	1.7%	—	28.1	—
DZ Bank AG	50.0	1.1%	—	—	—
Itau BBA S.A.	100.0	2.2%	—	—	—
BNP Paribas	71.0	1.6%	—	143.9	29.9
Citibank del Perú S.A. ⁽¹⁾	30.0	0.7%	25.6	97.1	63.0
Banco Financiero	16.0	0.4%	—	—	—
Interbank	—	—	69.34	48.6	74.6
BANBIF	—	—	—	18.1	—
Santander	—	—	—	30.0	37.5
Long-term debt ⁽²⁾	3,276.8	73.4%	3,236.7	3,236.7	2,000.0
Interest	49.9	1.1%	10.0	22.2	7.2
Amortized cost PMRT	(75.3)	(1.7%)	(83.0)	(89.1)	(14.9)
Total	4,463.3	100.0%	4,163.7	4,820.7	3,304.3
Current portion	1,261.8	28.3%	1,010.0	1,673.1	1,319.2
Non-current portion of syndicated loan ⁽²⁾	3,201.5	71.7%	3,153.7	3,147.6	1,985.1
Total	4,463.3	100.0%	4,163.7	4,820.7	3,304.3

(1) Denominated in U.S. dollars and *soles*. *Sol* amounts were translated into U.S. dollars using a rate of S/3.599 to U.S.\$1.00, based on the exchange rate published by SBS for September 30, 2020. See “Exchange Rates”.

(2) See “Description of Certain Indebtedness of the Issuer.”

Short-term Debt

We use short-term unsecured bank loans denominated in U.S. dollars to finance our imports and short-term unsecured bank loans denominated in *soles* to finance working capital and mitigate foreign exchange risk arising from the volatility of the U.S. dollar. As of September 30, 2020, without including the current debt associated with the Talara Refinery Modernization Project, 17.8% of this short-term bank debt was denominated in *soles* and the remaining 82.2% was denominated in U.S. dollars. As of September 30, 2020, our *soles*-denominated bank loans had an average maturity of 207 days and an average interest rate of 1.08%, and our U.S. dollar-denominated bank loans had a maturity of 169 days and a fixed interest rate of 1.60%.

In the nine-month period ended September 30, 2020, all of our *sol*-denominated bank loans were used to finance working capital as part of our strategy to mitigate exchange rate risk. In the nine-month period ended September 30, 2020, our loans used to finance working capital fluctuated between 0.55% and 5.01% for U.S. dollar-denominated bank loans, and between 0.74% and 5.10% for *sol*-denominated bank loans, as compared to the nine-month period ended September 30, 2019, when the fixed interest rate was 2.42% for U.S. dollar-denominated bank loans, and 3.89% for *sol*-denominated bank loans. As of September 30, 2020, we had an aggregate U.S.\$1,261.8 million of short-term bank loans outstanding.

As of December 31, 2019, without including the current debt associated with the Talara Refinery Modernization Project, 40.3% of this short-term bank debt was denominated in *soles* and the remaining 59.7% was denominated in U.S. dollars. As of December 31, 2019, our *sol*-denominated bank loans had an average maturity of 113 days and an average interest rate of 2.82%, and our U.S. dollar-denominated bank loans had a maturity of 133 days and a fixed interest rate of 1.43%. In 2019, all of our *sol*-denominated bank loans were used to finance working capital as part of our strategy to mitigate exchange rate risk. Also, in 2019, the fixed interest rate for our loans that were used to finance working capital fluctuated between 2.03% and 3.92% for debt denominated in *soles* and between 0.99% and 3.40% for debt denominated in U.S. dollars as compared to 2018, when the fixed interest rate fluctuated between 2.00% and 4.09% for *soles* denominated in debt and between 1.10% and 3.36% for U.S. dollar-denominated debt. As of December 31, 2019, we had an aggregate U.S.\$1,010.0 million of short-term bank loans outstanding.

In 2018, the interest rates on our *sol*-denominated debt used to finance working capital fluctuated between 2.00% and 4.09% and between 1.10% and 3.36% for debt denominated in U.S. dollars. Our loans used to service our obligations related to the Talara Refinery Modernization Project had fixed interest rates ranging from 3.32% to 3.65%.

In 2017, our U.S. dollar-denominated loans had annual interest rates ranging from 0.75% to 3.74% and our *sol*-denominated loans had annual interest rates ranging from 2.40% and 5.90%. These obligations were unsecured. As of December 31, 2017, we had U.S.\$1,312.0 million in short-term debt outstanding.

As of September 30, 2020, we had the following short-term loans:

- S/912.2 million (U.S.\$253.4 million) in loans from Banco de Crédito del Perú, S/200 million (U.S.\$55.6 million) of which was denominated in *soles* and U.S.\$197.9 million (S/712.2 million) of which was denominated in U.S. dollars, at average annual interest rates of 1.50% for the *sol*-denominated loans and 0.71% for the dollar-denominated loan, with an average maturity of 134 days with respect to the *sol*-denominated loans and 153 days with respect to the U.S. dollar-denominated loan, with the *sol*-denominated loans maturing in December 2020 and the U.S. dollar-denominated loan maturing in October 2020, January, February, and March 2021;
- S/678.8 million (U.S.\$188.6 million) in loans from BBVA, S/75.0 million (U.S.\$20.8 million) of which was denominated in *soles* and U.S.\$167.8 million (S/603.8 million) of which was denominated in U.S. dollars at average annual interest rates of 0.73% for the *sol*-denominated loans and 0.95% for the dollar-denominated loan, with an average maturity of 56 days with respect to the *sol*-denominated loans and 123 days with respect to the U.S. dollar-denominated loan, with the *sol*-denominated loans maturing in November 2020 and the U.S. dollar-denominated loan maturing in November 2020, January, and March 2021;
- S/200.7 million (U.S.\$55.8 million) in loans from Scotiabank, S/100 million (U.S.\$27.8 million) of which was denominated in *soles* and U.S.\$28 million (S/100.8 million) of which was denominated in U.S. dollars, at average annual interest rates of 1.75% for the *sol*-denominated loans and 1.60% for the U.S. dollar-denominated loan, with an average maturity of 179 days with respect to the *sol*-denominated loans and 180 days with respect to the U.S. dollar-denominated loan, with the *sol*-denominated loans maturing in January 2021 and the U.S. dollar-denominated loan maturing in January 2021;
- U.S.\$50.0 million (S/179.9 million) in loans from DZ Bank AG denominated in U.S. dollars, at an average annual interest rate of 1.07%, with an average maturity of 181 days, maturing in November 2020;
- U.S.\$30.0 million (S/108.0 million) in loans from Citibank denominated in U.S. dollars, at an annual interest rate of 2.18%, with an average maturity of 180 days, maturing in November 2020;
- U.S.\$71.0 million (S/255.5 million) in loans from BNP Paribas denominated in U.S. dollars, at an annual interest rate of 2.19%, with an average maturity of 180 days, maturing in November and December 2020;
- U.S.\$21.3 million (S/76.7 million) in loans from Bladex denominated in U.S. dollars, at an annual interest rate of 1.40%, with a maturity of 200 days, maturing in October 2020;

- U.S.\$133.0 million (\$/478.7 million) in loans from Sumitomo denominated in U.S. dollars, at an average annual interest rate of 1.25%, with an average maturity of 177 days, maturing in November 2020 and February 2021;
- U.S.\$75 million (\$/269.9 million) in loans from Corporación Andina de Fomento denominated in U.S. dollars, at an average annual interest rate of 1.09%, with an average maturity of 193 days, maturing in October and December 2020, and January 2021;
- S/190.0 million (U.S.\$52.8 million) in loans from Banco de la Nación denominated in *soles*, at an annual interest rate of 0.74%, with a maturity of 358 days, maturing in May 2021;
- U.S.\$90.0 million (\$/323.9 million) in loans from Natixis denominated in U.S. dollars, at an average annual interest rate of 2.53%, with an average maturity of 196 days, maturing in October and December 2020;
- U.S.\$100.0 million (\$/359.9 million) in loans from Itau BBA S.A. denominated in U.S. dollars, at an average annual interest rate of 2.91%, with an average maturity of 190 days, maturing in October and December 2020;
- U.S.\$75.0 million (\$/269.9 million) in loans from Sabadell denominated in U.S. dollars, at an average annual interest rate of 2.73%, with an average maturity of 174 days, maturing in October 2020; and
- U.S.\$16.0 million (\$/57.6 million) in loans from Banco Interamericano de Finanzas, denominated in U.S. dollars, at an annual interest rate of 1.30%, with a maturity of 180 days, maturing in February 2021.

Short-term trade financing

Our trade accounts payable include our obligations with respect to our purchases of crude and refined products, transportation services, plant operation and procurement of supplies and spare parts. Invoices are issued in U.S. dollars, have current maturity, are non-interest bearing and have no specific guarantees.

As of September 30, 2020, we had an aggregate U.S.\$553 million of short-term trade financing outstanding. As of December 31, 2019, we had an aggregate U.S.\$739 million of short-term trade financing outstanding. See note 14 to our Unaudited Interim Financial Statements.

Cash Flows

The following table summarizes our cash flows statement information for the periods indicated:

	Nine-Month Period Ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(U.S.\$ in millions)</i>				
Net cash provided by (used in) operating activities	235.2	597.6	645.7	(134.4)	165.0
Net cash used in investment activities	(689.0)	(116.0)	(131.4)	(1,501.6)	(1,228.5)
Net cash provided by financing activities	242.3	(749.0)	(668.3)	1,500.9	1,652.7
Cash at the beginning of year	375.7	528.7	528.7	666.1	74.0
Effect of changes in exchange rate on cash	(9.9)	0.0	1.0	(2.4)	2.9
Cash at the end of year	154.3	261.3	375.7	528.6	666.1

Operating activities

Our net cash provided by operating activities decreased significantly to U.S.\$235.2 million net cash used in operating activities in the nine-month period ended September 30, 2020 from U.S.\$597.6 million net cash provided by operating activities in the nine-month period ended September 30, 2019, primarily as a result of two factors: (i) a decrease in our volume of sales of 7.5 million barrels from 39.5 millions of barrels in the nine-month period ended September 30, 2019 to 32 millions of barrels in the nine-month period ended September 30, 2020, which caused a

decrease of U.S.\$1,250.1 million in our revenues, reducing our operating flow (this reduction was caused by the Peruvian government's adoption of measures in response to the COVID-19 pandemic); and (ii) a decrease of U.S.\$195 million in the recovery of tax credit with respect to Value Added Tax from U.S.\$228 million in the nine-month period ended September 30, 2019 to U.S.\$33 million in the nine-month period ended September 30, 2020. Both factors significantly reduce our net cash provided by operating activities.

Our net cash provided by operating activities increased to U.S.\$645.7 million in the year ended December 31, 2019 from U.S.\$134.4 million in the year ended December 31, 2018, primarily as a result of two factors: (i) a decrease of 7.05% of our average purchase price from U.S.\$79.37 per barrel in December 2018 to U.S.\$73.78 per barrel in December 2019, our average sales price also decreased but only by 0.93% from U.S.\$87.96 per barrel in December 2018 to U.S.\$87.14 per barrel in December 2019; and (ii) an increase of U.S.\$221 million in the recovery of tax credit with respect to Value Added Tax from U.S.\$30 million in December 2018 to U.S.\$251 million in December 2019. Both factors significantly reduce our net cash provided by operating activities.

Our net cash provided by operating activities was U.S.\$134 million for 2018 compared to net cash used in operating activities of U.S.\$165 million in 2017, primarily as a result of an increase of 26.6% of our average purchase price from U.S.\$62.68 per barrel in 2017 to U.S.\$79.32 per barrel in 2018, our average sales price also increased but only by 17.92% from U.S.\$75.07 per barrel in 2017 to U.S.\$87.96 per barrel in 2018. This factor was determinant to decrease the cashflow from operating activities.

Investing activities

In the nine-month period ended September 30, 2020, our net cash used in investing activities increased to U.S.\$689 million, as compared to U.S.\$116 million net cash used in investing activities in the nine-month period ended September 30, 2019. This increase in our investing activities resulted mainly from the following three factors: (i) an increase in investment in property, plant and equipment from US\$713.6 million in 2018 to US\$1,071.2 million in 2019, caused mainly by the increase of the comprehensive construction progress of the Talara Refinery Modernization Project from 71.15% to 85.27% in 2019, and from 66.57% to 71.15% in 2018; (ii) the proceeds obtained from the issuance of bonds in 2017, which were intended to be used to finance investments of the Talara Refinery Modernization Project, the part of such proceeds that were not used to finance work in progress and were, in consequence, not needed in the short term, was placed in term deposits; and (iii) payments of Value Added Tax for the Talara Refinery Modernization Project, such payments were net from the recovery of tax credit, which went from U.S.\$27.3 million in 2018 to U.S.\$93.3 million in 2019.

In the year ended December 31, 2019, our net cash used in investing activities increased significantly to U.S.\$131.4 million, as compared to U.S.\$1,501.5 million net cash used in investing activities in 2018. This increase in our investing activities resulted mainly from greater investments in property, plant and equipment, and the acquisition of an automated ERP system using SAP technology for the Talara Refinery Modernization Project.

For a discussion of our investments in property, plant and equipment, see “—Capital Expenditures and Investments.”

Financing activities

Our net cash provided by financing activities primarily reflect proceeds from new borrowings and the application of cash to the repayment of loans.

Our net cash provided by financing activities increased from a loss of U.S.\$749 million for the nine-month period ended September 30, 2019 to U.S.\$242 million for the nine-month period ended September 30, 2020, mainly as a result of a decrease in the proceeds as a consequence of the COVID-19 pandemic.

Our net cash provided by financing activities decreased significantly from U.S.\$1,501 million for the year ended December 31, 2018 to a loss of U.S.\$668 million for the year ended December 31, 2019, mainly as a result of proceeds from the CESCE financing, additionally, in 2019, the favorable operating flow allowed us to amortize the loans in greater amounts.

Off-Balance Sheet Arrangements

As of September 30, 2020, we did not have any transactions involving off balance sheet arrangements.

Commitments and Other Contractual Obligations

The following table sets forth the maturities of our remaining contractual obligations as of September 30, 2020:

	Payments Due by Period				
	Total ⁽¹⁾	Less than 1 year ⁽¹⁾	1 to 3 years ⁽¹⁾	3 to 5 years ⁽¹⁾	More than 5 years ⁽¹⁾
	<i>(U.S.\$ in millions)</i>				
Other debt (Banks)	7,349	1,433	553	553	4,810
Técnicas Reunidas EPC Contract ⁽²⁾	464	316	148	—	—
Consorcio Cobra EPC Contract ⁽²⁾	330	238	92	—	—
Total	8,143	1,987	793	553	4,810

(1) The amounts presented are gross and undiscounted, and include contractual interest payments and exclude the impact of derivative contracts.

(2) The EPC Contract calculations assume that each EPC Contractor completes each phase of construction on the timeline set forth in its EPC Contract.

Capital Expenditures and Investments

Until we produce sufficient cash flows to ensure payment of our obligations related to the Talara Refinery Modernization Project and have sold at least 40.0% of our equity to the public, our capital expenditures will be limited by the terms of Law No. 30130 and Legislative Decree No. 1292. See “Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations.” Until then, we may engage in investment projects only if they do not require funds from the government of Peru and do not require credit from banks or third parties. However, pursuant to Legislative Decree No. 1292, certain investments are exempted from this limitation if they are incurred to finance projects aiming to improve the safe operation of the Norperuano Pipeline. We may also engage in projects necessary to maintain business operations that were already underway when this law came into effect. If completed, these existing projects, in the aggregate, will account for U.S.\$219.5 million (U.S.\$67.6 million) of capital expenditures in the next three years and include:

- the construction of the Pasco (Ninacaca) sales plant;
- the construction of the Puerto Maldonado sales plant;
- the construction of the Ilo distribution terminal; and
- the exploration and production of Block 64.

See “Business—Production and Trading Segment—Supply of Crude—Transportation and distribution of refined products to our customers—New Facilities.”

As of the date of this offering memorandum, other than the Talara Refinery Modernization Project, only the construction of the Pasco sales plant, the Puerto Maldonado sales plant and the Ilo distribution terminal are being executed. Law No. 30130 imposed restrictions on certain development activities, including exploration and development activities. Law No. 30357 independently exempted the exploration of Block 192 from the restriction on investment projects imposed by Law No. 30130, but our engagement in this project is nevertheless subject to approval by Perupetro, the entity that grants licenses for exploration and production of hydrocarbons in Peru.

We have entered into an agreement with Perupetro for the development of Block 192, and are in the process of searching for an operating partner for Block 192. See “Summary—Recent Developments—Recent developments related to our operations—Exploration of Block 192.” With respect to Block 64, we obtained a license to develop this block before Law No. 30130 came into effect, but this project was not specifically identified as one of the exemptions under that law. On December 2, 2016, we entered into an agreement with GeoPark Ltd. (“GeoPark”), pursuant to which GeoPark agreed to finance the operation and assume the related risk in exchange for a partial transfer of our

license to develop Block 64. In June 2019, however, Geopark announced its irrevocable withdrawal from the license agreement due to uncertainty on the requirement of a prior consultation process in regard to deforestation activities, an issue that remains pending before Peru's regulatory agencies. As such, we have accepted the assignment of 75.0% of Geopark's participation free of charge and without any compensation. We cannot begin an operator partner selection process until we receive certainty on the requirement of a prior consultation process with regard to the deforestation activities. We estimate this process will not begin until the second semester of 2021. See "Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations."

Investment in existing facilities

The following table sets forth the investments made by our production and trading segment during the periods indicated, excluding investments made in connection with the Talara Refinery Modernization Project:

Investments in Existing Facilities

	Nine-Month Period Ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(U.S.\$ in millions)⁽¹⁾</i>				
Talara refinery ⁽²⁾	13.5	21.7	32.8	31.7	12.5
Conchán refinery	3.0	13.3	21.3	21.8	9.0
Iquitos refinery	3.8	10.8	13.7	14.8	6.0
Pipeline management.....	13.3	18.3	32.3	30.8	23.8
Commercial management.....	4.4	3.0	6.2	1.0	0.2
General office.....	0.7	1.9	2.5	2.4	2.0
Total	38.7	69.0	108.7	102.6	53.5

(1) We have translated certain *soles* amounts included in this table into U.S. dollars using a rate of U.S.\$3.60 to U.S.\$1.00, based on the exchange rate published by SBS for September 30, 2020. See "Exchange Rates."

(2) Excludes investments in the Talara Refinery Modernization Project.

Talara Refinery Modernization Project

In the nine-month period ended September 30, 2020, we invested U.S.\$451.2 million in the Talara Refinery Modernization Project of which Técnicas Reunidas received U.S.\$173.6 million. In the nine-month period ended September 30, 2019, we also made U.S.\$498.8 million in investments associated with the Talara Refinery Modernization Project.

In the year ended December 31, 2019, we invested U.S.\$902.8 in the Talara Refinery Modernization Project, of which Técnicas Reunidas received U.S.\$311.5 million and Consorcio Cobra received U.S.\$465.6 million. In 2018, we invested U.S.\$391.1 million in the Talara Refinery Modernization Project, of which Técnicas Reunidas received U.S.\$213.7 million and Consorcio Cobra received U.S.\$71.0 million, compared to our U.S.\$498.6 million investment in the Talara Refinery Modernization Project in 2017, of which Técnicas Reunidas received U.S.\$413.7 million. In 2020, we expect to invest U.S.\$644.2 million, of which we expect to pay U.S.\$224.9 million to Técnicas Reunidas and U.S.\$283.8 million to Consorcio Cobra.

In 2019, 2018 and 2017, we also made U.S.\$902.8 million, U.S.\$391.1 million and U.S.\$498.6 million, respectively, in investments associated with the Talara Refinery Modernization Project. We also paid a U.S.\$273 million advances to Técnicas Reunidas.

For additional information regarding the Talara Refinery Modernization Project, see "Business—Production and Trading Segment—Talara Refinery Modernization Project."

Investment in exploration and production

Hydrocarbons in Block 64

On April 27, 2013, we obtained a contract license from Perupetro to engage in exploration and production activities to extract light oil from the Vivian Reservoir in Block 64. Block 64 comprises an area of 761,501 hectares

located in the districts of Morona, Andoas and Pastaza, in the northern rainforest of Peru. Since 2013, and as of September 30, 2020, we have invested U.S.\$30.9 million in this project. We expect to invest an additional U.S.\$0.95 million in 2020 in this project.

For additional information regarding this project, see “Business—Potential Future Exploration and Oil Production—Exploration and production of hydrocarbons in Block 64.”

Hydrocarbons in Block 192

Block 192 has 13 oil fields producing light, medium and heavy crude. Eighty-four percent of this crude comes from the Vivian Reservoir and the remainder from other reservoirs such as Chonta and Basal Terciario. According to Law No. 30357, we became involved in Block 192 pursuant to a 30-year contract license beginning in September 2017.

For additional information regarding this project, see “Business—Potential Future Exploration and Oil Production—Block 192.”

Transportation of heavy crude from the Marañón river basin through the Norperuano Pipeline

If a sufficiently high volume of crude is extracted in the northern rainforest, we have long-term plans to modify the Norperuano Pipeline and equip it to transport larger volumes of heavy crude from the northern rainforest to the Bayóvar Terminal. Since 2008, we have invested U.S.\$4.9 million for an engineering feasibility study, an environmental impact assessment and initial project management services. This project is currently on hold because crude production in the northern rainforest has not reached sufficiently high volumes and oil prices have not yet reached high enough levels to justify a commitment from the local producers. See “Business—Production and Trading Segment—Transportation and Distribution of Crude to our facilities—Heavy Crude Transportation Project.”

Investment in new facilities

Our investment in new facilities includes the construction of sales plants at Pasco, Puerto Maldonado and Bayóvar, as well as the construction and operation of a distribution terminal at Ilo. These projects will involve the construction and installation of facilities and equipment for the storage and distribution of diesel, gasoline, gasohol 90 and other products. See “Business—Production and Trading Segment—Transportation and distribution of refined products to our customers—New Facilities.”

Operational Initiatives

We invested U.S.\$38.7 million in the nine-month period ended September 30, 2020 in investments aimed at improving operations, safety and maintenance, purchasing tanks to maintain the capacity in our facilities and assure the reliability of our operations, and decreasing the frequency of plant stoppages.

We invested U.S.\$108.7 million in 2019, U.S.\$102.6 million in 2018 and U.S.\$53.5 million in 2017 in investments aimed at improving operations, safety and maintenance, purchasing tanks to maintain the capacity in our facilities and insure the reliability of our operations, and decreasing the frequency of plant stoppages.

Our investments are focused on maintaining the operability and improving the flexibility of our refineries, increasing the reliability of our operations, optimizing time and costs, complying with the regulations applicable to the sector, guaranteeing the safe and reliable operation of the transportation system by the Norperuano Pipeline, ensuring the maintenance of the facilities and equipment and improving the profitability of our business. Among the main investments made this year are the construction of barges for the transport of crude and products in the Iquitos Refinery; the maintenance of the Talara Refinery’s equipment that will be incorporated in the new refinery; the construction of tanks in the Conchán, Talara and Iquitos refineries and sales plants; and property investment in the Norperuano Pipeline, such as automatic valves, transmission posts and pressure sensors, as well as for their rehabilitation and maintenance. See “—Capital Expenditures and Investments—Investment in Existing Facilities—Investments in Existing Facilities.” In 2018, we made a series of investments in the maintenance and operation of our refineries. Key among those was the expansion of storage capacity for crude and other products and the replacement of equipment in the refineries.

Market Risk Analysis

We are exposed to market risk from changes in interest rates, exchange rates and commodity prices. Through the various arrangements contemplated in our new hedging policy described below, we intend to hedge these risks. When we enter into hedging arrangements, however, we may experience losses due to fluctuations in the underlying market rates and prices. While no hedging policy will completely cover all risks, our hedging policy seeks to mitigate foreign currency, interest rate and commodity price risk.

In 2013, we began to implement measures intended to mitigate market risk, beginning with the approval of our Corporate Policy for the Management of Market Risk (*Política Corporativa para la Gestión de Riesgos del Mercado*). This policy contemplates the use of financial derivative instruments in certain limited respects to hedge market risk but not for speculation.

In 2018, we adopted our hedging manual (*Guía Manual de Coberturas*) and our limitations on exposure to market risk and created a committee on hedging of exchange rate and interest rate risk (*Comité de Cobertura de los riesgos asociados a la fluctuaciones del Tipo de Cambio y Tasa de Interés*, or “COTCTI”) and a committee on hedging commodity price risk (*Comité de Cobertura de los riesgos asociados a las fluctuaciones de Precios de Commodities*, or “COPRECO”). We also approved regulations to govern each of these committees. These committees develop and implement our hedging strategies to mitigate exchange rate, interest rate and commodity price risk. In particular, COPRECO consists of representatives from our finance, corporate planning and other departments directly related to the sales, refining and commercialization process. The members of this committee are proposed by our finance manager and approved by our General Manager. This committee approves our hedging strategy for commodity price risk and makes recommendations to ensure that the hedging strategy remains aligned with our risk tolerance.

In 2019, we joined COTCTI and COPRECO and created a financial risk committee (*Comité de Riesgo Financiero*) that consists of representatives from our finance, planning, supply chain and other departments directly related to the sales, refining and commercialization process. The members of this committee are proposed by our finance manager and approved by our General Manager. This committee develops, approves our hedging strategy and makes recommendations to ensure that the hedging strategy remains aligned with our risk tolerance.

Exchange rate risk

Exchange rate risk refers to the possibility that we could have losses as a result of fluctuations in foreign exchange rates. Exchange rate risk arises from our future commercial transactions and recognized values of our assets and liabilities. The cost of crude and other Intermediate Products we use as raw materials are in dollars. In addition, currency variations also affect the payments we receive from our customers for products sold. For further discussion on the impact of currency fluctuations on oil prices, see “—Commodity price risk.” We also have assets and liabilities denominated in both *soles* and foreign currencies. Consequently, fluctuations in the rate of exchange between the *sol* and these foreign currencies may affect our results of operations and period-to-period comparisons of our operating results. For example, if the value of the U.S. dollar were to decrease relative to a given foreign currency, then our liability under debt denominated in that foreign currency would increase when we convert the value of that debt into U.S. dollars.

Our currency hedging strategy is intended to reduce the mismatch between our collections, which are denominated in *soles* indexed to the U.S. dollar and our commercial and financial obligations, including local purchases of crude and imports of crude derivative products, which are denominated in U.S. dollars. We enter into FX forwards to mitigate our exposure to this risk. In the first quarter of 2020, we executed foreign exchange forward transactions for U.S.\$305 million and in the third quarter of 2020, we executed foreign exchange forward transactions for U.S.\$70 million. The average term of these forward transactions was 55 days and the longest term was 165 days. As a result, 19 of these forward transactions, corresponding to an aggregate U.S.\$11 million, had been liquidated as of September 30, 2020. The non-liquidated forwards represent earnings of U.S.\$0.8 million as of September 30, 2020.

Interest rate risk

Interest rate risk arises from the possibility that we could incur losses as a result of interest rate fluctuations which would increase financial expenses, especially expenses from our loans. Our interest rate risk arises principally from borrowing at variable rates which would expose us to cash flow interest rate risk. We are also exposed to interest

rate risk on our fixed rate debt with respect to the fair value of our liabilities, but we believe that the fair value interest rate risk is not significant because interest rates applied to our financing agreements do not differ significantly from market rates, which are available to us for similar financial instruments.

Our policy is to maintain all of our loans in financial instruments accruing interest at fixed rates. As of September 30, 2020 and December 31, 2019, all of our short-term and long-term debt was subject to fixed rates. We intend to continue to analyze the relevant exchange rate and interest rate risks and enter into hedges that we deem appropriate.

Commodity price risk

We are exposed to changes in the price of crude and Intermediate Products used in the refining process, which we purchase at market rates based on a variety of international benchmarks. For a more detailed discussion of the pricing of crude and Intermediate Products, see “—Factors Affecting Our Results of Operations—Our cost structure.”

Historically, the government of Peru has effectively provided a limited hedge of commodity price risk through the Fuel Price Stabilization Fund, which stabilizes the price of certain fuel products for consumers. We receive compensation from and make contributions to the Fuel Price Stabilization Fund when international prices for covered products fall outside of the price band set by OSINERGMIN. The Fuel Price Stabilization Fund was created in 2004 pursuant to Urgency Decree No. 010-2004 to prevent the volatility of crude prices and their derivatives from being transferred to Peruvian consumers and to stabilize the prices of a variety of hydrocarbons sold to end users. Currently, the Fuel Price Stabilization Fund applies to LPG distributed in cylinders, diesel B5 for vehicular use, diesel B5 for electricity generation in isolated electrical systems and industrial petroleum 6 for electricity generation in isolated electrical systems; however, pursuant to Supreme Decree No. 007-2020-EM, beginning on April 28, 2020, the only product subject to the Fuel Price Stabilization Fund will be industrial oil 6 used for electric generation in isolated electrical systems. For a more detailed discussion of the Fuel Price Stabilization Fund, see “Business—Production and Trading Segment—Transportation and distribution of refined products to our customers—Pricing strategy” and “Risk Factors—Risks Related to Our Operations—The Peruvian government may fail to make payments pursuant to the Fuel Price Stabilization Fund.”

In addition, we periodically review our policies and hedging strategies in an effort to decrease our exposure to commodity risk. Our hedging strategy follows the following important principles:

- We identify the nature of the risk by identifying the commodity to whose price fluctuations we are exposed, the size of the exposure and the time period during which we are exposed to the risk. In our case, this time period is the time between the purchase of crude and the sale of refined products.
- We evaluate the methods for determining the purchase price of crude and the sales prices of our refined products, including physical variables such as the availability of terminals, storage capacity and our own production.
- Our exposure to risk is determined by the physical volume of crude, which is purchased at a known price but will be sold after refining at an unknown price.
- Our hedging strategy consists of maintaining an “inventory” of derivatives with a value equal to that of our exposed physical inventory.
- Our hedges should be entered into as cash flow hedges that seek to protect the value of a future cash flow (income or expense) from variations in the market.

Since the implementation of our hedging strategy, we began to purchase in-the-money put options with tenors of up to 90 days, and we are considering expanding our hedging strategy to contemplate other instruments such as swaps and time spread swaps intended to mitigate our exposure to the volatility of crude prices. As of December 31, 2019, we had entered into ISDA agreements with eight counterparties and had agreed not to post collateral on any future trades; however, we temporarily ceased this practice in 2020 to protect our liquidity as a result of the COVID-19 pandemic and as of September 30, 2019, we had no hedging arrangements in place.

In addition to the hedging instruments mentioned above, we enter into agreements with crude suppliers and manufacturers throughout Peru that contemplate minimizing price risk exposure on a medium- and long-term basis through price agreements related to a basket of crude or a price formula based on certain projections. We also use international public tenders to receive competitive prices when purchasing crude.

BUSINESS

Overview

We are the largest hydrocarbon producer in Peru in terms of revenue and the largest single enterprise wholly-owned by the Peruvian sovereign. We are also Peru's second-largest refiner in terms of refining capacity and form a critical part of the country's energy infrastructure and economy. We have the largest distribution network for crude oil and refined products in Peru and the sole provider of refined petroleum products to certain areas of Peru, as well as to the Peruvian military and the national police force. We are also the owner and operator of Peru's main oil pipeline, known as the "Norperuano Pipeline," which connects the crude oil production fields in the northern rainforest of Peru with our facilities in the Port of Bayóvar near our Talara Refinery. Since 1995, we have been the concessionaire of the Norperuano Pipeline, upon signing the Definitive Concession Contract for the Transportation of Liquid Hydrocarbons by the ONP and ORN (the "Definitive Concession Contract") with the General Hydrocarbons Directorate of the Ministry of Energy and Mines. In addition, we own five refineries in Peru as well as distribution terminals, sales plants and offshore production assets.

Our business is comprised primarily of midstream and downstream petroleum activities, including:

- the refining and blending of crude and intermediate hydrocarbon products (such as cracked naphtha, high octane gasoline and medium distillates for blending);
- the distribution and sale of refined products (including diesel, automotive gasoline, LPG, industrial oil and asphalts) through our wholesale distributors and associated retail service stations and direct sales;
- the transportation of crude through the Norperuano Pipeline; and
- the leasing of certain of our facilities to third parties.

In the nine-month period ended September 30, 2020 and in the year ended December 31, 2019, our total gross revenue was U.S.\$2,256.9 million and U.S.\$4,668.0 million, our gross profit was U.S.\$136.3 million and U.S.\$528.1 million and our Adjusted EBITDA was U.S.\$45.4 million and U.S.\$394.5 million, respectively. For a reconciliation of Adjusted EBITDA to profit, see "Presentation of Financial and Statistical Information—Special Note Regarding Non-IFRS Financial Measures." In the nine-month period ended September 30, 2020 and in the year ended December 31, 2019, our total revenue was U.S.\$2,199.2 million and U.S.\$4,568.3 million and revenue sold was 117 KBPD and 144 KBPD, and our total refining capacity was 27.5 KBPD and 94.5 KBPD, respectively.

Additional principal financial indicators for our business are set forth below for the periods indicated:

	Nine-Month Period Ended September 30,		Year Ended December 31,	
	2020	2019	2019	2018
<i>(U.S.\$ in millions, except percentages and production data)</i>				
Revenue ⁽¹⁾	2,199.2	3,449.3	4,568.3	4,884.0
Total gross revenue ⁽¹⁾	2,256.9	3,511.8	4,668.0	4,965.1
Gross profit ⁽²⁾	136.3	397.9	528.1	347.5
Total comprehensive income (loss) for the period	(116.6)	145.1	171.0	119.7
EBITDA	(52.1)	308.7	403.4	263.5
Adjusted EBITDA ⁽³⁾	45.4	302.4	394.5	168.1
Adjusted EBITDA Margin (%) ⁽³⁾	2.0%	8.6%	8.5%	3.4%
Refined products (KBPD) ⁽⁴⁾	18.0	99.8	99.2	110.4
Refining margin (U.S.\$ per barrel) ⁽⁵⁾	12.90	6.10	5.93	2.28
Total assets	7,004.0	6,920.8	7,087.0	7,344.0
Total liabilities	5,212	5,178.8	5,178.8	5,606.7
Total debt	4,463	4,163	4,164	4,821

(1) Revenue reflects income from sales of refined products generated by our production and trading segment. Total gross revenue means our revenue plus our other operating revenue.

(2) Means total gross revenue minus cost of sales.

(3) See "Presentation of Financial and Statistical Information—Special Note Regarding Non-IFRS Financial Measures."

(4) Total amount of refined products produced by one complete cycle of the refining process. See "Business—Production and Trading Segment—Our refineries—Capacity, production and utilization."

(5) Means the difference between the price of crude oil purchased for our refining operations and the price of our refined products produced from such crude.

For selected financial and other data as of September 30, 2020 and for the nine-month periods ended September 30, 2020 and September 30, 2019, and for a discussion of our financial condition as of September 30, 2020 and results of operations for the nine-month periods ended September 30, 2020 and September 30, 2019, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our business consists of three principal operating segments:

- petroleum production and trading;
- leased and privatized units; and
- oil pipeline operations.

Our production and trading segment is our largest, accounting for 98.3% and 98.3% of our total gross revenue in the nine-month period ended September 30, 2020 and 2019, respectively, and accounted for 98.1% and 97.0% of our total gross revenue in the year ended December 31, 2019 and 2018, respectively. Our leased and privatized units segment accounted for 0.8% and 0.9% of our total gross revenue in the nine-month period ended September 30, 2020 and 2019, respectively, and accounted for 0.9% and 0.9% of our total gross revenue in the years ended December 31, 2019 and 2018, respectively. Our oil pipeline operations segment accounted for 0.84% and 0.83% of our total gross revenue in the nine-month period ended September 30, 2020 and 2019, respectively, and accounted for 1.0% and 2.1% of our total gross revenue in the years ended December 31, 2019 and 2018, respectively.

We sell our refined products primarily in Peru (domestic sales represented 91.2% and 88.8% of our total gross revenue in the nine-month period ended September 30, 2020 and 2019, respectively, and accounted for 89.7% and 89.5% of our revenue in the years ended December 31, 2019 and 2018, respectively), and we also sell some of our refined products internationally (international sales represented 8.8% and 11.2% of our total gross revenue in the nine-month period ended September 30, 2020 and 2019, respectively, and accounted for 10.3% and 10.54% of our revenue in the years ended December 31, 2019 and 2018, respectively). We currently purchase all of the crude that we refine and, accordingly, our business focuses on transporting crude to certain of our refineries, refining the crude and distributing our refined products throughout Peru and internationally.

We own and operate the Norperuano Pipeline, Peru’s main crude transportation pipeline. In addition, according to our internal data, as of September 30, 2020, we had a 20.0% share of the oil refining market in Peru as measured by installed refining capacity. As of September 30, 2020, 77.1% of the total facilities in Peru for the distribution of refined products and 12.8% of the total retail service stations in Peru purchased refined products exclusively from us, according to data obtained from OSINERGMIN. In 2019, we had a 48.0% share of the market for the sale of refined petroleum products in Peru, based on our sales data and information obtained from the MEM. We also lease our offshore production assets to Savia Peru.

As part of the Peruvian government’s national initiative to increase our petroleum refining capacity, improve our margins and reduce the environmental impact of our products and operations, we are upgrading our largest refinery, the Talara Refinery. Following completion of the Talara Refinery Modernization Project, we believe that the Talara Refinery will be the most technologically advanced and sustainable refinery in Peru. The Talara Refinery Modernization Project is an engineering megaproject that consists of installing new processing units, industrial services and facilities designed to allow us to produce refined fuel products in accordance with the technical and environmental standards set forth in Law No. 28694 and to produce greater volumes of higher value-added products. See “—Talara Refinery Modernization Project.”

We do not currently engage in the exploration and production of crude, but we expect to do so starting with the future in Block 64 and/or Block 192. We do not expect to begin petroleum extraction from Block 192 until the second quarter of 2021 and Block 64 until 2025. Though Law No. 30130 limits our ability to invest in new projects, we are permitted to engage in certain exploration and production projects pursuant to certain legal exceptions and independent authorizations. See “Business—Potential Future Exploration and Oil Production” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures and Investments—Investment in existing facilities.”

Competitive Strengths

We have an excellent track record in refining operations

We have consistently and reliably delivered fuel to the Peruvian market for over 50 years. Our Talara, Conchán and Iquitos refineries are certified in compliance with the quality, environment and health and safety standards established by the ISO 9001, ISO 14001 and ISO 45001 standards. This has been due to our implementation in 2017 of an Integrated Corporate Management System at those refineries. In addition, we have been certified for four consecutive years for compliance with the Equator Principles and the International Finance Corporation (IFC) Environmental and Social Performance Standards, which endorse our environmental performance during the Talara Refinery Modernization Project. Likewise, we have successfully verified our greenhouse gas emissions (GHG) inventories from 2013 to September 30, 2020, demonstrating our commitment to monitoring and controlling the emissions resulting from its activities. While in 2020, the Talara Refinery was not in operation due to the development of the Project, in 2019, the Talara Refinery operated at an average utilization rate of 78.7% in its atmospheric distillation unit, 81.5% in its vacuum distillation unit and 84.6% in its catalytic cracking unit.

We receive support from the Peruvian government

We are wholly owned by Peru, which has demonstrated support for the Talara Refinery Modernization Project and has made a substantial capital contribution of S/1,056 million (U.S.\$325.0 million) to help us finance the Project.

In addition, pursuant to Legislative Decree No. 1292, enacted on December 29, 2016, the Peruvian government demonstrated its support to our company by implementing policies designed to (i) ensure the reliability of the supply of hydrocarbons to the domestic market through the safe operation of the Norperuano Pipeline, (ii) promote the development of hydrocarbon activities in Peru and (iii) strengthen our company and maximize its value through a corporate modernization and reorganization.

Furthermore, pursuant to Law No. 30130 and its implementing regulations, Peru, acting through the MEF, has been authorized to irrevocably guarantee the due and punctual payment of our financial liabilities incurred in connection with up to a total of U.S.\$1,000 million and no more than five payments of up to U.S.\$200.0 million per year. Neither the Notes nor any of our debt securities, however, are or will be guaranteed by Peru or benefit from any other type of credit support. Under Law No. 30130, the guarantee is created through an independent agreement entered into between the applicable creditors and MEF, subject to the issuance of a report (*informe previo*) from the *Contraloría General de la República*. As of December 31, 2020, this guarantee has not been triggered. See “Description of the Notes—Covenants—Limitations on Issuance of Securities Benefiting from a Sovereign Guarantee.”

More recently, due to the potential impact of the COVID-19 pandemic on the Peruvian economy, the executive branch of Peru enacted Emergency Decree 033/2020 on March 27, 2020, by which it permits Banco de la Nación to provide financial assistance to us and other state-owned companies during 2020. As of the date of this offering memorandum, Banco de la Nación has granted two credit lines with a 0.74% rate as part of this program in favor of Petroperu for the sum of S/100 million and S/90 million on May 25, 2020 (expiring on May 25, 2021) and June 2, 2020 (expiring on May 27, 2021), respectively. The financing obtained from Banco de la Nación does not establish any restrictions or limitations on the issuance of the bonds (*i.e.*, debt ratios, prohibitions on the development of its activities or restrictions on incurring new debt).

We are geographically diverse and a market leader in the Peruvian refinery industry

We have strategic, high-quality distribution operations in Lima and throughout Peru, which allow us to supply our products to customers in certain areas of northern and eastern Peru that our competitors do not reach. As of September 30, 2020, and in the year ended December 31, 2019, we had a 44.3% and 43.8% market share in the sale of refined petroleum products in Peru, according to our sales data and information obtained from the MEM. Our Talara Refinery is the second-largest refinery by refining capacity in Peru, and we believe it is a key asset in meeting growing domestic demand for refined products in the country. Once the Talara Refinery Modernization Project is completed, we believe the Talara Refinery will be the most technologically advanced, environmentally responsible and resource-

efficient refinery in Peru. We also expect the Talara Refinery to have the capacity to refine heavy crude and we expect it to be one of only two refineries in Peru able to produce low-sulfur diesel.

There has been an increase in the number of vehicles in Peru in the last several years

Peru experienced a 7% compound annual growth in the number of vehicles circulating in the country between 2011 and 2014, which slowed down to a 4% compound annual growth rate between 2015 and 2019. As of December 31, 2019, the number of vehicles in circulation had increased to 3.0 million units. Furthermore, in 2019, total domestic demand for diesel increased by 3.0% over 2018, from 113.6 KBPD to 117.4 KBPD. Despite the fact that sales of new light and heavy vehicles experienced a 26% decrease in 2020 compared to 2019 mainly due to the effects of the COVID-19 pandemic, we expect new vehicle sales to resume its pre-COVID-19 growth considering the rate of new vehicle sales in the last quarter of 2020. We believe that, once the effects of the COVID-19 pandemic dissipate, the positive growth trend in the number of motor vehicles in Peru and the related demand for diesel will result in increased domestic demand for our refined products.

There are substantial barriers to entry for potential competitors

We have an extensive network for the transportation and distribution of refined products throughout Peru, including operating the main oil pipeline in Peru, five refineries and a wide-reaching network of distribution terminals and sales plants. We believe that our distribution network is significantly more extensive than that of our competitors and that this infrastructure allows us to serve the demand for our products in all areas of Peru at a lower cost than our competitors. We believe that the Norperuano Pipeline, which we operate, provides us with a significant competitive advantage, since our refining competitors do not own oil pipelines. In addition to the Norperuano Pipeline, we have substantial crude storage capacity in our Bayóvar Terminal, which allows us to be more flexible and to respond quicker to our refineries' needs for crude and makes us less susceptible to unfavorable weather conditions. In addition, we have been operating in this market for over 50 years, and we believe that we have developed a seasoned commercialization strategy and a favorable reputation with our customers.

Companies looking to compete against us in Peru would be confronted with substantial economic barriers to entry because it would be comparatively more expensive for them to transport and distribute products in Peru without making substantial investments to build a refinery and a transportation and distribution network. In addition, competing against us in the Peruvian oil refining industry would involve additional costs and investments in establishing these networks due to the size and complexity needed to meet Peru's demand for refined petroleum products and inventory requirement regulations. They would also face additional costs related to Peruvian environmental regulations and restrictions.

We have established relationships with our principal customers and are the exclusive supplier of refined products for some of them

We have established relationships with our principal customers. As of September 30, 2020, our main wholesale customers were Primax, Numay S.A. and Sociedad Minera Cerro Verde S.A.A., accounting, respectively, for 29.6%, 12.3% and 3.8% of our revenue of refined products by volume during the period. In 2019, our main wholesale customers were Primax, Numay S.A. and Sociedad Minera Cerro Verde S.A.A., accounting, respectively, for 30.8%, 9.5% and 3.0% of our revenue of refined products by volume in 2019. We have entered into three- to five-year sales contracts with our principal wholesale customers that enable us to maintain a steady stream of sales. The contract with Primax has a remaining term of seven years and either Primax or us can terminate the contract for any reason after February 5, 2021. We are currently negotiating an amendment to this contract with Primax and the terms of that amendment could be less favorable to us than the current contractual terms.

In addition to our wholesale customers, we sell our products to a variety of businesses that ultimately resell them to end consumers, including through the Petrored service stations, which represented 20.2% and 19.9% of our revenue for the nine-month periods ended September 30, 2020 and for the year ended December 31, 2019, respectively. The largest of these service stations by purchase volume, which has been our client for 13 years, has a three-year exclusivity agreement, renewable automatically for consecutive one-year periods. Our agreements with the other Petrored service stations have similar terms. Pursuant to these exclusivity agreements, in addition to selling our product, the Petrored service stations bear the Petroperu emblem and colors.

We also have long-term contracts with the Peruvian National Police (*Policía Nacional del Perú*) and have been the exclusive fuel supplier for Peru's Armed Forces (Navy, Army and Air Force) since our incorporation in 1969.

Our management consists of highly experienced and dedicated members of the public and private sectors

Our management team consists of qualified professionals with an average of more than 20 years of experience in transportation, refining, distribution and marketing of fuels. Our senior managers have extensive experience in both the public and private sectors in Peru. Several of our directors and officers have held managerial positions in the Peruvian public sector. See "Management."

We have a robust organizational model that responds well to challenges faced by our organization

Our organizational model is aligned with our strategic priorities and responds to the challenges faced by the organization, which has a dynamic and functional structure that allows for the creation of value and is oriented towards good corporate governance practices. For example, we have created the Compliance Office, which supervises the design, implementation and operation of our System for the Prevention of Asset Laundering and Financing of Terrorism (SPLAFT). In addition, our Compliance Office supervises the Internal Audit and Risk Body, which is an independent unit tasked with supervising and verifying our acts, processes and results and our compliance with established internal regulations in order to mitigate any identified risks, improve operations and meet our institutional objectives. The Compliance Office also implements and manages our Internal Control Systems, as well as the Information Security and Integral Risk Management functions of our company.

Business Strategies

Implement our Corporate Optimization Plan

We are undergoing a corporate modernization, as mandated by Law No. 30130. See "Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations." To assist with this mandate, the international consulting firm Wood Mackenzie evaluated our organization and formulated a strategic plan for us to implement a corporate modernization through 2030 that seeks to transform our company into an integrated, sustainable enterprise. On May 29, 2015, based on Wood Mackenzie's recommendations, our board of directors approved our Corporate Optimization Plan. This plan was then validated by the MEM on August 20, 2015, and in compliance with law, on May 13, 2016, the final report on the implementation of the Corporate Optimization Plan was sent to the MEM. Among other things, Wood Mackenzie recommended measures to:

- improve our corporate governance in line with international standards;
- promote the professional development of our personnel; and
- increase day-to-day administrative autonomy from the Peruvian government in our decision-making.

In line with the Corporate Optimization Plan, we have modified our organizational structure to increase efficiency and we expect that our modernized management structure will help us reduce costs by decreasing administrative and operating expenses. Further, the successful completion of the Project is expected to provide cost efficiencies and increase our margins in the long term by equipping the Talara Refinery to produce high-value-added refined products from low-cost raw materials through more-efficient production processes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Corporate modernization."

Complete the Talara Refinery Modernization Project on its current schedule to optimize the Talara Refinery operations

We expect that the successful implementation of the Talara Refinery Modernization Project will allow us to comply with environmental standards, increase the capacity and the utilization of the Talara Refinery and our efficiency, and promote collaboration among our refineries by using Talara Refinery's new hydrodesulfurization unit to refine diesel produced at our other refineries.

Currently, our refineries are not currently equipped to produce refined products that comply with environmental requirements. Specifically, we cannot obtain diesel with sufficiently low sulfur content (50 ppm) to be sold throughout the country, where sulfur content restrictions are in effect. We must export diesel we produce and import low-sulfur diesel to comply with these restrictions. For these reasons, since 2013, the Talara Refinery has not operated at its full diesel-producing capacity. Following completion of the Talara Refinery Modernization Project, we expect to be able to refine heavy crude and to produce low-sulfur diesel that complies with currently applicable environmental regulations. The hydrodesulfurization unit will have a processing capacity of 41 KBPD and will be able to receive and process up to 40,000 barrels per month of high sulfur diesel from the Conchán Refinery.

As of December 31, 2020, the Talara Refinery Modernization Project was 92.74% complete and entered the next phase of development, which consists of the implementation of the Auxiliary Services Units. Once the last auxiliary service unit begins construction (projected for the third quarter of 2021), the Project will enter into its final phase which will consist of the sequential implementation of the process units (projected for the last quarter of 2021). We expect the Project to complete its contractual phase in September 2022.

The completion of the Project is expected to bring the Talara Refinery into full compliance with applicable environmental requirements and equip the Talara Refinery to operate at full diesel-production capacity. See “Business—Talara Refinery Modernization Project.”

Generate more predictable cash flows and increase our margins to gradually deleverage our company through the expansion of our Talara Refinery

Following completion of the Talara Refinery Modernization Project, we expect to be able to refine heavy crude and to produce low-sulfur diesel that complies with currently applicable environmental regulations. Accordingly, we expect to increase domestically produced heavy crude as well as produce low-sulfur diesel and high-value-added refined products, which we expect will give greater flexibility to our refining operations and improve our margins. We also believe that an increase in the Talara Refinery’s refining capacity will allow us to better serve fuel demand in Peru.

Additionally, we expect the Project will improve our margins by allowing us to process the less-expensive heavy crude into high-value-added refined products and to further reduce our exposure to exchange rate risks and to crude price fluctuations by reducing our need to import light crude and low-sulfur diesel and allowing us to avoid the volatility of the international markets of crude and Intermediate Products.

Furthermore, we expect the completion of the Talara Refinery Modernization Project to result in an increase in cash flows, mainly through a combination of additional revenues and better refining margins, which we believe will allow us to gradually and sustainably deleverage our company.

Increase and maintain market share in gasoline sales through optimizing wholesale and direct sales channels

Our aim is to reach and maintain a 65.0% market share of the gasoline market in Peru through our wholesale and direct sales channels. We have expanded our access to Petrored, from 654 service stations in 2019 to 662 as of September 30, 2020, by entering into exclusivity arrangements with additional gas stations, and we also plan to revise our commercial and discount policies to strengthen our sales. In 2019, we increased gasoline sales made through wholesalers and direct sales by 1.0% from 2018 to 33.1 KBPD, representing a market share of 64.0% in 2019. In the nine-month period ended September 30, 2020, our total sales of gasoline was 24 KBPD, or 65.0% of domestic demand. See “Business—Production and Trading Segment—Principal customers of our refined products—Direct Sales.”

Use vertical integration to maximize the value of our company

We engage in the midstream activities of the hydrocarbon refining process: transportation, refining and distribution. Because we do not currently engage in the exploration and production of crude, we must purchase all of the crude we refine from domestic producers and in the international market either at negotiated prices pegged to the prices of certain international benchmarks or at spot market prices. To maximize value and reduce dependence on oil produced by third parties, we began exploration and production activities in 2017, which we believe will help further the vertical integration of our operations. We expect to enter into a license arrangement with an operating partner for

the exploration and production of crude at Block 192. See “Business—Potential Future Exploration and Oil Production.”

Maintain compliance with international quality, environmental, health and safety standards

In November 2019, our SIG-C performed a maintenance audit that resulted in our decision to migrate to the ISO 45001:2018 standard, replacing the OHSAS 18001:2007 standard and expanding the scope of the quality management system, which now includes supervision over the export of crude oil and derivatives from refineries. The SIG-C has enabled us to standardize, simplify, optimize and enhance the efficacy and effectiveness of all our operational and administrative processes, using existing synergies to reduce duplication of functions, responsibilities, documents and resources.

As a result, SGS del Perú issued a recommendation for recertification after we successfully met the requirements of its external audit. We have also been certified in the Quality Management System ISO 9001:2015, Environmental Management System ISO 14001:2015 and Occupational Health and Safety Management System ISO 45001:2018. Furthermore, the APN has granted us certification of the Port Facilities of Talara, Norperuano Oil Pipeline, Conchán and Iquitos with the Code PBIP/IPE/RED 10-2007, and our Talara, Conchán and Iquitos refineries comply with the quality, environment and health and safety standards established by the ISO 9001, ISO 14001 and ISO 45001 standards. Moreover, our laboratory at the Talara Refinery is ISO 17025 certified for 12 different test methods.

We believe that our focus on compliance with international quality, environmental health and safety standards, including obtaining and renewing ISO certifications, add value to our operations by enhancing our credibility, allowing us to meet the social and environmental responsibility requirements of the mining industry and providing more and broader access to markets and suppliers. ISO are international standards whose compliance is strictly voluntary. Some of these standards have become binding through their incorporation into Peruvian law, such as Law No. 27943 (National Port System Law), which requires port operators to comply with ISO 9001 standards and Law No. 29783 (Health and Safety Law at Work), which requires all companies to establish systems to promote health and safety at work. See “Regulatory Framework—Environmental Matters.”

History

We are a state-owned corporation subject to private law, incorporated as a corporation under the laws of Peru on December 9, 1981, pursuant to Supreme Decree No. 034-81-EM/DGM. Our current corporate bylaws were approved by our general board of shareholders on October 18, 2010. Peru is the sole owner of 100.0% of our capital stock, which consists of Class A (80.0% of our total capital stock) and Class B shares (20.0% of our total capital stock). Pursuant to our bylaws, only our Class B shares are required to be registered in the Public Registry of Capital Markets of the SMV and have been registered since April 27, 2010 in accordance with Legislative Decree No. 1031. We are, therefore, under the supervision of the SMV.

At the general shareholders’ meeting held on January 14, 2017, the shareholders approved a capital increase of U.S.\$316.4 million (an equivalent of S/1,056.0 million), which was contributed from our company’s additional capital. Furthermore, at the general shareholders’ meeting held on April 18, 2017, our sole shareholder approved a capital increase of U.S.\$121.4 million (an equivalent of S/406.7 million), which was increased by transferring the balance of additional capital. On August 14, 2017, we announced that such capital increase was registered in the Peruvian’s Public Registry. At the general shareholders’ meeting held on June 27, 2018, our sole shareholder approved a capital increase of U.S.\$166.6 million (equivalent to S/520.7 million), which was increased by transferring the balance of additional capital. At the general shareholders’ meeting held on March 29, 2019, our sole shareholder approved a capital increase of U.S.\$107.6 million (equivalent to S/402.5 million), which was increased by transferring the additional capital balance.

Pursuant to Law No. 30130, we are authorized to publicly sell or issue voting shares representing up to 49.0% of our company’s stock through an initial public offer, which we will carry out when the new Talara refinery has reached a stable and adequate integration into our operations. The incorporation of minority private shareholders would guarantee the incorporation of corporate governance policies that aim at efficiency, opportunity and value generation within the management of our company.

In carrying out our corporate purpose, we act with economic, financial and administrative autonomy and in accordance with our objectives, policies and strategies, which are approved by the MEF and the MEM. As an example of our compliance with the principles of good corporate governance, during 2019, we obtained a Good Corporate Governance index of 83.7%, surpassing the target of 80.0% for the same year.

During 2019 and 2020, our company has been executing corporate action plans to achieve the economic and financial objectives of our company, whose main measures are aimed at optimizing the cost structure in the purchase of raw materials and products, strategies in commercial management, operational management, inventory management and budget optimization plan of operating expenses and prioritization of investments.

Production and Trading Segment

Production and trading is our largest segment and involves the process of refining crude and selling refined products. For the nine-month period ended September 30, 2020, our production and trading segment accounted for 98.3% of our total gross revenue and all of our gross profit, compared to 98.2% of our total gross revenue and 92.1% of our gross profit for the nine-month period ended September 30, 2019. Revenue from our production and trading segment decreased by 35.7%, to U.S.\$2,219 million for the nine-month period ended September 30, 2020 from U.S.\$3,451 million for the nine-month period ended September 30, 2019, primarily as a result of decreased sales caused by a global decrease in economic activity and consumption as a result of the COVID-19 pandemic. In the nine-month period ended September 30, 2020, our average sales price decreased by 21.3%, our average purchase price decreased by 41.8% and our average inventory price decreased by 39.5%, in each case as compared to the nine-month period ended September 30, 2019. Moreover, our sales volume decreased by 19.0% and our purchase volume decreased by 17.7% in the nine-month period ended September 30, 2020 relative to the nine-month period ended September 30, 2019. These variations in sales and purchase volume caused a corresponding decrease in our inventory volume. Thus, while decreasing oil prices decreased our average purchase price, our average sales price decreased, which decreased the profits of our production and trading segment.

Our refining activity takes place at three of our five refineries: Talara, Conchán and Iquitos (also known as Selva). In 2019, our Talara, Conchán and Iquitos refineries represented approximately 76.9%, 10.3% and 12.8% of our utilized refining capacity, respectively. In 2018, these refineries represented approximately 76.1%, 10.7% and 13.2% of our utilized refining capacity, respectively. In 2017, these refineries represented approximately 78.6%, 9.9% and 11.5% of our utilized refining capacity, respectively. In 2019, these refineries operated at utilization rates of 78.7%, 44.0% and 71.1%, respectively, with an average utilization rate of 70.4%. In 2018, these refineries operated at utilization rates of 78.8%, 46.6% and 74.2%, respectively, with an average utilization rate of 71.3%. In 2017, these refineries operated at utilization rates of 83.8%, 44.2% and 66.7%, respectively, with an average utilization rate of 73.4%. Until January 2015, we also carried out refining activity at El Milagro. We suspended operations at our El Milagro Refinery in January 2015 because significant decreases in crude production levels in the region, increases in the price of local crude relative to international crude and decreases in freight costs for road transport have made it unprofitable to continue operating this refinery. On February 20, 2020, through Board Agreement No. AD-021-2020-PP, we definitively ceased operations at the El Milagro Refinery because its operation was not profitable. Demand in the region surrounding the El Milagro Refinery is being satisfied by delivering products from the Talara Refinery. Pucallpa, our fifth refinery, was previously on lease for a 10-year period, through March 29, 2024, to Maple Gas; however, this lease was terminated on August 21, 2019 after we formalized the contract termination with Maple Gas due to failure by Maple Gas to make lease payments and breach of contract. We initiated arbitration proceedings against Maple Gas to recover all of the Pucallpa installations (Pucallpa Refinery and Pucallpa Sales Plant) and received a favorable decision in October 2020. See “Business—Production and Trading Segment—Our refineries—Pucallpa Refinery.”

Our refineries process domestic and international crude purchased from third parties. In the nine-month period ended September 30, 2020, 96.9% and 3.1%, respectively, of the crude we processed was of domestic and international origin. In 2019, 67.3% and 32.7% of the crude we processed was of domestic and international origin, respectively. In 2018, 67.0% and 33.0% was of domestic and international origin, respectively. Finally, in 2017, 63.0% and 37.0% was of domestic and international origin, respectively. Following the completion of the Talara Refinery Modernization Project, we expect to be able to process a higher percentage of the less-expensive domestic crude, which we expect to have a positive impact on our margins. Our ability to purchase more of this less-expensive crude once the Talara Refinery Modernization Project is completed will depend on the continued availability of such crude at favorable prices.

We distribute and sell our refined products domestically and some of them internationally. We produced 48.1 KBPD and 99.8 KBPD of refined products and Intermediate Products in the nine-month periods ended September 30, 2020 and 2019, respectively, and distributed 86.8 KBPD and 124.2 KBPD of refined products and Intermediate Products to the Peruvian market in the nine-month periods ended September 30, 2020 and 2019, respectively. Of the total volume of refined products and Intermediate Products we distributed, 39.8 KBPD and 37.1 KBPD consisted of ultra-low-sulfur diesel in the nine-month periods ended September 30, 2020 and 2019, respectively, which we imported directly through two of our distribution terminals to satisfy local demand for diesel B5 S50. For the year ended December 31, 2019 and 2018, we produced 99.2 KBPD and 103.4 KBPD of refined products and Intermediate Products, respectively, and distributed 118.3 KBPD and 123.7 KBPD of refined products and Intermediate Products to the Peruvian market, respectively. Of the total amount of refined products and Intermediate Products we distributed, 37.1 KBPD and 50.2 KBPD consisted of ultra-low-sulfur diesel in the years ended December 31, 2019 and 2018, respectively. In particular, due to the technical and environmental standards set forth in Law No. 28694, in the short term, limitations on the sale of high-sulfur diesel may require us to limit our refinery utilization rate and to suspend operations at our refineries for a few days each month to avoid producing an excess of high-sulfur diesel. Until the Talara Refinery Modernization Project is completed, this may have an economic impact on our operations with respect to the commercialization of diesel. See “Risk Factors—Risks Related to Our Operations—Our business and the Talara Refinery Modernization Project are subject to stringent environmental and safety regulations.”

Our production and trading segment operates through a nationwide network of transportation, storage and distribution facilities. These facilities, which serve all of Peru’s territory, include distribution terminals, sales plants and tank farms. Each of our refineries serves a specific geographic area, which we refer to as the refinery’s “area of influence,” through distribution terminals located near the coast and through sales plants connected to the refineries or located in the highlands and in the rainforest. There are 10 distribution terminals across the Peruvian coast divided into three zones: (i) North Zone: Eten, Salaverry, Chimbote and Supe Terminals; (ii) Central Zone: Callao Terminal; and (iii) South Zone: Pisco, Mollendo and Ilo Terminals and Cusco and Juliaca Sales Plants. As of December 31, 2019, the distribution terminals in the North and Central Zones were operated by third parties. As of November 2, 2019, the South Zone was operated by third parties. Since November 3, 2019, Petroperu is operating the terminals directly. For information on storage capacity and a map showing the location of our terminals and sales plants see “—Transportation and distribution of refined products to our customers.”

Our products

Our refined products include diesel, gasoline, LPG, industrial oil, jet fuel and industrial solvents, with diesel and gasoline being our top-selling products in terms of revenue and sales volume. We also engage in some blending activity, primarily using biodiesel and ethanol, to bring our refined products to compliance with regulatory quality requirements. We purchase certain Intermediate Products, such as high-octane gasoline and middle distillate blend stock, which we blend with our refineries’ products to produce the fuel products that meet the necessary regulations. This blending activity is factored into our refining margin. For the nine-month periods ended September 30, 2020 and 2019, we purchased 58.0 KBPD and 63.0 KBPD, respectively, of Intermediate Products for blending. During the years ended December 31, 2019 and 2018, we purchased 62.8 KBPD and 75.7 KBPD, respectively, of Intermediate Products for blending.

The following discussion includes estimates of total domestic demand based on reports by MEM through DGH; and other market statistics based on information reported by the SMV.

Diesel. Diesel is the most highly consumed refined fuel product in Peru, representing 45.9% and 44.5% of total domestic demand for refined fuel products as of September 30, 2020 and December 31, 2019, respectively. Approximately 63.0% of the domestic demand for diesel represented retail demand for vehicular use as of September 30, 2020 and December 31, 2019, respectively. The remainder of diesel demand is typically generated by industries such as fishing, mining, construction and manufacturing. Domestic demand for diesel has increased significantly since 2005 as a result of the increase in Peru’s GDP and the related increase in the number of automobiles. In 2016, Relapsa began production of low-sulfur diesel. However, because most domestic refineries do not produce any low-sulfur diesel to fulfill this demand, the increase has been primarily fulfilled through an increase in imports.

In the nine-month period ended September 30, 2020, total domestic demand for diesel decreased 22.6% from the nine-month period ended September 30, 2019 to 89 KBPD and we supplied 49 KBPD, or 55.6% of this demand. In the nine-month period ended September 30, 2020, total domestic demand for low-sulfur diesel decreased 20.0%

from the nine-month period ended September 30, 2019 to 83 KBPD and we supplied 44 KBPD, or 52.9% of this demand.

In 2019, total domestic demand for diesel increased 3.3% compared to 2018 to 117 KBPD and we supplied 64 KBPD, or 54.4% of this demand. In 2019, total domestic demand for low-sulfur diesel increased 3.4% compared to 2018 to 107 KBPD and we supplied 53 KBPD, or 49.9% of this demand. In 2018, total domestic demand for diesel did not increase from the year ended December 31, 2017 at 114 KBPD and we supplied 67 KBPD, or 59.3% of this demand. In the year ended December 31, 2018, total domestic demand for low-sulfur diesel increased 5.6% from the year ended December 31, 2017 to 103 KBPD and we supplied 57 KBPD, or 55.3% of this demand. We believe that the increase in demand for diesel in Peru was a result of increased consumption of diesel for the mining industry in the southern and central parts of Peru, the release of purchase and consumption quotas under the special IQBF regime (mainly in the Madre de Dios area) and consumption growth in the transportation sector. In 2019 and 2020, the remainder of the domestic demand for diesel and low-sulfur diesel was supplied by Relapasa, ExxonMobil del Perú S.R.L., Phoeninca Perú S.R.L. and Pluspetrol.

LPG. LPG represented 27.7% and 24.1% of total domestic demand for refined fuel products in Peru as of September 30, 2020 and in 2019, respectively, and is used in homes, for transportation and for industrial uses. Domestic demand for LPG has also increased consistently since 2010, and it exceeded 54 KBPD and 63 KBPD for the nine-month period ended September 30, 2020 and the year ended December 31, 2019. This increase in demand resulted primarily from the growth in domestic consumption. Gas del Perú S.A. and Gas Natural de Lima y Callao S.A. – Cálidda is in charge of transportation to the coast and distribution in the department of Lima and the constitutional province of Callao. Other natural gas distribution concessionaires in other departments of Peru are currently developing their distribution infrastructure, but we do not expect a significant effect on us given their lack of infrastructure and distribution logistics of LPG. The Gasoducto Surperuano, another natural gas pipeline which is currently in its redesign phase (and it is still unclear when construction will begin), is expected to supply natural gas to the southern part of Peru. We do not expect it to directly compete with our business when completed because of its location and its limitation to exclusively transporting natural gas. However, the consumption of LPG by households could be replaced with natural gas in the medium or long term, yet this might not be representative for the market of LPG in Peru.

In 2019, we supplied nine KBPD of LPG to the domestic market, accounting for 13.5% of the total demand for this product. In 2018, we supplied 10 KBPD of LPG to the domestic market, accounting for 16.7% of the total demand for this product. For the nine-month period ended September 30, 2020, we supplied six KBPD, accounting for a total of 11.3% of the 54 KBPD market for LPG. For the nine-month period ended September 30, 2019, we supplied 8 KBPD, accounting for a total of 12.9% of the 63 KBPD market for LPG. The remainder of the demand was supplied by Pluspetrol and Abastible Gas Perú S.A.C.

Gasoline. As of September 30, 2020, gasoline represented 19.4% of the total domestic demand for refined fuel products in Peru, while in 2019 and 2018, gasoline represented 19.6% of the total domestic demand for refined fuel products. The national market consumes 84-, 90-, 95-, 97- and 98-octane gasoline blended with ethanol, in which we supply 84-, 90-, 95- and 97-octane gasoline. Domestic demand for gasoline has been increasing steadily over the last five years at a 7.0% annual growth rate on average. An increase in Peru's automotive fleet has also boosted domestic demand for this product. As the economy has developed in recent years, demand for gasoline has increased, particularly 90- and 95-octane gasoline. We expect that this trend will continue as demand continues to grow. In the years ended December 31, 2019 and 2018, we supplied 33 KBPD and 33 KBPD, respectively, to the domestic market, accounting for 64.1% and 65.6%, respectively, of the total demand for this product. For the nine-month period ended September 30, 2020, we have supplied 24 KBPD, or 64.9% of the 37 KBPD total market for gasoline. For the nine-month period ended September 30, 2019, we supplied 33 KBPD, or 64.9% of the 51 KBPD total market for gasoline.

Turbo A-1 (Jet fuel). Jet fuel represented 4.4% and 8.7% of the total domestic demand for refined fuel products in Peru in the nine-month period ended September 30, 2020 and 2019, while in 2019 and 2018, jet fuel represented 8.7% of the total domestic demand for refined fuel products in Peru. Demand for this product comes primarily from the Jorge Chávez International Airport in Lima, which uses this product for both domestic and international flights. In the year ended December 31, 2019, we supplied 4 KBPD of Turbo A-1 to the domestic market, accounting for 15.8% of the total demand for this product. In 2018, we supplied 4 KBPD of turbo A1 jet fuel to the domestic market, accounting for 19.9% of the total demand for this product. In the nine-month period ended September

30, 2020, we have supplied 2 KBPD, or 21.8% of the 8 KBPD total market of turbo A1 jet fuel. In the nine-month period ended September 30, 2019, we supplied 4 KBPD, or 17.0% of the 23 KBPD total market of turbo A1 jet fuel.

Residual Industrial Fuel Oils. Residual industrial oils represented 1.6% of the total domestic demand for refined fuel products in Peru for the nine-month period September 30, 2020 and 2019. These products are primarily consumed in the fishing and electric sectors. Consumption of residual industrial fuel oils in Peru has decreased as a result of substitution caused by the increased availability of natural gas from the Camisea region in Peru at low prices. This decrease in domestic demand has resulted in a greater surplus that is sold in the international markets. In the year ended December 31, 2019, we supplied 3 KBPD of industrial fuel oils to the domestic market, accounting for 61.0% of the 4 KBPD total domestic demand for these products. In 2018, we supplied 4 KBPD of industrial fuel oils to the domestic market, accounting for 65.5% of the 5 KBPD total domestic demand for these products. In the nine-month period ended September 30, 2020, we have supplied 2 KBPD, or 72.9% of the 3 KBPD total market for residual industrial fuel oils. In the nine-month period ended September 30, 2019, we supplied 3 KBPD, or 59.7% of the 5 KBPD total market for residual industrial fuel oils.

Other products. We also sell other refined fuel products such as bunkers, asphalts, and solvents. Bunkers are used for vessels, asphalts for the construction of roads, and solvents for industrial purposes.

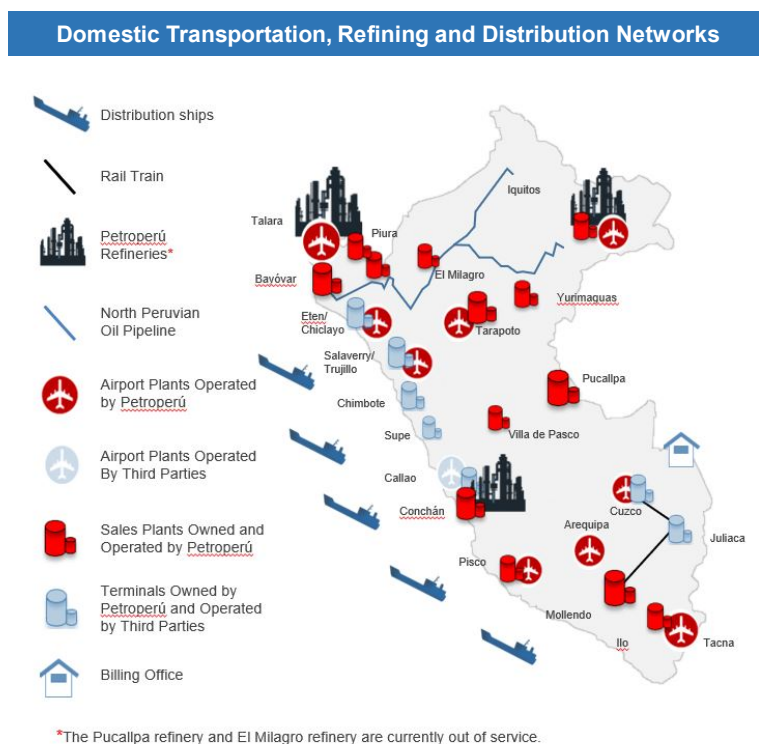
Our refineries

We own five refining facilities in Peru and operate three of them. Our refineries produce a full range of refined petroleum products, including LPG, industrial solvents, jet fuel, gasoline, diesel fuel, industrial oil and asphalts. We refine crude at our Talara, Conchán and Iquitos Refineries. In the nine-month period ended September 30, 2020, the refining capacity (defined as the total atmospheric distillation capacity used) of our operating refineries was an aggregate 27.5 KBPD, and utilization rates (defined as crude refinery utilization divided by atmospheric distillation refining capacity) was an aggregate 40.5%. In the nine-month period ended September 30, 2019, the refining capacity of our operating refineries was an aggregate 94.5 KBPD and utilization was an aggregate 70.3%. In the nine-month period ended September 30, 2020, our production of refined products decreased by 51.7 KBPD to 48.1 KBPD as compared to the 99.8 KBPD produced in the nine-month period ended September 30, 2019.

In the year ended December 31, 2019, the refining capacity (defined as the total atmospheric distillation capacity used) of our operating refineries was an aggregate 94.5 KBPD, and utilization (defined as crude refinery utilization divided by atmospheric distillation refining capacity) was an aggregate 66.5%, respectively. In the year ended December 31, 2018, the refining capacity of our operating refineries was an aggregate 94.5 KBPD and utilization rate was an aggregate 67.4%. In the year ended December 31, 2019, our production of refined products decreased by 11.2 KBPD to 99.2 KBPD as compared to the 110.4 KBPD produced in the year ended December 31, 2018.

The following map shows the location of the Norperuano Pipeline, the five refineries we currently own and all of our sales plans and distribution terminals.

Location of our Pipeline, Refineries, Plans and Distribution Terminals



We began operating the Southern Terminals as of November 3, 2019. We have also upgraded our refineries and related sales plants and distribution terminals in order to improve the quality of our products and to increase our refining and storage capacity. During the period from January 2017 to December 2019, we invested U.S.\$310.0 million (excluding VAT and investments related to the Talara Refinery Modernization Project) in all of our facilities with the goal of improving profitability and maintaining our market share. These investments have helped us improve our refining margin and better serve demand for our products. During this period, U.S.\$310.0 million (excluding VAT and investments related to the Talara Refinery Modernization Project) of the total U.S.\$2,410.8 million were invested specifically in our operating refineries to enable our refineries to support increases in capacity requirements.

In the nine-month period ended September 30, 2020, we invested U.S.\$38.7 million (excluding VAT and investments related to the Talara Refinery Modernization Project) in our facilities, U.S.\$20.3 million (excluding VAT and investments related to the Talara Refinery Modernization Project) of which was invested in our refineries. In the nine-month period ended September 30, 2019, we invested U.S.\$69.0 million (excluding VAT and investments related to the Talara Refinery Modernization Project) in our facilities, U.S.\$45.8 million (excluding VAT and investments related to the Talara Refinery Modernization Project) of which was invested in our refineries.

In the year ended December 31, 2019, we invested U.S.\$108.7 million (excluding VAT and investments related to the Talara Refinery Modernization Project) in our facilities, U.S.\$67.8 million (excluding VAT and investments related to the Talara Refinery Modernization Project) of which was invested in our refineries. In the year ended December 31, 2018, we invested U.S.\$102.6 million (excluding VAT and investments related to the Talara Refinery Modernization Project) in our facilities, U.S.\$68.4 million (excluding VAT and investments related to the Talara Refinery Modernization Project) of which was invested in our refineries.

The following table sets forth our investment in each refinery for the periods indicated, excluding VAT:

	Nine-Month Period Ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(U.S.\$ in millions)</i>				
Talara Refinery.....	13.5	21.7	32.8	31.7	12.5
Conchán Refinery.....	3.0	13.3	21.3	21.8	9.0
Iquitos Refinery.....	3.8	10.8	13.7	14.8	6.0
Total.....	20.3	45.8	67.8	68.4	27.6

The Conchán and Iquitos Refineries (also known as Selva), operated in 2016 at a production rate of 48.4% and 56.6%, respectively. In 2017, these refineries operated at a production rate of 44.2% and 66.7%, respectively. In 2018, these refineries operated at a production rate of 46.6% and 74.2%, respectively. In 2019, these refineries operated at a production rate of 44.0% and 71.1%, respectively. For the nine-month period ended September 30, 2020, these refineries operated at a production rate of 31.3% and 52.5%, respectively.

The Conchán Refinery operated in 2017 at a production rate of 44.2% compared to 48.4% in 2016. This decrease was due to the decline in the high-sulfur diesel market because of the implementation schedule for the commercialization of low sulfur diesel that began in 2017, in which nine additional departments were included (Ancash, Apurímac, Ayacucho, Cajamarca, Huanuco, Huancavelica, Ica, Lambayeque and Pasco), as well as increase in 2016 in the demand for asphalt. In 2018, the production rate in the Conchán Refinery increased compared to 2017 from 44.2% to 46.6%. This was due to the higher demand for asphalt, which reached 2.44 MBDC in 2018 as compared to 2.25 MBDC in 2017. In 2019, the production rate in the Conchán Refinery decreased compared to 2018 from 46.6% to 44.0%. This was due to the lower demand for asphalt, which reached 2.36 MBDC and the halt of the process units due to a general inspection. For the nine-month period ended September 30, 2020, the production rate in the Conchán Refinery decreased compared to the same period in 2019 from 46.0% to 31.3%.

The Iquitos Refinery production rate did not change in 2017 as compared to 2016, despite the fact that the UDP Plant shut down for 24 days, affecting the production rate, which was previously at an average of 70.0%. In 2018, the production rate increased compared to 2017 from 66.7% to 74.2%. This was due to the higher demand in Diesel B5 (from 2.38 MBDC in 2017 to 2.70 MBDC in 2018), Industrial Petroleum N° 6 (from 1.22 MBDC in 2017 to 1.31 MBDC in 2018) and Residual of Primary (from 3.12 MBDC in 2017 to 3.99 MBDC in 2018). In 2019, the production rate decreased compared to 2018 from 74.2% to 71.1%. This was due to protests occurring in January and February 2019 in the communities of Saramuro, which retracted the supply of Crude Mayna. For the nine-month period ended September 30, 2020, the production rate in the Iquitos Refinery decreased compared to the same period in 2019 from 71.8% to 52.5%.

All industrial activity in Peru is required to meet stringent environmental, health and safety standards. The Talara, Conchán and Iquitos Refineries were recertified in December 2018 as compliant with quality, environmental and health and safety standards established by the ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 norms, respectively. In addition, our laboratory at the Talara Refinery is certified by the ISO 17025 for 12 different testing methods.

See “Regulatory Framework—Environmental Matters.”

Talara Refinery

Located in the city of Talara, in the department of Piura, the Talara Refinery was Peru’s first refinery. It produces refined fuel products for the domestic and international markets that comply with international quality standards. Its LPG, automotive gasoline, solvents, jet fuel and diesel 2 are sold in the domestic market, whereas its fuel oils are sold in international markets. This refinery also produces intermediate hydrocarbon products for export such as light naphtha, the raw material used to produce benzene, toluene and xylene, and fuel oils. After its modernization through the Talara Refinery Modernization Project, we expect that the Talara Refinery will also be able to refine heavy crude and generally will supply cleaner fuel to Peru and better serve both domestic and international markets. Additionally, the modernization of the refinery is expected to improve our margins by allowing us to process

the less-expensive heavy crude into high-value-added refined products. See “—Talara Refinery Modernization Project.”

This refinery has an atmospheric distillation unit, a vacuum distillation unit, a catalytic cracking unit, a gas recovery unit, a caustic treatment system, an auxiliary system (including water treatment, a low- and medium-pressure steam production system, an air compression unit and a waste water treatment unit), a multiproduct terminal dock that dispatches gasoline, distillate and LPG products, and an offshore terminal with two submarine lines to receive crude and dispatch fuel oil. The Talara Refinery also has two tank farms, one located in the Tablazo region that is designated to store Talara crude, which has low-sulfur content, and one that stores imported crude and distillates.

The Talara Refinery also operates two sales plants: one located in Talara, which needed average annual dispatches of 18.9 KBPD and 20.1 KBPD in the years ended December 31, 2019 and 2018, respectively, and one in Piura City, which needed average annual dispatches of 3.1 KBPD and 3.3 KBPD in 2019 and 2018, respectively. Moreover, there were dispatches through these sales plants of 41.84 KBPD and 47.84 KBPD in the years ended December 31, 2019 and 2018, of exports such as virgin naphtha, cutting material (high-sulfur diesel) and Fuel Oil 6. For the nine-month period ended September 30, 2020, dispatches from the Talara and Piura sales plants were 14.1 KBPD and 2.8 KBPD, respectively, and for the period ended September 30, 2019 dispatches were 18.9 KBPD and 3.1 KBPD, respectively. We are the only supplier of refined products to those areas of Peru, and we meet the demand of those customers by making both wholesale and direct sales.

For the nine-month periods ended September 30, 2020 and 2019, the Talara Refinery processed 0 KBPD and 50.7 KBPD of crude, respectively. We did not process any crude in 2020 due to the suspension of production at the Talara Refinery as a consequence of the construction work related to the Talara Refinery Modernization Project. In 2019 and 2018, the Talara Refinery processed 51.1 KBPD and 51.3 KBPD of crude, respectively. These levels of processing are low given the refinery’s 65.0 KBPD capacity. An increasing number of cities in Peru are requiring low-sulfur diesel, which the refinery cannot currently produce. Given increased demand for low-sulfur diesel and restrictions on sale of high-sulfur diesel in certain areas of Peru, we operate our refineries at optimal levels that allow us to produce only the amount of diesel to meet lower demand in Peru and internationally, thereby maximize profits within these restrictions.

In December 2019, the Talara Refinery units were shut down, including the crude and vacuum distillation units and an FCC unit, forming a low-complexity refinery with a capacity of 65 KBD. The refinery process units were shut down in connection with the Talara Refinery Modernization Project. These units remain offline and their future is under consideration. Other equipment, such as tanks and spheres, loading racks, the jetty and submarine berth, have remained in operation.

The site is currently operating as an import-export and distribution terminal. Crude from local oil fields is still acquired via pipeline and blending continues at the terminal, producing gasoline and diesel products. This is then distributed from Talara but is also shipped to Conchán. Crude oil is shipped both from Talara to Conchán. Our demand for crude has been reduced and the excess is exported, but this will change when the new Talara Refinery under the Talara Refinery Modernization Project is commissioned.

Conchán Refinery

The Conchán Refinery is located in the Lurín district of Lima, in the department of Lima. This refinery produces low-octane gasoline, industrial solvents, diesel, industrial oil, IFO-380 quality IMO-2020 and export-quality asphalts. The asphalts produced at our Conchán Refinery exceed domestic demand in the region and are exported mainly to Bolivia.

This refinery has an atmospheric distillation unit, a vacuum distillation unit with a 10.0 KBPD capacity, a caustic treatment system, an auxiliary system (including low-pressure steam production and air compression systems), an offshore terminal with two submarine lines to receive crude, products that come from the Talara Refinery and imported products, such as high-octane gasoline, low-sulfur diesel, ethanol, biodiesel and other products. The Conchán Refinery also has a tank farm with a storage capacity of up to 1.7 million barrels of hydrocarbon products. This storage capacity allows the Conchán Refinery to maintain its required 15-day supply of inventory and to act as a distribution hub for products to other distribution terminals. We also operate a sales plant that sells gasoline, diesel 2, industrial solvents, fuel oils and asphalts locally and distributes fuel and biofuels to other distribution terminals.

During 2019, we upgraded the processing unit pumps, which led to a maximum charge of 11 KBPD, as well as a reduction in electricity consumption. In February 2019, we commissioned the replacement of our Submarine Line N°1, which allowed us to install two multipurpose submarine pipelines to load and unload fuels and have led to a reduction in laytime payments and an increase in the pumping rate from 13 to 16 KBPH.

We have also continued to increase the storage capacity of our Conchán Refinery. In 2019, we commissioned two new fuel tanks of 160 KB each, capable of storing crude oil, diesel or naphta, giving us flexibility in the operation of our tank farm. In addition, in 2020, we commissioned two 60 KB tanks for the storage of naphta. We currently have two tanks under construction, one with a capacity of 110 KB and the other with a capacity of 160 KB, for the storage of naphta and diesel, respectively. We expect these tanks will be completed in late 2021. These improvements will increase our storage capacity to 2.6 million barrels.

In order to improve our environmental management, we have also commissioned a wastewater treatment plant, allowing us to meet the maximum permissible limits of contaminants, satisfy the national regulation of effluents and implement corrective measures imposed by the environmental authority. These measures make the Conchan Refinery an environmentally friendly operation.

Moreover, in October 2019, we completed the construction of our new lab intended to improve the working conditions and safety of our employees. The lab meets all the technical and legal requirements related to safety and health. This new facility also allows us to develop tests under controlled conditions. We are able to take advantage of the lab's advanced technology, its infrastructure and equipment to perform our tests.

In November 2019, we successfully went through a general inspection of the process plant. Periodically, refineries need to have preventive maintenance, renovations, or upgrades. This periodic maintenance allows the refineries to ensure safe operations, stay competitive, and meet government regulations. Often, maintenance requires the refinery to shutdown all or part of the refining production. Planned shutdowns are known as turnarounds. Most refineries go through a turnaround every three to five years. Each turnaround requires extensive planning and careful coordination of labor and materials. Most often, the shutdown happens when production is at its lowest and required skilled labor is readily available. Some turnarounds take a few weeks to complete. Others may need a few months. Turnarounds depend entirely on the extent of the project and any problems that occur or are found along the way. Most refineries go through an extensive inspection and testing process during a turnaround. If the inspection or testing identifies a problem, the time may be extended.

As for the Conchán Refinery, we have now developed the maintenance of the process furnaces, the atmospheric distillation column (recovering the ASME stamp), the vacuum distillation column, the air coolers, heat exchangers, treatment plant, power station, heater, valves, control valves and piping with a capital investment of S/20 million. Since the latest turnaround, we have recorded a new maximum charge in the process plant. In late 2019, we revamped our piping system to receive an intermediate product used to produce International Fuel Oil 380, which meets the IMO 2020 regulation relating to sulphur content. In 2020, we developed a new process that allows us to produce IFO 380 (IMO 2020) while operating both units in parallel, marking a new milestone with a total charge of 17 KBPD.

Iquitos Refinery

Located in the Amazon region, the Iquitos Refinery is the only facility that produces automotive and industrial fuel for the remote areas of the Peruvian rainforest. Because the quality of the crude in the area has decreased and the Iquitos Refinery is not equipped to refine low-quality crude, the refinery has reached its maximum refining capacity. We also use the Iquitos Refinery to process natural gasoline acquired from third parties to improve the efficiency and maximize the value of the medium distillates and gasoline this refinery produces. The Iquitos Refinery has a production capacity of 12.0 KBPD of crude, and serves the fuel demands of the departments of Loreto, San Martín in the northern region of Peru, and part of Ucayali. The Iquitos Refinery is the only facility in the area that produces automotive and industrial fuel that covers the demands of the departments of Loreto and part of the department of Ucayali (Pucallpa). It is also equipped with two docks for the loading and unloading of hydrocarbons for the reception of raw material and supply to the Sales Plants in Pucallpa, Yurimaguas and Tarapoto, as well as sales and exports to Colombia - Leticia.

The Iquitos Refinery also supplies fuel to the Iquitos Sales Plant and to the electricity supply company of the city of Iquitos, GENRENT del Peru S.A.C., through the Poliducto, designed with two ducts of four and six inches with a length of 14.5 kilometers. The Poliducto uses an automated control system of hydrocarbon transfer, which guarantees the control of deliveries.

In addition, the Iquitos Refinery has an inventory measurement and control system of 20 storage tanks and 12 tanks in the Iquitos Sales Plant. This automation system allows us to carry out measurements and control the volumetric balance in line and of variations. This is the first refinery to have such control system in our operations. Moreover, the Iquitos Refinery has an annual predictive and preventive maintenance plan. The maintenance area is qualified for any corrective maintenance that may be necessary.

As part of the improvements to our refinery, we have modernized our fluvial fleet through the construction of 12 double hull barges, five holding 20 MB for crude oil and seven holding 8 MB for products. As of the date of this offering memorandum, 10 barges have been delivered and the next two deliveries are expected for the first quarter of 2021. This project will allow us to comply with current safety standards and regulations for the transportation of crude oil and products in the Peruvian Amazon rivers. In addition, we are upgrading the storage capacity of the Iquitos Refinery through the construction of a 110 MB tank to store crude that will allow the segregation of up to three types of crudes to adequately feed the Iquitos Refinery's UDP.

We are in the process of building a new dock at the Iquitos Refinery. This will provide better operative flexibility in the reception of barges and ships with capacities between 40 and 80 MB, the reception and/or delivery for the transfer and import of crude and final and intermediate products for the Iquitos Refinery and up to two ships at a time may be handed in the starboard and the port. The new dock will also have a pumping and mass flow control system.

Pucallpa Refinery

The Pucallpa Refinery is a small refinery with a refining capacity of 3.3 KBPD, which corresponds to 3.5% of the aggregate refining capacity of our Talara, Conchán and Iquitos Refineries. It is equipped with a sales plant, a main distillation unit, a caustic treatment system, an auxiliary system including low pressure steam production and air compression systems, as well as a household zone.

The Pucallpa Refinery was leased on March 29, 2014 to Maple Gas for a period of 10 years. This contract was scheduled to expire on March 28, 2024. However, in August 2019, we formalized the contract termination with Maple Gas due to failure by Maple Gas to make lease payments and breach of contract. We initiated arbitration proceedings against Maple Gas to recover all of the Pucallpa installations (Pucallpa Refinery and Pucallpa Sales Plant) and took possession of the Pucallpa Refinery in August 2019.

In October 2020, we received a favorable decision in the arbitration proceedings, with the following result:

- the contract was correctly terminated by our company;
- payment by Maple Gas of U.S.\$376,000.00 for unpaid rent; and
- payment by Maples Gas of U.S.\$6,273,563.21 plus interest until the effective date of payment for lost profits.

We are planning to invest in the sales plant at the Pucallapa Refinery to facilitate our distribution process to supply fuel to the Ucayali Region. The demand for fuels in the Ucayali Region has been increasing, the most significant being the increase in diesel, which in 2017, 2018 and 2019 was an average of 1.7 KBPD, 1.9 KBPD and 2.2 KBPD, respectively. For the nine-month periods ended September 30, 2020 and 2019, the demand for fuels in the Ucayali Region was on average 3.5 KBPD and 4.3 KBPD, respectively. In addition, the increase in the production of Los Angeles (Lot 31) and Brittany (Lot 95) crudes would make it possible to restore the Pucallpa Refinery's operation, either directly or through an operating partner. We are currently evaluating the best business model for this operation.

El Milagro Refinery

The El Milagro Refinery, located in the Amazonas department, is our smallest refinery. Its installations include 13 storage tanks with a capacity of 64.4 KBPD. The processing capacity at El Milagro Refinery is 2.0 KBPD. This refinery is equipped with all necessary auxiliary systems for its operation and is currently not in service. In January 2015, a significant decrease in crude production levels in the region, an increase in the price of local crude relative to international crude and a decrease in road transport freight rates made it more profitable for us to shut down the El Milagro refinery. On February 20, 2020, pursuant to Board Agreement N° AD 021-2020-PP, the definitive shut down of the El Milagro Refinery was approved and was communicated to OEFA on November 17, 2020 through Letter No. GDSE-5357-2020. We are in the process of planning our Plan of Abandonment of the El Milagro Refinery to take place 2021.

Capacity, production and utilization

We produce a wide range of products derived from crude, including LPG, gasoline, diesel fuel, fuel oil, asphalts and other refined oil products. The following table sets forth our total refining production capacity as of the dates indicated:

	As of September 30,		As of December 31,		
	2020	2019	2019	2018	2017
	<i>(in KBPD)</i>				
Production process					
Atmospheric distillation ⁽¹⁾	11.2	66.5	66.5	67.4	69.4
Vacuum distillation ⁽²⁾	2.4	28.4	28.1	25.5	27.9
Catalytic cracking ⁽³⁾	0	15.6	16.1	14.9	16

(1) Means the refining process of separating crude oil components at atmospheric pressure by heating and subsequent condensing of the fractions by cooling.

(2) Means a distillation process conducted under reduced pressure (less than atmospheric pressure) which lowers the boiling temperature of the liquid being distilled.

(3) Means the refining process of breaking down the larger, heavier and more complex hydrocarbon molecules into simpler and lighter molecules through the use of a catalytic agent. This is the most important of the three refining processes.

As of September 30, 2020, our Conchán and Iquitos Refineries operated at utilization rates of 31.3% and 52.5%, respectively. The Talara Refinery has not been operating during development of the Talara Refinery Modernization Project. As of September 30, 2019, the Talara, Conchán and Iquitos Refineries operated at utilization rates of 78.0%, 46.0% and 71.8%, respectively. Utilization represents the portion of our refining capacity used during the period. In the nine-month period ended September 30, 2020, our production of refined products decreased by 51.7 KBPD to 48.1 KBPD compared to 99.8 KBPD for the same time period in 2019.

In 2019, our Talara, Conchán and Iquitos Refineries operated at utilization rates of 78.7%, 44.0% and 71.1%, respectively, with an average utilization rate of 70.4%. In 2018, these refineries operated at utilization rates of 78.8%, 46.6% and 74.2%, respectively, with an average utilization rate of 71.3%. In 2017, these refineries operated at utilization rates of 83.8%, 44.2% and 66.7%, respectively, with an average utilization rate of 73.4%. Utilization represents the portion of our refining capacity used during the period. In 2019, our production of refined products decreased by 11.2 KBPD to 99.2 KBPD compared to 110.4 KBPD in 2018. In 2018, our production of refined products increased by 5.7 KBPD compared to 104.7 KBPD in 2017.

The following table sets forth, by category, our production of refined products for the periods indicated:

	Nine-Month Period ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(in KBPD)</i>				
<i>Refined products</i>					
LPG	—	4.2	4.4	3.9	4.4
Gasoline (unleaded).....	22.1	35.8	35.8	33.6	33.7
Jet fuel	0.1	4.0	4.1	4.0	3.3
Diesel.....	19.9	36.7	36.5	47.8	43.4
Fuel oil	4.9	15.5	15.0	17.4	16.8
Asphalts.....	0.9	2.4	2.3	2.4	2.3
Subtotal	47.9	98.6	98.1	109.1	103.9
Other refined products, volume gains and losses ⁽¹⁾	0.2	1.2	1.1	1.3	0.8
Total refined products	48.1	99.8	99.2	110.4	104.7

(1) Volume gains and losses refers to gains and losses from increases and decreases in the volume of our products that occur naturally, primarily as a result of the evaporation of hydrocarbon products at all stages of the production and trading process.

Diesel and gasoline are our main refined products. In the nine-month periods ended September 30, 2020 and 2019, diesel accounted for 41.4% and 36.8%, respectively, of our production by volume, gasoline accounted for 45.9% and 35.9%, respectively, fuel oils accounted for 10.0% and 15.5%, respectively, LPG accounted for 0.0% and 4.2%, respectively, and others accounted for 2.6% and 7.6%, respectively. The remainder of our production for those time periods consisted of a variety of other refined products.

In the years ended December 31, 2019 and 2018, diesel accounted for 36.8% and 43.3%, respectively, of our production by volume, gasoline accounted for 36.1% and 30.4%, respectively, fuel oils accounted for 15.1% and 15.8%, respectively, LPG accounted for 4.4% and 3.6%, respectively, and others accounted for 7.6% and 6.9%, respectively. The remainder of our production in both years consisted of a variety of other refined products.

Purchase of crude and Intermediate Products

We do not currently engage in the exploration and production of crude. We purchase all the crude we refine in our refineries, as well as certain Intermediate Products we use for blending, either on international tenders or through contracts with domestic and international suppliers.

We typically purchase crude and Intermediate Products from domestic and international suppliers that are registered on our local and international supplier list. Our domestic supplier schedule lists the companies that can supply domestic crude and products such as LPG, alcohol and biodiesel B100 to us. This schedule includes all of the oil companies that have development contracts with Perupetro and producers of LPG, biodiesel, and alcohol. Our international supplier list is issued by our marketing team and includes the companies that may be invited to the international tenders through which we purchase international crude and Intermediate Products. Companies can only be included on this schedule after having passed a commercial and financial evaluation conducted by us. Our international supplier list is reviewed and updated considering the companies' participation in our tenders and how well they fulfill their contract obligations. Our international supplier schedule includes the principal international oil companies (majors), state-owned oil companies and private refineries and trading companies (traders).

As of September 30, 2020, we had 14 domestic crude suppliers, all listed on the domestic supplier schedule. In the nine-month period ended September 30, 2020, our domestic suppliers provided 96.9% of the crude we refined. Historically, we have purchased the remaining portion of our crude from suppliers listed on the international supplier schedule at international spot prices and imported it to our refineries. In the nine-month period ended September 30, 2020, our international crude came primarily from Ecuador (all in shipments of 360,000 barrels, arriving at our Conchán/Talara and Bayóvar/Talara ports). Our largest suppliers by volume for the nine-month period ended September 30, 2020 were BB Energy, an international supplier, and CNPC, a domestic supplier, which supplied 3.1% and 32.2% of our crude, respectively.

As of December 31, 2019, we had 13 domestic crude suppliers, all of which are listed on the domestic supplier schedule. In 2019, our domestic suppliers provided 68.0% of the crude we refined. Historically, we have purchased

the remaining portion of our crude from suppliers listed on the international supplier schedule at international spot prices and imported it to our refineries. In the year ended December 31, 2019, our international crude came primarily from Ecuador (85.1%) and Colombia (14.9%) in shipments ranging between 360,000 and 400,000 barrels, arriving at our Conchán/Talara and Bayóvar/Talara ports. In 2019, we purchased crude both domestically and internationally from 16 different suppliers. Our largest suppliers by volume during 2019 were EP Petroecuador, an international supplier, and CNPC, a domestic supplier, which supplied 19.1% and 23.0%, respectively, of our crude.

All of our purchases, domestic or imported, are made after an economic evaluation has been conducted using our refining program model system. This program uses linear optimization programming to establish production planning processes in our refineries to allow us to satisfy demand for our products at the lowest possible cost. It considers, among other factors, supply and demand forecasts, predicted prices of raw materials and products and operation restrictions such as available storage capacity and the quality and yield of the crude. This program calculates ideal purchases of Intermediate Products based on the offering price for these products and the optimal purchase volumes based on our refining plan.

Supply of crude

Domestic supply of crude

Our domestic crude comes primarily from the Talara region and is processed in the Talara Refinery. During the years ended December 31, 2019 and 2018 we purchased 33.2 KBPD and 32.4 KBPD, respectively, of crude from the Talara region. We also own and operate a smaller (24.7 km) oil pipeline network that connects the oilfields in the Talara region to the Talara Refinery. We transport crude from the Talara region through this smaller oil pipeline network.

We purchased more domestic crude from the Talara region in the year ended December 31, 2019 (33.2 KBPD) than in 2018 (32.4 KBPD) and 2017 (30.9 KBPD), in each case primarily as a result of the operations of CNPC, SAPET and GMP. We also purchase domestic crude from Los Angeles and Mayna, which are rainforest areas in Peru in which the crude is available in lesser volumes. The crude from Mayna and Los Angeles is processed in the Iquitos Refinery. The Peruvian northern rainforest region named Loreto also produces crude, which has an 18° API and which, according to our economic evaluations, is less profitable to refine than the other types of crude available to us. In exchange for a fee, we transport, store and ship this crude on behalf of other producers who export it.

We enter into medium- and long-term supply contracts with domestic suppliers. By purchasing directly from these domestic suppliers, we have been able to avoid paying additional price mark-ups charged by commodity traders and have secured a more predictable supply arrangement.

Pursuant to our contracts with these domestic crude suppliers, we purchase certain volumes of crude at variable prices. Some of our primary supply contracts are with CNPC Peru, Savia Peru, Pluspetrol, Olympic Petroleum, Sapet, BPZ Energy and Graña y Montero Petrolera S.A. The terms of these contracts vary, with most of them having terms of one to seven years. The typical contract stipulates either a volume of crude or a defined period during which the supplier agrees to sell, and we agree to purchase.

Our largest supply contract is with CNPC Peru and it includes a production license for Blocks X, located in the Talara region in northern Peru. This contract became effective on May 4, 2017 and expires in May 2024 or when the contracted volume of 35,770,000 barrels is reached, whichever occurs first. Pursuant to this contract, the crude is delivered to us at the Carrizo station, located near the oil field, and we transport it through our small pipeline to our Tablazo tank farm at the Talara Refinery. A tank farm is an industrial storage facility that typically contains above ground or underground storage tanks used to store oil and other petrochemical products and gantries used to discharge products into pipelines, road tankers or other vehicles. We use the Tablazo tank farm in the Talara Refinery to store domestic crude from northern Peru for use in the Talara Refinery. Our longest-term supply contract was entered into with Savia Peru in 1993 for a term of 30 years. Over the life of such contract, we had purchased more than 102.3 million barrels and 104.0 million barrels for U.S.\$5,506 million and U.S.\$5,594 million as of December 31, 2019 and September 30, 2020, respectively.

International supply of crude

Because Peru's domestic crude supply is not sufficient to satisfy our oil requirements, we also import crude through spot tenders in units of up to five shipments. We invite to these tenders any company that is included on our international supplier schedule, which includes major companies, national oil companies, private refineries or traders. All of our international supply of crude comes from neighboring countries, primarily Ecuador and Colombia. In the nine-month periods ended September 30, 2020 and 2019, we purchased 0.36 million barrels and 5.59 million barrels of international crude, respectively, primarily from Ecuador, representing approximately 100.0% and 92.9% of our international crude for that time period. In the years ended December 31, 2019 and 2018, we purchased 7.34 million barrels and 7.50 million barrels of international crude, respectively, primarily from Ecuador, representing approximately 85.1% and 89.8% of our international crude for each year. This crude was used in the Talara and Conchán Refineries. Our Talara and Conchán Refineries are equipped with multi-buoy mooring facilities that allow them to receive batches of crude by Panamax tankers. They have the required permits, including those issued by the National Port Authority (*Autoridad Portuaria Nacional*, or the "APN").

Crude supply pricing

We pay our suppliers variable prices for the crude we purchase. The price of crude is pegged to certain spot market prices or benchmarks and is adjusted to consider the quality of the crude. Contracts for domestic crude refined at our refineries peg our purchase price to the 15-day average price of a type of crude or the average price of a basket of crudes, calculated based on the prices of two or three different types of crude.

Benchmarks based on a basket of crudes average the prices of the individual types of crude considered in the basket to arrive to a basket spot price. Crudes from different regions in Peru have different characteristics and are pegged to different benchmarks. The prices we pay under our domestic crude supply contracts with suppliers from the Talara Region are pegged either to the Oman, Forties and Suez Blend basket benchmark or to the Ice Brent crude benchmark. The prices we pay under our domestic crude supply contracts with other suppliers in the rainforest area of Peru are pegged either to the WTI benchmark, adjusted for differences in quality between the benchmark and the actual crude purchased or to the Dated Brent crude benchmark. The prices we pay for international crude are pegged either to the WTI crude benchmark, without adjustment for quality, or to the Brent benchmark. These prices are denominated in U.S. dollars.

Because Peru does not produce sufficient crude to meet domestic demand (during the years ended December 31, 2019 and 2018, Peru's domestic annual production of crude was 19.3 million barrels (or 53.0 KBPD, on average) and 17.8 million barrels (or 48.9 KBPD, on average), respectively), we cannot hold tenders among domestic suppliers. Instead, we purchase all of our domestic crude through supply contracts, and we are able to negotiate the prices we pay pursuant to these contracts with our suppliers. In negotiating the pricing of our domestic supply contracts, we begin with the spot price of the relevant benchmark and make certain adjustments to this spot price. For example, our supply contracts typically contain clauses governing the quality of the crude to be supplied and we adjust the price of the crude to account for differences in quality between the benchmark and the crude we actually purchase. These differences are known as the Crude Oil Equivalent ("COE") differential. In particular, these provisions adjust the price of the crude to account for variations in the API gravity or in the salt or sulfur content of the crude from an established range when these variations result from the natural reduction in the quality of the oil field over time or because of operational problems. The same quality provisions may adjust the price upward to include a price premium if the quality of the oil supplied exceeds a set limit. In addition, our supply contracts provide for further adjustments to the relevant benchmark under certain circumstances. For example, prices are generally reduced for any discount provided by the supplier and increased to include VAT.

In the year ended December 31, 2019, our purchases of domestic crude were pegged to the Oman, Forties, Suez Blend basket benchmark, the WTI crude benchmark (accounting for the COE differential), the Ice Brent benchmark, and the Dated Brent benchmark, which accounted for 41.5%, 7.0%, 12.5%, and 6.9%, respectively, of our total crude purchases in terms of volume. In 2018, these purchases accounted for 40.1%, 9.1%, 12.4%, and 5.0%, respectively, of our total crude purchases in terms of volume. In the year ended December 31, 2019, our purchases of international crude pegged to the WTI Cushing crude benchmark and Brent crude benchmark accounted for 26.9% and 5.1%, respectively, of our total crude purchases in terms of volume. In 2018, these purchases accounted for 27.2% and 6.2%, respectively, of our total crude purchases in terms of volume.

In the nine-month period ended September 30, 2020, our purchases of domestic crude pegged to the Oman, Forties and Suez Blend basket benchmark, the WTI crude benchmark (accounting for the COE differential), the Ice Brent benchmark, and the Dated Brent benchmark, which accounted for 54.8%, 5.2%, 28.4%, and 8.4%, respectively, of our total crude purchases in terms of volume. In the nine-month period ended September 30, 2019, these purchases accounted for 41.6%, 7.0%, 11.7%, and 7.0%, respectively, of our total crude purchases in terms of volume. In the nine-month period ended September 30, 2020, we have purchased one cargo of international crude, which was pegged to the Brent crude benchmark and accounted for 3.1% of our total crude purchases in terms of volume. In the nine-month period ended September 30, 2019, our purchases of international crude pegged to the WTI Cushing crude benchmark and Brent crude benchmark accounted for 30.4% and 2.3%, respectively, of our total crude purchases in terms of volume.

In the years ended December 31, 2019 and 2018, the international crude we purchased originated in Ecuador and Colombia and was pegged to WTI spot market prices in international tenders. In the international tender setting, we do not have the ability to negotiate prices on a one-on-one basis with suppliers, but we are able to choose the best price from a number of bidders. Prices for international crude are generally somewhat higher than prices for domestic crude with comparable qualities because the ultimate price we pay must account for travel costs and other expenses related to the delivery of the crude to our refineries. In the year ended December 31, 2019, international prices of crude decreased, and we were able to secure more favorable prices on our international purchases than in previous years. In 2018, 18.5% of the total crude we purchased was international crude pegged to the WTI spot price and 18.5% was international crude pegged to the Brent spot price. In 2017, 74.4% of the total crude we purchased was international crude pegged to the WTI spot price and 25.6% was international crude pegged to the Brent spot price.

In the nine-month period ended September 30, 2020, international prices of crude decreased by 49.7% compared to the nine-month period ended September 30, 2019. In the nine-month period ended September 30, 2020, we have not purchased international crude pegged to the WTI spot price and 100.0% was international crude pegged to the Brent spot price. In the nine-month period ended September 30, 2019, 92.9% of the total crude we purchased was international crude pegged to the WTI spot price and 7.1% was international crude pegged to the Brent spot price.

The average, maximum and minimum prices we pay for domestic crude are calculated based on the monthly or semi-monthly prices of the relevant crude benchmark adjusted for quality, if necessary. The prices we pay for international crude are calculated based on five WTI or Brent crude quotations from the shipping date and the two days before and after the shipping date as it appears on the bill of lading. Under our domestic supply contracts, prices are pegged to the Oman, Forties and Suez Blend basket benchmark, the Minas and Arjuna basket benchmark, the WTI crude benchmark and the Dated Brent crude benchmark, each adjusted to take into account the quality of the crude purchased. The prices we pay for international crude purchased directly from suppliers through bidding processes are generally pegged to the Dated Brent crude benchmark or the WTI crude benchmark. The tables below show the average spot price for the different benchmarks we use as well as the average, maximum and minimum prices we paid for crude pegged to each benchmark for the periods shown.

Basket (Oman, Forties, Suez Blend) – Domestic Crude Purchases

Region and Suppliers⁽¹⁾	Nine-Month Period Ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(in U.S.\$/barrel, except percentages)</i>				
Average benchmark spot price.....	40.37	63.61	63.11	69.36	52.84
Average price paid by us	40.90	60.27	63.21	69.44	53.13
Max. price paid by us	63.73	65.27	72.56	81.06	64.44
Min. price paid by us	18.15	43.17	58.03	55.33	45.14
% of total purchased volume	54.8%	41.6%	41.5%	40.1%	36.3%

(1) Talara Crude (except Savia Peru): BPZ Energy; Graña y Montero; Interoil (GMP); Olympic Petroleum; Petrolera Monterrico; CNPC Peru; Sapet and Unipetro.

ICE Brent – Domestic Crude Purchases

Region and Suppliers ⁽¹⁾	Nine-Month Period Ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(in U.S.\$/barrel, except percentages)</i>				
Average benchmark spot price.....	42.53	64.74	64.18	71.58	60.03
Average price paid by us	42.60	64.75	64.21	70.80	51.51
Max. price paid by us	63.67	71.63	71.63	79.66	62.52
Min. price paid by us	26.63	59.50	59.50	57.32	43.36
% of total purchased volume	28.4%	11.7%	12.5%	12.4%	13.4%

(1) Talara Crude: Savia Peru

WTI NYMEX + Differential Crude Oil Equivalent – Domestic Crude Purchases

Region and Suppliers ⁽¹⁾	Nine-Month Period Ended September 30,		Year Ended December 31,		
	2002	2019	2019	2018	2017
	<i>(in U.S.\$/barrel, except percentages)</i>				
Average benchmark spot price.....	35.67	60.14	59.73	65.44	48.18
Average price paid by us	49.38	75.83	74.16	85.97	67.47
Max. price paid by us	75.40	84.74	83.56	95.26	77.67
Min. price paid by us	19.07	68.36	67.18	70.00	58.90
% of total purchased volume	5.2%	7.0%	7.0%	9.1%	9.2%

(1) Northern Rainforest (Mayna Crude): Pluspetrol

Dated Brent (Domestic Crude) Purchases

Region and Suppliers ⁽¹⁾	Nine-Month Period Ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(in U.S.\$/barrel, except percentages)</i>				
Average benchmark spot price.....	40.82	64.65	64.30	71.04	54.27
Average price paid by us	33.81	59.99	58.48	60.59	59.11
Max. price paid by us	59.09	78.73	78.73	89.46	70.82
Min. price paid by us	12.96	44.50	44.50	43.65	49.44
% of total purchased volume	8.4%	7.0%	6.9%	5.0%	3.7%

(1) Rainforest: CEPSA

In the year ended December 31, 2019, international prices of crude decreased. In 2018, 27.18% of the total crude we purchased was international crude pegged to the WTI spot price and 6.15% was international crude pegged to the Brent spot price. In 2017, 27.86% of the total crude we purchased was international crude pegged to the WTI spot price and 9.57% was international crude pegged to the Brent spot price.

In the nine-month period ended September 30, 2020, international prices of crude decreased by 49.7% compared to the nine-month period ended September 30, 2019. In the nine-month period ended September 30, 2020, we have not purchased international crude pegged to the WTI spot price and 100.0% of the total crude we purchased was international crude pegged to the Brent spot price. In the nine-month period ended September 30, 2019, 30.41%

of the total crude we purchased was international crude pegged to the WTI spot price and 2.32% was international crude pegged to the Brent spot price.

WTI – International Crude Purchases

Region and Suppliers ⁽¹⁾	Nine-Month Period Ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(in U.S.\$/barrel, except percentages)</i>				
Average benchmark spot price.....	38.12	57.08	57.03	65.20	50.79
Average price paid by us	n/a ⁽²⁾	64.82	65.12	69.69	53.04
Max. price paid by us	n/a ⁽²⁾	73.02	73.02	71.26	62.00
Min. price paid by us	n/a ⁽²⁾	57.74	58.85	68.27	49.00
% of total purchased volume	0.0%	30.4%	26.9%	27.2%	27.9%

(1) International Crude: Petroecuador; Gunvor; Petrochina; Shell Western and Core Petroleum

(2) During this year, Petroperu has not purchased crude oil pegged to the WTI.

Dated Brent (International Crude) Purchases

Region and Suppliers ⁽¹⁾	Nine-Month Period Ended September 30		Year Ended December 31,		
	2020	2019	2019	2018	2017
	<i>(in U.S.\$/barrel, except percentages)</i>				
Average benchmark spot price.....	40.68	64.67	64.28	71.01	54.01
Average price paid by us	39.79	67.57	63.36	73.12	54.39
Max. price paid by us	39.79	67.57	65.99	78.34	58.01
Min. price paid by us	39.79	67.57	60.74	69.53	51.77
% of total purchased volume	3.2%	2.3%	5.1%	6.2%	9.6%

(1) International Crude, B.B. Energy, Gunvor, Shell Western, Glencore, Trafigura and Vitol.

(2) In the nine-month period ended September 30, 2020 and 2019, Petroperu has purchased only one cargo pegged to the Dated Brent.

The table below sets forth our crude purchases from domestic and international suppliers for the nine-month periods ended September 30, 2020 and 2019:

Purchases of Crude by Supplier

Domestic Suppliers	Nine-Month Period Ended September 30,					
	2020			2019		
	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%
BPZ Albacora						
BPZ Exploracion & Produccion S.R.L.	8.0	0.4	0.1%	38.9	2.5	0.2%
Frontera Energy Off Shore Peru SRL	7.7	0.4	0.1%	37.3	2.4	0.2%
Pacific Off Shore Peru S.R.L.	—	—	—	—	—	—
BPZ Corvina						
BPZ Exploracion & Produccion S.R.L.	29.4	1.6	0.3%	144.0	9.3	0.8%
Frontera Energy Off Shore Peru SRL	28.2	1.6	0.2%	138.4	8.9	0.8%
Pacific Off Shore Peru S.R.L.	—	—	—	—	—	—
CEPSA Lote 131						
CEPSA Peruana S.A.C.	607.1	26.6	5.3%	852.6	56.4	5.0%
CNPC - Lote X						
CNPC Peru S.A.	3,701.6	152.6	32.2%	3,881.6	244.2	22.7%
GMP - Lote I						
Perupetro S.A.	167.7	6.9	1.5%	176.4	11.2	1.0%
GMP - Lote III						
Grana y Montero Petrolera S.A.	190.0	7.8	1.7%	190.0	12.1	1.1%
GMP - Lote IV						
Grana y Montero Petrolera S.A.	614.3	24.6	5.3%	717.9	45.5	4.2%
Gran Tierra						
Petrotral Peru S.R.L.	1,707.9	53.3	14.9%	349.0	18.7	2.0%
Loreto						
Pacific Stratus Energy del Peru S.A.	—	—	—	—	—	—
Frontera Energy del Peru S.A.	200.0	5.8	1.7%	—	—	—
Mayna Lote 8						
Pluspetrol Norte S.A.	593.9	24.9	5.2%	1,190.3	76.5	7.0%
Olympic - Lote XIII						
Olympic Peru Inc Sucursal del Peru	393.6	16.7	3.4%	552.8	36.0	3.2%
Pet. Monterrico - Lote II						
Petrolera Monterrico S.A.	107.3	4.3	0.9%	84.1	5.3	0.5%
Pet. Monterrico - Lote XV						
Petrolera Monterrico S.A.	9.8	0.4	0.1%	9.1	0.6	0.1%
Pet. Monterrico - Lote XX						
Petrolera Monterrico S.A.	3.8	0.2	0.0%	4.4	0.3	0.0%
Petrobras - Lote X						
Petrobras Energía Perú	—	—	—	—	—	—
SAPE - Lote VI, VII						
SAPET Development Peru Inc Sucursal	994.7	41.0	8.7%	1,086.4	69.0	6.4%
Savia Peru - Lote Z2B						
Savia Peru S.A.	1,717.3	74.8	14.9%	2,000.5	127.6	11.7%
Unipetro - Lote IX						
Empresa Petrolera Unipetro ABC SAC	44.3	1.8	0.4%	46.3	2.9	0.3%
Domestic Total	11,126.6	445.9	96.9%	11,499.9	729.2	67.3%

International Suppliers	Nine-Month Period Ended September 30,					
	2020			2019		
	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%
Chaza						
Gunvor SA	—	—	—	396.2	26.8	2.3%
Trafigura Pte LTD	—	—	—	—	—	—
Lula						
Shell Western Supply and Trading	—	—	—	—	—	—
Napo						
Gunvor SA	—	—	—	—	—	—
Oriente						
Core Petroleum, LLC	—	—	—	—	—	—
Gunvor SA	—	—	—	1,133.7	65.5	6.6%
Petrochina International Co. Ltd.	—	—	—	—	—	—
Petroecuador	—	—	—	3,687.1	234.9	21.6%
Petrochina International (Hong Kong) ..	—	—	—	377.7	27.6	2.2%
B.B. Energy (Gulf) DMCC	361,650.0	14,390.9	3.1%	—	—	—
South Blend						
Glencore Ltd.	—	—	—	—	—	—
Tubarao Martelo						
Shell Western Supply and Trading	—	—	—	—	—	—
Vasconia						
Shell Western Supply and Trading	—	—	—	—	—	—
Trafigura Pte Ltd	—	—	—	—	—	—
Vitol Inc.	—	—	—	—	—	—
International Total	361,650.0	14,390.9	3.1%	5,594.5	354.7	32.7%
Total Domestic and International	372,776.6	14,836.8	100.0%	17,094.4	1,083.9	100.0%

The table below sets forth our crude purchases from domestic and international suppliers for the years ended December 31, 2019, 2018 and 2017:

Domestic Suppliers	Year Ended December 31,								
	2019			2018			2017		
	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%
BPZ Albacora									
BPZ Exploracion & Produccion S.R.L.	48.9	3.2	0.2%	58.4	4.2	0.3%	109.7	6.0	0.5%
Frontera Energy Off Shore Peru SRL	47.0	3.0	0.2%	56.1	4.1	0.2%	7.3	0.5	0.0%
Pacific Off Shore Peru S.R.L. ..	—	—	—	—	—	—	98.1	5.2	0.4%
BPZ Corvina									
BPZ Exploracion & Produccion S.R.L.	173.8	11.3	0.8%	234.5	16.4	1.0%	324.0	17.5	1.4%
Frontera Energy Off Shore Peru SRL	167.0	10.8	0.7%	225.3	15.9	1.0%	19.9	1.2	0.1%
Pacific Off Shore Peru S.R.L. ..	—	—	—	—	—	—	291.3	15.5	1.3%
CEPSA Lote 131									
CEPSA Peruana S.A.C.	1,113.0	73.7	4.9%	950.9	70.9	4.2%	865.8	51.7	3.7%
CNPC - Lote X									
CNPC Peru S.A.	5,266.0	328.6	23.0%	4,867.1	338.4	21.6%	2,829.4	151.1	12.2%
GMP - Lote I									
Perupetro S.A.	236.2	14.9	1.0%	263.4	18.2	1.2%	310.4	16.4	1.3%
GMP - Lote III									
Grana y Montero Petrolera S.A.	264.3	16.7	1.2%	275.3	19.1	1.2%	268.3	14.3	1.2%
GMP - Lote IV									
Grana y Montero Petrolera S.A.	945.6	59.5	4.1%	754.7	52.6	3.4%	531.2	27.8	2.3%
Gran Tierra									
Petrolal Peru S.R.L.	724.8	37.4	3.2%	169.2	9.9	0.8%	—	—	—
Loreto									
Pacific Stratus Energy del Peru S.A.	—	—	—	—	—	—	228.6	9.8	1.0%
Frontera Energy del Peru S.A.	—	—	—	—	—	—	—	—	—
Mayna Lote 8									
Pluspetrol Norte S.A.	1,609.8	101.2	7.0%	2,058.4	150.0	9.1%	2,130.3	121.8	9.2%
Olympic - Lote XIII									
Olympic Peru Inc Sucursal del Peru	719.4	46.5	3.1%	714.4	50.7	3.2%	989.3	53.4	4.3%
Pet. Monterrico - Lote II									
Petrolera Monterrico S.A.	120.0	7.5	0.5%	112.5	7.8	0.5%	104.2	5.5	0.5%
Pet. Monterrico - Lote XV									
Petrolera Monterrico S.A.	13.4	0.8	0.1%	13.0	0.9	0.1%	14.4	0.7	0.1%
Pet. Monterrico - Lote XX									

<i>Domestic Suppliers</i>	Year Ended December 31,								
	2019			2018			2017		
	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%
Petrolera Monterrico S.A	5.7	0.4	0.0%	8.2	0.6	0.0%	4.5	0.2	0.0%
Petrobras - Lote X									
Petrobras Energía Perú.....	—	—	—	—	—	—	1,292.2	66.9	5.6%
SAPE - Lote VI, VII									
SAPET Development Peru Inc	1,444.5	91.3	6.3%	1,393.8	96.9	6.2%	1,144.7	61.2	4.9%
Sucursal									
Savia Peru - Lote Z2B									
Savia Peru S.A.	2,615.3	165.5	11.4%	2,795.4	200.2	12.4%	2,866.8	147.5	12.4%
Unipetro - Lote IX									
Empresa Petrolera Unipetro	61.8	3.9	0.3%	63.1	4.4	0.3%	63.7	3.3	0.3%
ABC SAC									
Domestic Total.....	15,576.4	975.9	68.0%	15,013.6	1,061.2	66.7%	14,494.0	777.6	62.6%

<i>International Suppliers</i>	Year Ended December 31,								
	2019			2018			2017		
	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%
Chaza									
Gunvor SA	1,094.9	72.2	4.8%	—	—	—	—	—	—
Trafigura Pte LTD	—	—	—	396.4	31.1	1.8%	—	—	—
Lula									
Shell Western Supply and Trading	—	—	—	—	—	—	370.0	21.0	1.6%
Napo									
Gunvor SA	82.7	5.0	0.4%	—	—	—	—	—	—
Oriente									
Core Petroleum, LLC.	—	—	—	—	—	—	380.0	18.6	1.6%
Gunvor SA	1,407.4	82.8	6.1%	2,774.8	192.9	12.3%	4,199.8	217.2	18.1%
Petrochina International Co. Ltd.....	377.7	27.6	1.6%	1,082.5	77.1	4.8%	1,490.7	84.3	6.4%
Petroecuador.....	4,374.2	277.6	19.1%	2,878.7	196.5	12.8%	—	—	—
Petrochina International (Hong Kong)	—	—	—	—	—	—	—	—	—
B.B. Energy (Gulf) DMCC	—	—	—	—	—	—	—	—	—
South Blend									
Glencore Ltd.	—	—	—	—	—	—	377.7	19.6	1.6%
Tubarao Martelo									
Shell Western Supply and Trading	—	—	—	—	—	—	381.8	19.3	1.6%
Vasconia									
Shell Western Supply and Trading	—	—	—	—	—	—	720.7	38.0	3.1%
Trafigura Pte Ltd	—	—	—	—	—	—	377.5	19.9	1.6%
Vitol Inc.	—	—	—	372.1	26.6	1.7%	369.8	21.5	1.6%
International Total	7,336.8	465.3	32.0%	7,504.5	524.3	33.3%	8,668.0	459.3	37.4%
Total Domestic and International.....	22,913.2	1,441.2	100.0%	22,518.1	1,585.5	100.0%	23,162.0	1,236.9	100.0%

We purchased less crude from our domestic suppliers in the nine-month period ended September 2020 compared to the same period in 2019 (a decrease of 3.2%), primarily as a result of COVID-19 pandemic. We purchased more crude from our domestic suppliers in the year ended December 31, 2019 compared to the year ended December 31, 2018 (an increase of 3.7%), primarily as a result of an increases investing in domestic oil fields, leading to an increase in the production of domestic crude in the northern region of Peru. We purchased more crude from our domestic suppliers in 2018 compared to 2017 (an increase of 3.6%) because of increased investing in domestic oil fields, leading to an increase in domestic crude production. When domestic crude production decreases, we generally purchase higher volumes of international crude.

As of September 30, 2020, and in 2019, Valero Marketing and Supply provided 1.47% and 0.99%, respectively, of our denatured ethanol supply because it offered a more favorable price than the domestic markets. As of September 30, 2020, and in 2019, Pluspetrol, one of our main domestic suppliers, provided 2.25% and 3.12%, respectively, of LPG. Pluspetrol, Solgas, and Zeta Gas are our suppliers of LPG in the domestic market. As of September 30, 2020, for gasolines (NCC and HOGBS), Valero Marketing and Supply Company was the main supplier (9.94%).

We purchased less crude from our domestic suppliers in the nine-month period ended September 2020 compared to the same period in 2019 (a decrease of 3.2%), primarily as a result of the COVID pandemic. We purchased more crude from our domestic suppliers in the year ended December 31, 2019 compared to the year ended December 31, 2018 (an increase of 3.7%), primarily as a result of increased investing in domestic oil fields, leading

to an increase in the production of domestic crude in the northern region of Peru. We purchased more crude from our domestic suppliers in 2018 compared to 2017 (an increase of 3.6%) because of increased investing in domestic oil fields, leading to an increase in domestic crude production. When domestic crude production decreases, we generally purchase higher volumes of international crude.

Supply of Intermediate Products

Because of the increase in the domestic demand for fuel, mainly gasoline and diesel, we import Intermediate Products that are used in the production of our fuels. For example, we import high-octane gasoline for blending and cracked naphtha, both of which are used in the production of premium gasoline products. In addition, because of environmental regulations, we also import low-sulfur diesel, which we blend with biodiesel at our sales plants and distribution terminals before it is transported to consumers. Furthermore, we import biofuels such as ethanol and biodiesel, which we blend with gasoline and diesel as required by environmental regulations.

Since 2017, we have received between seven and 14 bids from international suppliers in our spot tenders to sell us Intermediate Products. Typically, the larger tenders are from our diesel (14 suppliers, on average) and cracked naphtha (14 suppliers, on average) suppliers, and the smaller tenders are from our biodiesel (three suppliers, on average) and ethanol (three suppliers, on average) suppliers.

The table below details our purchases of Intermediate Products from domestic and international suppliers for the nine-month periods ended September 30, 2020 and 2019:

Purchases of Intermediate Products by Supplier

<i>Domestic Suppliers</i>	Nine-Month Period Ended September 30,					
	2020			2019		
	<i>(Barrels in thousands)</i>	<i>(U.S.\$ in millions)</i>	<i>%</i>	<i>(Barrels in thousands)</i>	<i>(U.S.\$ in millions)</i>	<i>%</i>
Fuel Alcohol						
Refineria la Pampilla S.A.A	—	—	—	4.5	0.5	0.0%
Sucroalcolera del Chira S.A.	—	—	—	—	—	—
Valero Pure S.A.C.	—	—	—	—	—	—
Solid Asphalt 60/70						
Refineria la Pampilla S.A.A	4.5	0.3	0.0%	—	—	—
Biodiesel B100						
Heaven Petroleum Operators S.A.	70.6	8.1	0.3%	—	—	—
Industrias del Espino S.A.	—	—	—	5.0	0.5	0.0%
Nordtraube Peru S.A.C.	—	—	—	2.5	0.4	0.0%
Refineria la Pampilla S.A.A	—	—	—	—	—	—
Camisea Condensed						
Pluspetrol Peru Corporation S.A.	—	—	—	560.7	41.6	2.6%
Diesel B5-S50						
PBF Holding Company LLC	—	—	—	—	—	—
Refineria la Pampilla S.A.A	21.5	2.2	0.1%	120.0	14.7	0.6%
Liquid Petroleum Gas (Envasado)						
Pluspetrol Peru Corporation S.A.	676.0	25.9	3.3%	800.5	30.2	3.7%
Solgas S.A.	—	—	—	70.4	2.8	0.3%
Zeta Gas Andino S.A.	8.8	0.4	0.0%	—	—	—
Gasoline 84						
Refineria la Pampilla S.A.A	—	—	—	4.5	0.5	0.0%
Gasoline 90						
Refineria la Pampilla S.A.A	—	—	—	10.0	1.1	0.0%
Gasoline 95						
Refineria la Pampilla S.A.A	7.7	0.7	0.0%	—	—	—
Gasoline 97						
Valero Pure S.A.C.	9.8	1.0	0.0%	—	—	—
Natural Gasoline						
Aguaytia Energy del Peru S.R.L.	—	—	—	71.1	4.6	0.3%
HOGBS						
Refineria la Pampilla S.A.A	445.7	21.9	2.2%	197.9	15.7	0.9%
Craqued Naphtha						
Refineria la Pampilla S.A.A	199.7	10.5	1.0%	—	—	—
Primary Naphtha						
Refineria la Pampilla S.A.A	241.7	6.0	1.2%	—	—	—
Fuel Oil 500						
Refineria la Pampilla S.A.A	—	—	—	—	—	—
Fuel Oil 6						
Refineria la Pampilla S.A.A	—	—	—	—	—	—

Turbo A-1						
Pure Biofuels del Peru S.A.C	—	—	—	—	—	—
Refineria la Pampilla S.A.A	—	—	—	—	—	—
ULSD						
Refineria la Pampilla S.A.A	199.8	10.1	1.0%	—	—	—
Domestic Total	1,885.7	87.0	9.3%	1,847.1	112.5	8.6%

<i>International Suppliers</i>	Nine-Month Period Ended September 30,					
	2020			2019		
	<i>(Barrels in thousands)</i>	<i>(U.S.\$ in millions)</i>	<i>%</i>	<i>(Barrels in thousands)</i>	<i>(U.S.\$ in millions)</i>	<i>%</i>
Fuel Alcohol						
Astra Oil Company LLC	—	—	—	—	—	—
Murex LLC	—	—	—	16.6	1.7	0.1%
Repsol Trading S.A.	64.6	5.5	0.3%	293.8	24.0	1.4%
Valero Marketing and Supply Company	299.5	22.8	1.5%	213.0	17.7	1.0%
Biodiesel B100						
BP Products North America Inc.	—	—	—	—	—	—
Gunvor International BV	456.8	50.2	2.2%	711.9	80.3	3.3%
Gunvor SA	—	—	—	—	—	—
Petrochina International Co. Ltd.	—	—	—	—	—	—
Repsol Trading S.A.	124.8	14.8	0.6%	—	—	—
Butane						
Enap Refinerias S.A.	—	—	—	—	—	—
Geogas Trading S.A.	122.1	5.0	0.6%	54.7	2.5	0.3%
Petreddec Limited	—	—	—	—	—	—
Trafigura Pte Ltd	140.5	4.7	0.7%	—	—	—
Diesel B5-S50						
Exxon Mobil Sales and Supply LLC	—	—	—	—	—	—
PBF Holding Company LLC	—	—	—	—	—	—
Phillips 66 Company	305.3	22.2	1.5%	—	—	—
Exxonmobil Sales and Supply LLC	1,979.6	169.9	9.7%	3,059.4	320.7	14.2%
Gasoline 95						
Tesoro Refining and Marketing Co	40.7	3.2	0.2%	—	—	—
Aviation Gasoline 100LL						
Exxon Mobil Sales and Supply LLC	—	—	—	—	—	—
Novum Energy						
Phillips 66 Company	—	—	—	—	—	—
Trafigura Pte Ltd	—	—	—	—	—	—
Exxonmobil Sales and Supply LLC	4.8	0.5	0.0%	10.7	1.5	0.0%
HOGBS						
Chevron Products Company	—	—	—	54.8	4.1	0.3%
Lukoil Pan Americas LLC	—	—	—	67.6	6.1	0.3%
Shell Trading (US) Company	45.2	3.2	0.2%	267.2	20.5	1.2%
Tesoro Refining and Marketing Co	67.1	3.8	0.3%	—	—	—
Trafigura Pte Ltd	—	—	—	167.1	13.4	0.8%
Valero Marketing and Supply Company	206.5	12.2	1.0%	326.5	29.3	1.5%
Vitol Inc.	—	—	—	—	—	—
Exxonmobil Sales and Supply LLC	44.0	3.2	0.2%	—	—	—
Craqued Naphtha						
Chevron Products Company	—	—	—	318.1	23.2	1.5%
Exxon Mobil Sales and Supply LLC	—	—	—	—	—	—
Glencore Ltd.	—	—	—	—	—	—
Lukoil Pan Americas LLC	569.3	29.7	2.8%	482.5	38.7	2.2%
Novum Energy	174.5	10.8	0.9%	—	—	—
Shell Trading (US) Company	269.3	18.7	1.3%	963.2	69.6	4.5%
Tesoro Refining and Marketing Co	523.6	35.3	2.6%	—	—	—
Trafigura Pte Ltd	—	—	—	466.3	33.4	2.2%
Valero Marketing and Supply Company	1,812.9	94.0	8.9%	1,474.4	114.7	6.8%
Vitol Inc.	319.6	16.3	1.6%	—	—	—
Exxonmobil Sales and Supply LLC	259.2	17.4	1.3%	239.5	17.5	1.1%
Primery Naphtha						
Novum Energy	69.6	4.0	0.3%	—	—	—
Trafigura Pte Ltd	125.9	6.4	0.6%	—	—	—
Propane						
ENAP Refinerias S.A.	—	—	—	—	—	—
Geogas Trading S.A.	323.1	11.4	1.6%	148.6	6.5	0.7%
Petreddec Limited	—	—	—	—	—	—
Trafigura Pte Ltd	363.6	12.6	1.8%	—	—	—
Turbo A-1						
Chevron Products Company	—	—	—	—	—	—
Exxon Mobil Sales and Supply LLC	—	—	—	—	—	—
Houston Refining LP	—	—	—	—	—	—
Trafigura Pte Ltd	—	—	—	—	—	—
Valero Marketing and Supply Company	160.0	7.6	0.8%	—	—	—
Petrochina International (Hong Kong)	306.4	11.2	1.5%	—	—	—
ULSD						

International Suppliers	Nine-Month Period Ended September 30,					
	2020			2019		
	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%
Atlantic Trading & Marketing Inc.	—	—	—	—	—	—
Cargill, Incorporated	—	—	—	—	—	—
Chevron Products Company	—	—	—	614.8	48.7	2.9%
Exxon Mobil Sales and Supply LLC	—	—	—	—	—	—
Glencore Ltd.	—	—	—	—	—	—
Houston Refining LP	—	—	—	—	—	—
Koch Refining International Pte. Ltd.	—	—	—	—	—	—
Lukoil Pan Americas LLC	—	—	—	—	—	—
Motiva Enterprises LLC	3,651.0	174.7	18.0%	1,563.2	124.5	7.3%
Petrochina international Co. Ltd.	—	—	—	—	—	—
Shell Trading (US) Company	635.5	47.6	3.1%	—	—	—
Tesoro Refining and Marketing Co	3,146.1	173.5	15.5%	2,075.7	169.8	9.6%
Trafigura Pte Ltd	—	—	—	—	—	—
Valero Marketing and Supply Company	—	—	—	—	—	—
Vitol Inc.	—	—	—	—	—	—
Petrochina International (Hong Kong)	306.7	16.1	1.5%	—	—	—
Exxonmobil Sales and Supply LLC	1,210.4	86.7	6.0%	6,100.8	501.3	28.3%
B.B. Energy (Gulf) DMCC	296.7	25.6	1.5%	—	—	—
International Total	18,424.7	1,120.8	90.7%	19,690.3	1,669.7	91.4%
Total Domestic and International	20,310.5	1,207.8	100.0%	21,537.4	1,782.2	100.0%

The table below details our purchases of Intermediate Products from domestic and international suppliers for the years ended December 31, 2019, 2018 and 2017:

Domestic Suppliers	Year Ended December 31,								
	2019			2018			2017		
	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%
Fuel Alcohol									
Refineria la Pampilla S.A.A.	4.5	0.5	0.0%	8.8	0.9	0.0%	2.3	0.2	0.0%
Sucroalcolera del Chira S.A.	—	—	—	18.2	1.7	0.1%	27.1	2.7	0.1%
Valero Pure S.A.C.	—	—	—	5.2	0.4	0.0%	—	—	—
Solid Asphalt 60/70									
Refineria la Pampilla S.A.A.	—	—	—	—	—	—	—	—	—
Biodiesel B100									
Heaven Petroleum Operators S.A.	—	—	—	39.8	4.4	0.1%	—	—	—
Industrias del Espino S.A.	5.0	0.5	0.0%	5.0	0.5	0.0%	10.0	1.3	0.0%
Nordtraube Peru S.A.C.	2.5	0.4	0.0%	55.7	5.8	0.2%	—	—	—
Refineria la Pampilla S.A.A.	—	—	—	2.5	0.3	0.0%	—	—	—
Camisea Condensed									
Pluspetrol Peru Corporation S.A.	747.0	56.8	2.6%	847.7	75.1	2.7%	1,129.4	74.9	3.7%
Diesel B5-S50									
PBF Holding Company LLC	0.0	0.1	0.0%	—	—	—	—	—	—
Refineria la Pampilla S.A.A.	122.5	15.0	0.4%	—	—	—	51.9	4.9	0.2%
Liquid Petroleum Gas (Envasado)									
Pluspetrol Peru Corporation S.A.	1,240.2	47.0	4.3%	1,254.1	60.6	4.0%	2,843.9	118.5	9.3%
Solgas S.A.	70.4	2.8	0.2%	389.5	18.7	1.3%	—	—	—
Zeta Gas Andino S.A.	—	—	—	—	—	—	—	—	—
Gasoline 84									
Refineria la Pampilla S.A.A.	4.5	0.5	0.0%	5.0	0.5	0.0%	—	—	—
Gasoline 90									
Refineria la Pampilla S.A.A.	10.0	1.1	0.0%	5.0	0.6	0.0%	—	—	—
Gasoline 95									
Refineria la Pampilla S.A.A.	—	—	—	—	—	—	—	—	—
Gasoline 97									
Valero Pure S.A.C.	—	—	—	—	—	—	—	—	—
Natural Gasoline									
Aguaytia Energy del Peru S.R.L.	82.0	5.3	0.3%	201.5	13.0	0.6%	94.1	5.4	0.3%
HOGBS									
Refineria la Pampilla S.A.A.	562.8	43.8	2.0%	—	—	—	—	—	—
Craqued Naphtha									
Refineria la Pampilla S.A.A.	—	—	—	—	—	—	—	—	—

<i>Domestic Suppliers</i>	Year Ended December 31,								
	2019			2018			2017		
Primary Naphtha									
Refineria la Pampilla S.A.A	—	—	—	—	—	—	—	—	—
Fuel Oil 500									
Refineria la Pampilla S.A.A	—	—	—	3.0	0.3	0.0%	—	—	—
Fuel Oil 6									
Refineria la Pampilla S.A.A	1.5	0.1	0.0%	—	—	—	—	—	—
Turbo A-1									
Pure Biofuels del Peru S.A.C ...	—	—	—	—	—	—	11.3	0.9	0.0%
Refineria la Pampilla S.A.A	—	—	—	—	—	—	14.6	1.1	0.0%
ULSD									
Refineria la Pampilla S.A.A	—	—	—	—	—	—	—	—	—
Domestic Total	2,852.9	173.9	10.0%	2,840.9	183.0	9.1%	4,184.7	209.8	13.7%

<i>International Suppliers</i>	Year Ended December 31,								
	2019			2018			2017		
	<i>(Barrels in thousands)</i>	<i>(U.S.\$ in millions)</i>	<i>%</i>	<i>(Barrels in thousands)</i>	<i>(U.S.\$ in millions)</i>	<i>%</i>	<i>(Barrels in thousands)</i>	<i>(U.S.\$ in millions)</i>	<i>%</i>
Fuel Alcohol									
Astra Oil Company LLC	—	—	—	—	—	—	141.7	12.4	0.5%
Murex LLC	16.6	1.7	0.1%	343.9	25.3	1.1%	363.6	31.1	1.2%
Repsol Trading S.A.	366.9	30.0	1.3%	—	—	—	73.1	6.4	0.2%
Valero Marketing and Supply Company	382.1	33.2	1.3%	338.7	24.7	1.1%	114.9	8.2	0.4%
Biodiesel B100									
BP Products North America Inc.	—	—	—	134.1	16.2	0.4%	—	—	—
Gunvor International BV	880.9	97.5	3.1%	948.9	105.8	3.1%	1,208.9	144.6	3.9%
Gunvor SA	—	—	—	—	—	—	177.7	21.8	0.6%
Petrochina International Co. Ltd.	—	—	—	136.6	15.0	0.4%	—	—	—
Repsol Trading S.A.	—	—	—	—	—	—	—	—	—
Butane									
Enap Refinerias S.A.	—	—	—	15.5	0.8	0.0%	—	—	—
Geogas Trading S.A.	54.7	2.4	0.2%	128.1	7.2	0.4%	—	—	—
Petreddec Limited	—	—	—	5.5	0.3	0.0%	29.6	1.5	0.1%
Trafigura Pte Ltd	—	—	—	—	—	—	—	—	—
Diesel B5-S50									
Exxon Mobil Sales and Supply LLC	3,995.5	417.0	13.9%	—	—	—	—	—	—
PBF Holding Company LLC	—	—	—	610.4	69.1	2.0%	—	—	—
Phillips 66 Company	—	—	—	294.5	33.3	0.9%	—	—	—
Exxonmobil Sales and Supply LLC	—	—	—	—	—	—	—	—	—
Gasoline 95									
Tesoro Refining and Marketing Co.	—	—	—	—	—	—	—	—	—
Aviation Gasoline 100LL									
Exxon Mobil Sales and Supply LLC	10.7	1.5	0.0%	7.0	0.7	0.0%	—	—	—
Novum Energy	6.4	1.1	0.0%	—	—	—	—	—	—
Phillips 66 Company	—	—	—	6.8	1.1	0.0%	14.1	2.1	0.0%
Trafigura Pte Ltd	—	—	—	6.4	1.3	0.0%	—	—	—
Exxonmobil Sales and Supply LLC	—	—	—	—	—	—	—	—	—
HOGBS									
Chevron Products Company	54.8	4.1	0.2%	267.4	22.8	0.9%	—	—	—
Lukoil Pan Americas LLC	67.6	6.1	0.2%	220.3	19.0	0.7%	347.8	27.9	1.1%
Shell Trading (US) Company ...	267.2	20.5	0.9%	—	—	—	407.8	30.5	1.3%
Tesoro Refining and Marketing Co.	—	—	—	—	—	—	—	—	—
Trafigura Pte Ltd	167.1	13.4	0.6%	—	—	—	—	—	—
Valero Marketing and Supply Company	326.5	29.3	1.1%	770.9	67.9	2.5%	393.3	29.9	1.3%
Vitol Inc.	—	—	—	78.8	7.6	0.3%	—	—	—
Exxonmobil Sales and Supply LLC	—	—	—	—	—	—	—	—	—
Craqued Naphtha									
Chevron Products Company	318.1	23.2	1.1%	1,118.8	88.8	3.6%	—	—	—
Exxon Mobil Sales and Supply LLC	468.5	34.8	1.6%	—	—	—	—	—	—
Glencore Ltd.	—	—	—	41.2	4.4	0.1%	—	—	—
Lukoil Pan Americas LLC	482.5	38.8	1.7%	1,007.1	83.1	3.2%	1,098.3	83.9	3.6%
Novum Energy	—	—	—	—	—	—	—	—	—
Shell Trading (US) Company ...	963.2	69.5	3.4%	—	—	—	1,371.1	96.4	4.5%
Tesoro Refining and Marketing Co.	—	—	—	—	—	—	—	—	—

International Suppliers	Year Ended December 31,								
	2019			2018			2017		
	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%	(Barrels in thousands)	(U.S.\$ in millions)	%
Trafigura Pte Ltd	466.3	33.4	1.6%	—	—	—	—	—	—
Valero Marketing and Supply Company	2,288.5	177.4	8.0%	2,322.3	195.3	7.5%	1,582.5	110.8	5.2%
Vitol Inc.	—	—	—	239.0	20.7	0.8%	—	—	—
Exxonmobil Sales and Supply LLC	—	—	—	—	—	—	—	—	—
Primery Naphtha									
Novum Energy	—	—	—	—	—	—	—	—	—
Trafigura Pte Ltd	—	—	—	—	—	—	—	—	—
Propane									
ENAP Refinerias S.A.	0.0	0.1	0.0%	40.8	1.9	0.1%	—	—	—
Geogas Trading S.A.	148.6	6.4	0.5%	362.5	19.0	1.2%	—	—	—
Petredce Limited	—	—	—	18.6	1.0	0.1%	94.9	4.6	0.3%
Trafigura Pte Ltd	—	—	—	—	—	—	—	—	—
Turbo A-1									
Chevron Products Company	—	—	—	—	—	—	125.7	8.8	0.4%
Exxon Mobil Sales and Supply LLC	—	—	—	100.1	9.0	0.3%	—	—	—
Houston Refining LP	—	—	—	—	—	—	109.5	7.7	0.4%
Trafigura Pte Ltd	—	—	—	—	—	—	239.4	19.6	0.8%
Valero Marketing and Supply Company	—	—	—	—	—	—	—	—	—
Petrochina International (Hong Kong)	—	—	—	—	—	—	—	—	—
ULSD									
Atlantic Trading & Marketing Inc.	—	—	—	—	—	—	316.0	22.2	1.0%
Cargill, Incorporated	—	—	—	—	—	—	304.8	20.3	1.0%
Chevron Products Company	614.8	48.8	2.1%	922.7	84.0	3.0%	2,939.1	192.0	9.6%
Exxon Mobil Sales and Supply LLC	—	—	—	11,288.4	975.1	36.3%	2,705.4	210.7	8.8%
Glencore Ltd.	—	—	—	304.4	28.9	1.0%	871.4	59.3	2.8%
Houston Refining LP	—	—	—	0.0	0.0%	0.0%	206.5	14.1	0.7%
Koch Refining International Pte. Ltd.	—	—	—	0.0	0.0%	0.0%	6,167.5	421.5	20.1%
Lukoil Pan Americas LLC	—	—	—	609.7	55.4	2.0%	—	—	—
Motiva Enterprises LLC	3,115.6	250.5	10.9%	—	—	—	—	—	—
Petrochina international Co.	318.8	26.0	1.1%	—	—	—	908.0	60.8	3.0%
Ltd.	—	—	—	—	—	—	—	—	—
Shell Trading (US) Company ...	—	—	—	—	—	—	313.1	21.1	1.0%
Tesoro Refining and Marketing Co.	2,996.8	244.8	10.5%	3,730.0	326.0	12.0%	—	—	—
Trafigura Pte Ltd	—	—	—	—	—	—	549.7	35.0	1.8%
Valero Marketing and Supply Company	609.2	50.2	2.1%	1,827.5	174.7	5.9%	2,017.6	135.6	6.6%
Vitol Inc.	—	—	—	—	—	—	1,244.0	83.3	4.1%
Petrochina International (Hong Kong)	—	—	—	—	—	—	—	—	—
Exxonmobil Sales and Supply LLC	—	—	—	—	—	—	—	—	—
B.B. Energy (Gulf) DMCC	—	—	—	—	—	—	—	—	—
International Total	19,387.7	1,661.7	67.7%	28,247.0	2,485.5	90.9%	26,436.8	1,924.2	86.3%
Total Domestic and International	22,240.6	1,835.5	77.6%	31,087.9	2,668.4	100.0%	30,621.5	2,134.0	100.0%

During the periods reflected in the table above, purchases of denatured fuel ethanol came from the Gulf Coast Market. Currently, our main supplier is Valero Marketing and Supply Company, an ethanol producer. In the domestic market, during 2017 Sucroalcolera del Chira S.A supplied us 27.1 KB of denatured fuel ethanol. Decreases in our purchases of natural gasoline, saturated acyclic hydrocarbons and middle distillate blend stock occurred because our supplier could not supply sufficient amounts of these products to meet our requirements or did not offer competitive prices.

With the exception of ethanol, biodiesel, middle distillate blend stock and LPG, we have historically purchased intermediate fuel products only from international suppliers because none of the refineries in Peru have the facilities necessary to produce these products. We do not import any fully refined products besides LPG and middle distillate blend stock; therefore, none of the products we import are directly resold in the market. In all cases, we blend a percentage of biofuels into the gasoline and diesel we purchase, and sometimes we blend other Intermediate Products to produce diesel with a sulfur content of 50.5 ppm.

As of September 30, 2020, our main supplier of Diesel ULSD was the international company Motiva Enterprises LLC (17.97%) because it offered a more favorable price than other suppliers. For gasolines (NCC and HOGBS) during the same period, Valero Marketing and Supply Company was our main supplier (9.94%). As of September 30, 2020, and in 2019, Valero Marketing and Supply, provided 1.47% and 0.99%, respectively, of our denatured ethanol supply because it offered a more favorable price than the domestic markets. Pluspetrol, one of our main domestic suppliers, provided 2.25% and 3.12% of LPG, respectively. Pluspetrol, Solgas, Zeta Gas are our suppliers of LPG in the domestic market.

Refining and blending margins

We calculate our profitability based substantially on our refining margin. Our refining margin is the difference between the average price of the refined products produced from a barrel of crude and the price of a barrel of crude and the unit operating cost. Because we engage in blending activity in some of our distribution terminals and sales plants, we also seek to maximize our blending margin. The blending margin is the difference between the price of final products, such as biodiesel B5 S50, and the price of Intermediate Products, such as ultra-low sulfur diesel, that are blended together or blended with other materials to produce final products. We monitor our blending margin to ensure efficiency in our blending operations, but we only recognize profitability based on our refining margin, which includes the blending margin.

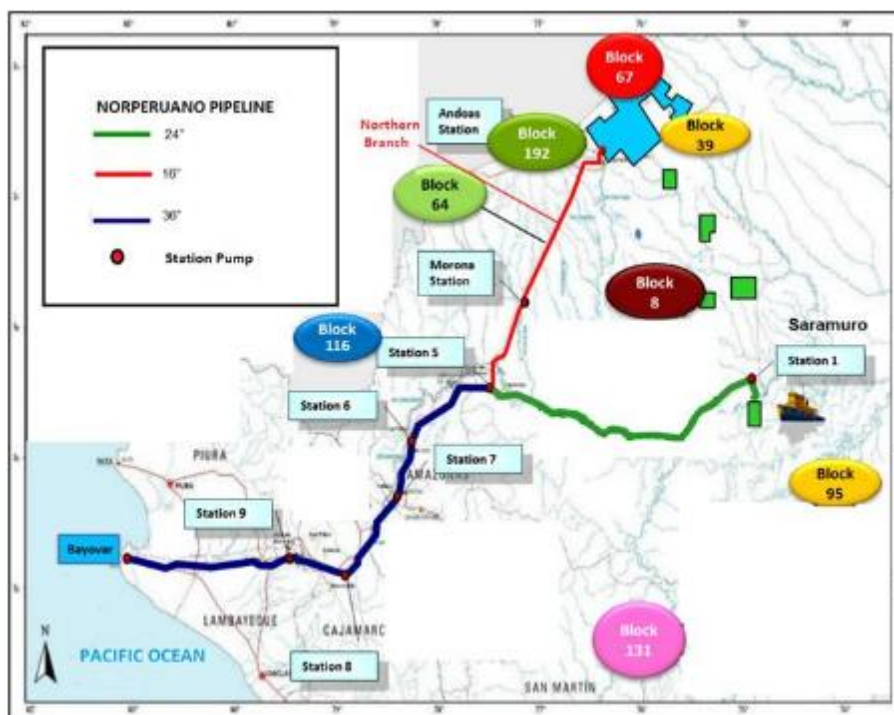
Historically, our refining margin and blending margin have fluctuated widely because of factors beyond our control, such as fluctuations in the international price of crude and the demand for refined oil products. Our refining margin and blending margin differ from those of comparable refineries on the Gulf Coast of the United States. In general, our product prices are set according to an import parity formula based on the prices charged in U.S. Gulf Coast refineries, adjusted to reflect shipping costs, insurance, associated terminal costs, differences in quality and other additional costs. The final price also takes into account price variations that occur in the market while crude and other hydrocarbon products are being transported and refined. These variations typically have a positive impact during upward trends in prices and a negative impact during downward trends. During upward trends, we profit from purchasing crude and products at low prices and selling our products at higher prices, but during downward trends, we pay higher prices for our raw materials and sell our products at lower prices. As of September 30, 2020, our conversion cycle is approximately 35 days, our inventory is approximately 63 days, our receivables are approximately 30 days and our payables are approximately 58 days. We define our conversion cycle as the lapse in time between the time we purchase our raw materials and the time we are paid for the refined products produced from those raw materials.

Transportation and distribution of crude to our facilities

We believe that our extensive crude transportation infrastructure provides us with a significant competitive advantage over current and potential competing refineries and importers of refined products in Peru. In the transportation of domestic crude, our primary advantage are our connections between the oilfields located in the northern part of the country with our tank farm in the Talara Refinery, which make the transportation of domestic crude both efficient and cost-effective. Our international crude is delivered directly to the Bayovar Terminal and the Talara and Conchán Refineries on the coast.

The Norperuano Pipeline, which primarily transports crude for third parties, has three branches, which form a “Y” shape. The Northern Branch, which originates in Andoas close to Block 192, and Branch I, which originates in the Saramuro area, merge at Station No. 5 and follow Branch II to the Bayovar Terminal on the coast. Crude arriving at Bayovar through the Norperuano Pipeline is stored at our Bayovar tank farm. There are eight pumping stations along the Norperuano Pipeline.

Norperuano Pipeline



On June 6, 1973, Peru approved Law Decree No. 19435, through which Peru instructed the MEM to execute and carry out the studies and enter into all necessary agreements, acting through Petroperu, required for the construction of the Norperuano Pipeline. On February 26, 1974, Peru approved Law Decree No. 20538, instructing and authorizing Petroperu to immediately take in use or possession any lands required for the construction, installation and/or operation of the Norperuano Pipeline, subject to the subsequent imposition of applicable easements and expropriations required and authorizing it to incur in debt in order to finance its construction. Further, on September 7, 1976, Peru approved Law Decree No. 21613, through which the northern section (*ramal norte*) of the Norperuano Pipeline was directly entrusted to Petroperu to be constructed in the real estate owned by Petroperu. Although the aforementioned law decrees do not expressly grant ownership to Petroperu of the Norperuano pipeline, Petroperu constructively owns the Norpersuano pipeline as its construction was directly commissioned by Peru, was further financed by Petroperu and has been continually operated as such since its construction. This is also confirmed by taking into account the administrative sanctioning proceedings before OEFA and OSINERGMIN which were initiated against Petroperu as owner (*titular*) of the Norperuano pipeline.

We use our Norperuano Pipeline to deliver the domestic crude produced by third parties in the northern rainforest where much of Peru's heavy crude supply is located, from Station No. 1 to the Bayovar Terminal, where it is sold in domestic or international markets. The Talara Refinery receives additional supplies of domestic crude through our small pipeline network that links the refinery with the oil producing areas nearby, imported crude in the Multibuoy Maritime Terminal. Crude used in the Conchán Refinery is primarily imported and delivered by tanker vessel.

The Norperuano Pipeline is 44 years old, having become operational in 1976, and its expected remaining life is 30 to 40 additional years (*i.e.*, 2046 to 2056). The Norperuano Pipeline has a capacity of 37 million barrels per year. We are required to invest substantial amounts in the maintenance of the Norperuano Pipeline and have completed several investment projects, including a 50-meter bridge, a 120-meter suspension bridge, a 218-meter suspension bridge, an 800-meter tunnel, and pipeline rehabilitation and reinforcement projects. In addition, we are also investing U.S.\$55.0 million in upgrades to the Norperuano Pipeline to have a safe and reliable operation, and in accordance with the standards contained in Supreme Decree 081-2007-EM. For example, we are installing automatic block valves and replacing electric generators and pumping equipment. We will continue with upgrades in the cathodic protection system (a technique to control the corrosion of a metal surface). These systems are the most commonly used to protect

pipelines and storage tanks, oil platforms.) and the tank level and flow measurement systems in the 03 sections of the Norperuano Pipeline. We rehabilitated certain segments of the pipeline near Station No. 5-Bayóvar Station and performed maintenance on the power generators and turbo pumps of the Norperuano Pipeline.

In 2018, an ONP diagnosis and conceptual engineering were carried out by TECHINT. This document determined the need to develop the following projects:

- installation of automatic block valves in the Norperuano Pipeline branches;
- improvement of the leak detection system (Install pressure transmitters);
- modernization of the remote control and supervision system – SCADA;
- modernization of cathodic protection system;
- improvement of energy efficiency (upgrade of generation / pumping equipment);
- repower the fire system;
- improvement of the communication system; and
- replacement of equipment due to obsolescence.

In accordance with the conclusions of TECHINT, as well as information compiled in the Loreto Plan (the plan to improve production in the Northern Forest of Peru), engineering studies will be carried out to determine priority of investments.

Heavy Crude Transportation Project

We have a long-term objective of modifying the Norperuano Pipeline to transport larger volumes of heavy crude, which has a density below 20° API. Related to this goal is our Heavy Crude Transportation Project, which contemplates the adaptation of the Norperuano Pipeline to enable it to transport heavy crude from the northern rainforest region through Branch I to Station No. 5 and from Station No. 5 to the Bayóvar Terminal through Branch II. However, the implementation of this project will depend primarily on whether the heavy crude producers in this region commit to producing a high enough volume of heavy crude. The decision of the producers to produce higher volumes of heavy crude is largely guided by oil prices, and we do not anticipate that an agreement with these producers will be reached until oil prices reach at least U.S.\$60.00 per barrel. Because these producers have not committed to producing a sufficiently high volume of heavy crude, we have not finalized our plans to complete the Heavy Crude Transportation Project. As with any construction project of this kind, we would be subject to various construction risks, similar to those included, but not limited to, the risks under “Risk Factors—Risks Related to Our Operations—As part of the Talara Refinery Modernization Project, we are exposed to general construction risks.”

Transportation and distribution of refined products to our customers

When our intermediate and refined products leave our refineries, they are distributed through or stored at our distribution terminals and sales plants throughout Peru by using maritime, river, ground, and railroad transport methods.

Terminals and Refineries in Peru

We transport our refined products within Peru to maintain adequate levels of inventory to comport with reserve requirement regulations and meet demand. We use a hired fleet of five oil tankers to transport crude and refined products from our refineries to our distribution terminals located on the coast. One of these tankers belongs to the Peruvian Navy and four of them belong to private owners. In the Port of Callao, we also use two LPG tankers, belonging to private owners, to store and transport LPG to the Callao Terminal and the Talara Refinery where we maintain at least a minimum volume of LPG inventory as required by law. In the case of LPG, Callao Terminal is supplied by Pluspetrol and the Talara Refinery is supplied by imports. For transportation of our products inland, we

use hired trucks as well as some of our own trucks and some leased river barges. We own a fleet of ten river barges for distribution, which we believe gives us a competitive advantage over our competitors because it allows us to transport our products to our customers and receive crude oil from the oilfields in a more efficient and cost-effective manner.

Storage facilities

Our intermediate and refined products are stored at these facilities as inventory and reserves before they are transported to our customers. Refined products may be transported from our distribution terminals to our sales plants when our sales plants need certain materials to satisfy demand. The table below sets forth the storage capacity for each of our distribution terminals and sales plants and the amount in storage held by other companies (“Contracted Capacity”) at those distribution terminals that are under operating contracts:

Terminal	Installation	Storage Capacity (Thousands of Barrels) ⁽¹⁾	Contracted Capacity (Thousands of Barrels)	Products
Talara	Refinery	3,668.3	Operated by Petroperu	LPG, solvents, gasoline, diesel B5, diesel B5 S50, jet fuel, MGO, IFO 380, PI6, PI500, cracked naphtha, HOGBS, ultra-low-sulfur diesel, heavy gasoil, asphalt, crude
	Sales Plant			LPG, solvent, gasoline, diesel B5, diesel B5 S50, turbo, PI6, PI500, asphalt
Bayóvar ⁽²⁾	Distribution Terminal	3,680 ⁽¹⁾	Operated by Petroperu	Crude
Piura	Sales Plant	41.09	Operated by Petroperu	Gasoline, diesel
Conchán	Refinery	1,869.9	Operated by Petroperu	Solvent, gasoline, diesel B5, IFO 380, PI6, PI500, cracked naphtha, HOGBS, ultra-low-sulfur diesel, biofuels, heavy gasoil, asphalt, crude
	Sales Plant	117.1		Solvent, gasoline, diesel B5, diesel S50 B5, PI6, PI500, ultra-low-sulfur diesel, biofuels, asphalt
Pucallpa	Sales Plant	10.1	Operated by Petroperu	Gasoline, diesel
Tarapoto	Sales Plant	6.8	Operated by Petroperu	Gasoline, turbo, diesel
Yurimaguas	Sales Plant	35.5	Operated by Petroperu	Gasoline, diesel, B100, cracked naphtha
El Milagro	Sales Plant	61.1	Operated by Petroperu	Gasoline, diesel, turbo, biofuels, industrial oil
Iquitos	Refinery	552.0	Operated by Petroperu	Cracked naphtha, gasoline, turbo, industrial oil, crude
	Sales Plant	108.7		Gasoline, diesel, turbo
Cerro de Pasco	Sales Plant	1.94	Operated by Petroperu	Diesel B5, gasoline
Eten ⁽³⁾	Distribution Terminal	379	138	Gasoline, diesel, turbo
Salaverry ⁽³⁾	Distribution Terminal	261	83	Gasoline, diesel
Chimbote ⁽³⁾	Distribution Terminal	295	116	Gasoline, diesel, industrial oil
Supe ⁽³⁾	Distribution Terminal	184	25	Gasoline, diesel
Callao ⁽³⁾	Distribution Terminal	1,315	884	LPG, turbo, gasoline, diesel, bunkers (MGO, IFO 380)
Pisco ⁽⁴⁾	Distribution Terminal	309	93	Gasoline, diesel, turbo

Terminal	Installation	Storage Capacity (Thousands of Barrels) ⁽¹⁾	Contracted Capacity (Thousands of Barrels)	Products
Mollendo ⁽⁴⁾	Distribution Terminal	1,052	589	Gasoline, diesel, industrial oil, turbo
Ilo ⁽⁴⁾	Distribution Terminal	181	116	Gasoline, diesel
Juliaca ⁽⁴⁾	Sales Plant	46	24	Gasohol, 84 octane gasoline, diesel B5
Cuzco ⁽³⁾	Sales Plant	56	41	Gasohol, 84 octane gasoline, diesel B5

(1) "Storage Capacity" includes storage capacity of tanks located in pumping stations.

(2) Our Bayóvar terminal only stores imported crude and domestic crude that comes through the Norperuano Pipeline from the Peruvian rainforest.

(3) Distribution Terminals operated by third parties with whom we have entered into operating contracts. For such terminals, the amount under "Contracted Capacity" represents the volume that we have in storage at the relevant terminal.

(4) Distribution Terminals operated by third parties with whom we have entered into operating contracts until November 1, 2019. From November 2, 2019, distribution terminals are being operated by a third party with an operating service contract. For such terminals, the amount under "Contracted Capacity" represents the volume that we have in storage at the relevant terminal.

Distribution terminals

Our distribution terminals, located along the coast of Peru and in certain strategic cities, receive intermediate and refined products from our suppliers and refineries by tankers and store them as inventory to meet our customers' demand and to comply with applicable regulations. Supreme Decree No. 045-2001-EM (*Reglamento para la Comercialización de Combustibles Líquidos y otros Productos Derivados de los Hidrocarburos*) requires all producers and wholesale distributors of refined products who have storage capabilities to maintain a minimum level of inventory of each of their products. These regulations aim to ensure energy security.

In addition to storing intermediate and refined products at our distribution terminals, we also use some of our distribution terminals for blending. We blend Intermediate Products in the proportions necessary to produce refined products ready for sale. For example, we blend 5.0% biodiesel into the low-sulfur diesel we receive at our terminals to produce the refined diesel and 7.8% ethanol with gasoline to produce gasoline that meets the regulatory standards.

Five of our distribution terminals in our distribution network are operated by third parties pursuant to operating contracts, including those located in the north of Peru (Eten, Salaverry, Supe, Chimbote and Callao Terminal). Our terminals in the northern and central regions of Peru are under a 20-year operating contract with Consorcio Terminales del Peru, which is composed of Graña y Montero Petrolera S.A. and Oiltanking Perú. Our terminals in the southern region of Peru were under an operating contract with Consorcio Terminales del Peru until November 3, 2019 when we thereafter assumed direct operation of the terminals. These distribution terminals store and distribute our products as well as products produced by third parties like Exxon and Repsol. Since November 2, 2019, the distribution terminals located in the south of Peru (Pisco, Mollendo, Illo, Cuzco and Juliaca) are being operated by a third party with an operating service contract. This service provider is paid a fixed monthly rate and we obtain the income for all the services provided at the terminals.

We pay the operators of our distribution terminals operating fees, and they pay us a set fee per barrel of product that passes through the terminal. In the years ended December 31, 2019 and 2018, we paid our operators U.S.\$45.3 million and U.S.\$49.4 million, respectively, in operating fees and received U.S.\$31.6 million and U.S.\$34.4 million, respectively in fees from our operators. In the nine-month period ended September 30, 2020 and 2019, we paid our operators U.S.\$19.5 million and U.S.\$37.8 million, respectively, in operating fees and received U.S.\$11.4 million and U.S.\$24.9 million, respectively in fees from our operators.

Furthermore, operators of our distribution terminals earn fees from the use of these facilities by third parties and they apply these earnings to certain investments they are required to make pursuant to our operating contracts. Under our operating contracts, we require operators to make certain additional investments in the terminals to improve storage and blending capacity, and we reimburse them for those costs over the course of five years after they are incurred through the operating fees we pay them. We do not reimburse operators for investments required by law.

Sales plants

Our sales plants are similar to our distribution terminals in that they are also storage and blending facilities from which our refined products are distributed to our customers. However, our sales plants are generally located near and associated with each of our refineries, whereas our distribution terminals are located throughout Peru and in many cases are the only distribution terminals in the area. However, unlike our distribution terminals, which are primarily operated by third parties, we operate all of our sales plants ourselves. Moreover, our sales plants store and distribute only the refined products that we produce, in contrast with our distribution terminals, which also store and distribute products produced by third parties. We also periodically receive refined products from our distribution terminals to help meet the demand for our products in the regions served by these sales plants. On November 3, 2019, we began operating the Terminal and Sales Plant located in the south of Peru (Pisco, Mollendo and Ilo Terminals and Cusco and Juliaca Sales Plant).

We have eight sales plants with an aggregate storage capacity of approximately 0.7 million barrels, located in Conchán, Talara, Piura, Iquitos, Yurimaguas, Tarapoto, Pucallpa and El Milagro. Additionally, we operate nine small airport sales plants in Talara, Trujillo, Chiclayo, Pisco, Arequipa, Tacna, Cusco, Tarapoto and Iquitos.

New facilities

In addition, we expect to invest an approximate S/188.0 million (approximately U.S.\$53 million) in the construction of new Sales Plants at Pasco (Ninacaca) and Puerto Maldonado as well as a new Distribution Terminal at Ilo. We have not yet determined how these investments will be financed.

Pasco (Ninacaca) Sales Plant. This project consists of the construction of a Sales Plant at Pasco (Ninacaca) for the delivery of diesel B5 and gasoline with a storage capacity of 15,400 barrels to replace the existing terminal at Pasco (Cerro de Pasco). We expect the completion of this project will increase our presence in the surrounding area, increase our commercialization of refined products and Intermediate Products throughout Peru and reinforce the cost effectiveness of our activity in the area.

Puerto Maldonado Sales Plant. This project consists of the construction of a Sales Plant at Puerto Maldonado for the delivery of diesel B5 and gasoline with a storage capacity of 111,000 barrels to be expanded to 167,000 barrels as part of the second stage of the project's implementation. Once completed, we expect this project to reduce transportation costs by allowing us to use a more cost-effective distribution route and to liberate processing capacity at the Cusco Sales Plant, which is currently being used to supply the area surrounding the new Puerto Maldonado Sales Plant.

Ilo Distribution Terminal. This project, which will be executed in four stages, includes the construction of a new distribution terminal to replace the existing terminal at Ilo, including storage space for up to 1.1 million barrels, 19 unloading arms and one loading arm, three underwater pipelines measuring 18, 14 and 10 inches and a multi-buoy mooring system. The first stage of this project will involve the construction of 296,000 barrels of storage space, 16 unloading arms and one loading arm. Once completed, we expect this project will result in increased sales of refined products at Ilo by decreasing prices relative to the Mollendo Terminal and in increased income from the leasing of additional storage space and the delivery of additional amounts of diesel 2 to YPFB. In addition, we expect this project will stabilize our supply of refined products and Intermediate Products to the surrounding area.

Sales strategy and inventory management

Our sales strategy focuses on maintaining inventory levels necessary to meet regulatory inventory requirements and our customers' demand at the lowest possible cost. Principally, we determine the production level targets for our refineries based on our mathematical refining model that considers the following factors:

- availability of crude and products;
- price of crude and products;
- existing inventory levels;

- demand;
- the capacity of our fleet of barges and tankers;
- the availability of our storage tanks located at our refineries, distribution terminals, plant farms, and other storage facilities;
- programmed temporary shutdowns for maintenance of our refineries;
- closings of ports;
- transport distances;
- number of products;
- loading and unloading rates (thousands of barrels/hour); and
- port restrictions such as draft, tonnage, and displacement.

We forecast quarterly inventory levels and review them on a monthly basis in order to evaluate any deviations in our assumptions. Approximately on the 15th day of each month, we also review that month's forecasts and make the necessary adjustments depending on our actual performance.

When our supply is not sufficient to fulfill domestic demand, we purchase the relevant products, including ultra-low-sulfur diesel, high octane gasoline blending stock and LPG, in the international or domestic markets, as applicable.

Pricing strategy

Under Law No. 26621 (*Ley Orgánica de Hidrocarburos*), prices of refined fuel products in the Peruvian market are not regulated and are set freely based on supply and demand. Pursuant to this law, we determine our prices based on prices in the international markets and prices set by our domestic competitors. We do not subsidize any of our products. By law, any subsidies of hydrocarbon products in Peru must be made directly by the government.

We price our products and calculate our margins partially based on our operating costs and the cost of our inventory. In general, we set the prices of our refined products according to an import parity formula. This formula incorporates the prices charged by refineries in the U.S. Gulf Coast and adjusts them to account for shipping costs to Callao terminal, insurance, associated terminal costs, differences in quality and costs relating to ship demurrages. Prices are periodically reviewed and their economic impact is evaluated with a projection of financial results. Another aspect considered are the prices of local competition for producers and importers.

In general, we set prices for our refined products at market prices. In 2004, however, in light of rising international crude oil prices, the Peruvian government approved Emergency Decree No. 010-2004, which created the Fuel Price Stabilization Fund to protect consumers from volatility in the prices of residential LPG, diesel B5 for vehicular use, diesel B5 for electric generation in isolated electrical systems and industrial oil 6 for electric generation in isolated electrical systems. Every two months, the OSINERGMIN publishes an approved price range for each of these products, and every week it publishes an import parity price for each of them. If the import parity price falls outside of the established range, we are either entitled to receive compensation from (if the import parity price exceeds the set range) or required to make contributions to (if the import parity price falls below the set range) the Fuel Price Stabilization Fund. These compensation and contribution payments are calculated on a monthly basis and netted at the end of the year to produce a single payment that is included in our revenue. According to D.S No. 007-2020-EM, effective from April 28, 2020, the only product subject to the Stabilization Fund is Petróleo Industrial No. 6 used in Electric Generation Companies in isolated electrical power systems.

As of September 30, 2020, we have made contributions to the FEPC amounting to U.S.\$33.5 million (1.5% of our net sales income for the nine-month period ended September 30, 2020). In December 31, 2019, we made

contributions to the FEPC amounting to U.S.\$20.5 million (0.45% of our 2019 net sales income). In 2018, we received compensation from the FEPC amounting to U.S.\$38.8 million (0.80% of our 2018 net sales income).

Principal customers of our refined products

We fulfill domestic demand for our products by selling to wholesalers through our wholesale channel and to end consumers through our direct sales channel throughout the Peruvian territory, including scarcely populated areas. In the years ended December 31, 2019 and 2018, in terms of sales volume, our sales to wholesalers accounted for 43.7% and 46.9% of our total sales, respectively, and direct sales accounted for the remaining 56.3% and 53.1%, respectively.

Sales to wholesalers

Our main domestic customers are wholesalers that own distribution networks and distribute our refined products to retail and industrial consumers. In the nine-month periods ended September 30, 2020 and 2019, our main wholesale customers were Primax, accounting for 29.6% and 30.8%, respectively, of our revenue of refined products by volume, Numay S.A., accounting for 12.3% and 11.2%, respectively, of our revenue of refined products by volume, PECSA, accounting for 0.0% and 0.4%, respectively, of our revenue of refined products by volume, respectively, and other small wholesalers, accounting for our remaining revenue of refined products by volume. In the year ended December 31, 2019, our main wholesale customers were Primax, accounting for 30.8% of our revenue of refined products by volume, Numay S.A., accounting for 9.8% of our revenue of refined products by volume, PECSA, accounting for 1.5% of our revenue of refined products by volume, and other small wholesalers, accounting for our remaining revenue of refined products by volume. In 2018, our main wholesale customers were Primax, accounting for 30.6% of our revenue of refined products by volume, Numay, S.A., accounting for 10.1% of our revenue of refined products by volume, PECSA, accounting for 3.8% of our revenue of refined products by volume, and other small wholesalers, accounting for our remaining revenue of refined products by volume.

We make credit sales pursuant to the guidelines set forth in our Corporate Policy for Credit and Collection and in the corresponding manuals. Our policy is to only make credit sales pursuant to satisfactory guarantees, but we can make credit sales without guarantees after we undertake a credit risk analysis on the applicable customer. Our credit sales generally require payment within between 15 and 30 days after purchase, depending on the customer and the product. In the case of the industrial sector and our wholesale distributors, interest begins to accrue on the 30th day following delivery of the product. After the applicable payment deferral period, our customers must pay interest on the amounts due, which may include regular compensatory interest and default interest as well as certain administrative expenses.

Direct sales

In addition to our wholesale customers, we sell our products to a variety of businesses that ultimately resell them to end-consumers. We call sales to these businesses our direct sales. As of September 30, 2020, our primary direct sales customers were the 662 independent service stations that are part of Petroperú RED and that sell our products pursuant to exclusivity agreements. Sales to the Petrored service stations represented 19.3% and 18.3% of our revenue in 2019 and 2018, respectively. Sales to the Petrored service stations represented 20.2% and 19.5% of our revenue in the nine-month period ended September 30, 2020 and 2019, respectively.

Our arrangement with the Petrored service stations enables us to attain a level of influence in the retail sector without direct participation. The largest of these service stations by purchase volume, which has been our client for 18 years, has a three-year exclusivity agreement, renewable automatically for consecutive one-year periods. Our agreements with the other Petrored service stations have similar terms. Pursuant to these exclusivity agreements, in addition to selling our product, the Petrored service stations bear the Petroperu emblem and colors.

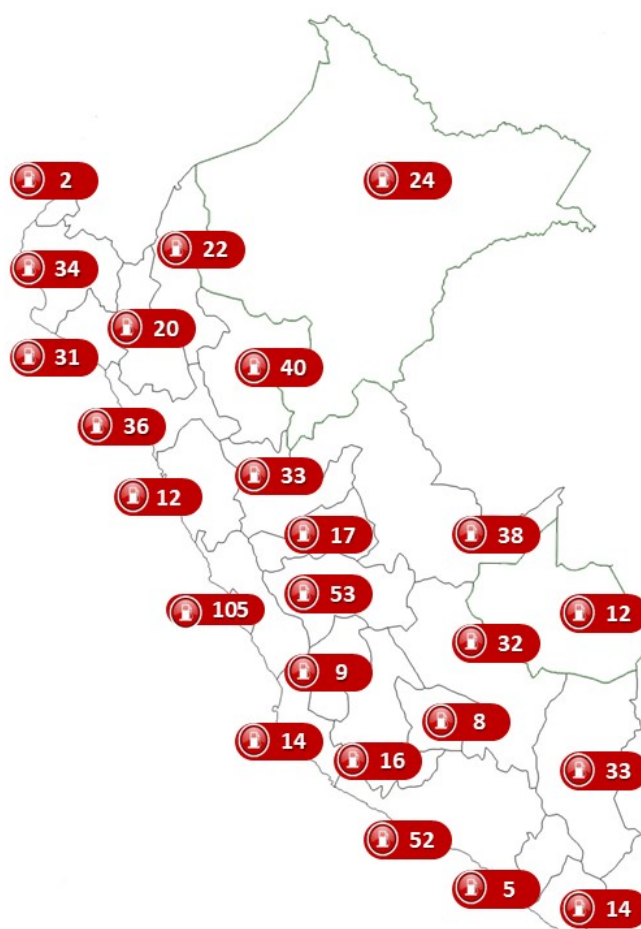
The map below shows the number of Petrored service stations in various departments of Peru as of September 30, 2020:

Petrored Service Stations by Region

RED

Strategic National
Network of Gas and
Service Stations affiliated
to **PETROPERU**

662



• As of September 30, 2020

In addition to Petrored service stations, we also make direct sales to industrial customers involved primarily in the mining industry, to service stations not associated with us and to LPG stations that ultimately serve end-consumers. In the nine-month periods ended September 30, 2020 and 2019, our sales to industrial customers accounted for 20.2% and 22.4%, respectively, of our revenue of refined product by volume. During the same periods, in terms of sales volume, sales to non-associated service stations accounted for 14.8% and 12.1%, respectively, and sales to LPG stations accounted for 1.4% and 1.3%, respectively, of our revenue. In the years ended December 31, 2019 and 2018, our sales to industrial customers accounted for 22.2% and 22.5%, respectively, our revenue of refined product by volume. During the same periods, in terms of sales volume, sales to non-associated service stations accounted for 11.1% and 13.1%, respectively, and sales to LPG stations accounted for 1.4% and 1.3%, respectively, of our revenue.

We make sales on credit to Petrored and other service stations as well as to LPG filling stations payable 17 days after the date of sale. Sales to the Armed Forces and to the Peruvian National Police are payable up to 45 and 25 days, respectively, after the date of sale.

Key sales contracts

We have entered into long-term sales contracts with certain key independent wholesalers and end-consumers. In general, we enter into three to five-year sales contracts with wholesalers that enable us to maintain a steady stream of sales. The following table summarizes our key wholesale contracts in force as of September 30, 2020 and our average daily sales under each contract.

As of September 30, 2020				
	KBPD	Contract Length	Contract Termination Date	Currency
Primax	2.334 min	7	08/05/2024	soles
Numay, S.A.	2.334 min	5	07/18/2023	soles

The contract with Primax, our largest wholesale customer, provides that Primax must purchase exclusively from us all of the diesel B5-S50, fuel oil, LPG, marine fuel and industrial oil it sells in Peru. Our contract with Primax had a five-year term with an automatic renewal provision. We initially entered into this contract on August 6, 2007 and has been renewed multiple times since then, the latest being on August 6, 2017 and expiring on August 5, 2024. Under this contract, we sold an average of 25.37 KBPD and 36.37 KBPD of refined products in the nine-month periods ended September 30, 2020 and 2019, respectively. We sold an average of 36.4 KBPD and 37.9 KBPD of refined products in the years ended December 31, 2019 and 2018, respectively. This contract may be terminated if: (1) Primax fails to purchase for two consecutive months a monthly average of 2.3 KBPD, (2) Primax has more than three overdue invoices in any 30-day period, except when it is not at fault, (3) either party breaches its obligations under the contract and fails to cure within 30 calendar days after notice of default, or (4) the contract ceases to be authorized by OSINERGMIN.

In the nine-month period ended September 30, 2020, the largest of our other contracts resulted in an average purchase volume of 10.58 KBPD compared to 11.23 KBPD in the same period in 2019. In the year ended December 31, 2019, the largest of our other contracts resulted in an average purchase volume of 11.6 KBPD compared to 12.5 KBPD in 2018.

Most of our customers under our long-term contracts are companies in the mining and transportation industries. We enter into these contracts by submitting bids and being selected by these companies to provide them with refined fuel products for the duration of the contract. Under these contracts, we must absorb the cost of delivering fuel to the relevant mine. Our largest contracts are with Sociedad Minera Cerro Verde S.A.A. and Compañía Minera Antapaccay S.A. and are for volumes of 3.9 KBPD and 1.9 KBPD, respectively. Minera Las Bamabas was served without a contract for volumes of 0.01 KBPD.

We also have long-term contracts with the Peruvian National Police (*Policía Nacional del Perú*). Our contract with the Peruvian National Police expires upon the earlier of June 30, 2021, or the purchase of the total value of the contract price of S/615.7 million.

We have been the exclusive fuel supplier for Peru's Armed Forces (Navy, Army and Air Force) since our incorporation in 1969. Although we have not entered into an exclusive supply contract with the Armed Forces, we have maintained our position as their exclusive supplier because of our competitive advantages, including:

- the national reach of our distribution network;
- the reliability of our supply of products such as gasohols, diesel products, jet fuel, and bunker fuels;
- our ability to supply the needs of the Armed Forces in the event of natural disasters; and
- our ability to adapt to their logistical and administrative requirements.

Our largest customers

The table below sets forth the volume of refined products purchased by our 10 largest customers, both in absolute terms and as a percentage of our revenue (by sales volume) for the nine-month periods ended September 30, 2020 and 2019 and for the years ended December 31, 2019 and 2018:

	As of September 30,				Year Ended December 31,			
	2020		2019		2019		2018	
	KBPD	% of revenue by volume	KBPD	% of revenue by volume	KBPD	% of revenue by volume	KBPD	% of revenue by volume
Corporación Primax S.A.....	25.37	29.6	36.37	30.8	36.40	31	37.86	31
Numay Sociedad Anónima - Numay S.A. .	10.58	12.3	11.23	9.5	11.62	10	12.52	10
Sociedad Minera Cerro Verde S.A.A.	3.26	3.8	3.74	3.2	3.85	3	3.46	3
Compañía Minera Antapaccay S.A.....	1.76	2.0	1.88	1.6	1.86	2	1.79	1
Peruana de Combustibles S.A.....	—	—	2.36	2.0	1.83	2	4.69	4
Petróleos de América S.A.....	—	—	2.40	2.0	1.79	2	3.01	2
Oil Trading S.A.C.	1.08	1.3	1.35	1.1	1.33	1	1.12	1
Genrent del Peru S.A.C.	1.21	1.4	1.23	1.0	1.24	1	1.15	1
Negociación Kio S.A.C.	0.95	1.1	1.13	1.0	1.14	1	1.04	1
Construcción y Administración S.A.	0.58	0.7	1.12	0.9	1.12	1	0.92	1
Total	44.78		62.81		116.99		122.67	

We generally make sales through wholesalers and direct sales. We have also entered into supply contracts with our major customers.

Competition and market regulation

Market structure

As of September 30, 2020, the participants, including us, in the Peruvian hydrocarbon market responsible for producing and marketing these different types of products are: Diesel –RFLP / Repsol; Valero (PBF); Global Fuel; Exxon Mobil; Phoeninca / Black Energy; and Pluspetrol– and Gasolinas / Gasoholes –RFLP / Repsol; Valero (PBF); Global Fuel; and Exxon Mobil– the fuels most in demand on the market and in which there was also a higher level of competition. Nonetheless, we continue to lead the Peruvian fuel market with a total market share of 44.3% as of September 30, 2020 and in the case of diesel and gasoline/diesel products, our company registered a market share of 55.6% and 64.9%, respectively. In 2019, we had a total market share of 43.8% of the Peruvian fuel market, and in the case of diesel and gasoline/diesel products, our company registered a market share of 54.4% and 64.1%, respectively for that same period.

According to reports published by MEM through DGH, Relapasa had an estimated 80.0% of the refining capacity in Peru as of September 30, 2020, and supplies its service stations, the mining and fishing industries, and certain wholesale customers. Pure Biofuels is also a market participant, and it imports low-sulfur diesel, turbo A1 and, since June 2015, gasoline. It also owns a sales terminal in the Port of Callao. Zeta Gas Company participates in the market for LPG only. Other competitors, including Pluspetrol, have a small aggregate market share. For a map of the location of the refineries and distribution terminals of our competitors, see “—Production and Trading Segment— Transportation and distribution of refined products to our customers.”

We are also one of the two principal producers of refined petroleum products in Peru. The other is Relapasa, which operates the La Pampilla Refinery and, according to reports by MEM through DGH, accounted for 80.0% and 53.8% of the refining capacity in Peru in the nine-month period ended September 30, 2020 and 2019, respectively. For the years ended December 31, 2019 and 2018, we accounted for 46.2% and 46.2% of the refining capacity in Peru. Our refining capacity accounts for 20.0% of the total refining capacity in Peru as of September 30, 2020. In December 31, 2019, we accounted for 46.2% of the total refining capacity in Peru. We believe that our distribution network is significantly more widespread than that of our competitors. None of our competitors owns oil pipelines in Peru. We also have a greater transport capacity through our fleet of hired tankers, which allows us to respond more quickly and flexibly to the needs of our distribution terminals and makes us less susceptible to unfavorable weather conditions. Specifically, with respect to the strength of our distribution network, some of our sales plants are located

in the Talara region, the Piura region, the central highlands and the northern rainforest, where Relapasa does not have storage facilities and thus does not serve. Similarly, we have greater storage capacity than Relapasa through our nationwide network of distribution terminals, which allows us to manage our inventory more efficiently.

Market regulation

The Peruvian refined petroleum products market is fully open to international trade. Peru does not impose import duties on crude, intermediate, or refined hydrocarbon products. However, biodiesel B100 originating in the United States or in Argentina is subject to anti-dumping safeguards imposed by the National Institute of Antitrust Regulation Intellectual Property Protection (*Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual*, or “INDECOP”), a Peruvian government entity charged with protecting consumers and promoting free markets and competition.

However, denatured ethanol is subject to import duties and the amount of these duties is determined pursuant to any applicable trade agreements between Peru and the country of origin. Ethanol import duties are 6.0% *ad valorem* duties assessed in addition to VAT (18.0%) and excise tax (20.0%). Pursuant to our free trade agreements, in 2017 the duty relief was 90.0% for imports from the United States (considering that the negotiated base rate was 12.0% the effective rate applicable in 2017 is 1.2%) and was further reduced by 100.0% in 2018. Denatured ethanol imports from Canada, the EU, Panama and the Andean Community are exempt from this tariff.

Despite Peru’s open market, we believe that potential competitors face significant economic barriers to entry into the Peruvian market, including the substantial costs and investments that would be required to establish refining and/or transportation networks of the size and complexity needed to meet Peru’s demand for refined petroleum products and inventory requirement regulations. Furthermore, producers in South American countries do not produce a surplus of diesel and gasoline that would allow them to become potential competitors in these markets.

Leased and Privatized Units Segment

Our leased and privatized units segment involves the leasing of certain of our facilities to third parties. In the nine-month period ended September 30, 2020, our leased and privatized units segment accounted for 0.8% of our total gross revenue and 10.8% of our gross profit, compared to 0.9% of our total gross revenue and 6.9% of our gross profit for the nine-month period ended September 30, 2019. In the year ended December 31, 2019, our leased and privatized units segment accounted for 0.9% of our total gross revenue and 8.0% of our gross profit, compared to 0.9% of our total gross revenue and 11.3% of our gross profit in 2018.

We report revenue from this segment as other operating income. The other operating income from this segment includes payments we receive:

- by leasing other assets for offshore production such as oil platforms located in northern Peru to Savia Peru; and
- pursuant to our operation contracts with Consorcio Terminales del Peru, comprised of Graña y Montero and Oiltanking Perú, for our distribution terminals in the north of Peru and Callao Terminal.

Savia Peru instituted an arbitration proceeding relating to lease of our offshore production assets in northern Peru seeking a review of the lease payment amount. Our contract with Savia Peru to lease our offshore production assets has expired, but it has been automatically renewed by law indefinitely while we negotiate the lease payments.

In the nine-month period ended September 30, 2020, other operating income from our leased and privatized units segment decreased by 41.0% to U.S.\$18.7 million, from U.S.\$31.7 million in the nine-month period ended September 30, 2019. In the year ended December 31, 2019, other operating income from our leased and privatized units segment decreased by 5.8% to U.S.\$42.2 million, from U.S.\$44.8 million in the year ended December 31, 2018. In 2018, other operating income from this segment decreased by 2.6% from U.S.\$46.0 million in 2017.

Oil Pipeline Operations Segment

The Norperuano Pipeline, which we own and operate, is the main oil pipeline in Peru. Since 1995, we have been the concessionaire of the Norperuano Pipeline, upon signing the Definitive Concession Contract for the Transportation of Liquid Hydrocarbons by the ONP and ORN with the General Hydrocarbons Directorate of the Ministry of Energy and Mines. The Norperuano Pipeline serves Block 192, Block 8, Block 67 and Block 95, Peru's main operating petroleum blocks, and it is located near Block 39, Block 64 and Block 131, the petroleum blocks that are located in the northern region of Peru, which, according to DGH, have the most significant reserves of crude in the country. Because our refining competitors do not own oil pipelines and pay us for the use of the Norperuano Pipeline, we believe that the Norperuano Pipeline provides us with a significant competitive advantage.

Our oil pipeline operations segment involves the transportation of crude from oil-producing blocks in the northern rainforest of Peru to the coast and the collection of freely negotiated fees for transporting and delivering crude for other parties in Peru. In the nine-month period ended September 30, 2020, our oil pipeline operations segment accounted for 0.8% of our total gross revenue and 13.8% of our gross profit, compared to 0.8% of our total gross revenue and 7.3% of our gross profit for the nine-month period ended September 30, 2019. In the year ended December 31, 2019, our oil pipeline operations segment accounted for 1.0% of our total gross revenue and 2.3% of our gross profit, compared to 2.1% of our total gross revenue and 13.5% of our gross profit in 2018.

Revenue from our pipeline operations segment is reported as other operating income. For the nine-month period ended September 30, 2020, other operating income from this segment decreased by U.S.\$10.1 million to U.S.\$18.9 million, from U.S.\$29.0 million in the nine-month period ended September 30, 2019. For the year ended December 31, 2019, other operating income from this segment decreased by U.S.\$57.1 million to U.S.\$48.8 million, from U.S.\$105.9 million in 2018.

Currently, the three branches of the Norperuano Pipeline are operational for internal inspections, in compliance with an administrative order issued by OSINERGMIN. All clean-up and remediation efforts associated with the oil leaks that occurred in 2016 were finished and closed.

Potential Future Exploration and Oil Production

We do not currently engage in the exploration and production of crude, but we expect to do so in the future in Block 64 and Block 192 (in the latter case, the Peruvian Congress approved Law No. 30357 that authorized Perupetro to directly negotiate with us the grant of Block 192 and the authorization to seek strategic partners).

Though Law No. 30130 imposes certain limitations on our ability to invest in new projects, we are permitted to engage in certain exploration and production projects pursuant to certain legal exceptions and independent authorizations. See "Management Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures and Investments—Investment in existing facilities."

We will have the right to develop 85 million barrels of light oil as 3P reserves from Block 64, according to a Ryder Scott certification performed in 2013. Additionally, the Block 192 license contract would allow us to develop 127 million barrels of oil proven reserves 1P, per our estimates. The quality of the oil crude reserves that can be produced from Blocks 64 and 192 is between 34 and 36°API and between 10 and 40°API, respectively. We do not expect to begin oil production until the second quarter of 2021.

Exploration and production of hydrocarbons in Block 64

Block 64 is a 761,501-hectare area located in the districts of Morona, Andoas and Pastaza, in the northern rainforest of Peru. It is the latest oil discovery in Marañon Basin, and it is expected to enter in production in the next years.

On April 29, 2013, as authorized by Supreme Decree No. 011-2013-EM, Talisman Peru B.V. and Hess Peru Inc. assigned to us their license agreement for the exploration and exploitation of hydrocarbons in Block 64.

On October 1, 2014, we entered into an agreement with GeoPark, our strategic partner, pursuant to which GeoPark will finance the operation and assume the related risk in exchange for a partial transfer of our license to develop Block 64. The original agreement was amended on December 2, 2016.

In December 2014, Law No. 30130 went into effect, restricting our ability to engage in investment projects not specifically approved under such law, except for projects which do not: (1) create firm or contingent, present or future, liabilities for our company; and (2) require resources from the Public Treasury. See “Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations.”

GeoPark announced, however, on July 15, 2020, its withdrawal from Block 64 and we agreed to assume 100.0% of the participation in the license contract. Because we obtained the license to develop Block 64 before Law No. 30130 came into effect, and this project was not subsequently identified as one of the exemptions under that law, we may only engage in the exploration and production of Block 64 if we are able to do so in compliance with the limitations of Law No. 30130. As a result, we will have the option of selecting a strategic operating partner until the GeoPark participation assignment process in favor of our company has been completed and the license contract modified.

Block 192

Block 192 (formerly Block 1AB) comprises 512,347 hectares and is located north of the Marañón Basin in the Peruvian rainforest, Loreto Region. It is the most important mature oil field in progress in the country, producing approximately 10.5 KBPD in January 2020. As of February 2020, Block 192 had produced 737 million barrels of oil crude. Block 192 has 13 oil fields with light (30.0°–40.0° API), medium (18.0°–22.5° API) and heavy (10.5°–16.5° API) oil crude, of which, 86.0% comes from the Vivian Reservoir and the remainder from other reservoirs such as Chonta and Basal Terciario. As of January 31, 2020, Block 192 had approximately 80 active wells and 108 wells that had been temporarily shut down because of low crude prices, lack of equipment and operational issues. Operations at Block 192 are currently suspended due to the COVID-19 pandemic and ongoing social unrest against the operator due to environmental claims and protests against the government of Peru due to claims of lack of medical attention, education, potable water and environmental issues in the surrounding communities.

Block 192 is under a service contract between Perupetro and Frontera Energy which is set to expire on the first quarter of 2021. Pursuant to Law No. 30357 approved by the Peruvian Congress, we will sign an exploitation license contract with Perupetro, under which we would become the new operators of Block 192 for a period of 30 years. We are in the process of searching for an operating partner to be included in the license contract and expect to close the process in the first quarter of 2021. See “Summary—Recent Developments—Recent Developments related to our operations—Exploration of Block 192.”

Talara Refinery Modernization Project

Overview

The Talara Refinery Modernization Project was declared a matter of national public interest by Law No. 30130 on December 18, 2013 because of the importance of the project for the preservation of air quality and the protection of public health in Peru. This project is expected to increase the efficiency of our production process and reduce the environmental impact of our existing operations by reducing the Talara Refinery’s sulfur dioxide emissions and solid particle pollution. See “Regulatory Framework—Regulatory Regime—Law No. 30130 and its implementing regulations.” In addition, the Talara Refinery Modernization Project is one of our primary strategic objectives. We expect that the Talara Refinery Modernization Project will be completed in 2021.

The Talara Refinery Modernization Project is an engineering megaproject that consists of installing new processing units, industrial services and facilities to achieve our main objectives:

- bringing the Talara Refinery into compliance with the technical and environmental standards set forth in Law No. 28694, which regulates the sulfur content in diesel fuel, and generally minimizing the social and environmental impact of the Talara Refinery;
- increasing production capacity of the Talara Refinery from 65 KBPD to 95 KBPD; and

- upgrading the production units at the Talara Refinery to process the less costly heavy crude that is indigenous to Peru into lighter, high-value-added refined products such as LPG, gasoline and diesel with a sulfur content below 50 ppm, or diesel B5 S50.

The Talara Refinery Modernization Project is the first large-scale engineering and construction project we have undertaken. As a result, we are highly dependent on the experience and capabilities of our contractors and developers. As of September 30, 2020, the total cost of the Talara Refinery Modernization Project, exclusive of financing costs, any applicable fees and commissions and the economic impact of the COVID-19 pandemic (which remains under evaluation, but was estimated at approximately U.S.\$300 million as of December 31, 2020), is expected to be approximately U.S.\$4,700.0 million. The total cost for the development of the Project is as follows:

- U.S.\$2,798.4 million under the Técnicas Reunidas EPC Contract, divided into three fixed payments of U.S.\$1,802.0 million, €721.8 million and ¥5,051.0 million, as such was stipulated in our agreement with Técnicas Reunidas as a result of consideration of the origin of goods and services;
- U.S.\$977.6 million under the Consorcio Cobra EPC Contract consisting of U.S.\$784.0 million for the Auxiliary Services Units and U.S.\$193.6 million for the Additional Works; and
- other expenses attributable to the complementary investments for process and auxiliary units, management of the EPC Contracts, insurance policies, social projects related to community relations, licenses for the use of new technologies, and land sanitation, among others.

We have entered into two EPC contracts for the construction of the Talara Refinery Modernization Project. When we first entered into the Técnicas Reunidas EPC Contract in 2014, it included the Auxiliary Services Units and the Additional Works, and estimated that the cost of the Técnicas Reunidas EPC Contract would be U.S.\$2,732 million (calculated at an exchange rate as of June 24, 2013 of €0.725 per U.S.\$1.00 and ¥98.23 per U.S.\$1.00). As of September 30, 2020, the contract price under the Técnicas Reunidas EPC Contract has increased to U.S.\$2,798.0 million as a result of the delay in the start of the Auxiliary Services Units that were initially included in the Técnicas Reunidas EPC Contract. In 2018, when we entered into the Consorcio Cobra EPC Contract after Técnicas Reunidas was unable to complete the Auxiliary Services Units and the Additional Works, we estimated that the cost of the Consorcio Cobra EPC Contract would be U.S.\$936 million (U.S.\$742 million for the Auxiliary Services Unit and U.S.\$194 million for the Additional Works). As of September 30, 2020, the cost for completion of works under the Consorcio Cobra EPC Contract has increased to U.S.\$977.61 million increased costs related to contractual administration expenses, among other factors.

Once the Talara Refinery Modernization Project is complete, we expect that it will, among other things, increase the efficiency of our production process, reduce the environmental impact of existing operations and improve the quality of our products by equipping the Talara Refinery to produce refined products with low sulfur content.

The Talara Refinery is equipped with four main units: a primary distillation unit with a 65.0 KBPD capacity, a vacuum distillation unit with a 29.0 KBPD capacity, a catalytic cracking unit with 19.0 KBPD capacity and a water desalination unit. As part of the Talara Refinery Modernization Project, we will make improvements to our primary distillation unit to increase its capacity, and we will replace the remaining units with new, higher capacity units. Furthermore, we will install additional units that introduce new refining and auxiliary processes.

Técnicas Reunidas and Consorcio Cobra will perform the portion of the Project set forth pursuant to the terms of the relevant EPC Contract, see “—EPC Contracts.”

The Auxiliary Services Units will produce some of the supplies required in our refining processes, such as hydrogen and sulfuric acid, and will provide essential services for the successful operation of the Talara Refinery, such as cooling plants and electricity.

The Talara Refinery Modernization Project is of material importance to our business. For additional information regarding our financing plans relating to the project, see “Business—Talara Refinery Modernization Project—Financing of the Talara Refinery Modernization Project,” and the terms of our EPC Contract, see “Business—Talara Refinery Modernization Project—Financing of the Talara Refinery Modernization Project—EPC Contracts.”

Progress

We have created a timeline for the completion of the Talara Refinery Modernization Project by dividing it into tasks and grouping these tasks into categories. The main categories of tasks we have identified are described below.

Tasks relating to engineering, construction and procurement to EPC with Técnicas Reunidas. This category, which includes the cost of the Técnicas Reunidas EPC Contract, is U.S.\$2,798.0 million (or 59.5%) of the total Project cost.

Tasks relating to engineering, construction and procurement to EPC with Consorcio Cobra. This category, which includes the cost of the Consorcio Cobra EPC Contract (Auxiliary Services Units and Additional Works), is U.S.\$977.6 million (or 20.8%) of the total Project cost.

Tasks relating to the mitigating health, safety and environmental risks. Tasks in this category involve the assessment and mitigation of risks related to the impact of the project on the health and safety of the community and on the environment in the area around the Talara Refinery, such as the development of the corresponding environmental impact assessment and the implementation of the necessary measures to minimize the direct and indirect impact of the Talara Refinery Modernization Project on the surrounding areas.

Tasks relating to community relations. Tasks within this category involve building community relations among workers, suppliers, educational institutions, tour guides and other members of the community surrounding the Talara Refinery. One such program is our Local Manual Labor Program, which promotes the hiring of local workers. As part of this program, we work with a “local committee” that includes members of the civil organization, *Defensa y Desarrollo*, to participate in the process of hiring these workers. As of December 31, 2016, we had implemented seven social responsibility programs that included 29 social initiatives focused on improving the technical skills of the local population, promoting local artisanal fishing, improving management skills of the local authorities, promoting cultural activities, improving local education and assisting with the development of local small businesses. We implemented separate community relations programs to improve communication with and participation of the community, incorporate local manual labor, provide environmental training to the community, involve the community in socioenvironmental monitoring and support community development. We also implemented a communication program intended to improve the dissemination of information to the local community and other project stakeholders. We had also hired 427 temporary workers, 390 of which were local unskilled workers, exceeding the minimum required under the EIA.

Tasks relating to financing. Our obligations to finance development of the Project have been met with long term financing, including the U.S.\$1,995.0 million bond issuance in June 2017, a syndicated loan guaranteed by CESCE, a commercial loan under the conditions of the OECD with a guarantee by the F.C.P.J Company Internationalization Fund (FIEM) and with this proceeds from this offering. Additionally, on March 30, 2020, the Board approved the use of short-term credit lines to cover the working capital needs of the project and on October 15, 2020, such approval was extended until March 31, 2021. See “—Financing of the Talara Refinery Modernization Project.”

As of December 31, 2020, the Project was 92.74% complete and its next phase was launched on December 31, 2020. During this stage, the Auxiliary Services Units will begin its implementation process starting with the capture units, followed by the treatment and distribution of sea water and process water, as well as the vape and hydrogen units, and will conclude with the generation of electricity in the cogeneration unit. Once the last Auxiliary Service Unit begins construction (projected for the third quarter of 2021), the Project will enter into its last stage which will consist of the sequential implementation of the process units (projected for the last quarter of 2021). The first units to be implemented are the distillation, desulphurization and conversion units. We expect the Talara Refinery Modernization Project to complete its contractual phase by September of 2022.

As of September 30, 2020, actual project completion across all categories of tasks was 92.74%. The table below sets forth the actual and projected percentages of completion for the various categories of tasks as of December 31, 2020:

Task	Actual	Projected
Engineering, construction and procurement prescribed by the EPC Contract with Técnicas Reunidas ⁽¹⁾	95.84%	95.58%
Engineering, construction and procurement prescribed by the EPC Contract with Consorcio Cobra ⁽¹⁾	81.48%	84.43%
Completion of the Project	92.74%	93.10%

(1) See “—EPC Contracts,” below.

We expect that the Talara Refinery Modernization Project will be completed on time under the new timeline and within the new estimated budget; however, unexpected delays and cost overruns could occur. See “Risk Factors—Risks Related to Our Operations—We depend on the EPC Contractors and other contractors and developers to complete the Talara Refinery Modernization Project and we cannot guarantee that the project will be completed on time, within the EPC Price or in accordance with our expectations.”

Impact of COVID-19 pandemic

As a result of the COVID-19 pandemic, we estimate a delay of approximately six months in the Talara Refinery Modernization Project due to the suspension of activities from March 2020 to June 2020, and the ongoing construction limitations under the COVID-19 sanitation protocols. The main areas impacted by the COVID-19 pandemic have been the construction of the Auxiliary Services Units and Additional Works. As of December 2020, we estimate the impact of the COVID-19 pandemic on our operations to be U.S.\$300 million. We continue to monitor the effects of the COVID-19 pandemic on our operations and its effects on the Talara Refinery Modernization Project.

Capital expenditures

In the nine-month period ended September 30, 2020, we invested U.S.\$451.2 million in the Talara Refinery Modernization Project, U.S.\$173.6 million of which was paid to Técnicas Reunidas and U.S.\$201.0 million to Consorcio Cobra. In 2019, we invested U.S.\$902.8 million in the Project, U.S.\$311.5 million of which was paid to Técnicas Reunidas and U.S.\$465.6 million of which was received by Consorcio Cobra. In 2018, we invested U.S.\$391.1 million in the Project, U.S.\$213.7 million of which was paid to Técnicas Reunidas and U.S.\$71.0 million to Consorcio Cobra. The payment amounts set forth in this paragraph do not include interest expense.

Financing of the Talara Refinery Modernization Project

As of September 30, 2020, the total cost of the Talara Refinery Modernization Project, exclusive of financing costs, any applicable fees and commissions and the economic impact of the COVID-19 pandemic (which remains under evaluation), is expected to be approximately U.S.\$4,700.0 million. The total cost includes U.S.\$2,798.0 million payable under the Técnicas Reunidas EPC Contract, and an estimated U.S.\$784.0 million for the Auxiliary Services Units and U.S.\$193.6 million for the Additional Works under the Consorcio Cobra EPC Contract. We have financed the payments made to the EPC Contractors to date through the following sources:

- U.S.\$1,995.0 million in net proceeds from two series of notes issued in 2017 due 2032 and 2047, which we have used in full for the Project;
- U.S.\$1,226.0 million from a syndicated amortizing loan guaranteed by CESCE, of which U.S.\$1,212.8 million has been disbursed and used for the Project and U.S.\$13.1 million remains available for disbursement; and
- U.S.\$325.0 million in capital contributions from Peru in January 2017, which we have used in full for the Project.

We expect that the balance of costs for the Talara Refinery Modernization Project will be financed using cash on hand, proceeds from available credit facilities and/or other financings, as well as through the additional issuance of debt securities in the domestic and international capital markets. We expect to use the proceeds of this offering to

cover short-term debt of the Project estimated to be approximately U.S.\$439 million and any remaining proceeds to fund other costs of the Project.

In addition, we are negotiating a U.S.\$284.0 million loan with OECD to be guaranteed by the F.C.P.J. Company Internationalization Fund (FIEM), which we expect to enter into shortly after the issuance of the Notes. We cannot assure you, however, that we will be able to enter into this loan with OECD.

None of the foregoing sources of financing consist of secured debt. Nonetheless, pursuant to Law No. 30130, Article No. 5, the government of Peru has been authorized to irrevocably guarantee any of our financial obligations derived from financing obtained for the execution of the Talara Refinery Modernization Project, either through structured loans, bonds or other types of financing operations, as established in the EPC Contracts, provided that the company cannot assume its financial obligations. However, the Notes are not and will not be guaranteed by a Sovereign Guarantee, nor will they benefit from any other guarantee or credit support. See “Risks Related to the Notes.”

EPC Contracts

In March 2008, we launched a competitive bidding process to obtain proposals from qualified contractors for the development of the Talara Refinery Modernization Project, through which we received three bids. We awarded the bid to Técnicas Reunidas, an international general contractor. Técnicas Reunidas is considered one of the European leaders in the design and construction of oil and gas facilities around the world. Since its creation in 1972, Técnicas Reunidas has designed and built hundreds of industrial plants worldwide, including (i) the U.S.\$200.0 million modernization of two crude distillation units for YPF Refinación S.A. in the cities of Cochabamba and Santa Cruz, Bolivia in 2012; (ii) the aggregate U.S.\$1,000 million modernization and expansion of the Aconcagua and Concón refineries for ENAP Refinerías S.A. in Chile in 2005 and 2008, respectively; and (iii) the U.S.\$550.0 million modernization of the General Lázaro Cárdenas refinery for PEMEX Refinación, S.A. de C.V. in the city of Minatitlán, Mexico in 2006.

In July 2017, after Técnicas Reunidas was unable to continue the construction of the Auxiliary Services Unit and Additional Works, we began the process of engaging a new EPC contractor for the construction of such units. We started this process through a pre-qualifying phase in July 2017 that resulted in the selection in December 2017 of Consorcio Cobra at an EPC contract price of U.S.\$936 million.

As such, there are two EPC contracts in regard to the Talara Refinery Modernization Project: the Técnicas Reunidas EPC Contract for the construction of the processing units and the Consorcio Cobra EPC Contract for the construction of the auxiliary services units and additional works. We are not aware of any contractual relationship between the EPC Contractors. Such relationships are managed independently by the project management consultant, and are related to engineering, construction in common areas, as well as supply and reception of goods and services.

Our agreement with each EPC Contractor comprises an EPC Contract, which covers the engineering, acquisition of equipment and materials, construction and implementation of the EPC Works to be carried out. Pursuant to the EPC Contracts, either EPC Contractor is entitled to receive, as sole and exclusive compensation for the performance of its obligations under the applicable EPC Contract, as set out below. The Técnicas Reunidas EPC Price and the Consorcio Cobra EPC Price includes all costs and taxes, except for applicable Peruvian VAT, Peruvian import duties, and other costs specifically assumed by us under the applicable EPC Contract.

As of September 30, 2020, we had invested an aggregate U.S.\$4,407.2 million (excluding interest expenses) in the Talara Refinery Modernization Project, of which U.S.\$2,689.6 million was paid to Técnicas Reunidas and U.S.\$737.6 million to Consorcio Cobra, with remaining being invested in complementary works and administrative processes, among others. As of December 31, 2019, we had invested U.S.\$3,556.1 million (excluding interest expenses), of which U.S.\$2,522.6 million was paid to Técnicas Reunidas and U.S.\$536.6 million to Consorcio Cobra, with remaining being invested in complementary works and administrative processes, among others. Of the U.S.\$2,689 million paid to Técnicas Reunidas as of September 30, 2020, 681.0 million has been paid in euros, 1,690.1 million in U.S. dollars and 4,738.5 million in yen.

Project works and compensation

The EPC Contracts cover the engineering, acquisition of equipment and materials, construction and implementation of its applicable EPC Works in order to:

- increase the production capacity of the Talara Refinery from 65.0 to 95.0 KBPD;
- increase the availability of industrial infrastructure for processing high-density crude from the Peruvian rainforest; and
- modify the Talara Refinery to comply with applicable Peruvian environmental laws regarding sulfur content in fuels.

Each EPC Contractor is entitled to receive, as sole and exclusive compensation for the performance of their obligations under its EPC Contract:

- *Engineering, construction and procurement to EPC with Técnicas Reunidas.* Three fixed amounts of: (i) U.S.\$1,802,004,320; (ii) €721,803,351; and (iii) ¥5,050,973,521, or U.S.\$2,798.0 million in the aggregate applying exchange rates as of September 30, 2020. The Técnicas Reunidas EPC Price includes all costs and taxes, except for applicable Peruvian VAT, Peruvian import duties, and other costs specifically assumed by us under the Técnicas Reunidas EPC Contract. Each currency component of the Técnicas Reunidas EPC Price is payable only in the currency in which it is expressed and is not subject to price adjustments or increases, other than those expressly permitted under the Técnicas Reunidas EPC Contract, such as variations due to changes in the scope of the Técnicas Reunidas EPC Works or due to unforeseeable changes in the applicable law that affect the costs of the Técnicas Reunidas EPC Contractor. Of the Técnicas Reunidas EPC Price, 90.0% is payable on a monthly basis according to the project schedule and a system that measures the progress of the Técnicas Reunidas EPC Works. The remaining 10.0% of the Técnicas Reunidas EPC Price is payable upon completion of certain milestones specifically set forth in the Técnicas Reunidas EPC Contract. Following the execution of the Técnicas Reunidas EPC Contract, we paid the Técnicas Reunidas EPC Contractor an advance payment consisting of an amount in U.S. dollars equivalent to 10.0% of the Técnicas Reunidas EPC Price (or U.S.\$279.8 million), which is deducted as a portion of the Técnicas Reunidas EPC Price in accordance with the Técnicas Reunidas EPC Contract. Pursuant to the Técnicas Reunidas EPC Contract, the currency and amount of each payment to Técnicas Reunidas is dependent on the works invoiced by Técnicas Reunidas.
- *Engineering, construction and procurement to EPC with Consorcio Cobra.* U.S.\$977.6 million as of September 30, 2020. The Consorcio Cobra EPC Price includes all costs and taxes, except for applicable Peruvian VAT, Peruvian import duties, and other costs specifically assumed by us under the Consorcio Cobra EPC Contract. Each currency component of the Consorcio Cobra EPC Price is payable only in the currency in which it is expressed and is not subject to price adjustments or increases, other than those expressly permitted under the Consorcio Cobra EPC Contract, such as variations due to changes in the scope of the Consorcio Cobra EPC Works or due to unforeseeable changes in the applicable law that affect the costs of the Consorcio Cobra EPC Contractor. Of the Consorcio Cobra EPC Price, 90.0% is payable on a monthly basis according to the project schedule and a system that measures the progress of the Consorcio Cobra EPC Works. The remaining 10.0% of the Consorcio Cobra EPC Price is payable upon completion of certain milestones specifically set forth in the Consorcio Cobra EPC Contract. Following the execution of the Consorcio Cobra EPC Contract, we paid the Consorcio Cobra EPC Contractor an advance payment consisting of an amount in U.S. dollars equivalent to 10.0% of the Consorcio Cobra EPC Price (or U.S.\$97.8 million), which is deducted as a portion of the Consorcio Cobra EPC Price in accordance with the Consorcio Cobra EPC Contract.

Performance guarantees

Técnicas Reunidas and Consorcio, as applicable, will deliver to us the following bank performance guarantees (*cartas fianza bancarias*) to be issued by banks with a minimum credit rating for their long-term debt of A- by S&P Global Ratings and included on the list of Foreign First Class Banks (*Bancos de Primera Categoría*) and published periodically by the Peruvian Central Reserve Bank:

- the advance payment bank guarantee, which was issued and delivered to us for an amount in U.S. dollars equal to the amount of the advance payment. The amount of the advance payment demand guarantee will be reduced in line with an amortization schedule included in the applicable EPC Contract;
- the due performance bank guarantees, delivered by Técnicas Reunidas and Consorcio securing the compliance of its obligations under their applicable EPC Contract, including solvency or termination, were issued and delivered to us for an amount in U.S. dollars equivalent to 10.0% of each applicable EPC Price (as may be increased), calculated in such currency applying a formula included in the applicable EPC Contract and in effect until we issue the takeover certificate (*certificado de recepción*); and
- the guarantee period bank guarantee, will be delivered upon the issuance of the take-over certificate (*certificado de recepción*) securing the quality and performance of the EPC Works executed under this contract, for a combined amount in U.S. dollars equivalent to 5.0% of each EPC Price (as may be increased) and in effect throughout the guarantee period of 24 months following the issuance of the take-over certificate by us, subject to the same formula applicable to the due performance bank guarantees.

All performance guarantees will be unconditional, joint and several, irrevocable, without *excusio* rights and payable upon our written request. Should the rating of the long-term debt (by S&P Global Ratings) corresponding to any bank issuing a guarantee under any given EPC Contract fall below A-, the applicable EPC Contractor will deliver a replacement guarantee, under the terms required under said contract, from a bank with a minimum long-term debt credit rating of A- by S&P Global Ratings.

Events of default

We may terminate either EPC Contract if Técnicas Reunidas or Consorcio Cobra, as applicable, or their respective affiliates triggers an event of default specified in the corresponding contracts that is not timely cured. These events of default include, among others:

- any EPC Contractor failing to replace any of the bank guarantees delivered or to be delivered to us by such EPC Contractor in connection with the relevant EPC Contract, if (i) the rating of the issuing bank is downgraded below the level required by the relevant EPC Contract, (ii) the issuing bank is withdrawn from the Foreign First Class Bank List issued by the Peruvian Central Bank, or (iii) the bank guarantee becomes invalid or ineffective in the terms specified under the relevant EPC Contract;
- abandoning the EPC Works;
- ceasing to implement the EPC Works without a reasonable cause;
- subcontracting all of the EPC Works or assigning or creating a lien over any EPC Contract;
- declaring bankruptcy or becoming insolvent, or requesting the declaration of its insolvency or liquidation;
- offering or incurring illegal payments;
- unjustifiably delaying the performance of the EPC Works;
- delaying completion of the EPC Works; and
- incurring liability in excess of the liability limits specified in either EPC Contract.

If we terminate either EPC Contract for cause, the applicable EPC Contractor will be entitled to receive payments for its corresponding executed EPC Works only if, after the completion by us of the EPC Works, there is a positive outstanding amount payable to such EPC Contractor that results from comparing (among other amounts and as further contemplated in the applicable EPC Contract) the amounts owed by us to such EPC Contractor *plus* the amount incurred by us to complete the EPC Works, against the applicable EPC Price.

In addition, we may terminate either EPC Contract, at any time, without cause. If we complete the outstanding EPC Works within the 12-month period following such termination date, the relevant EPC Contractor is entitled to an indemnification payment for all losses resulting from such termination, not exceeding 4.0% of the value of the contracted works outstanding as of the termination date.

Either EPC Contractor may only terminate its EPC Contract should we trigger an event of default and such default is not timely cured, except for the event described in the second bullet below, in which case there is no cure period. These events of default include, as applicable:

- declaring our insolvency, or requesting the declaration of our own insolvency or liquidation;
- persistently breaching our obligations under the EPC Contract or materially breaching the EPC Contract or refusing to comply with the EPC Contract; and
- assigning the EPC Contract without the consent of the EPC Contractor, when applicable.

Either EPC Contract may also be terminated by either party as a result of an extended *force majeure* event that continues for 180 consecutive days or 270 non-consecutive days.

Cross default and Parent Guarantee

Any breach of any of the agreements comprising either EPC Contract will be automatically considered as a breach of all the other agreements comprising the relevant EPC Contract. Pursuant to the Parent Company Guarantee Agreement, each EPC Contractor jointly and severally guarantees the due performance of the obligations by such EPC Contractor under the applicable EPC Contract.

Limitation on liability

The total aggregate liability of each EPC Contractor under or related to its applicable EPC Contract may not exceed 20.0% of its applicable EPC Price (including penalties). Such limitation of liability does not apply to amounts that either EPC Contractor has recovered or is entitled to recover from any insurance carried under the applicable EPC Contract or to damages resulting from fraud, fraudulent claims, willful misconduct or gross negligence, breach of law, liabilities related to compensation obligations established in the applicable EPC Contract, among others. Pursuant to certain conditions, certain penalties contemplated under either EPC Contract are subject to lower liability limits.

For instance, in the case of Técnicas Reunidas, delay penalties are limited to 0.05% of the Técnicas Reunidas EPC Price for each day of delay and are limited to 10.0% of the Técnicas Reunidas EPC Price. Non-performance penalties are limited to 10.0% of the Técnicas Reunidas EPC Price, and accumulated penalties are limited to 15.0% of the Técnicas Reunidas EPC Price. In the case of Consorcio Cobra, delay penalties are limited to 0.1% of the EPC-UAX Price for each day of delay and 10.0% of the Consorcio Cobra EPC Price. Non-performance penalties are limited to 10.0% of the Consorcio Cobra EPC Price, and accumulated penalties are limited to 15.0% of the Consorcio Cobra EPC Price.

Assignment

Either EPC Contractor may assign the applicable EPC Contract or their rights thereunder only with our prior written consent, which we may grant or refuse at our sole discretion. We may assign either EPC Contract or our rights thereunder with the prior written consent of the applicable EPC Contractor, which consent may not be withheld except for a justified cause (*causa justificada*). Our assignments to lenders or affiliates of our company are not subject to the consent of any EPC Contractor.

Governing law and dispute resolution

Each EPC Contract is governed by Peruvian law. Any disputes arising under any EPC Contract will be resolved first by mutual consultation between the parties and, if no agreement is reached, such dispute may be submitted for resolution by a special committee formed by a senior manager of each of the parties. Should any such dispute remain unresolved, the applicable dispute resolution procedure depends on whether the disputes are of a

technical or a legal nature. Disputes of a legal nature will be resolved under the Rules of Arbitration of the International Chamber of Commerce. The place of arbitration will be Lima, Peru, the language of the proceeding will be Spanish and the decision of the arbitration panel will be final and conclusive and not subject to appeal. Disputes of a technical nature will be resolved by an independent expert, whose decision may be challenged through an arbitration proceeding, unless otherwise agreed by the parties.

Auxiliary Services Units and Additional Works

The Auxiliary Services Units are part of the Consorcio Cobra EPC Contract and consist of facilities for the production and supply of products and services necessary for the completion of the Project and operation of the upgraded Talara Refinery that consist of the following:

- a facility for the treatment of sulfuric acid;
- hydrogen and nitrogen units;
- a desalination plant;
- a chemical and waste treatment plant;
- an electric generator; and
- upgrades to the Talara Refinery's port facilities.

In addition, in connection with the Project, Consorcio Cobra is performing the Additional Works, that consist of the following:

- construction of administrative buildings;
- implementation of certain operational renovation works;
- installation of a kerosene caustic treatment unit (*TKT Unit*) and all necessary interconnections to integrate it with the Talara Refinery;
- installation of a sulfurized spent caustic soda unit (*OX Unit*) and all necessary interconnections to integrate it with the Talara Refinery;
- construction of foundations for fuel tanks;
- implementation of a dynamic operator training simulator (*OTS System*);
- electromagnetic works for distillation and refining equipment; and
- electromechanical works for interconnections both within the Talara Refinery and offsite.

As of September 30, 2020, we have reached 90.0% completion of buildings and 43.0% completion of the other activities in respect of the Additional Works.

Project Management Consultant

On June 18, 2010, we entered into a Project Management Consultant Agreement with CPT, a joint venture composed of Inelectra Argentina S.A. (an Argentinian company), Idom Ingeniería y Consultoría S.A. (a Spanish company) and Nippon Koei Co. Ltd. (a Japanese company) pursuant to which we appointed CPT as project management consultant in connection with the Talara Refinery Modernization Project to provide certain managing and supervising services.

Project Management Office

On November 22, 2016, we entered into a contract with CDT, a consortium consisting of Deloitte Touche Tohmatsu Ltda., Deloitte Consulting S.L.U. and Deloitte Corporate Finance S.A.C., pursuant to which CDT agreed to establish and run a project management office for the Talara Refinery Modernization Project to:

- perform a management and technical audit of the Talara Refinery Modernization Project;
- review the management and execution plans of the various contractors employed in connection with the Talara Refinery Modernization Project;
- develop a comprehensive management plan for the Talara Refinery Modernization Project; and
- monitor and control the activities of the various contractors employed in connection with the Talara Refinery Modernization Project, including with respect to the construction schedule, the project budget, risks, contracts, claims, exchange, documentation, procurement, engineering, technical audits, and closing.

Under the contract with CDT, we agreed to pay CDT a total contract price of U.S.\$39.4 million (including VAT) plus the cost of necessary travel expenses incurred by CDT in rendering the services described above, subject to a cap of U.S.\$787,202.22. This contract ended in December 2019.

Contingency measures

Any failure by our contractors and/or developers to comply with their obligations under the contingency measures that we have adopted in connection with the Talara Refinery Modernization Project could result in significant adverse environmental and social impact in the region and/or the communities. The EIA includes a contingency plan, tailored to the prevention, preparation, response and mitigation of any emergencies that could arise during the construction and operation of the new facilities.

In accordance with our contingency plan, our preventive measures include, among others:

- procedures to identify and label dangerous products and materials;
- provisional and permanent signs during the construction and operation phases;
- periodic training workshops for our personnel; and
- periodic emergency drills.

Moreover, our response and mitigation measures include:

- protocols to notify the appropriate intervention teams (*i.e.*, fire control, evacuation and rescue brigades, response commands, among others);
- protocols to organize the various intervention teams; and
- equipment and other technology to facilitate the control and response to emergencies (*i.e.*, portable radios, leak-protection kits, fire extinguishers, local emergency alarms, eye-washing stations, paramedic stations, among others).

Natural Gas Distribution Pipeline Network of the Southwest Concession

On October 31, 2013, Naturgy Peru S.A. became the operator of the Southwest Concession, which supplies and distributes natural gas to the regions of Arequipa, Moquegua and Tacna. After undergoing financial stress, a bankruptcy proceeding was started against Naturgy Peru S.A. which resulted in its loss of the concession as determined by Supreme Resolution No. 009-2020-EM.

Given that the distribution of natural gas is a public service in Peru, in order to avoid the interruption of the distribution and supply from the Southwest Concession, on December 12, 2020, the Official Gazette published Urgency Decree No. 134-2020, under which Peru committed up to S/34.6 million to finance the costs of operation of the Southwest Concession incurred by a non-financial, state-owned company to be appointed to carry out such special mandate as manager of the Southwest Concession. On December 14, 2020, the Official Gazette published Supreme Decree No. 029-2020-EM pursuant to which we were granted provisional management of the Southwest Concession, which encompasses the operation and management of the Southwest Concession for natural gas distribution by grid in the regions of Arequipa, Moquegua and Tacna. The Supreme Decree expressly provides that resources required for the execution of this special mandate shall be granted by the Ministry of Energy and Mines. The special mandate will be in effect for a maximum term of three years, following expiration of the Southwest Concession. Furthermore, Petroperu will receive from the prior concession holder the goods and property of the Southwest Concession listed under its inventory, in order to continue distributing natural gas in the Southwest Concession's applicable area.

We have been authorized to enter into the assignment of agreements previously entered into by Naturgy Peru S.A. for the supply and acquisition of goods and services, and to carry out administrative proceedings before the applicable administrative entities in charge of granting the applicable authorizations and permissions to carry out the mandate. In addition to the funds that have been committed by Peru to finance the operation of the Southwest Concession under Urgency Decree No. 134-2020 and Supreme Decree 029-2020-EM, the Ministry of Energy and Mines will also provide resources to execute the special mandate so as to not have a negative financial impact against our balance sheet. Notwithstanding the special mandate, we will be required to comply with the applicable legal framework regarding the distribution of natural gas through pipeline networks, including safety, environmental, quality of service and any other aspects.

Property, Plant and Equipment

We own substantially all of the equipment and production facilities relating to our business activities. The location, character, utilization and productive capacity of our production, drilling, refining, transportation and storage facilities are described above. See “—Our Refineries.” For a description of our environmental regulations, see “Regulatory Framework.”

Employees and Labor Relations

The following table sets forth the number of our employees, by category of activity and geographic location, as of the dates indicated:

	As of September 30,		As of December 31,		
	2020	2019	2019	2018	2017
<i>Category of activity</i>					
Employees.....	990	1,152	1,112	1,178	1,210
Supervisor	992	1,047	1,029	1,043	1,054
Total number of employees⁽¹⁾	1,982	2,199	2,141	2,221	2,264

(1) Does not include temporary employees

As of September 30, 2020, we had 2,525 employees, which included permanent employees, fixed-term employees and reserve employees, and we also had 12 labor unions that represented our Employee and Administrative Technician categories of personnel. Collectively, our unions represented 62% of our workers, as of September 30, 2020. In comparison, as of December 31, 2019, we had 2,784 employees, which include permanent employees, fixed-term employees and reserve employees, and we also had 12 labor unions that represented our Employee and Administrative Technician categories of personnel. Collectively, our unions represented 61% of our workers as of December 31, 2019. It should be noted that one member of our board of directors is elected by our workers. See “Management—Board of Directors.”

Each year, we carry out collective agreement negotiations with the unions on an annual basis at their request, but we only negotiate with the *Sindicato de Trabajadores Administrativos de Petroperú S.A.* (representing the administrative technical employee category) and with the *Coalición Nacional de Sindicatos de Petroperú*, a syndicate of eight other unions representing the Employee category. However, during the 2019 collective bargaining process,

the coalition disassembled after signing for the first time in the history of our company a Biannual Collective Agreement (2019-2020) with ten other unions which granted economic and non-economic benefits for the years 2019 and 2020. These agreements generally relate to wages, working conditions and benefits.

During the last five years, we have not had any work stoppages. Annually, each department is asked to note the essential positions in case of any stoppages, which are then reported to the Ministry of Labor and Employment Promotion, as well as to each labor union and the workers involved, in order to avoid any interruption in the operation of our company. In the event of a work stoppage, a report is sent to the MTPE notifying the measure adopted by the labor unions, a letter to the unions exhorting them to cancel the strike, and a message to the workers reminding them that they occupy indispensable positions for which they need to return to in order to keep their jobs within our company. In the event of any work stoppages, the administrative technical employee personnel do not carry out the tasks of the employed personnel because the essential personnel must fulfill their tasks.

Legal Proceedings

We are involved in certain legal proceedings from time to time that are incidental to the normal conduct of our business, including environmental, labor, administrative and tax disputes. See note 24 to our Unaudited Interim Financial Statements and note 29 to our Annual Financial Statements contained in this offering memorandum. From time to time we are also subject to fines, penalties and remediation costs related to environmental damages incidental to our business, and, depending on the level of severity of the infraction, may expose us to the closure of our facilities and/or stoppage of our operations and the cancellation or suspension of governmental registrations, authorizations and licenses. We do not expect any of these suits, fines, penalties or remediation costs to have a material adverse effect on our business, the results of our operations, our cash flow or our financial condition. Certain ongoing legal proceedings are discussed below.

Tax proceedings

We were recently involved in five administrative proceedings against SUNAT, the Peruvian tax authority, relating to what we consider was an excess payment of taxes by us in an aggregate amount of S/588 million. These proceedings arose from observations made by SUNAT and confirmed by the Peruvian Tax Tribunal regarding certain excise tax or “ISC” payments we made in connection with the commercialization of Turbo A-1 fuel and other fines that we are challenging. As of October 2020, those five administrative proceedings have ended and SUNAT has reimbursed us the total expected amount.

In addition, we have appealed to the Peruvian Tax Tribunal four SUNAT resolutions in connection with proceedings resulting from tax audits for years 2005 through 2008. The Peruvian Tax Tribunal is currently evaluating our claims but we cannot accurately estimate when a decision will be made. While we believe that the Peruvian Tax Tribunal will resolve these disputes in our favor, our liability in connection with these proceedings could amount to up to S/115.9 million if resolved against us. As of October 2020, tax claims have been partially resolved favorably by the Peruvian Tax Tribunal because we paid S/9.4 million for those adverse claims in September 2020.

Labor proceedings

We are involved in certain labor proceedings from time to time that are incidental to the normal conduct of our business. As of September 30, 2020 we were involved in 1,100 labor proceedings, involving S/300 million in the aggregate of amounts in dispute, in connection with the claims filed starting in 1993. Our largest labor proceeding involves a claim initiated against us for an aggregate amount of S/48 million. This claim was initiated by the Union of Administrative Employees of Petroperu (*Sindicato de Trabajadores Administrativos de Petroperú – STAPP*) seeking an increase in the working day remuneration factor from 7.216% (set by our company) to 9.09% as a result of the adjustment of said working week from 44 to 48 hours. The claim obtained a favorable judgment in the first instance but was overturned by the competent Court of Appeals. Currently, the claim is pending for judgement at the Supreme Court (*Recurso de Casación*). Our second largest labor proceeding involves a labor proceeding initiated against us for an aggregate amount of S/25.3 million. This claim was initiated by the Peruvian Federation of Oil and Energy Workers (*Federación Nacional de Trabajadores Petroleros, Energía y Afines del Perú*, or “FENPETROL”) with respect to certain obligations we assumed under a collective bargaining agreement entered into in 1986. In our view, it is reasonably possible that labor proceedings such as these will emerge in the ordinary course; therefore, we report liabilities related to proceedings such as these in accounts that do not affect our results of operations. We do

not recognize provisions in connection with these types of claims because we consider that there is not a present obligation as a result of past events for these claims.

Constitutional proceedings

Fuel Price Stabilization Fund proceeding

We initiated a constitutional proceeding (*acción de amparo*) against DGH of the MEM requesting to be exempted from the application of Directorate Resolution No. 075-2010-MEM-DG, which establishes new Fuel Price Stabilization Fund contribution and compensation factors for the period of August 2008 to April 2010. These new contribution and compensation factors resulted in lower reimbursements than we believe we were entitled to receive. This proceeding is currently before the court of first instance (following a decision of the competent Court of Appeals which declared null and void the original favorable judgement issued by said court of first instance) and the amount that we are seeking in the dispute is S/58 million. We believe that this proceeding will likely be resolved in our favor.

Callao Terminal proceeding

We entered into an engineering, procurement and construction contract with Consorcio Felguera FCC-FI on February 26, 2014 for the construction of storage space for an additional 90,000 barrels of LPG at the Callao Terminal. Pursuant to Legislative Decree No. 1192, the SBN expropriated eight hectares (approximately 19.8 acres) of the land belonging to the Callao Terminal, and transferred this land to the MTC for purposes of using this area in a project related to logistics and port activities in the Callao Port. Legislative Decree No. 1192 requires no compensation for such expropriation. We initiated a constitutional proceeding to nullify the SBN's expropriation order, which is currently being evaluated in the judiciary. We obtained a temporary injunction suspending the effect the expropriation order and ultimately the courts issued a favorable definitive and final judgement ordering the return of the land to our company and the pertaining entry at the public records in the Peruvian's Public Registry.

Congressional proceedings

Oil leaks special congressional committee

On November 10, 2016, the Peruvian Congress approved the creation of a special committee to investigate the potential liability of officers, natural persons and public institutions that may have been responsible for the oil leaks that occurred in the Norperuano Pipeline. Pursuant to this mandate, this committee was formed on December 14, 2016 and is required to submit to the Peruvian Congress the results of its investigation within 120 days. The objectives of the committee, which includes representatives from various political parties and is chaired by Congressman César Villanueva, include establishing the responsibility for the oil leaks, assessing the environmental and social impacts arising therefrom and, if applicable, determining the scope of the damages to local indigenous communities. As of the date of this offering memorandum, such special committee has neither completed its work nor issued its report and we cannot accurately estimate when the investigation will conclude, or such report will be issued. We have begun judicial proceedings before the judiciary to constitutionally challenge and declare void the entirety of the investigation as we have challenged that the report by the special committee contains several legal flaws. The judiciary dismissed our lawsuits, declaring them inadmissible, and we appealed such decision before the Constitutional Tribunal. As such, our constitutional challenge (*amparo*) is currently pending a hearing whose date is yet to be determined before the Constitutional Tribunal under Case File No. 1666-2019-AA.

Megaprojects special congressional committee

On October 20, 2016, the Peruvian Congress approved the creation of a special committee to investigate possible irregularities regarding the award of certain concessions for the development of megaprojects granted during the administration of former President Ollanta Humala. Pursuant to this mandate, the special committee was formed on October 25, 2016 and is required to submit to the Peruvian Congress the results of its investigation within 180 days. The Talara Refinery Modernization Project was included within the scope of this investigation. This committee, which is chaired by Congressman Daniel Salaverry, is required to issue a report establishing, as applicable, the political, criminal and/or administrative responsibility of the investigated parties, which includes our company. As of the date of this offering memorandum, the special committee has been terminated as Congress was dissolved on September 30, 2019 and the new Congress did not install a new special committee for this matter.

Environmental proceedings

Oil leaks at km 41 + 833 and km 20 + 190 of Branch I (2014)

On June 30, 2014, we informed the relevant authorities of an oil leak at km 41 + 833 of Branch I of the Norperuano Pipeline, following which we coordinated with the relevant authorities and the communities in the area for the containment and remediation of the leak. By July 11, 2014, we had repaired the Norperuano Pipeline and by July 12, 2014 we had resumed pumping oil between Station Nos. 1 and 5. We additionally contacted specialized agencies to conduct environmental and social impact studies and to engage in remediation activities in the area. Our total cost for recovery and remediation was S/48.0 million. By July 11, 2014, we had repaired the Norperuano Pipeline and by July 12, 2014, we had resumed pipeline operations between Stations Nos. 1 and 5. On December 17, 2014, we completed remediation activities and returned all of our personnel to the area.

OEFA imposed two corrective measures in connection with this oil leak, ordering us to clean and rehabilitate the surrounding areas and improve our communication with the communities affected by the oil leak. Although we believe we have complied with these corrective measures, OEFA imposed sanctions for an aggregate amount of 2,631.9 UIT (approximately S/10.7 million) alleging that our clean-up efforts did not comply with the standards imposed by the corrective measure and that our communication with the local communities did not reach all populations affected by the leak. We have paid these fines in full but are appealing OEFA's determination in the judiciary on the basis that the determination by the administrative court lacked sufficient basis as we believe that we complied with all required standards and reached all affected communities. The competent judiciary Court is still pending to rule on our appeal.

In connection with the June 2014 leak, the Inter-American Commission on Human Rights (IACHR) summoned Peru to a public hearing in response to a petition made on behalf of a group of indigenous communities. Although we are not a party to these proceedings, we have submitted information regarding the actions and measures we had adopted in connection with these leaks and our former General Manager and representatives from the indigenous communities testified before the IACHR, at the request of the IACHR. Members of the IACHR were invited to visit the area affected by the leak and thereafter visited the communities of Chiriaco, Cuninico and Puerto Alegria, as well as three spill zones of the North African pipeline on July 8 and 9, 2017. Staff from the Ministries of Health, Justice, Culture, Housing, Energy and Mines, the OEFA, the (OSINERGMIN) and our company also participated in the site visits.

During the site visit, the IACHR became aware of the absence of conditions of access to safe water and adequate health care, and therefore decided to bring an injunction with the Peruvian State to secure these rights. No obligations linked to our activities were included in the precautionary measures. In the last few years, we have cooperated with the Office of the Special Supranational Public Attorney, giving information and guidance relative to clean-up efforts and the restoration of the environmental conditions that we achieved.

On November 24, 2020, the Peruvian Constitutional Court (*Tribunal Constitucional*) found merits on the writ of mandamus claim (*demanda de cumplimiento*) filed by Mr. Juan Carlos Ruiz Molleda, in representation of the Native Community of Cuninico, against several entities of the Peruvian government, including us, and as a result, issued Judgment No. 828/2020 in which the Constitutional Court ordered us to comply with Item 4 of the Annex No. 4 of the Supreme Decree No. 081-2007-MINEM. We are reviewing the scope of the judgment in order to comply with its terms.

On November 16, 2014 in Km 20 + 190 Branch I, our patrolling personnel discovered the presence of oil in the artificial containment channel of the Norperuano Pipeline. We completed repairs of the leak on November 29, 2014 and resumed operations of the Norperuano Pipeline. Specialists concluded that the cause of the leak was a cut in the metal tubing of the Norperuano Pipeline by third parties. No evidence of rusting was found. We implemented crude-recovery measures to pump the leaked crude into portable storage tanks and, from there, inject them back into the Norperuano Pipeline. We also undertook remedial activities, including the cleaning of the right of way, as well as the removal of aquatic vegetation from the connecting canal, and cleaning of riverbanks and floors. Our total cost for recovery and remediation was S/28.8 million.

OEFA has found that we had no responsibility for this leak. In addition, OSINERGMIN conducted an investigation to determine if the leak at km 20 + 190 of Branch I of the Norperuano Pipeline was caused by lack of

maintenance. However, OSINERGMIN determined that we had no responsibility for this leak because it resulted from intentional sawing into the pipeline and not from mechanical failure due to corrosion. As a result, this investigation concluded on March 27, 2017 and no fines were imposed. See “Risk Factors—We face risks relating to the effects of oil leaks on local and indigenous communities.”

We have filed a claim with our insurance company for an aggregate amount of S/74.8 million comprised of S/48.0 million for the June 30, 2014 leak and S/26.8 million for the November 16, 2014 leak, and the insurance company is currently conducting its customary evaluation of the relevant documentation for the recognition of these expenses. However, the timing of our insurance company’s review is outside of our control, and we cannot accurately estimate when the process will be completed.

Additionally, we experienced six other oil leaks in 2014. None of these six leaks resulted in actions by the applicable regulators and the related remediation costs did not exceed S/1.5 million individually. Therefore, we do not consider these 2014 leaks material.

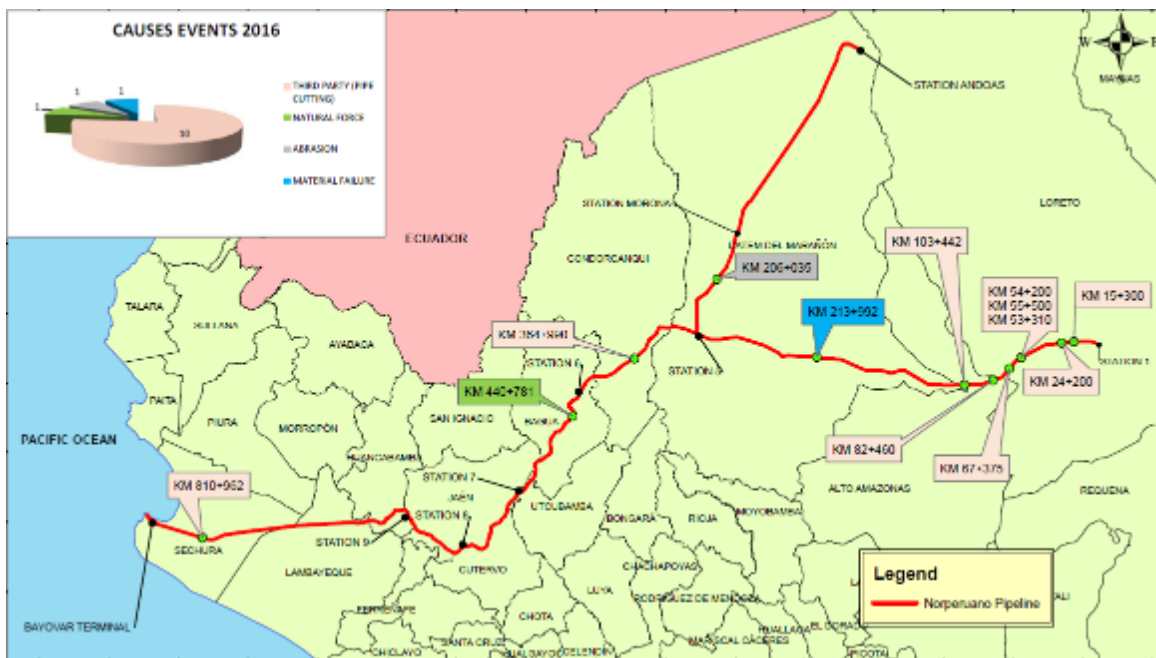
2016 oil leaks of Norperuano Pipeline

During 2016, the Norperuano Pipeline suffered 13 leaks, which resulted in an administrative order of OSINERGMIN limiting the conditions under which we could operate Branch I of the Norperuano Pipeline pending remediation and clean-up efforts.

In the first quarter of 2016, three oil leaks were identified; at kms 440 and 810 of Branch II of the Norperuano Pipeline on January 25 and March 7, 2016, respectively, and at km 206 of Branch I of the Norperuano Pipeline on February 3, 2016. The January leak occurred near the Chiriaco River in Amazonas and caused crude to leak into the Chiriaco River, in the district of Imaza, and the February leak occurred in the district of Morona, Loreto, and caused crude to leak into the Morona River. A number of residents of nearby communities reported economic damages as a result of the January leak. Collectively, we reimbursed all affected residents for an immaterial amount and we do not expect to make additional reimbursements to affected residents in connection with this leak. According to an independent study conducted by the College of Engineers of Peru (*Colegio de Ingenieros del Perú*), the January 2016 leak was caused by a major landslide in the region that shifted the Norperuano Pipeline, and a study conducted by MCC Technology determined that the causes of the February leak were accelerated wear due to abrasion from quartz particles in the affected part of the Norperuano Pipeline. Moreover, the March 2016 leak occurred in a deserted area near the district of Sechura, Piura and resulted from an attempt to connect a tube to the Norperuano Pipeline by unidentified third parties to steal crude stored in the pipeline.

Following the February 2016 leak, we suspended operations of the Norperuano Pipeline pursuant to an order issued by OSINERGMIN. In the second half of 2016, ten additional leaks were identified, nine of which occurred in Branch I of the Norperuano Pipeline and one which occurred in Branch II of the Norperuano Pipeline, between June 24, 2016 and December 11, 2016. With the exception of a leak occurring on June 24, 2016, at km 213 of the Norperuano Pipeline, in the district of Barranca, Province of Marañón, Loreto, and a leak on August 10, 2016 at km 364 of the Norperuano Pipeline, near the ravine of Uchichiángos, in the district of Nieva, Province of Condorcanqui, Loreto, the other eight leaks were contained within the Norperuano Pipeline’s artificial containment channel, preventing contamination of any water or other natural sources or damages to the local communities. The leak at km 213 extended 1.5 km, reaching the ravine of Caraña Caño and affecting the indigenous communities of Barranca, Bagazán and Angamos, and the leak at km 364 affected only two residents in the Uchichiángos community, who reported economic damages as a result of the leak. We reimbursed one of the residents for an immaterial amount, and we are currently negotiating with the other resident for what we expect will also be an immaterial amount of reimbursement. These leaks were not caused by pumping tests or operation of the Norperuano Pipeline, but due to fractures in the pipeline caused by pre-existing conditions or intentional wrongdoing, which allowed the crude oil stored in the pipeline to leak out. In particular, we have preliminarily determined, with the assistance of MCC Technology, that the leak at km 213 was caused by a pre-existing circumferential crack in the pipeline due to weakening of the pipeline resulting from the heat of welding. However, to conclusively determine the causes of this leak, MCC Technology subcontracted EMT to conduct specialized laboratory testing. The results of EMT’s analysis are expected in July 2017. The remaining nine leaks were caused by intentional wrongdoing, attributable to intentional sawing into the pipeline by unidentified third parties, in the case of eight of the leaks, and to an attempted theft of crude, in the case of the remaining leak. We have filed criminal complaints in connection with each of these intentional acts of vandalism, but the criminal investigations have failed to produce suspects.

The map below shows the location of the foregoing leaks:



As set forth in our contingency plan, which establishes our response to these situations, upon discovery of the leaks and their location, we:

- ceased the pumping of oil through the Norperuano Pipeline and mobilized personnel to the affected areas to conduct repairs and begin containment, assessment and clean-up;
- began to provide support to the affected local communities, including by delivering medical assistance, food and water regularly;
- undertook remediation efforts for the March 7, 2016 leak at km 810 + 962;
- collaborated with local communities and authorized them to participate in the hiring of local workers and third parties to assist with the clean-up efforts. In connection with these collaborations and the sensitive nature of any oil leak, certain communities and organizations have raised issues regarding our clean-up efforts and our engagement of clean-up contractors and personnel, which we believe have been resolved; and
- engaged:
 - LAMOR, a specialized international firm, to undertake remediation efforts for the January 2016 leak, the June 2016 leak at km 213 + 993, the August 2016 leak at km 364 + 990, the February 2016 leaks and the leak at km 82 + 460 in October 2016;
 - LAMOR and INMAC Peru SAC (“INMAC”), two specialized international firms, to undertake remediation efforts for the June 2016 leak and the leaks at km 54 + 200 on August 20, 2016, km 55 + 500 on August 21, 2016, km 67 + 375 on September 25, 2016, and km 53 + 310 on October 22, 2016,
 - INMAC, a specialized international firm, to undertake remediation efforts for the leak at km 103 + 442 on November 2, 2016;

- Kanay Seché Group (“Kanay”), a specialized international firm, to undertake remediation efforts for the leaks at km 15 + 300 on November 12, 2016 and km 24 + 880 on November 15, 2016; and
- Environmental Research Management (“ERM”), a global provider of environmental, health, safety, risk and social consulting services, to evaluate the social and environmental impact on the affected areas and assess the adequacy of our remediation efforts in connection with the January, February and June leaks as well as the leaks at km 364 + 990 on August 10, 2016, km 54 + 200 on August 20, 2016, km 55 + 500 on August 21, 2016, km 67 + 375 on September 25, 2016, km 82 + 460 on October 14, 2016, km 24 + 880 on November 11, 2016 and km 15 + 300 on December 11, 2016.

We received a final report from LAMOR in connection with the January 2016 leak concluding that the clean-up and remediation of the affected areas was successfully concluded on June 15, 2016, ERM’s final report in connection with the January leaks and ERM’s preliminary report in connection with the February leak, in each case finding no dangers to the health of the affected communities as of December 31, 2016. We received LAMOR’s final report in connection with the February 2016 leak in December 2017, and we received LAMOR’s reports related to the June and August 2016 leaks as well as ERM’s final report in connection with the February leak in June 2017.

In addition, we have engaged specialized firms, including CORPESA and H Rosen Engineering GmbH (“Rosen”), to perform ongoing inspection and maintenance activities to continue to improve the Norperuano Pipeline and increase the reliability of the Norperuano Pipeline as an oil transportation system. The table below indicates the tasks performed and to be performed by these companies on each of the three branches of the Norperuano Pipeline as of the date of this offering memorandum.

Northern Branch	Branch I	Branch II
<u>Completed tasks:</u>	<u>Completed tasks:</u>	<u>Completed tasks:</u>
<ul style="list-style-type: none"> • technical inspections of the exterior of the pipeline and its right of way; • superficial cleanings of the surface of the pipeline itself and its immediate surroundings; • refurbishing and reinstallation of buttresses and replacement of the exterior coverings on the pipeline; • repair and reinforcement of four portions of the pipeline by installing reinforcement plaques; • inspection of the soldering on 11 reinforcement plaques installed between 1995 and 1998; • repair of soldering joints on 7 reinforcement plaques; and 	<ul style="list-style-type: none"> • inspection and repair of 30 anomalies that evidenced a loss of thickness above 70.0% on the wall of the piping; • repair of piping at km 54 + 200, km 53 + 310 and km 55 + 500; • technical inspection of the right of way of the pipeline; 	<ul style="list-style-type: none"> • inspection and repair of 15 soldering joints between Station No. 9 and the Bayóvar Terminal; • inspection and repair of 33 anomalies that evidenced a loss of wall thickness above 70.0% on the wall of the piping; ⁽¹⁾
<u>Tasks in progress:</u>	<u>Tasks in progress:</u>	<u>Tasks in progress:</u>
<ul style="list-style-type: none"> • re-initiation of the operations of the Northern Branch of the Norperuano Pipeline to perform internal inspections using duct scrapers and establish the condition of the pipeline in accordance with the OSINERGMIN resolution. ⁽²⁾ 	<ul style="list-style-type: none"> • inspection and repair of 59 soldering joints; and • repair of piping at km 213 + 992, km 67 + 375, km 82 + 460, km 103 + 440, km 15 + 300 and km 24 + 880. 	<ul style="list-style-type: none"> • inspection and repair of 58 soldering joints between Station No. 5 and Station No.9;⁽¹⁾ • repair of 45 dents in the piping between Station No. 5 and Station No. 9; ⁽¹⁾ • reduction of pressure on the pipeline at 27 locations; and • technical inspection of the right of way of the pipeline.

(1) Denotes tasks performed by CORPESA.

(2) Denotes tasks performed by Rosen.

We have been subject to administrative proceedings by Peruvian regulators with respect to these leaks. In connection with the January and February 2016 leaks, OSINERGMIN initiated three administrative proceedings against us alleging non-compliance with security regulations applicable to the Norperuano Pipeline and our failure to provide preliminary and final reports on the February 2016 leak. We submitted our response to the allegations related to the January 2016 leaks on April 25, 2016 and to the February 2016 leaks on May 2, 2016. OSINERGMIN has not provided a response. In connection with the March 2016 leak, OSINERGMIN conducted a preliminary investigation and found nine drilling holes and an abandoned valve connected to the outer layer of the pipeline. As a result, OSINERGMIN issued a report dated March 28, 2016 finding us not responsible for the leak. In addition, OSINERGMIN initiated a fourth administrative proceeding alleging that the conditions under which we performed certain oil pumping tests on June 21, 2016, breached OSINERGMIN's February 2016 order limiting the conditions under which we could operate Branch I of the Norperuano Pipeline. This administrative proceeding resulted in acquittal of administrative responsibility and closure of proceedings. The administrative proceeding resulted in a fine of 12.78 UIT (approximately S/51,759 or U.S.\$15,931).

OEFA has initiated four sanctioning administrative proceedings against us in connection with the January, February and June 2016 leaks, which allege non-compliance with applicable environmental regulations and OEFA's administrative mandates. In particular, in its inspection of the January and February 2016 leaks, OEFA found that the frequency of these leaks was due to our failure to properly maintain the Norperuano Pipeline, which resulted in the severe corrosion of several exterior parts of the Norperuano Pipeline. OEFA concluded in its inspection that, due to our failure to maintain the Norperuano Pipeline, it is in a state of imminent danger and presents a high risk of causing grave harm to the environment, natural resources and the health of the local population.

We have exhausted administrative channels of appeal in connection with two OEFA proceedings, and we initiated an appeal in the judiciary in respect therewith. The first of these proceedings, in connection with the leaks of January 25, 2016 and February 3, 2016, was declared null in May 2018 when OEFA determined the lack of due process. The second of these OEFA proceedings, in respect with the leaks of January 25, 2016 and February 3, 2016, resulted in a fine of 12,172.80 UIT (or approximately S/51,125,760), which we are appealing at the judiciary level. The third of these proceedings, in connection with the leak of June 24, 2016, initially resulted in a 2,935 UIT (or approximately S/11.9 million) fine that was later declared null in September 2016 when OEFA determined there was no basis for such fine. The remaining proceeding was initiated by OEFA regarding our liability for the January and February 2016 leaks and breach of an injunction, respectively, is under appeal at the second and final instance of administrative review.

We estimate that we could be fined in an amount of up to 8,307 UIT (approximately S/35.7 million) in connection with these OSINERGMIN and OEFA administrative proceedings. These amounts are based on the current proceedings before OSINERGMIN and OEFA.

The proceedings before OSINERGMIN and OEFA described above allege our non-compliance with:

- maintenance protocols of the Norperuano Pipeline, such as the adequate submission of a timetable for the maintenance of the Norperuano Pipeline within the specified deadlines and our adherence to various maintenance requirements for the Norperuano pipeline;
- protocols relating to response measures taken following the leaks, such as the adoption of immediate measures to control the leaks and mitigate impact, the submission of a preliminary and a final report related to the leaks and our response to a preventive decree issued by OEFA; and
- remediation protocols in connection with potential environmental damage or health consequences in the surrounding communities.

As of the date of this offering memorandum, we estimate that approximately 20,095 barrels of crude has been released into surrounding areas because of pumping activities in the Norperuano Pipeline. In particular, we determine the volume of crude released from the pipeline by subtracting the volume of crude remaining in the pipeline after a leak from the volume in the pipeline before the leak. We are able to measure crude volume in the pipeline by measuring the volume that is subsequently pumped through our pumping stations when the Norperuano Pipeline is in operation. Accordingly, we will only be able to calculate total crude volume released when we resume operations of the Norperuano Pipeline. Due to the extent of the leaks and the affected areas, we may be subject to costs and a lengthy

clean-up process in connection with these leaks, including indemnification and compensatory costs related to the effect of the oil leak on the health of the local and indigenous populations in the affected areas. We have recorded U.S.\$31.9 million in reserves in our Financial Statements in connection with these leaks. We have completed all clean-up efforts in connection with the leaks that occurred in 2016. We have also completed clean-up efforts in connection with other leaks, including:

- the June 18, 2017 oil leak at km 810 + 978;
- the July 11, 2017 oil leak at km 58 + 070;
- the September 15, 2017 oil leak at km 51 + 767 / 51+570;
- the October 25, 2017 oil leak at km 24 + 367;
- the November 7, 2017 oil leak at km 221 + 046;
- the February 27, 2018 oil leak at km 20 + 204;
- the March 11, 2018 oil leak at km 87 + 887;
- the May 25, 2018 oil leak at km 12 + 514;
- the January 7, 2019 oil leak at km 612 + 653;
- the January 29, 2019 oil leak at km 550 + 050;
- the March 27, 2019 oil leak at km 611 + 955;
- the July 6, 2019 oil leak at km 371 + 374;
- the August 11, 2019 oil leak at km 400 + 710;
- the December 21, 2019 oil leak at km 548 + 984;
- the May 16, 2020 oil leak at km 609 + 000; and
- the September 8, 2020 oil leak at km 713 + 000.

Moreover, we expect to conclude the remaining clean-up in the second quarter of 2021, including:

- the November 27, 2018 oil leak at km 193 + 000;
- the January 1, 2019 oil leak at km 323 + 190; and
- the June 18, 2019 oil leak at km 237 + 746.
- the November 19, 2020 oil leak at km 567 + 936.

The expected aggregate cost of the remediation efforts relating to these 13 leaks was approximately S/476.6 million (U.S.\$146.7 million) as of September 30, 2020.

In addition, OEFA has ordered us, as a preventive measure, to proceed with the integral maintenance of the sections of the Norperuano Pipeline that have not suffered any severe deterioration, and to replace the sections in which severe deterioration has been identified. The implementation of OEFA's order will have an estimated cost of U.S.\$26.4 million. OEFA has also ordered us to update our PAMA to adequately reflect the impact of our transportation of crude through the Norperuano Pipeline and to prevent, mitigate and manage such impacts. We estimate that the implementation of such updates to our PAMA will have a cost of up to U.S.\$3.0 million. No other formal claims have been made by any other third parties.

Moreover, certain communities and organizations have raised issues regarding our clean-up efforts and our engagement of clean-up contractors and personnel. In particular, on March 6, 2016, the Mayuriaga indigenous community protested the Peruvian government's failure to identify it as a community affected by the Norperuano Pipeline leaks by temporarily blocking access to a helicopter that we were using to deliver food and water to the affected communities. In addition, on June 25, 2016, the same indigenous community detained employees from our company and representatives of the MEM and the PCM in protest of socioeconomic conditions in the community. Moreover, on August 23, 2016, members of the *Nueva Alianza* indigenous community temporarily impeded the access of LAMOR personnel to the area of the Norperuano Pipeline leaks at 54 + 200 on August 20, 2016 and km 55 + 500 on August 21, 2016. Furthermore, we have faced two other protests by indigenous communities located outside the areas affected by the spills, demanding employment opportunities in the clean-up operations and attracting national attention to the repeated oil spills in the region and the condition of the Norperuano Pipeline. One of these protests, near the Saramurillo community in the district of Urarinas, Loreto Province, Loreto, involved the Peruvian national executive office when over 5,000 protesters blocked all access through the Marañón River for approximately 90 days and took control of Station No. 1 of the Norperuano Pipeline from September 1, 2016 until November 30, 2016. We believe the disagreements with these communities are now resolved and we are not aware of any other protests in connection with our clean-up efforts or our selection of contractors and personnel.

As a result of the maintenance and repairs needed in connection with the 2016 spills, in accordance with certain orders from OSINERGMIN, issued in February and March 2016, the operations of certain segments of the Norperuano Pipeline were suspended until February 6, 2017, when the Northern Branch partially resumed operations. Although the Northern Branch of the Norperuano Pipeline partially resumed operations, OSINERGMIN's order permitted the operation of the Northern Branch exclusively for pumping tests and internal inspections. The Northern Branch of the Norperuano Pipeline resumed operations on February 6, 2017, Branch I on June 15, 2017 and Branch II on September 26, 2017 upon our remediation efforts in the affected areas. However, the operations of Branches I and II will also be subject to certain restrictions while OSINERGMIN's order remains in force. Because we do not use the Norperuano Pipeline to transport crude to our refineries but only to transport third parties' crude, the suspension of the pipeline's operations has not affected our refining operations and we do not expect it do so in the future. As a result of the suspension of the pipeline's operations and the related loss of fees from transportation of third-party crude, the revenue from our oil pipeline operations segment for 2019 decreased 53.9% to U.S.\$48.8 million from U.S.\$105.9 million for 2018 and the revenue from our oil pipeline operations segment for the nine-month period ended September 30, 2020 decreased 34.9% to U.S.\$18.9 million from U.S.\$29.0 million for the comparable period in 2019. Until all branches of the Norperuano Pipeline resume operations, we do not expect to receive the full revenue potential from our oil pipeline operations segment, which in 2018 accounted for 2.1% of our total gross revenue and 13.5% of our gross profit. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Year ended December 31, 2019 Compared to the Year Ended December 31, 2018—Other operating income."

Oil spills in Imaza and Morona

On January 25, 2016, an oil spill occurred at Km 440 + 781 of Branch II of the Norperuano Pipeline, located in the Villa Hermosa village of the Imaza district, Bagua province, Amazonas department (Imaza Spill), which was caused by a stress corrosion cracking (tension by external force as a result of sliding). On February 3, 2016, an oil spill occurred at Km 206 + 035 of the North Branch of the Norperuano Pipeline, located in the District of Morona, Province of Datem del Marañón and Department of Loreto (Morona Spill), which was caused by abrasion (an excess of rain and sand).

Through File No. 2566-2018-OEFA / DFAI-PAS, OEFA instructed with respect to both spills in a single action and through Resolution No. 015-2019-TFA, the Environmental Control Tribunal – TFA, while exhausting the administrative process, imposed a total fine of 12,172.80 UIT on us, and the issuance of four corrective measures.

Currently, both spills are being appealed before the national courts, where we are arguing that the events were not due to the negligence on our behalf but due to extraordinary events and *force majeure*, such as stress corrosion cracking and abrasion. Furthermore, in 2020, OEFA initiated another sanctioning administrative proceeding against us, for the same events where it sanctioned us exclusively with corrective measures. We have appealed such resolution and the appeal remains pending before OEFA.

Criminal proceedings

The following list of criminal proceedings have not been initiated against our company, but have been brought against officers and former officers of our company.

- In 2013, criminal proceedings were formally initiated against (i) our former General Director, Luis Lem, (ii) our former Pipeline Manager, Luis Suárez Carlo, (iii) our Maintenance Unit Chief, Félix Hurtado, and (iv) our Security Supervisor, Pedro Távara, for environmental contamination in connection with the 2013 spill at km 504 + 400 of Branch I of the Norperuvian Pipeline. The Second Unipersonal Criminal Court of Bagua by means of resolution N° 29 of August 7, 2017 resolved that the criminal responsibility against the defendants was not proven, absolving them from the charges brought.
- During 2014, two criminal proceedings were formally initiated against (i) Luis Lem, our former General Director, (ii) Luis Suárez, our former Pipeline Manager, (iii) Félix Hurtado, our former Head of Line Maintenance Unit, (iv) Pedro Tavera, our Safety Supervisor, and (v) José Hidalgo, our former Pipeline Manager, for environmental contamination in connection with the 2014 spills at Kms 20 and 41 of Branch I. The criminal proceeding related to the Km 20 was filed. Regarding the criminal proceeding related to the Km 41, the competent authority resolved to dismiss the case (due to flaws in the investigation and not due to lack of evidence of criminal conduct) on the criminal side, leaving in force the controversy-claim (residual) on the civil reparation in which we are considered a responsible civil third party.
- In 2016, a total of seven criminal proceedings were formally initiated against (i) our former President and General Director, Germán Adolfo Velásquez, (ii) our former General Director, Miguel Ángel Pérez Navarro, (iii) our former Pipeline Manager, Luis Suárez, (iv) our former Refining and Pipeline Manager, Gerardo León, (v) our former Head of the Maintenance Department, Víctor Mena, (vi) our former Chief of Line Maintenance Unit, Carlos Centeno, (vii) our former Chief of Line Maintenance Unit, Luis Llompart, (viii) our Chief of Integrity and Inspection, William Bustamante Díaz, and (ix) our Chief of Communication and Social Management, Lázaro Ubillús Cruz, alleging the commission of environmental crimes related to contamination in connection with seven leaks that occurred between January and August 2016. In accordance with our Corporate Reorganization Plan, we have reassigned the positions of Mr. Luis Suárez to Superintendent of Management, Mr. Gerardo León to Assistant Manager of the Conchán Refinery, Mr. Víctor Mena to Assistant Manager of Operations of the Norperuano Pipeline, Mr. Carlos Centeno as Head of the Right-of-Way Maintenance Unit, and Mr. Luis Llompart to Assistant Manager of Operations of the Norperuano Pipeline. All of them remain active in their functions during these proceedings. On April 19, 2015, Mr. Miguel Angel Pérez Navarro resigned from his position as General Manager and on June 28, 2016, Mr. Germán Adolfo Velásquez Salazar resigned from his positions as President and General Manager.

The five pending criminal proceedings relate to the contamination of Km 213, Km 206, Km 221, Morona Station (Shifeco Pond Contamination). Regarding the criminal proceedings for Km 440, 213 and 206, we are considered a responsible third party and we expect that this will also be the case with the Morona Station proceeding. At Km 221, we have not been named as a responsible third party.

Civil proceedings

We are involved in a civil dispute initiated by the Regional Government of Lambayeque with respect to certain reimbursements related to the replacement of segments of, and protection and maintenance of, the Norperuano Pipeline. This proceeding is before the court of first instance, and the claim against us is in the amount of U.S.\$6.7 million. On January 10, 2017, we filed a motion to dismiss, which is currently under review. We have determined that this dispute does not result in a present obligation, and, although we have not recognized a provision in connection with this claim, this proceeding is disclosed in note 28 to our Annual Financial Statements as of and for the year ended December 31, 2019, 2018 and 2017 in accordance with our accounting policies. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Provision for Contingencies.”

In addition, a claim has been brought against us by Mr. Arturo Tunki Wajai, the legal representative of the Apu, or leader, of the Native Community of Mayuriaga and Mr. Samuel Sumpa Mayan, President of the National Federation Wampis of Peru, on compensation for damages for non-contractual civil liability in the amount of S/90.1 million. They argue loss of profit, and emerging and moral damage caused by the oil spill in km 206 Ramal Norte of the Norperuano Pipeline, which has allegedly affected 68 families of the Native Community of Mayuriaga. We believe the contingency of future proceedings is remote.

Arbitration proceedings

In 1996, we executed an agreement with Relapasa by which we transferred La Pampilla Refinery to Relapasa and agreed to bear the environmental remediation costs originated during our operation of such refinery. Because we disagreed with the expert's interpretation of such agreement on the portion of certain remediation liabilities that were our responsibility, Relapasa initiated an arbitral proceeding against us. Our potential liability amounted to U.S.\$5.2 million. On June 2019, PetroPeru and Relapasa reached a settlement in relation to this claim.

In 2016, Pluspetrol (as manager of the consortium which operates block 8) initiated two arbitration proceedings before the United Nations Commission on International Trade Law and the Lima Chamber of Commerce, each seeking reimbursement in full for environmental remediation expenses amounting to U.S.\$63.0 million. The first arbitration occurred before the Lima Chamber of Commerce and concluded with an Arbitral Award that established our obligation to pay the claimants, among other sums, the amount of S/1,449 million for common arbitration costs and the sum of U.S.\$1.3 million for defense costs. The second arbitration was conducted ad hoc under UNCITRAL rules, resolving, among others, our obligation to pay the claimants the sum of U.S.\$175,000 for common costs of arbitration and the sum of U.S.\$641,011.20 for defense costs. We sought annulment of the arbitration awards before the judiciary; following which, the parties reached a settlement in the form of a collaboration agreement on September 24, 2019.

Administrative proceedings

In addition to the proceedings in connection with the 2014 and 2016 oil leaks described in “—Environmental proceedings—Oil Leaks at km 41 + 833 and km 20 + 190 of Branch I (2014)” and “—Environmental proceedings—2016 Oil Leaks of Norperuano Pipeline,” we have five administrative proceedings pending before OSINERGMIN as a result of our alleged failure to maintain required inventory levels for LPG in our Talara Refinery. These proceedings involve an aggregate amount of up to 1,328.7 UIT (approximately S/5.4 million). In December 2015, a resolution was issued instructing us to make the required payments. We have appealed such resolution and the appeal remains pending before the court.

In February and March 2015, OSINERGMIN initiated sanctions proceedings against us with respect to the Iquitos Commercial Plant and the Bayóvar Terminal, respectively. The Iquitos and Bayóvar proceedings were resolved and we paid penalties of S/39,500 thousand and S/2,945 thousand, respectively. In June 2016, OSINERGMIN issued an order requiring us to carry out the corresponding discharge from the Talara LPG Supply Plant within five business days after receiving the notification. We requested an extension to complete the required download and thereafter completed the download on August 1, 2016. OSINERGMIN is evaluating whether we are subject to sanctions, which could amount to a maximum of 61,050 UIT (approximately S/247.3 million). As of September 30, 2020, we had not recognized any provision in relation to this proceedings.

We have two relevant administrative proceedings pending before OEFA as a result of our presumed omission for not adopting preventive measures to avoid negative impacts to the environment as a consequence of spills. These proceedings involve an aggregate amount of up to 2,395.78 UIT (approximately S/10.3 million). Currently, these sanctions have been appealed before the Environmental Control Court.

Regarding the administrative penalty procedure (File No. 2544-2018- OEFA), by means of a Directorial Resolution (first instance), the OEFA has sanctioned the company for, allegedly, not having adopted prevention measures to avoid the generation of environmental impacts caused by the crude oil spill that occurred on November 7, 2017, at kilometer 221+057 of the North Branch of the Norperuano Pipeline. The pronouncement is under appeal before the second instance of the OEFA.

In addition, as a result of the operational supervision carried out in 2016 and 2018, OSINERGMIN initiated administrative sanctioning proceedings for violations relating to safety instruments and the firefighting system, which concluded in the first instance with a total sanction of 1001.92 UITs (S/4.3 million) for hydrocarbon regulation violations. The file is in the contested stage of administrative review (Exp. N° 2019000019122).

Also, there are other ongoing administrative procedures being pursued by OSINERGMIN against us due to alleged violations of certain firefighting system obligations in the Iquitos Refinery (Exp. N° 201900165559) and non-compliance with corrosion prevention actions in the Norperuano Pipeline (Branch I) (Exp. N° 201700135548), with potential fines up to 1,292.92 UIT and 1,988.75 UIT, respectively.

Furthermore, in connection with the June 2014 spill, the Regional Work and Development of Labor Office of the Piura Region (*Dirección Regional de Trabajo y Promoción del Empleo – Gobierno Regional Piura*) fined us S/760,000 for the illegal employment of two minors for five days in connection with remediation efforts. We filed an appeal to this decision on July 2, 2015, which is currently pending a final determination by the Fourth Civil Court of Piura (*Cuarto Juzgado Civil de Piura*) expected to be issued during 2021.

Awards, Security and Social Responsibility

We were awarded the Allies of Education (*Aliados de la Educación*) award by the Ministry of Education for supporting access to education throughout Peru in 2014, 2015 and 2016. We were awarded the Allies of Education award and the Socially Responsible Company (*Distintivo de Empresa Socialmente Responsable*) award by Asociación Perú 2021 in 2012, 2013, 2014 and 2015. We were awarded the Sustainable Development Award (*Premio al Desarrollo Sostenible*) by the Peruvian National Society of Mining, Oil and Energy (*Sociedad Nacional de Minería, Petróleo y Energía*) in 2014.

As part of our security measures, we have developed: the Port Facility Protection Program for readiness in connection with critical events such as kidnapping or vandalism in the ports in which we operate; the Plan for Fire, Disasters, and Other Emergencies involving training sessions occurring throughout the year; the Risk Studies and Contingency Plans developed by engineers registered with OSINERGMIN; the Pipeline Inspection Program developed to ensure the safety and integrity of the various pipelines we use for our operations; the Preventative Action Plan Against *El Niño* involving security measures in all of our locations against natural occurrences related to the *El Niño* weather phenomena; the Risk Mitigation Plan in the Talara Refinery Modernization Project in accordance with our internal risk studies; and the Contingency Plan for Pipelines in Case of Social Unrest for effective coordination with the local police and army.

Furthermore, we have developed certain social responsibility programs designed to develop our relations with the communities in which we operate. We have created educational programs such as “Reading is Ahead” since 2011, which involves 47 educational institutions, 35,333 students and 1,320 teachers since 2011 and “Mathematics for All,” which involves 31,543 students and 1,073 teachers since 2012. We have also developed environmental programs such as “Land of Children,” “Healthy Schools” and “Environmental Education and Communication for Sustainable Development in the Province of Talara” and an awareness program for caring of endangered Amazon species benefitting 44,612 since 2011; health programs including comprehensive campaigns that delivered medicine and medical care to 150,972 people in the communities surrounding our operations since 2011; vocational technical training of the communities surrounding our operations, with a total of 8,258 beneficiaries since 2011; and certain holiday programs developed for the children in our surrounding communities. We have also signed a cooperation agreement with Aldeas Infantiles SOS Peru, an organization dedicated to the care and protection of children in vulnerable situations. As a result of this agreement, our company has delivered more than 13 tons of recyclable waste, which its commercialization has helped this organization support children with educational programs, food and clothing.

Social Management Responsibility

Our social management responsibility oversees all of our operations at the national level, through an intercultural approach. We have developed a renewed relationship mechanism called: “The Path We Want,” which allows us to incorporate the different visions of the various groups that coexist in our operations; managing social risks in a timely manner, participating in their customs and betting on the planned and monitored use of resources

through the execution of social projects of public interest, contributing to the closing of socioeconomic gaps, achieving a direct improvement in living conditions and ensuring the sustainability of our operations.

Our main achievements include:

- Social feasibility for the attention of environmental contingencies and constant social monitoring of contractors in various operations throughout the supply chain.
- High-impact strategy for social management within the Norperuano Pipeline with permanent presence in the field.
- Local employment management with the implementation of the Norperuano Pipeline's Early Warning and Right-of-Way Clearing System with 9,000 local jobs, 92 localities involved, 20 sectors and 15 companies in the Loreto Region.
- Management of expectations in hiring local labor by the PMRT. Workers of Talara origin represented 95% of unskilled labor and 39% of qualified labor, higher than that indicated in the community relations plan (PRC) of the Project EIA.
- Manage the risks and social impacts through awareness campaigns occurring annually in the Iquitos and Sales Plants, where we teach about the dangers and risks related to hydrocarbon activities (transport by tanks and multiple pipelines).
- Strengthening the leadership and legitimacy of local leaders through the Leadership and Public Management Workshops.
- Strengthening of the Conchán Voluntary Socio-Environmental Monitoring and Surveillance Committee, the main communication channel to show transparent management.
- Permanent participation in the dialogue and work tables as part of the PRC management of the new Sales Plant projects (Ilo, Ninacaca and Pto. Maldonado).
- Portfolio of Tax Works Projects, prioritizing the attention of native communities adjacent to the Norperuano Pipeline, we are currently promoting 12 water and sanitation projects for the benefit of 16 communities in the Morona River basin.

Our featured projects and activities include:

- In education, we have assisted more than 55,000 students from different educational institutions near our operations with the delivery of school supplies at the beginning of the school year. Since 2017, our "Quality Schools" program has benefited 12,391 students and 465 teachers from 44 educational institutions near our operations in the Talara, Iquitos, Conchán and Oleoducto-Olmos regions. The School Leveling Program, which supports mathematical and verbal subjects, benefited 150 students from primary and secondary schools from six prioritized schools in 18 communities of the Andoas district surrounding the Norperuano Pipeline, which has resulted in three students passing the national exam and enter top national universities. In Talara, 110 students completed their technical-professional career, after three years of training at SENATI, with the help of a scholarship we promoted with all of these students obtaining internships and graduating in July 2020.
- In addition, we have developed the Poultry Project, which has benefited 640 families in 19 communities of Morona as part of a food security and nutrition strategy in the localities adjacent to the Norperuano Pipeline; community sewing and crafts projects that have benefited 690 women from Oleoducto, Iquitos, Conchán, and Talara, strengthening their capacities and promoting entrepreneurship and the empowerment of women; the Cleaning Intervention Program in Critical Points, which benefits 600 people from the district of Talara by improving the disposal of solid waste in the district of Pariñas; the program to strengthen artisanal fishing activity, which has implemented four projects that have received financing from the *Programa Nacional de Innovación en Pesca y Acuicultura* – PNIPA.

- We also contribute to the improvement of the living conditions and access to services of the populations in our area of influence. Through the execution of public investment projects, we provide financing, technical and legal expertise of pre-existing works in six localities of the Norperuano Pipeline. This initiative serves 22 communities in Morona, Datem del Marañón with the accompaniment of the PNSR. Private initiatives are also promoted through the Tax Works Mechanism such as: 12 water and sanitation projects which benefit 16 localities, in coordination with the Ministry of Housing, Construction and Sanitation and the District Municipality of Morona.

We consider the COVID-19 pandemic a “social challenge” that has showcased new needs linked to the structural and conjunctural limitations that accentuate the country’s historical social gaps and that have required urgent attention from companies in the sector. As a result, and in order to help minimize the risks to which the population is exposed, we have carried out different actions, including delivery of 28,480 biosecurity kits to medical personnel in Talara and to communities and health centers in the Norperuano Pipeline’s area of influence. Also, 5,000 rapid test kits were delivered to the Carlos Vivanco Mauricio II Health Center in Talara. Industrial safety and personal protection products, used in street disinfection activities, were delivered in Iquitos. In addition, 4,290 baskets with basic necessities were delivered to families in the most vulnerable areas of our Operations in Talara, Iquitos, Conchán, Ilo and Pucallpa.

In different locations of the Norperuano pipeline, we have executed the “Messaging Program” in Awajún and Kokama languages and the Health Intervention Program for Children and Families: Pata Dakú (Happy Family), which seeks to promote healthy practices with an emphasis on COVID-19, nutrition and mental health for the population.

Finally, as part of the high-impact strategy for the management of the Norperuano Pipeline, several projects are being implemented to contribute to the food security of the families of various communities in the Amazon adjacent to the Norperuano Pipeline with products and supplies for the development of their economic activities such as fishing, raising small animals and family farming.

REGULATORY FRAMEWORK

Regulatory Regime

General legal framework

We were incorporated through Decree-Law No. 17753, dated July 24, 1969, and our economic, financial and labor activities as well as our relationship with Peru are governed by Organic Law approved by Legislative Decree No. 43 (superseding Decree-Law No. 17753), enacted on March 4, 1981, as amended.

As per our by-laws, which were approved by our general board of shareholders on October 18, 2010, our corporate purpose is to carry out hydrocarbon activities in accordance with the provisions of the Hydrocarbons Organic Law, which Unique Ordered Text was enacted by Supreme Decree No. 042-2005-EM. In executing such purpose, we have complete economic, financial and administrative autonomy and we must act in accordance with the objectives, policies and strategies approved by the MEM. Also, since 2010, we act according to our internal Good Corporate Practices Code (*Código de Buenas Prácticas Corporativas*, or the “Corporate Governance Code”).

Peru is the sole owner of 100.0% of our capital stock, which consists of Class A (80.0% of our total capital stock) and Class B shares (20.0% of our total capital stock). Pursuant to our bylaws, only our Class B shares are required to be registered in the Public Registry of Capital Markets of the SMV, and have been registered since April 27, 2010, pursuant to the authority granted by Legislative Decree No. 1031, which had the main purpose of ensuring the delivery of transparent information about our management and operations to the general public through reporting obligations arising from such registration.

Our main corporate bodies are (i) our board of directors, in charge of our management, including the establishment and direction of our general policies; (ii) our general board of shareholders, which consists of the Minister of Energy and Mines and four other members appointed by supreme decree, which currently are the Minister of Economy and Finance, the Vice-Minister of Energy of the MEM, the Vice-Minister of Finance of the MEF and the General Secretary of the MEM; (iii) our management; and (iv) our managing committee (*Comité de Administración*), audit and control committee (*Comité de Auditoría y Control*), good corporate practices committee (*Comité de Buenas Prácticas de Gobierno Corporativo*) and Innovation and New Business Development Committee (*Comité de Innovación y Desarrollo de Negocios*). Our board of directors or our management may establish more special committees when deemed necessary. In 1991, pursuant to Legislative Decree No. 674, the Peruvian government established the framework for private investment in state-owned companies, through any of the following mechanisms: (a) capital increases; (b) execution of joint venture, service, management, concession and other agreements; (c) partial or total transfer of state-owned companies’ shares or assets to private entities; and, (d) sale of assets in case of dissolution and liquidation of our company. In 2004, pursuant to Law No. 28244, we were excluded from items (c) and (d) above, and therefore any private investment in the company must be carried out through any of the mechanisms described in items (a) and (b) above. Furthermore, Law No. 28244 also authorized us to negotiate agreements with Perupetro in order to perform exploration and/or development activities.

Law No. 28840, Law for the Strengthening and Modernization of Petroperu, enacted on July 23, 2006, granted us greater autonomy for the development of our activities and excluded us from the reach of FONAFE, which is the entity charged with managing the shares of state-owned companies, approving their budgets, establishing managing guidelines and designating the state’s representatives on our general board of shareholders. Acquisitions of goods, hiring of services and execution of agreements are subject to the provisions of Resolution No. 456-2006-CONSUCODE-PRE and its amendments enacted by Resolution No. 171-2008-CONSUCODE-PRE and by Resolution No. 523-2009-OSCE-PRE, applicable only to us. Legislative Decree No. 1292, which states that such acquisitions and executions of agreements are subject to our own internal regulations, which was approved by Board of Directors Agreement No. 056-2017 and amended by Board of Directors Agreement No. 109-2018-PP, in force as of January 09, 2019, and the execution of our international agreements, is also subject to our own internal regulations approved by our Board of Directors Agreement No. 029-2011-PP General Management on January 31, 2019.

Law No. 28840 also authorized us to participate in all the phases of the hydrocarbon industry and the commercialization of oil, including oil derivatives, petrochemical products and other sources of energy. Pursuant to the terms of Law No. 29163, enacted on December 19, 2007, we are authorized to participate in basic and intermediate petrochemical activities.

Law No. 30130 and its implementing regulations

Law No. 30130 declared the Talara Refinery Modernization Project a matter of national public interest and necessity on December 18, 2013, due to its importance for preserving the air quality and public health. Law No. 30130 states as its main objectives the following: (i) ensuring that the execution of the Talara Refinery Modernization Project includes the necessary means to allow the reduction of sulfur dioxide content in the fuel we produce; and (ii) providing a mandate to modernize our company. Supreme Decree No. 008-2014-EM, enacted on March 23, 2014, approved the implementing regulations of Law No. 30130, by means of which the provisions of such law were further specified, including the details of the limitations and conditions applicable to our incurrence on investment projects.

Our failure to comply with the requirements of Law No. 30130 would result in the breach of a legal mandate and potential liability for any directors and officers who take any actions preventing the implementation of the Talara Refinery Modernization Project or omit to take actions which are necessary for the implementation of the Talara Refinery Modernization Project. However, our failure to comply with the requirements of Law No. 30130 would not result in corporate responsibility and potential liability to us.

Private participation and corporate restructuring

Pursuant to Law No. 30130, we were authorized to publicly sell or issue shares with voting rights representing up to 49.0% of our total equity interest through an initial public offering. No actions have been taken so far in respect of this authorization and we do not intend to take any such actions until after the Talara Refinery Modernization Project is complete, which is expected to be in 2021. For the avoidance of doubt, a sale of 49.0% of our outstanding stock would not constitute a “Change of Control” under the Notes and would therefore not require us to make a Change of Control Offer.

In addition, we were required to implement certain measures to maximize our company’s value through a reorganization and modernization plan to restructure certain aspects of our company, including our capital stock, financial and legal structure, and the approval of a code of good corporate practices in compliance with international practices for oil companies. To assist with this mandate, the international consulting firm Wood Mackenzie evaluated our organization and formulated a strategic plan to implement a corporate modernization through 2030 that seeks to transform our company into an integrated, sustainable enterprise. On May 29, 2015, based on Wood Mackenzie’s recommendations, our board of directors approved our Corporate Optimization Plan.

Certain limitations on investment projects

Until we produce sufficient cash flows to ensure payment of our debt related to the Talara Refinery Modernization Project, and sell at least 40.0% of our equity to the public in accordance with the authorization referred to above, our capital expenditures will be limited by the terms of Law No. 30130. Pursuant to such limitations, we are allowed to carry out activities and become involved in new investment projects as long as they are financed with our cash flows, and provided that:

- such activities and investment projects do not create firm, contingent, present or future liabilities for our company; and
- do not require resources from the Public Treasury.

Such limitations do not apply to projects that are restrictively determined by our board of directors taking into consideration several conditions and aspects of such projects, including their ability to allow us to maintain our operations as they existed when Law No. 30130 entered into effect. However, Law No. 30357, enacted on October 26, 2015, exempted the exploration of Block 192 from the restriction on investment projects imposed by Law No. 30130. With respect to Block 64, even though our license to develop this block was not specifically identified as one of the exemptions under Law No. 30130, we have received the required approvals by the MEM and MEF and are currently conducting mandatory environmental studies required for the commencement of extraction activities.

Legislative Decree No. 1292

Legislative Decree No. 1292, enacted on December 29, 2016, was aimed at the secure operation of the Norperuano Pipeline and the reorganization and modernization of our company as matters of national interest and necessity. The main objectives of Legislative Decree No. 1292 include: (i) ensuring the reliability of the supply of hydrocarbons to the domestic market through the safe operation of the Norperuano Pipeline; (ii) promoting the development of hydrocarbon activities in the country; and (iii) strengthening our company and maximizing its value through a corporate modernization and reorganization.

Norperuano Pipeline

Our Board of Directors is entitled to authorize investments and expenses necessary for the operation of the Norperuano Pipeline under safe conditions, and to ensure certain maintenance, sustainability and improvements to its infrastructure. The investments can also be used to implement a Social Development Plan for the communities living in the areas where the Norperuano Pipeline is located and to preserve the environment in such areas. Therefore, these investments and expenses are excluded from the limitation on additional investment projects pursuant to Law No. 30130.

Reorganization and modernization

Within a period of 720 days from the publication of Legislative Decree No. 1292, our board of directors shall approve a Reorganization Plan and other policies to generate and maximize our company's value. Such Reorganization Plan should include: (i) the restructuring of our corporate units to ensure the financial and legal reorganization of our company and its assets, (ii) the sustainability of our operations; (iii) the adoption of international standards of the hydrocarbons industry; (iv) the approval of policies that effectively separate our ownership and control bodies; (v) the inclusion of specialized independent professionals on our board of directors; (vi) a corporate reorganization within the scope of Law No. 26887, the Peruvian Corporations Law; (vii) the establishment of minority control mechanisms; (viii) policies to create value for our shareholders and bondholders, which are currently being developed; and (ix) the approval of a new Corporate Governance Code in compliance with international standards for companies operating in the hydrocarbons sector.

With such purpose, and pursuant to our company's bylaws, we may totally or partially restructure our corporate units, enter into partnerships, joint ventures, services, lease, management, and other agreements with respect to current or future assets or businesses, and appoint third parties to render the services that will allow the development of new activities, the improvement of our current activities and the increase in the value of our assets and units.

Oil exploration and exploitation

We may participate as partners in exploration and exploitation activities, *provided* that restrictions established in Law No. 30130 will apply. During the exploration phase, we can only act as partners if we do not assume any of the costs of the exploration activities (which would be borne by our partners). In case the exploration activities have successful results, our partner(s) and us will share the production of hydrocarbons extracted from the Block, as it has been agreed by the applicable agreement.

Tariff regulation

Within a period of 360 days, OSINERGMIN will propose and MEM will approve a tariff regulation scheme under our Definitive Concession Contract. Said scheme will be mandatory if an agreement between the concessionaire and the user is not reached within a period of 60 days and will consider certain principles established in Legislative Decree No. 1292.

The tariffs that will be established for the Definitive Concession for the Transport of Liquid Hydrocarbons by the Norperuano Pipeline and the Northern Branch Pipeline should guarantee its long-term financial sustainability, as well as the promotion and development of the industry that uses its services in the northern jungle.

Social responsibility actions

Our company was authorized to finance public investment projects through the Public Works Tax Deduction mechanism established in Law No. 29230 and Law No. 30264, as long as such projects are destined to communities located in the influence area of our operations.

Corporate structure

Legislative Decree No. 1292 modifies Law No. 28840 in order to: (i) allow our board of shareholders to, at the request of our board of directors, approve the application of distributable net profits to investment projects for the modernization or expansion of our productive infrastructure and services; and (ii) allow our board of directors to approve our internal regulations for acquisitions and contracts, which will be proposed by our general manager.

Law No. 30424

Pursuant to Law No. 30424, as amended, companies will assume the administrative liability of certain criminal offenses committed by their shareholders, directors, officers, legal representatives, attorneys-in-fact or any other person acting on behalf of or for the benefit of such companies. Such criminal offenses include bribery, money laundering, organized crime, and illegal mining. In such cases, notwithstanding the personal criminal liability of the individuals who committed the crimes, the involved company could be subject to certain sanctions, including the imposition of fines, the suspension of its activities, a permanent ban on contracting with the Peruvian Government, the cancellation of its licenses, concessions, and other administrative permits, and the dissolution of such company.

Talara Refinery Modernization Project

The Talara Refinery Modernization Project is Peru's most important oil refinery project. It will allow the production of cleaner fuels, promoting the preservation of air quality and improving the health of all Peruvians. The Talara Refinery Modernization Project includes the expansion and modernization of our industrial facilities in the Talara Refinery to produce LPG, gasoline and diesel 2 with a maximum content of 50 ppm of sulfur.

The Talara Refinery Modernization Project will boost the energetic development of the country by allowing:

- an increase in more than 45.0% of the production capacity of the Talara Refinery by expanding production from 65 KBPD to 95 KBPD barrels per day;
- an increase in the availability of industrial infrastructure for processing high-density crude from the Peruvian rainforest, which has the largest crude reserves in Peru; and
- the desulfurization of fuels.

Pursuant to Law No. 30130, we are allowed to carry out activities and become involved in investment projects, *provided* that such activities and investment projects do not create firm or contingent, present or future, liabilities for our company and do not require resources from the Public Treasury; however, such limitation does not apply to those projects that allow us to maintain our operations as of the date Law No. 30130 was enacted.

We are developing five projects that allow us to maintain our operations and which are therefore not limited by the aforementioned restriction. Such projects are the following: (i) transport of crude from the Marañón river basin through the Norperuano Pipeline; (ii) construction and operation of the Puerto Maldonado Sales Plant; (iii) construction, installation and operation of the Supply Plant in Pasco (Ninacaca); (iv) construction, installation and operation of the new Ilo Terminal and (v) construction of the Bayóvar Sales Plant. See "Business—Production and Trading Segment—Transportation and Distribution of Crude to our facilities—Heavy Crude Transportation Project" and "Business—Production and Trading Segment—Transportation and distribution of refined products to our customers—New Facilities."

Regulation of the Peruvian Hydrocarbon Industry

The following is an overview of certain Peruvian hydrocarbon industry regulations applicable to us and to our main activities.

General regulatory framework

The most relevant laws and regulations governing the Peruvian hydrocarbon industry are the following:

- Glossary, Acronyms and abbreviations of the Hydrocarbons Industry, enacted by Supreme Decree No. 032-2002-EM, as amended.
- Regulations of the Rules for Refining and Processing of Hydrocarbons, enacted by Supreme Decree No. 051-93-EM, as amended.
- Regulations on Safety for the Storage of Hydrocarbons, enacted by Supreme Decree No. 052-93-EM, as amended.
- Regulations on Safety for the Transportation of Hydrocarbons, enacted by Supreme Decree No. 26-94-EM, as amended.
- Regulations on Safety for the Transportation of LPG, enacted by Supreme Decree No. 27-94-EM, as amended.
- Regulations on Safety for the Sales of Fuels, enacted by Supreme Decree No. 054-93-EM, as amended.
- Regulations for the Exploration and Production of Hydrocarbon Activities, enacted by Supreme Decree No. 032-2004-EM, as amended.
- Act that creates the Fund to stabilize the Prices of Oil based Fuels, enacted by Urgent Decree No. 010-2004, and its Regulations enacted by Directorate Resolution No. 052-2005-EM-DGH, as amended.
- Unique Ordered Text of the Hydrocarbons Organic Law (Law No. 26221), enacted by Supreme Decree No. 042-2005-EM.
- Regulation of Article 11 from the Unique Ordered Text of the Hydrocarbons Organic Law (Law No. 26221) related to the approval procedure of the Exploration and Exploitation Hydrocarbons contracts, enacted by Supreme Decree No. 045 2008-EM.
- Law that promotes the development of the Petrochemical industry, enacted by Law No. 29163, and its implementing Regulations, enacted by Supreme Decree No. 066-2008-EM.
- Regulations on the Transportation of Hydrocarbons by Pipelines, enacted by Supreme Decree No. 081-2007-EM, as amended.
- Regulations on Safety of the Hydrocarbon Activities, enacted by Supreme Decree No. 043-2007-EM, as amended.
- Regulations on the “Hydrocarbons Registry” (*Registro de Hidrocarburos*), enacted by OSINERGMIN Resolution No. 191-2011-OS/CD as amended.
- Regulations for Commercializing Liquefied Petroleum Gas, enacted by Supreme Decree No. 01-94-EM, as amended.
- Regulations for Commercializing Liquid Fuels and other Hydrocarbon-based Products, enacted by Supreme Decrees No. 030-98-EM and No. 045-2001-EM, as amended.
- Law for the Promotion of the Biofuels Market, enacted by Law No.28054 and its Regulations enacted by Supreme Decree No. 013-2005-EM and No. 021-2007-EM, as amended.
- Law that regulates the sulfur content in diesel fuel, Law No. 28694.

- Regulations for Environmental Protection in Hydrocarbon Activities, approved by Supreme Decree 039-2014-EM, as amended.

History of the Peruvian hydrocarbon industry

Hydrocarbon activities were under the scope of mining regulations until 1922, when Law No. 4452, the first hydrocarbons law, was enacted. Pursuant to Law No. 4452, hydrocarbon deposits were property of the Peruvian government. In 1934, a governmental entity with respect to the petroleum sector was created as a state entity in charge of the exploration of new oil reserves and deposits to be exploited by the Peruvian government; and our predecessor, the state-owned company “*Empresa Petrolera Fiscal*,” was incorporated.

In 1948, the new oil law, enacted by Law No. 11780 introduced regulations to grant concessions to produce, refine, transport and store oil. The system of concessions for exploration and production activities remained unchanged until the end of the 1960s, when different companies from strategic sectors, including the hydrocarbon sector, were nationalized. The new rules deferred substantially to the oil concession system in force, including a more active government intervention. Decree-Law No. 17440, enacted in 1969, abolished the oil concession system altogether and established that the oil industry activities (including oil and oil derivatives’ trading) should be executed, substantially, by Peru. The acquired rights were abided and the participation of private companies was permitted for the exploration and its preliminary stages, and development and manufacturing stages through a system of contracts and agreements controlled by the MEM according to public interest. The refining and trading phases, as well as product-storage, were exclusively reserved for Peru. It was also determined that the hydrocarbon industry constituted a public service.

On July 24, 1969, *Empresa Petrolera Fiscal* was renamed as *Petróleos del Perú S.A. – Petroperu*, by the enactment of Decree-Law No. 17753. By means of Decree-Law No. 18883, we were authorized to execute agreements with private companies for exploration and its preliminary stages and production of hydrocarbons over oil deposits located within 50 kilometers of the Peruvian borders. According to this model, reserves that were found and oil produced by private companies were our property, acting on behalf of the Peruvian State. The private company, as contractor, was liable for the investments, costs and risks, and the extracted oil that was not retained by us was delivered to the contractor. We were responsible for the contractor’s taxes, including income tax and taxes over equipment imports and oil exports. By Decree-Law No. 22774, the General Rules for Exploration and Production Operations of Hydrocarbons were approved.

In 1993, the Political Constitution of Peru and the Hydrocarbons Organic Law were enacted. As of the date of this offering memorandum, they remain in force with minimal amendments. By means of such instruments, liberal policies were applied, including the privatization of several state-owned companies. Even though we were not privatized, several assets of our property were. The Hydrocarbons Organic Law finally consolidated access to exploration and development activities by private companies and individuals, regulating the ability to celebrate license agreements, services agreements and other agreements with Peru.

Regulatory entities

The main governmental entities responsible for regulating, operating and supervising the Peruvian hydrocarbon activities are described below:

ANA

The National Water Authority (*Autoridad Nacional del Agua*, or “ANA” by its acronym in Spanish) was created in 2008 pursuant to Legislative Decree No. 997. As the governing body and technical-regulatory authority of the National Management System of Water Resources, the ANA is responsible for exercising exclusive jurisdiction over natural water resources, and managing, monitoring, controlling and regulating the industry aimed to ensure the preservation and conservation of natural water sources, natural assets associated with such sources and hydraulic infrastructure. The ANA has sanctioning and enforcement authority.

MEM

The Ministry of Energy Mines (MEM) was created in 1968 pursuant to Law Decree No. 17271. Its organization and functions are governed by the Organic Law of the Energy and Mines Sector, enacted by Law

No. 25962. The MEM is responsible for: (i) defining the national energy policy; (ii) proposing and adopting rules and regulations governing the mining, energy and hydrocarbon sector; (iii) promoting scientific research and investments in the energy sector; and, (iv) awarding concessions and contracting with interested companies, according to applicable law.

The MEM has the following bureaus dedicated to the petroleum sector: (i) DGH, which is responsible for participating in the stipulation of the general energetic policy for the hydrocarbon sector, proposing and/or approving oil and gas regulations, promoting the exploration, production, transport, storage, refining, processing, distribution and commercialization of hydrocarbons, and acting as grantor (*concedente*) (on behalf of Peru) for hydrocarbon activities; (ii) the General Directorate of Environmental Affairs in the Hydrocarbons Sector Affairs (*Dirección General de Asuntos Ambientales de Hidrocarburos* or “DGAAE”), which is an administrative entity dependent of the MEM and the competent authority that is responsible for approving certain environmental management instruments (DIA and EIA-*semidetallado*) that need to be granted prior to the initiation of any hydrocarbon activities, and any expansion or modification thereof; and (iii) the General Office of Social Management (*Oficina General de Gestión Social*, or “OGGS” by its acronym in Spanish), which is an administrative entity responsible for performing the prior consultation process, if applicable.

Ministry of Culture

The Peruvian Ministry of Culture was created in 2010 pursuant to Law No. 29565, and is the main authority in terms of the management and surveillance of property under the scope of the Nation’s Cultural Heritage. The Ministry of Culture is the competent authority responsible for the issuance of the Certificates of Inexistence of Archaeological Remains (*Certificado de Inexistencia de Restos Arqueológicos*, or “CIRA” by its acronym in Spanish), and the Archaeological Monitoring Plan, both required prior to the development of investment projects, as well as other permits in order to protect the Nation’s Cultural Heritage.

MTC

The Peruvian Ministry of Transport and Communications (*Ministerio de Transportes y Comunicaciones*, or the “MTC” by its acronym in Spanish) was created in 1968 pursuant to Law No. 17271 and is responsible for developing the transport, communication and telecommunication infrastructure of the country. In addition, even though the MTC is also the competent authority that issues authorizations for transporting hazardous materials, such as hydrocarbons and its by-products, such authorizations are not required for the transport of hydrocarbons, LPG, natural compressed gas, liquefied natural gas and other by-products of hydrocarbons.

OEFA

The Organization of Supervision and Environmental Assessment (*Organismo de Evaluación y Fiscalización Ambiental*, or “OEFA” by its acronym in Spanish) was created on May 14, 2008, pursuant to Legislative Decree No. 1013. OEFA is a specialized technical governmental agency, dependent of the Ministry of Environment, responsible for enforcing, inspecting, overseeing, controlling and sanctioning on environmental matters. It has the authority to oversee directly certain industries, such as mining, energy (electric power, oil, gas, iron, steel, biofuel and petrochemical), fishing and manufacturing (beer, wine, beverages, sugar, paper, cement and tannery). On March 4, 2011, OEFA took on the responsibility for verifying compliance with environmental regulations by companies operating in the hydrocarbon, mining, industrial, fishing and energy industries.

OSINERGMIN

OSINERGMIN is an independent regulatory agency that was created in December 30, 1996, pursuant to Law No. 26734, as amended by Law No. 28964. It oversees the energy sector in Peru and has the authority to regulate, monitor, control and sanction the activities of all participants involved in hydrocarbons industry. OSINERGMIN carries out, among others, the following main duties:

- authorizing the development of activities in the hydrocarbon industry by managing the Hydrocarbons Registry;

- enacting rules and regulations applicable to all participants of the hydrocarbon industry and issuing orders to such participants with respect to their obligations;
- verifying that the participants of the hydrocarbon industry comply with their legal, technical and contractual obligations;
- sanctioning the participants of the hydrocarbon industry if they breach their legal, technical and contractual obligations; and,
- resolving disputes between participants of the energy sector.

Perupetro

Perupetro was incorporated under Law No. 26221. Perupetro is controlled by FONAFE, which is subject to the Peruvian Corporations Law (*Ley General de Sociedades*), among other hydrocarbons regulations, that acts on behalf of the Peruvian state as the agency responsible for promoting and managing the exploration data of basins, negotiating, executing and monitoring agreements for undertaking petroleum exploration and production activities and qualifying oil companies for entry into the market. It also acts on behalf of Peru as the contracting counterpart on all license agreements entered into for the exploration and production of hydrocarbons in Peru.

As of April 2020, Perupetro had 39 hydrocarbon agreements in effect, 26 of which are in the production stage and 13 of which are in the exploration stage.

SENACE

The National Service for Environmental Certification of Sustainable Investments (*Servicio Nacional de Certificación Ambiental para las Inversiones Sostenibles*, or “SENACE”) was created by Law No. 29968, enacted on December 20, 2012. SENACE is a specialized technical governmental agency, dependent of the Ministry of Environment, in charge of reviewing and approving detailed environmental impact assessments (EIA-*detallado*) related to projects involving activities, works or services that may cause significant impacts on the environment, except for those excluded by supreme decree at the request of a specific ministry, which remain under the purview of the DGAAE. The implementation of SENACE has been planned in the following four stages:

- establishment of its governing bodies;
- development and implementation of internal management guidelines and policies;
- transfer of jurisdiction from other governmental entities; and
- monitoring of the jurisdiction transfer process.

The first stage of implementation began in April 2013 pursuant to a schedule approved by Supreme Decree No. 003-2013-MINAM.

Pursuant to Ministerial Resolution No. 328-2015-MINAM, dated November 25, 2015, the transfer of jurisdiction from the MEM in favor of SENACE has been completed. Therefore, since December 28, 2015, SENACE reviews and approves detailed environmental impact assessments related to projects involving activities, works or services that may cause significant negative impacts to the environment.

Pursuant to Law No. 30327 and the Regulations of Title II of this law approved by Supreme Decree 005-2016-MINAM, an integrated certification regime has been implemented within the competence of SENACE. Under this integrated certification regime, several permits and authorizations that are required for the start-up of activities are being progressively incorporated into a single certification proceeding denominated the “Global Environmental Certification” (*Certificación Ambiental Global*) or “IntegrAmbiente” (its Spanish acronym). The Global Environmental Certification will apply only to investment projects that require detailed environmental impact assessments classified as Category III. Also, subject to certain terms and conditions, the aforementioned environmental certification may also apply in the future to environmental impact assessments classified as Category II.

SERFOR

The National Service for Forest and Wildlife (*Servicio Nacional Forestal y de Fauna Silvestre*, or “SERFOR”) was created by Law No. 29763, enacted on July 22, 2011. SERFOR is a specialized technical governmental agency, dependent of the Ministry of Agriculture and Irrigation, responsible for regulating forest and wildlife matters, including issuing relevant permits, and proposing policies, strategies, plans and other instruments to promote the sustainable use of forest and wildlife resources.

SUCAMEC

The National Superintendence of Control of Security Services, Arms, Ammunition and Explosives for Civil Use (*Superintendencia Nacional de Control de Servicios de Seguridad, Armas, Municiones y Explosivos de Uso Civil*, or “SUCAMEC”) was created by Legislative Decree No. 1127, enacted on December 7, 2012. SUCAMEC is a specialized technical agency, dependent of the Ministry of Internal Affairs, with administrative autonomy. It is responsible for controlling, managing, authorizing, training, supervising, monitoring, regulating and sanctioning activities related to (and granting related permits):

- private security services;
- manufacturing and trading of weapons;
- ammunition and related assets; and
- explosives and pyrotechnic products for civil use.

SUNAFIL

SUNAFIL was created by Law No. 29981, enacted on January 15, 2013. SUNAFIL is a specialized technical government agency, dependent of the Ministry of Labor and Employment Promotion, and is responsible at a national level for the promotion, supervision and compliance of the labor and work safety and health regulations in Peru, through labor inspections and administrative proceedings.

SUNAT

SUNAT, the Peruvian Tax Authority, was created by Law No. 24829, enacted on June 8, 1988, and charged with managing National Government taxes and ensuring the correct application of regulations governing this matter. It is also responsible for controlling and supervising the use of chemical supplies, products, by-products or other derivatives, machinery and/or equipment that can be used directly or indirectly in the manufacturing of illicit drugs.

SUNAT manages the “Registry of Regulated Assets” (*Registro para el Control de Bienes Fiscalizados*), in which any individual or legal entity must be registered in case of the acquisition, use and/or warehousing of regulated assets.

General Comptroller of the Republic (Contraloría General de la República)

The General Comptroller of the Republic is the highest authority of the National Control System, charged with supervising, monitoring and verifying the correct application of public policies and the use of state assets. To efficiently perform its functions, the General Comptroller of the Republic bears functional, economic, financial and administrative autonomy.

A certain amount of the stock capital of state-owned companies and other companies that Peru owns is subject to the National Control System.

Governmental control includes the supervision, monitoring and verification of the acts and results of public management in connection with the standards of efficiency, effectiveness, transparency and economy in the use and allocation of resources and state assets; as well as compliance with legal standards, policy guidelines and action plans, and assessment of the management systems, with the aim of improving them through the adoption of preventive and corrective actions.

Regulation by industry segment

The hydrocarbon industry can be divided into the following segments:

- exploration and production,
- refining,
- storage,
- transportation, and
- trading.

We are active in all of the aforementioned segments, which requires us to register most of such activities in the Hydrocarbons Registry managed by OSINERGMIN.

Exploration and production activities

The Peruvian Constitution establishes the legal framework applicable to the use of natural resources as property of Peru. The conditions for using such natural resources and granting them in concession to private companies and individuals are regulated pursuant to Law No. 26821 and Law No. 26221.

Prior to any extraction activity, hydrocarbons are property of Peru. By executing any of the following agreements with Perupetro, companies and individuals may access hydrocarbons over a specific block or group of blocks:

- *License Agreement:* Peru, acting through Perupetro, grants a contractor an authorization to explore and produce hydrocarbons located within an agreed upon area, and conveys to such contractor property rights over the extracted hydrocarbons. The contractor, in turn, pays Peru royalties as compensation.
- *Services Agreement:* As opposed to a license agreement, the contractor does not receive property rights over the extracted hydrocarbons. Instead, it only receives compensation from Perupetro which is calculated on the basis of the final production of hydrocarbons. Services Agreements are not very common, as most contractors prefer entering into license agreements.
- *Technical Evaluation Agreements:* They are also used by Perupetro and oil companies for the performance of preliminary and non-invasive exploration activities (seismic and drilling are not allowed).
- Other agreements authorized by the MEM.

The agreements are approved by Supreme Decree endorsed by the Minister of Finance and the Minister of Energy and Mines. Any amendment thereof (including partial amendments) requires written consent between the parties and a specific approval by Perupetro and Peru through a Supreme Decree. License and services agreements are considered “law agreements” and, therefore, may not be modified or amended unilaterally by the Peruvian government.

As per Supreme Decree No. 011-2013-EM, we were authorized to execute an agreement by which Talisman Peru B.V., and Hess Peru Inc. assigned their contractual position to us in a license agreement for the exploration and exploitation of hydrocarbons in Block 64. Thus, we acquired the total participation over such block by entering into such agreement on April 30, 2013. On October 1, 2014, we assigned a participation to GeoPark; however, on July 15, 2020, Geopark announced its withdrawal from Block 64 and we agreed to assume 100.0% of the participation in the license agreement.

As per Supreme Decree No. 027-2015-EM, Perupetro and Pacific Stratus Energy del Perú S.A., with the intervention of the Peruvian Central Bank, executed a services agreement to develop hydrocarbons over Block 192 for a two-year period. The Peruvian Congress approved Law No. 30357, which authorized Perupetro to directly negotiate with us the grant of Block 192. We are allowed to summon strategic partners.

For a detailed description of Block 64 and Block 192, see “Business—Potential Future Exploration and Oil Production.”

Refining

Refining activities include the conversion of crude, natural gasoline or other hydrocarbon sources into fuels (such as liquefied petroleum gas, gasoline, kerosene, diesel and industrial fuels) or non-fuel products (such as lubricants, asphalt and solvents), through different processes.

Pursuant to the Hydrocarbons Organic Law, any individual or legal entity, whether national or foreign, is allowed to install, operate and maintain oil refineries and processing plants of natural and condensate gas, natural asphalt, greases, lubricants and petrochemical products, subject to the regulatory guidelines established by the MEM. Also, any individual or legal entity, whether national or foreign, is authorized to import hydrocarbons to subject them to refining processes.

According to OSINERGMIN Resolution No. 191-2011-OS/CD, as amended, setting up and operating an oil refinery plant requires several authorizations from OSINERGMIN, which are issued upon verification that the plant’s facilities have been constructed in compliance with the standards set by the MEM and with the international standards on safety of personnel, pollution control and energy conservation. Any modification to the oil refinery plant should also be authorized by OSINERGMIN.

The operation of petroleum refinery facilities must comply with special rules and security measures of the plant itself and of the personnel in charge of it, which are established by the regulations issued by the MEM.

Trading

Trading includes the importation, exportation, storage, transport, distribution and/or sale of fuels and other hydrocarbon byproducts. The prices related to crude and derivatives are governed by supply and demand.

As per the regulations for trading liquid fuels and other products derived from hydrocarbons (*Reglamento para la Comercialización de Combustibles Líquidos y Otros Productos Derivados de Hidrocarburos*), we have the status of wholesale distributor. We own a supply plant located inside the refinery, through which the hydrocarbon derivatives are sold to direct consumers and other persons engaged in trading of hydrocarbons. To develop trading activities, as a wholesale distributor, we are registered in the Hydrocarbons Registry managed by OSINERGMIN.

The MEM approves the qualifications of each product to be traded in the Peruvian market and authorizes the trading itself. We are authorized to trade gasoline, diesel, solvents, lubricants, asphalt cement and liquid asphalt.

Trading of liquid fuels is executed through a computer system run by OSINERGMIN, the Order Control System or “SCOP,” which was approved by Resolution No. 048-2003-OS/CD. This mechanism aims to fight informality in the sector by assigning an authorization code to fuel distributors and direct consumers, which is mandatory in order to trade liquid fuels.

Storage in supply plants and terminals

This activity involves the collection, storage and handling of hydrocarbons in accordance with the procedures established by applicable law.

In accordance with the Hydrocarbons Organic Law, any individual or legal entity, whether national or foreign, may build, operate and maintain facilities for the storage of hydrocarbons and their derivative products in compliance with the regulations issued by the MEM. Security for the development of storage activities is regulated by the Regulations on Safety for the Storage of Hydrocarbons, enacted by Supreme Decree No. 052-93-EM.

Plants and terminals must be registered in the Hydrocarbons Registry managed by OSINERGMIN to be eligible for operation and comply with regulations set by Supreme Decree 045-2001-EM, Supreme Decree 030-98-EM and OSINERGMIN Resolution No. 191-2011-OS/CD.

Transportation

Pursuant to the Hydrocarbons Organic Law, any individual or legal entity can build, operate and maintain pipelines for transporting hydrocarbons, as per a concession agreement executed under the scope of the Regulations on the Transportation of Hydrocarbons by Pipelines, enacted by Supreme Decree No. 081-2007-EM.

The transportation concession is awarded for a specific term between twenty and sixty years. The concession-awarding proceeding consists of a tender process conducted by Peru or a filing of a request by an interested party. The awarding is approved by a Supreme Resolution which, once published, authorizes the execution of a concession agreement with the MEM, acting on behalf of Peru. Further amendments are also approved by a Supreme Resolution.

Pursuant to Supreme Decree No. 081-2007, the holders of license agreements can operate principal pipelines to transport their hydrocarbon products and operate pipelines for their own use to transport hydrocarbons between hydrocarbon installations. The installation and operation of such pipelines is subject to prior authorization by the MEM.

Land transportation is subject to the Safety Regulations for the Transportation of Hydrocarbons approved by Supreme Decree No. 26-94-EM and, pursuant to the Regulations on Safety of the Hydrocarbon Activities, enacted by Supreme Decree No. 043-2007-EM, carriers are also subject to the existing rules and regulations of the MTC. In order to do so, and pursuant to OSINERGMIN Resolution No. 191-2011-OS/CD, it must be registered in the Hydrocarbons Registry managed by OSINERGMIN and must bear the permits issued by the MTC for transporting hazardous material, pursuant to Supreme Decree No. 021-2008-MTC.

Maritime transportation regulations provide that all vessels carrying hydrocarbons must comply with the safety regulations issued by the General Directorate of Captaincy and Coastguard (*Dirección General de Capitanías y Guardacostas*, or “DICAPI”) and other relevant authorities. The main requirements for maritime transport are the navigation permit or license issued by the MTC and the certificates required by the DICAPI. Also, OSINERGMIN records in the Hydrocarbons Registry the maritime means of transportation and supervises the compliance of the applicable safety regulations.

Petrochemical industry

According to the Hydrocarbons Organic Law, “Petrochemical industry” is the chemical industry that employs hydrocarbons or their derivatives as raw material for the production of chemical products for industrial or commercial uses. Pursuant to Law No. 29163, it is mandatory to obtain an authorization to install and operate a Petrochemical Plant. To obtain such permit it is necessary that such plant meets the safety, environmental and operational standards, as well as the duly recognized international standards.

Fuel Price Stabilization

By Urgency Decree No. 010-2004, the Fuel Price Stabilization Fund was created to prevent the high volatility of crude prices and their derivatives from being transferred to consumers. The Fuel Price Stabilization Fund is administrated by a trust managed by a financial entity and is applicable to the prices of industrial petroleum 6 for electric generation in isolated electrical systems. To implement this mechanism, OSINERGMIN establishes every two months a price band within which the price of each of such fuels may fluctuate. Every two weeks, OSINERGMIN publishes an import parity price for each product, which is calculated by reference to the prices charged by U.S. Gulf Coast refineries for the product and the costs of delivering that product from the U.S. Gulf Coast to the relevant market, including freight, taxes, hedging costs and logistics. If the import parity price falls outside the established band, producer and importers will either receive compensation from or make contributions to the Fuel Price Stabilization Fund. See “Risk Factors—Risks Related to Our Operations—The Peruvian government may fail to make payments pursuant to the Fuel Price Stabilization Fund.”

The Fuel Price Stabilization Fund has constantly remained in force since 2013 and, pursuant to Law No. 29952, the Fuel Price Stabilization Fund will remain in force permanently. Its assets are the contributions and discounts that the producers and importers apply to the fuel prices, according to their position in relation to the price band. The attributions of the different governmental entities related to the Fuel Price Stabilization Fund are the following:

- OSINERGMIN determines and updates the price band;
- the MEM establishes the contribution and compensation factors;
- the MEF gives its opinion over financial matters and provides resources; and
- the participating producers and importers provide or receive compensations.

On 2010, OSINERGMIN took on the authority to define the price band according to the standards established pursuant to the Urgency Decree No. 010-2004 and its amendments and regulations. The procedure to establish the price band is defined by OSINERGMIN Resolution No. 082-2012-OS/CD. OSINERGMIN updates the price band and informs a consulting committee, which submits a binding opinion.

Recent Trends and Developments

Pursuant to Law No. 30327 and the Regulations of Title II of this law, approved by Supreme Decree 005-2016-MINAM, dated July 18, 2016, an integrated certification regime has been implemented within the competence of SENACE. Consequently, several permits and authorizations that are required for the start-up of investment projects are being progressively incorporated into a single proceeding denominated Global Environmental Certification or “IntegrAmbiente” (its Spanish acronym).

The Global Environmental Certification will apply only for investment projects that require detailed environmental impact assessments classified as Category III (see “Regulatory Framework—Environmental Matters”) although, subject to certain terms and conditions, it may also apply in the future for environmental impact assessments classified as Category II. This certification must be issued by SENACE within 150 business days from the filing of its request and must incorporate in one single proceeding the review of the environmental impact assessment submitted by the titleholder of the project and the compliance with the main requirements for the granting of the permits and/or authorizations under the scope of this regulation.

The competent entities involved in the evaluation of the detailed environmental impact assessment and the granting of the authorizations and permits under the scope of Law No. 30327, such as ANA or the National Service of Natural Areas Protected by the State (*Servicio Nacional de Áreas Protegidas por el Estado*, or “SERNANP”) (if the investment project is developed within a natural protected area or its buffer zone), shall participate issuing technical reports and binding opinions indicating the compliance with the requirements established by law before the approval of the Global Environmental Certification.

If, after the review of the technical reports, the binding opinions and the environmental impact assessment, SENACE concludes that the issuance of the Global Environmental Certification is feasible, it will approve in a single administrative act the environmental impact assessment and the relevant permits.

Law No. 30327 and the Regulations of Title II requires the main permits and authorizations to be incorporated in the Global Environmental Certification proceeding, including the following:

- permits related to water resources, granted by the ANA;
- permits related to forestry resources, granted by the competent forestry authority;
- public health and safety authorization for septic tanks, granted by the General Bureau of Environmental Health (*Dirección General de Salud Ambiental*, or “DIGESA” by its acronym in Spanish) of the Ministry of Health;
- favorable technical opinions granted by DIGESA regarding the treatment, use and disposal of residual domestic water and industrial water;
- use of aquatic area, granted by DICAPI;
- risk studies and contingency plans carried out by OSINERGMIN; and

- binding technical opinion on the granting of authorizations for the production of quarries from natural waterways.

These permits and authorizations, however, do not constitute all the permits and authorizations that may be required for the development of an investment project. Other permits that are excluded in the Global Environmental Certification must be obtained independently before each of the competent authorities, as applicable, depending on the nature of each project. However, SENACE can propose, in coordination with the competent sector, the inclusion of other permits not considered by Law No. 30327. Through Ministerial Resolution 328-2015-MINAM, dated November 25, 2015, the stage of transfer of jurisdiction from the MEM in favor of SENACE has been completed. In this regard, since December 28, 2015, SENACE has been responsible for reviewing and approving the environmental impact assessment related to hydrocarbons projects involving activities, works or services that may cause significant impacts to the environment.

The application for the integrated permit regime (Global Environmental Certification) is not mandatory. In this regard, companies carrying out investment projects classified as Category III can apply for the Global Environmental Certification or apply for separate permits from the authorities in charge of the specific activities they intend to perform. Companies carrying out any investment project classified as Category III that decide to apply for the separate permit regime are obliged to request and obtain separate permits from the authority in charge, as applicable.

Environmental Matters

General considerations

The environmental legal framework consists of, among others, the General Environmental Law, enacted by Law No. 28611, the Environmental Impact Assessment National System Law, enacted by Law No. 27446, and its regulations enacted by Supreme Decree No. 019-2009-MINAM and the Environmental Evaluation and Enforcement National System Law, Law No. 29325. The Peruvian government, in collaboration with the Ministry of the Environment and other administrative entities, has the authority to enact regulations related to environmental matters.

The environmental aspects of the hydrocarbon industry are specifically governed by the Regulations of Environmental Protection for Hydrocarbon Activities or “REPHA,” approved by Supreme Decree No. 039-2014-EM. These environmental regulations govern, among other matters, the generation, storage, handling, use, disposal and transportation of hazardous materials; the environmental certification process, the emission and discharge of hazardous materials into the ground, air or water; the protection of migratory birds and endangered and threatened species and plants; and the environmental quality standards for noise, water, air and soil.

The REPHA establishes: (i) the classification of environmental management instruments applicable to hydrocarbon activities; (ii) the procedure for the evaluation, approval and modification of environmental management instruments; (iii) complementary environmental obligations applicable for each hydrocarbon activity, and its phases; and (iv) the obligation of the holder of an environmental management instrument to notify the DGAAE and the OEFA in case of transfer, assignment or lease of the hydrocarbon activities, among others.

The REPHA also establishes that, for the initiation of any hydrocarbon activities, or the expansion or modification thereof, the titleholder has to obtain the approval of an environmental management instrument before the DGAAE. The REPHA classifies the environmental management instruments as follows: (i) detailed environmental impact assessment (“*Estudio de Impacto Ambiental Detallado*”) – Category III; (ii) semi-detailed environmental impact assessment (“*Estudio de Impacto Ambiental Semidetallado*”) – Category II; and (iii) environmental impact statement (“*Declaración de Impacto Ambiental*”) – Category I. The applicable environmental management instrument for an investment project will depend on the damage that such project could generate to the environment. The environmental commitments contained in the environmental management instrument must be strictly followed by the titleholder throughout the life-cycle of the project.

Annex 1 of the REPHA establishes, in a general manner, which hydrocarbon projects correspond to which environmental category and, therefore, which environmental management instrument is applicable. For projects that are not covered by Annex 1 of the REPHA, titleholders must request the classification of its project before SENACE by submitting a preliminary environmental assessment or following the provisions set out by the REPHA. After the

preliminary environmental assessment has been evaluated, the DGAAE may determine: (i) that the project is included in Category I, and therefore the text of the preliminary environmental assessment becomes the approved environmental impact statement; or (ii) that the project is included in Categories II or III, and therefore the titleholder must prepare either a semi-detailed environmental impact assessment or a detailed environmental impact assessment, as appropriate, and then submit it for approval by the competent authority.

The detailed environmental impact assessment is an environmental management instrument that includes a description of the activities to be executed by titleholders of hydrocarbon projects, detailing the following issues and topics: (i) description and analysis of the environmental conditions and of the social and cultural aspects of the area affected by the project; (ii) environmental variables and their respective project impacts; (iii) estimation of the amount of solid waste, emissions and wastewater discharge that may be generated; (iv) analysis of the natural resources available in the area affected by the project; (v) economic quantification of the environmental impact that may be caused; (vi) closure plan; (vii) contingency plan; and, (viii) community participation plan; among others.

Environmental liability regime

Since March 4, 2011, OEFA is the competent authority in charge of regulating, supervising and imposing sanctions to hydrocarbon companies with respect to their non-compliance with the applicable environmental legislation. In addition, there are other competent governmental agencies or authorities on specific environmental matters such as water, forestry resources, and aquatic environment, among others, that regulate and supervise environmental compliance and liability.

By means of Resolution 006-2019-OEFA/CD, OEFA approved the Regulations for the Supervision Procedure, which establishes that the role of direct supervision is aimed at preventing environmental damage and promoting voluntary correction of alleged breaches of environmental obligations in order to ensure adequate environmental protection. It promotes the correction of the infringements in order to avoid initiating unnecessary administrative sanctioning proceedings.

OEFA has approved, for each Sector, the sanctions that will apply for environmental infringements. As of the date of this offering memorandum, the maximum amount of the fine that OEFA can impose for environmental infringements is 30,000 Tax Units (approximately U.S.\$35.73 million). OEFA can also impose administrative measures in order to revert the effects of the infringement.

In accordance with the Peruvian Civil Code, a civil claim may be filed against the titleholder of a project in the hydrocarbon sector on the grounds of environmental damages. Therefore, any third party, under the principles of tort liability, could file a civil claim against the titleholder of a project for causing environmental damages due to the use or development of an asset or activity that implies a risk or danger. In addition, the Peruvian Criminal Code contains a section that typifies different types of environmental crimes and their corresponding sanctions (*i.e.*, environmental contamination). They generally require a severe breach of applicable laws and regulations and the production of damages that harm the environment.

The sanctions for committing environmental crimes vary from two to ten years of imprisonment, depending on the specific crime, and may include the imposition of community service hours and fines. Criminal liability shall apply to the members within our company's business structure (including managers) that had decision-making power over environmental matters at the time in which the infringement was committed. That is, the decision-making officers of the companies that carry out activities in the energy sector are the ones exposed to criminal investigation, prosecution and, eventually, liability if there is a gross infraction that is typified as a crime.

Euro IV applicability

On August 7, 2015, the Ministry of the Environment issued Supreme Decree No. 009-2015-MINAM, which prohibits the commercialization in certain parts of the country of diesel with sulfur content above 50ppm and limits allowable emissions by vehicles equipped to run on Euro IV-compliant fuel. Euro IV-compliant fuel refers to fuel that complies with the environmental standards established by EU Directive 98/70/EC, issued by the European Parliament. Because quality standards issued under this Directive are not authoritative in Peru, and the Peruvian government has not enacted similar standards, we have no obligation to produce fuel products that comply with Euro-IV specifications.

In the short-term, limitations on the sale of high-sulfur diesel may require us to limit our refinery utilization rates and to suspend operations at our refineries for a few days each month to avoid producing an excess of high-sulfur diesel. Until the Talara Refinery Modernization Project is completed, this may have an economic impact on our operations with respect to the commercialization of diesel.

Once the Talara Refinery Modernization Project is completed, the Talara Refinery will be equipped to produce diesel with a sufficiently low sulfur content to comply with the sulfur content restrictions established by Supreme Decree No. 009-2015-MINAM. However, even after its modernization, the Talara Refinery may not comply with all Euro IV specifications, and we may have to engage in a complementary project to meet all of the Euro IV specifications if the Peruvian government chooses to adopt the same standards.

Citizen participation

In order for an environmental management instrument to be approved, participants in the hydrocarbon industry must duly inform and involve communities located within the direct or indirect area of the relevant project. Citizen participation mechanisms aimed to inform and consider opinions to improve decision-making processes regarding the approval and implementation of environmental management instruments.

Pursuant to Supreme Decree No. 002-2019-EM, enacted on January 5, 2019, the stages of the project when the titleholders of hydrocarbons activities shall develop citizen participation mechanisms are during: (i) the negotiation or tender and signature of the Hydrocarbon Exploration and/or Exploitation Contracts, (ii) the approval process of the environmental impact assessments, and (iii) throughout the operation stage of the project. The citizen participation process is performed according to the Citizen Participation Plan and/or the rules provided in this regulation. The Citizen Participation Plan is the instrument in which the titleholder of the hydrocarbon project describes the mechanisms that will be implemented previous the filing of the Impact Assessment and during its evaluation and is aimed at involving the population in order to know their perception, exchange opinions, analyze observations and suggestions about the environmental and social aspects related to the Environmental Impact Assessment process. The mechanism of citizen participation include workshops, public hearings, suggestion boxes, guided visits, diffusion through written communication, radio or television, among other mechanisms.

The community relations plan should be implemented throughout the duration of the project, with the purpose of achieving the participation of the involved communities in Monitoring and Surveillance Programs (*Programas de Monitoreo y Vigilancia Ciudadana*) of social and environmental impacts arising from the development of the hydrocarbons project.

Pursuant to Ministerial Resolution No. 571-2008-MEM, enacted on December 16, 2008, the Monitoring and Surveillance Programs should consist of groups of environmental and social observers in charge of monitoring project activities that generate the greatest potential environmental impacts. The implementation of this program is a responsibility of the titleholder of the project and should be coordinated with the competent authorities of the hydrocarbons sector.

The titleholder of the project should also implement an Information and Community Participation Office that shall operate permanently and allow constant coordination between such titleholder and the impacted community.

Other permits

Depending on the particular characteristics of each activity, the REPHA includes additional obligations and permits.

Below is a list of the most relevant permits necessary for the performance of hydrocarbon activities, depending on the particular activity involved.

- Certificate of Non-Existence of Archaeological Remains (*Certificado de Inexistencia de Restos Arqueológicos*), granted on request by the Ministry of Culture.
- Archeological Monitoring Plan (*Plan de Monitoreo Arqueológico*), approved by the Ministry of Culture.

- Rights for the use of water (*i.e.*, licenses, permits or authorizations), granted on request by the ANA.
- Registry as a direct consumer of liquid fuels (authorization for the operation of hydrocarbon storage tanks) before the OSINERGMIN.
- Registry of Regulated Assets before SUNAT, for the acquisition, use and warehousing of regulated assets.
- Authorization for the discharge and/or re-use of wastewaters granted on request by the ANA.
- Authorization for forest clearing activities granted on request by the SERFOR.
- Authorization for the use of explosives granted on request by the SUCAMEC.

Taxation and Royalties

Overview

We are subject to the Peruvian general tax regime. Thus, when applicable, we pay, among others, income tax, withholding taxes over dividends and other forms of profit distributions, VAT, ISC, contributions to *ESSALUD* (the national health system), financial transactions tax, net assets tax and custom duties. Moreover, some of our activities may be subject to a stabilized tax regime.

In addition, we are subject to the following contributions:

OSINERGMIN contribution

Importers and producers of liquid fuels (including LPG and natural gas) pay a contribution to OSINERGMIN, which is calculated (after deducting the VAT) by applying the following rates upon their monthly invoiced amount: 0.36% for 2020, and 0.35% for 2021 and 2022. The applicable rate to concessionaires of hydrocarbon pipeline transportation is 0.60% for 2020, 0.57% for 2021 and 0.56% for 2022.

MEM contribution

Supreme Decree No. 136-2002-PCM regulates the contribution to MEM by Concessionaires of Hydrocarbon Transportation and Distribution of Gas. The contribution is equivalent to 0.25% of its monthly billing of goods and services linked to the respective concession, deducting the VAT.

OEFA contribution

Oil and gas companies pay a contribution to OEFA, equivalent to 0.09% (in the case of importation and production) of their monthly invoiced amount over imports and/or production of fuels, including LPG for 2020, 2021 and 2022; or 0.11% (in the case of transportation or distribution) for 2020 and 2021 and 0.10% for 2022. This contribution does not apply to crude sales or other hydrocarbon derivatives.

FISE contribution

The Energy Social Inclusion Fund (*Fondo de Inclusión Social Energético*, or “FISE”) contribution, which is paid to a governmental fund for social development, is charged, among others, on the oil’s liquid derivatives (U.S.\$1 per barrel in every “primary sale” as defined by Supreme Decree No. 032-2002-EM.).

Special Tax Rules for Oil and Gas Exploration and Production Activities

Tax stability

Pursuant to the Hydrocarbons Organic Law, oil and gas companies that enter into license or services agreements stabilize the tax regime in force at the execution date of such agreements.

In our case, the tax regime applicable to our exploration and development activities over Block 64 is stabilized.

The tax stability covers the following taxes:

- corporate income tax regime, which is stabilized by adding two percentage points to the general corporate income tax rate in force at the date of the execution of the agreements (For instance, for Block 64, the applicable corporate income tax at the execution date was 30.0%. Therefore, we are subject to a 32.0% corporate income tax over income derived from such agreement.);
- taxes on profit distribution over contracted activities;
- the transferable nature of indirect taxes (VAT and ISC), which guarantees that the economic burden of these taxes will be borne by the consumer and not by the oil and gas company;
- tax exemptions and tax benefits established by each agreement;
- export regimes; and
- VAT and custom exemption on the import of goods.

Hydrocarbon royalties and other regulatory payments

Upstream licenses are subject to royalty payments which are calculated on the basis of a company's actual production as audited by Perupetro, pursuant to one of the following four methodologies regulated by Supreme Decree 049-93-EM, as amended:

- "R" Factor;
- accumulated production;
- scale of production; and
- economic results.

Pursuant to "R" Factor and accumulated methodologies, the licensee must pay a minimum royalty of 15.0%, which may be further increased to 35.0%. As per the scale of production methodology, the licensee must pay a minimum royalty of 5.0%, which may be further increased to 20.0%. In turn, the economic results methodology applies to both a fixed and a variable royalty. The fixed royalty is 5.0% and the variable royalty may range up to 20.0%. In the case of the "R" Factor (which is applicable to our license agreement over Block 64 on a bi-monthly basis), in general terms, the royalty is calculated by applying a ratio between accumulated income and expenditure for a given month. Depending on the resulting ratio, the percentage of the royalty can vary from 15.0% to 40.0%, pursuant to clause 8 of our license agreement over Block 64.

Notwithstanding the above, in the last decade, royalty payments have usually been established in each upstream license, based on the percentage offered by a company when it bids for or negotiates an upstream license in respect of a new exploration block, which often results in royalty payments that are higher than the aforementioned percentages.

In addition to the royalty payments which are due once a commercial discovery has occurred, the titleholder of an upstream license is required to make annual transfers for training and technology during the term of the upstream license. The annual amount of these contributions varies according to each upstream license contract, and may reach up to U.S.\$180,000.

Definitive VAT recovery regime

Pursuant to Law No. 27624, contractors can obtain a reimbursement of the VAT paid or charged to them on the acquisition of certain goods and services included in a list approved by the MEM and used directly in exploration

activities. This regime is applicable as of the execution date of the agreement and until the completion of the exploration stage. The definitive VAT recovery regime expires on December 31, 2022.

VAT and Custom Exemption on the Import of Goods

Pursuant to the Hydrocarbons Organic Law, imports of certain goods and supplies required during the exploration stage of the license or services agreement is exempted from all taxes. The list of the exempted goods is published by the MEF.

VAT and ISC exemption to the sale of oil in the Amazon Region and VAT exemption on imports

Law No. 27037 (Law on Investment Promotion in the Amazon) establishes that oil and gas extracting and/or refining companies located in certain regions of the Amazon (Loreto, Ucayali and Madre de Dios) are exempted from VAT and ISC when selling oil, natural gas and by-products to retailers or direct consumers. Retailers must also be located in the Amazon and must generate business income mainly from trading oil, natural gas and/or its by-products. Direct consumers include corporations and individuals located in the Amazon and which generate business income from activities other than hydrocarbons trading. These tax benefits also allow oil and gas companies located in Madre de Dios to obtain the refund of the ISC paid on their acquisitions of oil products.

As a general rule, VAT paid on acquisitions related to VAT-exempt transactions cannot be used as fiscal credit. However, pursuant to Supreme Decree No. 266-2015-EF, as of October 1, 2015, the sale of oil, natural gas and their by-products (exempted from VAT in the Amazon region) will also allow the taxpayer to use the related fiscal credit. The import of goods to be consumed in the Amazon region was exempt from VAT until December 31, 2028, pursuant to Law No. 30897 as of December 28, 2018.

Petrochemical industry

Pursuant to Law No. 29163, companies that enter into investments agreements with Peru for basic or intermediary petrochemicals for more than U.S.\$5.0 million can be subject to most of the tax benefits applicable to the oil and gas industry which include, among others, tax stability for each agreement and exports free of taxes. Additionally, these companies will accumulate and amortize all the expenses and investments made before the beginning of commercial operations in equal proportions over a term of at least five years. This term will be established pursuant to each agreement.

Bankruptcy Regulations

We believe we are subject to the Peruvian insolvency regime applicable to all corporations under Law No. 27809, *Ley General del Sistema Concursal*. Pursuant to this law, companies may be subject to two types of insolvency proceedings: ordinary or preventive, the latter of which is an abbreviated proceeding that can only be initiated by debtors who do not qualify for an ordinary insolvency proceeding. The purpose of this proceeding is to set an appropriate forum for the debtor to reach a debt financing arrangement with its creditors through the approval of a global refinancing agreement. An ordinary insolvency proceeding can be initiated either by debtors or creditors as long as certain requirements regarding the financial condition of the debtor are met. In an ordinary insolvency proceeding, the group of creditors decide, in their sole discretion for either a reorganization proceeding or a liquidation proceeding of such debtor.

Once an insolvency proceeding is commenced, an automatic stay applies to all creditors' claims and a creditors' assembly should be established. In addition, the priority of payment of unsecured creditors is effectively ranked as junior to labor, social security, pension fund, secured and tax obligations in the event of a liquidation. The term to schedule payments, grace periods and certain other conditions regarding payments to creditors under a general insolvency regime where a reorganization is not set out by Law No. 27809 and is subject to the discretion of the creditors' assembly.

MANAGEMENT

Board of Directors

We are primarily governed by our board of directors and our general board of shareholders.

Our board of directors is responsible for the management of our company, except with respect to matters reserved for our general board of shareholders pursuant to our by-laws and the Peruvian Corporations Law, including, but not limited to, amending our by-laws and appointing and replacing members of our board of directors. Decisions by our board of directors require a quorum of a majority of the directors present for approval and material decisions require the presence of the Chairman of our board of directors.

Our board of directors consists of six members. Five directors are appointed by our general board of shareholders for terms of three years, which can be renewed upon a performance review by our general board of shareholders. Our general board of shareholders elects the Chairman of our board of directors from among the five appointed directors. The remaining director is elected for a two-year term by our company's employees (the "employee-elected director") through a general election conducted by our Central Electoral Committee (*Comité Electoral Central*, or "CEC") and supervised by the National Office of Electoral Processes (*Oficina Nacional de Procesos Electorales*). As of the date of this offering memorandum, the Board of Directors approved the call for elections of our company's employees for the period of 2020-2022.

Our general board of shareholders consists of five representatives of the Peruvian government, our sole shareholder. Our by-laws provide that the Minister of Energy and Mines serves as the president of our general board of shareholders and the remaining four members of our general board of shareholders are appointed by Peru. Our general board of shareholders consists of the Minister of Energy and Mines (President), the Minister of Economy and Finance, the Vice-Minister of Hydrocarbons, the Vice-Minister of Estate and the General Secretary of the MEM.

In accordance with our by-laws, our general board of shareholders and our board of directors hold an annual meeting during the first quarter of each fiscal year.

Below are the names, ages, positions and dates of appointment of each of our directors, as of the date of this offering memorandum.

Directors⁽¹⁾	Age	Position	Appointed
Eduardo Alfredo Guevara Dodds	50	President / Chairman	April 2020
Hernán Barros Cruchaga	50	Vice President / Vice Chairman / Independent Director	December 2016
José del Carmen Cabrejo Villagarcía	55	Independent Director	February 2019
Raúl Ricardo Pérez-Reyes Espejo	55	Director	April 2019
Jaime Augusto Aguirre Guarderas	62	Director	June 2019

Eduardo Alfredo Guevara Dodds is a Lawyer from the *Pontificia Universidad Católica del Perú*, Lima and Master of Laws from the Southern Methodist University of Dallas, Texas. He has more than 20 years of professional experience as legal advisor to companies in various industries, including the hydrocarbon, telecommunication, aeronautic and mining sectors. He has held various positions in the following companies: OSIPTEL, Haynes and Boone, LLP, Estudio Echeopar, Gran Tierra Energy Perú S.R.L. Recently, he also served as Vice Minister of Hydrocarbons in the Ministry of Energy and Mines, being responsible for the follow-up of policies and regulatory issues of the entire hydrocarbon industry. Mr. Guevara was appointed as Chairman of the Board of Directors of Petroperu by a resolution of the General Shareholders' Meeting held on April 3, 2020.

Hernán Barros Cruchaga is a Business Administrator graduated from the Universidad del Pacifico, Lima, with a Master's in Business Administration from the University of Texas in Austin, McCombs of Business. He was a Portfolio Manager at Credifondo, Fixed Income Manager at Godoy & Barclay Insurance Broker. He also held various

positions in US companies such as Quanted Asset Management, Biscayne Americas Advisers and Credit Suisse Securities, among others. He is also licensed by FINRA/EE. He has served as an advisor on capital markets and financing issues at the MEF. Mr. Barros was appointed as member of the Board of Directors of Petroperu by Resolution of the General Shareholders' Meeting dated December 1, 2016. Subsequently, Mr. Barros was appointed Vice Chairman of the Board of Directors of Petroperu in the Board of Directors meeting held on October 19, 2017. Finally, on June 27, 2018, the General Shareholders' Meeting approved the change of his directorship category to independent director.

Jaime Augusto Aguirre Guarderas is an executive director with extensive experience in diverse industries. Mr. Aguirre is a graduate from the first class of the Independent Board Members Program at CENTRUM (*Pontificia Universidad Católica del Perú*), obtained a masters in business administration with specialization in international business from Pace University, New York, and has a degree in economics from Universidad del Pacífico. During his executive career, he has attended IBM's executive training programs such as the President's Class and the Business Management Institute. He also attended the Financial Service Institute of the Wharton School at the University of Pennsylvania, as well as participating in the PAD (Senior Management Program) at the University of Piura, Peru. Mr. Aguirre has been an independent director at Mercantil S.A. since January 2019 and Chairman of the Board of Directors of Cargo Transport S.A.C and Grupo Campos since December 2018. Mr. Aguirre was appointed member of the Board of Directors of Petroperu by Resolution of the General Shareholders' Meeting held on June 19, 2019.

José Del Carmen Cabrejo Villagarcía has a Doctor of Law from the *Pontificia Universidad Católica del Perú* (candidate), Master of Law in Securities and Financial Regulation from Georgetown University, as well as a Master's in Finance and Corporate Law (candidate) from *Universidad ESAN* and Master's in International Economic Law from *Pontificia Universidad Católica del Perú*. Mr. Cabrejo is a Lawyer from the *Pontificia Universidad Católica del Perú*. He has served as Director-Manager of International Business Legal Advice, External Legal Advisor of Prima AFP and Aero Transporte, Advisor to the Board of Directors of Promoinvest SAF S.A.A. In the public sector, he has served as advisor in Concessions and infrastructure projects (Project Finance) and advisor attached to the Consumer Defense Commission and Regulatory Bodies of the Congress of Peru. In the academic sector, he has been professor of the Real Estate Contracting course at the Institute of Senior Management of Flint Group, a lecturer on Reforms of the Washington Consensus and a professor of the Development Models course in the Master of Development and Defense at the Center for Higher National Studies (CAEN), among others. Mr. Cabrejo was appointed as an independent member of the Board of Directors of Petroperu by Resolution of the General Shareholders' Meeting of January 31, 2019.

Raúl Ricardo Pérez-Reyes Espejo is an Economist from the University of Lima. Mr. Perez-Reyes earned a Master's in Economics at the Center for Economic Research and Teaching (CIDE) in Mexico and has a PhD in Economics from the *Univesidad de Las Palmas* in *Gran Canaria*, Spain. He specializes in antitrust policy and regulation of public services such as telecommunications and electricity, in aspects related to market design, pricing policies and network cost modeling. Mr. Pérez-Reyes worked in the public sector from January 1996 to February 2017 and was appointed as a member of Petroperu's Board of Directors by Resolution of the General Shareholders' Meeting held on April 16, 2019.

Audit and Control Committee

The primary responsibility of our audit and control committee (*Comité de Auditoría y Control*) is to support our board of directors and our management in continuously improving our systems of internal control, which includes reviewing the work of both external auditors and the internal audit department. Our audit and control committee is also responsible for considering observations made by the General Comptroller of Peru, and recommending measures to be taken by our management in response.

In addition, the audit and control committee must review all inquiries and complaints regarding violations to the Integrity Code (*Código de Integridad*), corruption, accounting and financial fraud, as well as other potential or alleged ethical violations. The Integrity Code is an internal document of our company setting forth our most important ethical rules and is approved by our board of directors. Our internal regulations require that our audit and control committee hold meetings at least three times a year.

Our audit and control committee consists of three members of our board of directors. As of the date of this offering memorandum, the members of our audit and control committee are: (i) Hernán Barros Cruchaga, as Chairman,

(ii) José del Carmen Cabrejo Villagarcía and (iii) Raúl Ricardo Pérez-Reyes Espejo. The members of our audit and control committee are appointed by our board of directors for two-year terms and may be re-elected for equal, consecutive terms. The audit and control committee must consist of two Independent Directors and one non-independent director. According to article 25 of our board of directors' organization and functioning manual (*Reglamento de Organización y Funcionamiento del Directorio*), an "Independent Director" shall not be a partner or employee in any entity providing advisory or consulting services to our company. However, a director is still considered independent if the payments to be received by such director are equivalent or less than 20.0% of the payments to be made by our company to such advisor or consultant for their services. In addition, an Independent Director may not have an economic relationship in excess of 20.0% with any of our company's shareholders, or with any other director or executive officer at our company. At least one of the members of the audit and control committee must have education and work experience in financial and accounting matters. The Chairman of the audit and control committee must be an Independent Director. From time to time, our General Manager, Chief Financial Officer and internal auditor are also asked to participate as guests at meetings of the committee (but they do not have voting power).

Management Committee

The primary responsibility of our management committee (*Comité de Administración*) is to implement procedures, recommend general policies to correct and improve the administration of our company. Our internal regulations require that our management committee hold meetings at least three times a year.

Our management committee consists of three members from our board of directors. As of the date of this offering memorandum, the members of our management committee are: (i) Hernán Barros Cruchaga, as Chairman, (ii) José del Carmen Cabrejo Villagarcía and (iii) Jaime Aguirre Guarderas. The members of the management committee are appointed by our board of directors for two-year terms and may be re-elected, for equal, consecutive terms. The management committee must always consist of two Independent Directors and one non-independent director. The Chairman of the management committee must be an Independent Director.

Good Corporate Practices Committee

The primary responsibility of our good corporate practices committee (*Comité de Buenas Prácticas de Gobierno Corporativo*) is supervising the effective application of the corporate practices established in our code of good corporate governance. This committee must review our company's corporate practices periodically and recommend changes whenever the committee deems it appropriate. Moreover, the good corporate practices committee coordinates with management to offer training sessions on good corporate governance practices to each department in our company. Our internal regulations require that our good corporate practices committee hold meetings at least three times a year.

Our good corporate practices committee consists of three members from our board of directors. As of the date of this offering memorandum, the members of our good corporate practices committee are: (i) José del Carmen Cabrejo Villagarcía, as Chairman, (ii) Hernán Barros Cruchaga and (iii) Jaime Aguirre Guarderas. The members of the good corporate practices committee are appointed by our board of directors for two-year terms and may be re-elected for equal, consecutive terms. The good corporate practices committee must always consist of two Independent Directors and one non-independent director. The Chairman of the good corporate practices committee must be an Independent Director.

Innovation and Business Development Committee

The main responsibility of the Innovation and Business Development Committee is to research, develop and propose innovative strategies in order to guarantee the continuity of our company as a leading company in the energy sector. Our internal regulations require that our management committee hold meetings at least three times a year.

Our Innovation and Business Development Committee consists of three members from our board of directors. The members of the Innovation and Business Development Committee are appointed by our board of directors for two-year terms and may be re-elected for equal, consecutive terms. The Innovation and Business Development Committee must always consist of two independent directors and one non-independent director.

Executive Officers

Our executive officers are appointed by our board of directors and hold office indefinitely at the discretion of our board of directors. By Board Agreement No. 026-2020-PP of February 2, 2020, the Modification of the Basic Structure of Petroperu was approved, comprising Levels 1, 2 and 3 of the organization, with effective date from March 2, 2020. This modification is aligned to the strategies and challenges that our company faces and is oriented to the creation of value and good practices of corporate governance.

Below are the names, positions and dates of appointment of each of our executive officers as of the date of this offering memorandum. There is no family relationship between any of our executive officers listed below.

The address for our executive officers is Avenida Enrique Canaval Moreyra 150, Lima 27, Peru.

Executive Officers	Age	Position	Appointed
Carlos Alfredo Barrientos Gonzales	45	General Manager	August 2019
Rubén Martín Contreras Arce	52	Secretary General	January 2013
Juan Carlos Pasco Herrera	44	Compliance Officer	May 2018
Carlos Adrián Linares Peñaloza ⁽¹⁾	60	Financial Advisor	January 2019
Pablo Edgar Aranibar Osorio	47	Advisor to the Board	September 2019
Jairo Andres Sabogal Carrillo	43	Innovation, Development and New Commercial Manager	October 2020
Beatriz Cristina Fung Quiñones	46	Administration and Finance Manager	September 2020
Gina Aracelly Vega Ponce de León	44	Legal Manager	August 2020
Luis Alberto Suárez Carlo	59	Planning and Management Manager	October 2020
Carlos Alberto Centurión Robles	44	QHSSE Manager	September 2020
Beatriz Regina Alva Hart	54	Social Governance Manager	March 2020
Katherine Otero Ovalle	46	Personnel Administration Manager	January 2021
Jorge Reynaldo Alместar Mauricio	47	Project Manager Talara Refinery	March 2020
Gerardo Jorge León Castillo	69	Operations Manager	March 2020
Edgar Arturo Vargas Romero	47	Commercial Manager	January 2019
Santiago Santa Maria Rizo Patron	60	Supply Chain Manager	January 2020
Víctor Enrique Mejía Zuloeta ⁽²⁾	62	Head of the Institutional Control Body	March 2020

(1) Mr. Carlos Adrian Linares Peñaloza is Chairman of the Board of COFIDE.

(2) Mr. Victor Enrique Mejía Zuloeta is Senior General Comptroller of Peru.

Carlos Alfredo Barrientos Gonzales is the General Manager of Petroperu. Mr. Barrientos has a Bachelor in Business Administration from *Pontificia Universidad Católica del Perú* and a Masters in Strategic Business Administration from *Pontificia Universidad Católica del Perú*. He has participated in the “Senior Management Program (PAD)” of the Universidad de Piura and in the “CEO Management Program” of the Northwestern University – Kellogg School of Management. Mr. Barrientos has more than 20 years of professional experience in senior management positions of national and multinational companies, having held positions as Chief Executive Officer, Management and Independent Director. Among others, he served as: (i) General Manager for Peru and Bolivia, at Soltrak S.A., (ii) Commercial Manager for Gran Minería, (iii) Head of the Gran Minería Account (Antamina and Barrick), Head of the New Machines and Rentals Department, Head of Rentals, Head of Sales Administration at Ferreyros S.A. Mr. Barrientos has held the position of Board Chairman of Petroperu.

Rubén Martín Contreras Arce is the Secretary General of Petroperu. Mr. Contreras is a lawyer from the University of Lima, with a master in business law. Mr. Contreras has knowledge in hydrocarbons management, energy law, finance and business law, organization and administration. Mr. Contreras has more than 25 years of professional experience, having worked as Legal Advisor, Lawyer, Head of the Administration and Contracts Unit of Petroperu. He has also worked at the MEF in the Attorney General's Office.

Juan Carlos Pasco Herrera is the Compliance Officer of Petroperu. Mr. Pasco is an industrial and systems engineer from the University of Piura and holds a master in management and public policy from the University of Chile, specializing in Public Investment Projects. Mr. Herrera has more than 16 years of professional experience in functions related to transparency, ethics and integrity in public entities. He has worked at: (i) the Ministry of Health, serving as Director General of the General Office of Transparency and Documentary Procedures, Advisor to the General Secretary, Executive Director of the Office of Transparency and Anti-Corruption, (ii) the Ministry of Education as Chief of the General Office of Public Ethics and Transparency, (iii) the Presidency of the Council of Ministers as Advisor in the State Modernization Policy Component, Coordinator of the State Modernization Policy Monitoring, Evaluation and Dissemination Component. Mr. Pasco has also worked as a Consultant in the Judicial Branch and at the MEF.

Carlos Adrián Linares Peñaloza is the Financial Advisor of Petroperu. Mr. Linares has a degree in economics from the J. L. Kellogg Graduate School Management – Northwestern University. He has more than 38 years of professional experience, working in different positions, which have allowed him to have a wide knowledge of the market. He participated in the Senior Management Program and the Management Development Program at the University of Piura. In Petroperu he has held the positions of General Manager, Finance Manager and Financial Advisor. Mr. Linares served as: (i) Director – President of the Risk Committee at Banco de la Nación, (ii) General Director of Indebtedness and Public Treasury at the MEF, (iii) Finance Manager, Risk Executive and Finance Executive at COFIDE, (iv) Manager of Investment and Risk Analysis, and General Manager of Prisma SAP, and (v) Manager of Investments and Finance at Prisma Group (*Prisma Inversiones y Finanzas*).

Pablo Edgar Aranibar Osorio is the Advisor to the Board of Directors of Petroperu. He is an Economist from Universidad Ricardo Palma, Master in International Business from Boston University and Doctor in Government and Public Policy from the *Universidad de San Martín de Porres*, with postgraduate studies in Business Administration, International Cooperation, Global Business, International Business, Governance and Democratic Institutions and Project Management. He has more than 15 years of experience, having held different leadership positions in various public and private entities. Mr. Aranibar served as: (i) Chief of Cabinet Advisors at the MEF, (ii) Vice Minister of Agricultural Development Infrastructure and Irrigation at the Ministry of Agriculture and Irrigation of Peru, (iii) Economic Advisor in the Presidency of the Council of Ministers of Peru, (iv) Vice Minister of Defense Policies at the Ministry of Defence of Peru, (v) Director of the Ministry of Agriculture – Competitiveness Compensation Program, (vi) Head of International Negotiations and Trade Director of Technical and Financial Cooperation at the Ministry of Agriculture.

Jairo Andres Sabogal Carrillo is the Innovation, Development and New Business Manager of Petroperu. Mr. Sabogal is an Industrial Engineer from the *Universidad Escuela Colombiana de Ingeniería Julio Garavito*, with the International Lean Six Sigma Black Belt Certification Program at the International Association for Six Sigma Certifications, USA, Program in Change Facilitation Management ORICA Mexico, Program in Project Planning Management Orica Colombia. Mr. Sabogal has more than 15 years of experience in companies in the mining, industrial and manufacturing sectors, having held management and leadership positions in innovation, continuous improvement and industrial operations. Mr. Sabogal served as: (i) Innovation and Technology Manager at Gold Fields, Business Excellence Manager Black Belt – Latin America, Santiago de Chile, Chile, and (ii) Continuous Improvement Manager, Manufacturing Plant Manager S.I. at Orica Mining Services.

Beatriz Cristina Fung Quiñones is the Administration and Finance Manager of Petroperu. Mrs. Fung is a Public Accountant from the *Universidad Inca Garcilaso de la Vega* and has a master in administration with specialization in finance from the Universidad ESAN. She has more than 20 years of professional experience in the areas of strategic planning, financial planning, budget management, risk management and insurance in the hydrocarbons sector, having held managerial positions in different areas of our company. She has served as (i) General Manager, (ii) Corporate Manager for Planning, Management and Risks, (iii) Assistant Manager Budget, (iv) Assistant manager Strategy and Planning, and (v) Head of the Operating Budget and Investments Unit, among others.

Gina Aracelly Vega Ponce de León is the Legal Manager of Petroperu. Mrs. Vega is a Lawyer from the *Pontificia Universidad Católica del Perú* and Master in Management and Administration from the *Escuela de Organización Industrial – EOI Madrid, Spain*. She has a Diploma in Business Law, Specializations in Electricity and Law, and also participated in the Corporate Governance Program in Yale University – Yale School Of Management, New Haven – Connecticut, USA. She has more than 20 years of experience advising on matters related to Corporate and Regulatory Law, State Business, Hydrocarbons, Electrical, Administrative, Good Corporate Governance and International Treaty Negotiations, having held Management and Director positions. Mrs. Vega has served as: (i) member of the Special Committee PRO-SOCIAL of the Private Investment Promotion Agency in Peru – PROINVERSION, (ii) Member of the Board of Directors – Vice President, at Petroperu, (iii) Corporate Manager of Legal and Regulatory Affairs, Legal Executive of Holding, Executive of Insolvency Proceedings at FONAFE.

Luis Alberto Suárez Carlo is the Manager for Planning and Management of Petroperu. Mr. Suárez is an Industrial Engineer from the *University of Piura*, with a Masters in Administration from the *ESAN University*, with postgraduate studies in Finance and Executive Project management. He has more than 34 years of experience in the oil industry, having held managerial and chief positions in different units of our company. He has worked in our company as (i) Head of the Engineering Unit, (ii) Head of the Maintenance Department, (iii) Manager of the Oil Pipeline, (iv) Manager of the Conchán Refinery, (v) Superintendent of Planning, Management and Risks, and (vi) Team Leader of the Talara Human Resources Team, among others.

Carlos Alberto Centurión Robles is the QHSSE Manager of Petroperu. Mr. Centurion is an Industrial Engineer from the *Universidad Privada del Norte* and holds an MBA in Safety, Quality and Environmental Management Systems from the *Universidad de Villa del Mar, Chile* (2015), with postgraduate studies in Leadership Development (2012), Supervision and Authorization of High Risk Works (2016), Audits of Integrated Management Systems (2008), Industrial Safety and Hygiene (2006) and Radiological Safety (2005). He has more than 21 years of experience in national and transnational companies in the mining, oil and industrial sector. Mr. Centurion worked as (i) HSEQ Manager at Frontera Energy/Pacific Off Shore, (ii) HSE Chief at *Terminales del Perú – Consorcio Graña y Montero* Petróleo – Oiltanking, (iii) QHSSE Manager – Peru and Ecuador at Weatherford International, (iv) Corporate Chief in HSSE at Corporación Pesquera Hayduk, (iv) Coordinator in HSSE at Cía. Cervecera Ambev Perú S.A.C., and (v) Mine SSOMA Engineer in Pan American Silver Corp.

Beatriz Regina Alva Hart is the Social Governance Manager of Petroperu. Mrs. Alva is a lawyer from the *University of Lima*, with postgraduate studies in Labor Relations from Johns Hopkins University, in partnership with the University of Bologna, Italy; specialist in labor law and social security, corporate social responsibility, public management, political analysis and social communication. She has more than 26 years of professional experience. Mrs. Alva served as (i) Advisor to the Ministerial Office of the Ministry of Production, (ii) Member of the Commission of Specialists for the Preparation of the Draft Law on Labor Procedure, (iii) Consultant on Sustainable Development in the European Union Mission, (iv) Member of the Advisory Committee of the Ministry of Justice and the Ministry of Labor and Employment Promotion, (v) Director of the Charitable Society of Metropolitan Lima, (vi) Consultant to the International Labor Organization, (vii) Congresswoman of the Republic: President of the Labor and Social Security Commission, Chairperson of the Sub-Commission of Inquiry on the Constitutional Complaint, and (viii) Vice Minister of Labor of the Ministry of Labor and Social Promotion, among others.

Katherine Otero Ovalle is the Personnel Administration Manager of Petroperu. Mrs. Otero has a Bachelor in Organizational Psychology from the *University of Lima* and a Masters in Human Resources Management and Administration from *Esade Business School*, with a specialization in Business Administration and Human Resources. She has worked as Human Resources Consultant at PriceWaterhouse Coopers, Head of Training and Development at Banco Sudamericano – Scotiabank, Head of Human Resources at Mars Andean, Human Resources Manager at PUIG Perú, Central Human Resources Manager at Corporación PECSA, General Manager at The Clorox Company, and Global Human Resources Manager, AJE GROUP.

Jorge Reynaldo Almestar Mauricio is the Manager of the Talara Refinery Project of Petroperu. Mr. Almestar is a Mechanical and Electrical Engineer from the *University of Piura*, Reg. CIP 78920. He holds a Diploma in Project Management under the approach of the PMI of the *University of Piura*, Diploma in Welding Inspection Training from the *Pontificia Universidad Católica del Perú* and Diploma in Fundamentals of Offshore Structures and Design of Fixed Marine Platforms from the University of Texas, USA. He has more than 18 years of experience in the Hydrocarbon sector. Mr. Almestar has worked in Petroperu as Assistant Manager of Talara Refinery Modernization Project, Management Advisor – Talara Refinery Modernization Project Management, Projects Department Manager

(PMO). He has also worked as Corrosion Engineer, Facilities and Structures Engineer, Head of Facilities and Structures Engineering Department in Petro-Tech Peruana S.A.

Gerardo Jorge León Castillo is the Operations Manager of Petroperu. Mr. Castillo is a Chemical Engineer from the *Universidad Nacional Mayor de San Marcos* – UNMSM. He participated in the Natural Gas Technology and Management Program of the Canadian Petroleum Institute, in the Hydrocarbon Management Program at ESAN, in the Postgraduate Program in Production Management of Goods and Services of CADEM at Universidad Cesar Vallejo and in the Accounting and Finance Diploma at UNMSM – CAD. He has more than 41 years of professional experience. Mr. Leon has worked in Petroperu as Management Advisor, Assistant Manager Conchán Refinery, Manager of Refining and Pipelines, Manager of Talara Refinery, Operations Manager Conchán, Operations Manager Talara, Superintendent of Talara Refinery, Chief Conversion/Distillation Operations, Senior Engineer Operations, among others.

Edgar Arturo Vargas Romero is the Commercial Manager of Petroperu. Mr. Vargas is an Industrial Engineer from the *Universidad Ricardo Palma* with an MBA from the *Universidad San Ignacio de Loyola*. He has more than 15 years of experience in multinational companies in the industrial, hydrocarbon and service sectors, having held positions of Commercial Manager and Business Development. Mr. Vargas worked as: (i) Commercial Manager at Empresas Lipigas – Limagas Natural-Neogas, (ii) General Manager at Varzen S.A.C., (iii) Development and New Business Manager at Empresas Lipigas – Lima Gas Sa, (iv) Central Region Commercial Manager, Chimbote Branch Manager, and (v) North and East Regional Manager at Praxair Inc. – Praxair Peru SRL, among others.

Santiago Santa Maria Rizo Patron is the Supply Chain Manager of Petroperu. Mr. Santa Maria is a Bachelor in Industrial Engineering from the *University of Lima* and MBA in Business Administration from the *Universidad del Pacífico*, with postgraduate studies in Supply Chain in ESAN. He has more than 25 years of professional experience managing commercial, distribution and operations areas in multinational consumer products companies. He served as Advisor to the Director of Distribution Southern Region, Director of Distribution Services, Distribution Center Manager in Lima, Warehouse Coordinator in Distribution Centers, Warehouse Manager in the Motupe Plant at Cervecerías Peruanas Backus & Johnston S.A.A., among others.

Víctor Enrique Mejía Zuloeta is the Head of the Institutional Control Body of Petroperu. Mr. Mejía is an Industrial Engineer from the *Universidad Nacional Federico Villareal*. Mr. Mejía has a master in administration from *ESAN University*. He has more than 33 years of professional experience in the areas of Privatization and Autonomous Organizations, Information Systems and Processing, Sectorial Control and Auditing. Mr. Mejía served as Head of Systems Unit, Chairman of the Technical Committee, Senior Management Advisory Team, Assistant Manager Company Audits, Privatization and Autonomous Bodies, Assistant Manager State Companies Auditor and Privatization, Deputy Director of Privatization Processes, Head of the General Management of Production Companies, Support Team to the Committee on Reorganization, Restructuring and Modernization of the Senate of the Republic, various operational responsibilities at the Comptroller General of the Republic.

Compensation of Directors and Officers

For the nine-month period ended September 30, 2020, we paid our directors and senior managers for services in all capacities an aggregate compensation of S/13.20 million (US\$ 3.69 million) (a total of S/0.54 million (US\$0.15 million) for our directors and a total of S/12.67 million (US\$3.54 million) for our executives). For the nine-month period ended September 30, 2019, we paid our directors and executives for services in all capacities an aggregate compensation of S/17.49 million (a total of S/0.43 million for our directors and S/17.06 million for our executives).

For the year ended December 31, 2019, we paid our directors and senior managers for services in all capacities an aggregate compensation of S/23.53 million (U.S.\$7.11 million) (a total of S/0.58 million (U.S.\$0.18 million) corresponding to our directors and a total of S/22.94 million (U.S.\$6.93 million) corresponding to our executive officers). For the year ended December 31, 2018, we paid our directors and executive officers for services in all capacities an aggregate compensation of S/24.98 million (a total of S/0.54 million corresponding to our directors and a total of S/24.44 million corresponding to our executive officers).

Corporate Governance Matters

Pursuant to our by-laws and the internal regulations for our board of directors and general board of shareholders, all major decisions relating to the management, control and supervision of our company are carried out by our board of directors. However, daily managerial decisions are typically delegated to our executive officers, allowing our board of directors to focus on defining our general strategies, establishing our managing guidelines, and monitoring the accuracy and transparency of the information provided to our shareholder, investors and the general public. In addition, our board of directors also oversees our basic organizational structure, votes on the execution of material agreements, consents to the creation of any liens on our assets, authorizes guarantees, grants powers of attorney, defines the scope of our internal control system and submits proposals to our general board of shareholders.

Our general board of shareholders is our senior corporate governance body. Among other duties, our general board of shareholders elects the members of our board of directors, approves our annual reports and financial statements, appoints our external auditors, amends our by-laws (including capital increases or reductions), issues financial obligations, arranges special auditing processes and investigations and removes directors who fail to meet the annual objectives or who commit acts of gross misconduct. In broad terms, our general board of shareholders may approve any decision relating to our company (including those designated to our board of directors).

Additionally, in 2010, our board of directors approved our internal Corporate Governance Code, with the purpose of establishing clear policies for transparent and ethical management, including the disclosure of information to our general board of shareholders, our board of directors, our management and other relevant parties. It should be noted that in 2018, the Board of Directors approved the new Good Corporate Governance Code which, in addition to associating itself with the good international practices and principles established in the “Good Corporate Governance Code for Peruvian Companies,” is structured in a similar way, facilitating its study and comparison. By these means, Petroperu is in compliance with the provisions of the last paragraph of numeral 3.1 of Article 3 of Legislative Decree N° 1292 – a Legislative Decree that declares the safe operation of the Norperuano Pipeline as a public necessity and of national interest and provides for the reorganization and improvement of the corporate governance of PETROPERÚ S.A.

Our Corporate Governance Code includes the following:

- the fair and equitable treatment of minority shareholders, if any;
- corporate social responsibility policies;
- the application of the Integrity Code;
- our internal control system and risk management;
- our audit policies;
- monitoring of the resolutions adopted by the general shareholder’s meeting;
- the guidelines for the composition of our board of directors and the responsibilities and required expertise of its members;
- Board evaluations;
- the authority of the board of directors to create various committees in accordance with our management needs;
- implementation of an area responsible for centralizing and managing response to information requirements of shareholders and investors;
- the policies for appointing our managers and their primary duties and responsibilities;

- the evaluation procedures for our board of directors and management; and
- management of conflicts of interest.

PRINCIPAL SHAREHOLDER AND RELATED PARTY TRANSACTIONS

Principal Shareholder

As of December 31, 2020, our issued and outstanding share capital consisted of two classes of our shares, our Class A shares, and our Class B shares. As of such date, the aggregate amount of our issued and outstanding share capital was 5,368,412,525 shares, having a par value of S/1.00 (considering an exchange rate of S/3.599 to U.S.\$1.00), represented by 4,294,730,020 Class A shares (80.0% of our issued and outstanding share capital) and 1,073,682,505 Class B shares (20.0% of our issued and outstanding share capital), wholly-owned by Peru, our sole shareholder.

Holders of our Class A and Class B shares are each entitled to one vote per share. Both classes of our shares may vote in general and special meetings. Pursuant to our by-laws, the individual that holds the position of Minister of Energy and Mines is also the president of our general board of shareholders, and the Peruvian Government has the authority to appoint the remaining four members of our general board of shareholders. Currently, the individuals that fill the following five roles constitute the members of our general board of shareholders:

- Minister of Energy and Mines, as president;
- Minister of Economy and Finance;
- Vice-Minister of Hydrocarbons;
- Vice-Minister of State; and
- General Secretary of the MEM.

Each of these representatives is entitled to exercise the rights (including voting rights) of 20.0% of our Class A shares outstanding and of 20.0% of our Class B shares outstanding (as long as our Class B shares are owned by Peru). If our shares cannot be divided into an integer number, the president of our general board of shareholders will be assigned with an equivalent integer number of shares that allows the other representatives to hold an equal number of shares.

Only Peru is permitted to hold our Class A shares. Our Class B shares may be sold to the public, so long as no more than 49.0% of our total shares are held by the public. Pursuant to our bylaws, our Class B shares are required to be registered with the SMV, and have been so registered since April 2010. We cannot solely issue new Class A shares. We are required to issue either (i) proportionate amounts of Class A and Class B shares or (ii) only Class B shares. Holders of Class A shares have a preferential right to subscribe (i) newly issued Class A shares or (ii) newly issued Class B shares if the holders of Class B shares do not exercise their preferential rights with respect to such newly issued Class B shares. Holders of Class B shares have preferential rights to acquire newly issued Class B shares in order to retain their existing *pro rata* ownership of our company. This also applies to instruments convertible into Class A or Class B shares, respectively, of which we have none. Class A shares are indivisible, non-transferable and cannot be subject to any attachment, security interest, usufruct or lien. Additionally, pursuant to Law No. 28840, we are required to reinvest all of our profits. Therefore, we have not issued any dividends on either our Class A or Class B shares historically. See “Regulatory Framework—Regulatory Regime—General legal framework.”

Related Party Transactions

All of our shares are owned by Peru, represented by the MEM and the MEF, and, as a result, the MEM, the MEF and other entities that are similarly owned or controlled by Peru could be considered our affiliates or related parties. In the ordinary course of our business, we engage in a variety of commercial transactions, including the following:

- fuel and asphalt supply contracts with local municipalities, regional governments and state-owned electricity providers; as a result of public contest for the fuel and asphalt supply with specific volume (not permanent), we competed with the others suppliers of the market; and

- exclusive fuel supply agreements with Peru's Armed Forces (Navy, Army and Air Force) for permanent supply of fuel (not asphalt)

Currently, we have received late payments from the Peruvian National Police and Peru's Armed Forces, and we have overdue payments from the Provincial Municipality of Mariscal Nieto, District Municipality of Paucarpata and District Municipality of Ciudad Nueva.

Because all of our commercial contractors are related parties and are incorporated in Peru, all our transactions with those related parties are subject to Peruvian regulations. Additionally, because all of our affiliates are incorporated in Peru, all our transactions with that related parties are subject to Peruvian regulations. We believe that we have complied and are in compliance as of the date hereof in all material respects with the requirements of the relevant provisions of our by-laws and the Peruvian laws governing related-party transactions with respect to all of our transactions with related parties.

DESCRIPTION OF CERTAIN INDEBTEDNESS OF THE ISSUER

CESCE Financing

On November 22, 2018, we entered into an amortizing loan in an amount up to U.S.\$1,300 million in total disbursements guaranteed by CESCE. Initially, the credit agreement was executed by Banco Bilbao Vizcaya Argentaria S.A., BNP Paribas Fortis, S.A./N.V., Citibank, N.A., Deutsche Bank, S.A.E., HSBC Securities (USA) INC., JPMorgan Chase Bank, National Association, London Branch, and Banco Santander, S.A. as initial mandated lead arrangers, underwriters and bookrunners. One of the conditions precedent for disbursement of the CESCE financing was to receive a report from the Comptroller General of Peru providing for the execution, delivery and performance of the Agreement without any comments or recommendations, such notice was issued on February 21, 2018.

The process of compliance with the rest of the conditions precedent was extended until November 29, 2018. As part of such process, on November 14, 2018 an amendment to the CESCE financing Credit Agreement was approved. In the meantime the original lenders assigned part of their participation in the CESCE financing, following the assignment process provided in the Credit Agreement; as a result, the following banks joined the CESCE financing as lenders: CaixaBank, S.A., Commerzbank AG, Spanish Branch, Bankinter, S.A. Bankia, S.A. Instituto de Crédito Oficial, E.P.E., Banco de Sabadell, S.A., Miami Branch. See “Risk Factors—Risk Related to Our Operations—The Talara Refinery Modernization Project requires substantial capital and we have not secured all sources of financing required to complete the project.”

This CESCE financing bears interest at an annual rate of CIRR Fixed Rate plus 0.275%. On each interest payment date, we also pay a commitment fee of 0.47% of each lender’s non-disbursed loan commitment amount, that was payable December 31, 2020. The credit agreement matures on November 27, 2030. We will make 20 equal semi-annual amortization payments on the principal amount of the CESCE loan beginning on June 30, 2021. This credit agreement provides customary covenants and events of default, including cross-defaults, covenants limiting our ability to incur in additional indebtedness or create liens, financial requirements (such as net debt to equity ratio and debt service coverage ratio, among others). See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt.” As of the date of this offering memorandum, we are in compliance with all covenants under this loan facility.

To date, we have used the net proceeds of the CESCE loan to finance the initial stages of the Talara Refinery Modernization Project, including the payment of U.S.\$500.0 million of the EPC Contract Price. We have received the following disbursements under this loan: (i) U.S.\$1,174,837,123.40 on November 9, 2018; (ii) U.S.\$40,110,883.32 on January 28, 2020 and (iii) U.S.\$14,087,869.60 on November 27, 2020.

Bank Loans

As of September 30, 2020, we had the following short-term loans outstanding:

- S/912.2 million (U.S.\$253.4 million) in loans from Banco de Crédito del Perú, S/200 million (U.S.\$55.6 million) of which was denominated in *soles* and U.S.\$197.9 million (S/712.2 million) of which was denominated in U.S. dollars, at average annual interest rates of 1.50% for the *sol*-denominated loans and 0.71% for the dollar-denominated loan, with an average maturity of 134 days with respect to the *sol*-denominated loans and 153 days with respect to the U.S. dollar-denominated loan, with the *sol*-denominated loans maturing in December 2020 and the U.S. dollar-denominated loan maturing in October 2020, January, February, and March 2021;
- S/678.8 million (U.S.\$188.6 million) in loans from BBVA, S/75.0 million (U.S.\$20.8 million) of which was denominated in *soles* and U.S.\$167.8 million (S/603.8 million) of which was denominated in U.S. dollars at average annual interest rates of 0.73% for the *sol*-denominated loans and 0.95% for the dollar-denominated loan, with an average maturity of 56 days with respect to the *sol*-denominated loans and 123 days with respect to the U.S. dollar-denominated loan, with the *sol*-denominated loans maturing in November 2020 and the U.S. dollar-denominated loan maturing in November 2020, January, and March 2021;

- S/200.7 million (U.S.\$55.8 million) in loans from Scotiabank, S/100 million (U.S.\$27.8 million) of which was denominated in *soles* and U.S.\$28 million (S/100.8 million) of which was denominated in U.S. dollars, at average annual interest rates of 1.75% for the *sol*-denominated loans and 1.60% for the U.S. dollar-denominated loan, with an average maturity of 179 days with respect to the *sol*-denominated loans and 180 days with respect to the U.S. dollar-denominated loan, with the *sol*-denominated loans maturing in January 2021 and the U.S. dollar-denominated loan maturing in January 2021;
- U.S.\$50.0 million (S/179.9 million) in loans from DZ Bank AG denominated in U.S. dollars, at an average annual interest rate of 1.07%, with an average maturity of 181 days, maturing in November 2020;
- U.S.\$30.0 million (S/108.0 million) in loans from Citibank denominated in U.S. dollars, at an annual interest rate of 2.18%, with an average maturity of 180 days, maturing in November 2020;
- U.S.\$71.0 million (S/255.5 million) in loans from BNP Paribas denominated in U.S. dollars, at an annual interest rate of 2.19%, with an average maturity of 180 days, maturing in November and December 2020;
- U.S.\$21.3million (S/76.7 million) in loans from Bladex denominated in U.S. dollars, at an annual interest rate of 1.40%, with amaturity of 200 days, maturing in October 2020;
- U.S.\$133.0 million (S/478.7 million) in loans from Sumitomo denominated in U.S. dollars, at an average annual interest rate of 1.25%, with an average maturity of 177 days, maturing in November 2020 and February 2021;
- U.S.\$75 million (S/269.9 million) in loans from Corporación Andina de Fomento denominated in U.S. dollars, at an average annual interest rate of 1.09%, with an average maturity of 193 days, maturing in October and December 2020, and January 2021;
- S/190.0 million (U.S.\$52.8 million) in loans from Banco de la Nación denominated in *soles*, at an annual interest rate of 0.74%, with a maturity of 358 days, maturing in May 2021;
- U.S.\$90.0 million (S/323.9 million) in loans from Natixis denominated in U.S. dollars, at an average annual interest rate of 2.53%, with an average maturity of 196 days, maturing in October and December 2020;
- U.S.\$100.0 million (S/359.9 million) in loans from Itau BBA S.A. denominated in U.S. dollars, at an average annual interest rate of 2.91%, with an average maturity of 190 days, maturing in October and December 2020;
- U.S.\$75.0 million (S/269.9 million) in loans from Sabadell denominated in U.S. dollars, at an average annual interest rate of 2.73%, with an average maturity of 174 days, maturing in October 2020; and
- U.S.\$16.0 million (S/57.6 million) in loans from Banco Interamericano de Finanzas, denominated in U.S. dollars, at an annual interest rate of 1.30%, with a maturity of 180 days, maturing in February 2021.

DESCRIPTION OF THE NOTES

The Notes offered hereby will be issued as additional notes under the Indenture, dated as of June 19, 2017 (as supplemented by the Supplemental Indenture to be dated as of February 11, 2021 and as may be further amended or supplemented from time to time, the “Indenture”), between us and The Bank of New York Mellon, as Trustee, Paying Agent and Registrar (the “Trustee”). On June 19, 2019 we issued U.S.\$1,000,000,000 of our 5.625% Notes due 2047 under the Indenture (the “Original Notes”). The aggregate principal amount of the Notes offered hereby and the Original Notes will be U.S.\$2,000,000,000. The Notes will constitute a further issuance of, and be consolidated, form a single series and be fully fungible with, the Original Notes, including, without limitation, with respect to waivers, amendments, redemptions and offers to purchase. The Notes will have terms identical to the Original Notes, other than the issue date, issue price, date from which interest initially will accrue and transfer restrictions as described below. As used in this “Description of the Notes,” references to the “Notes” include the Notes, the Original Notes previously issued under the Indenture and any Additional Notes issued under the Indenture in the future. The terms of the Notes include those set forth in the Indenture. The Indenture is not required to be nor will it be qualified under the Trust Indenture Act.

The following description is a summary of the material provisions of the Indenture and the Notes. Because this is only a summary, it is not complete and is subject to, and qualified in its entirety by reference to, the Indenture, including the definitions included therein. Any prospective purchaser of the Notes should read the Indenture, including the form of the Notes annexed thereto, because it, and not this description, defines the rights of the Noteholders under the Indenture.

General

The Notes will:

- be issued directly by the Issuer and constitute the Issuer’s general unsecured obligations;
- be issued initially in an aggregate principal amount of U.S.\$1,000,000,000;
- mature on June 19, 2047 (the “Maturity Date”);
- be issued only in fully registered book-entry form, without coupons, with a minimum denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof; and
- bear interest at the rate per annum set forth on the front cover page of this offering memorandum.

Interest on the Notes will accrue at the rate of 5.625% per year and will be payable semi-annually in arrears on June 19 and December 19 of each year, commencing on June 19, 2021. The Issuer will make each interest payment to the holders of record on the immediately preceding June 17 and December 17. Interest on the Notes will accrue from the Issue Date or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30 day months.

The Trustee will act as paying agent and registrar for the Notes. The Notes may be presented for registration of transfer and exchange at the offices of the registrar for the Notes. There will be no service charge for any registration of transfer or exchange of Notes, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in that connection.

Notes sold to qualified institutional buyers pursuant to Rule 144A under the Securities Act (“Rule 144A”) and Notes sold offshore in reliance on Regulation S (“Regulation S”) under the Securities Act will be issued in the form of Global Notes as more fully described below under “—Book-Entry System; Delivery and Form.”

Until the expiration of the 40-day distribution compliance period commencing on the issue date, the Notes offered hereby and sold in compliance with Regulation S will be issued and maintained under a temporary CUSIP number and a temporary ISIN. Upon the expiration of the 40-day distribution compliance period, the Notes offered hereby and the Original Notes will share the same CUSIP number and ISIN and be fully fungible.

The Issuer may from time to time, without the consent of the Noteholders, issue additional Notes under the Indenture on the same terms and conditions as the Notes being offered hereby in all respects in an unlimited aggregate principal amount (the “Additional Notes”), except that the issue date, the issue price and the first payment of interest thereon may differ; *provided, however*, that unless such Additional Notes are issued under a separate CUSIP number, either such Additional Notes are part of the same “issue” as the Notes for U.S. federal income tax purposes or are issued pursuant to a “qualified reopening” of the Notes for U.S. federal income tax purposes. Unless the context otherwise requires, for all purposes of the Indenture and this “Description of the Notes,” references to the Notes include any Additional Notes actually issued.

As of September 30, 2020, the Issuer had U.S.\$4,463.3 million of outstanding debt, which consisted of U.S.\$1,300 million under the syndicated amortizing loan, dated November 22, 2018, among the Issuer, as borrower, and Banco Bilbao Vizcaya Argentaria S.A., BNP Paribas Fortis, S.A./N.V., Citibank, N.A., Deutsche Bank, S.A.E., HSBC Securities (USA) Inc., JPMorgan Chase Bank, National Association, London Branch, and Banco Santander, S.A., as initial mandated lead arrangers, underwriters and bookrunners, and S/1,200 million under various short-term loan facilities with several financial institutions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt.” The Indenture does not limit the amount of indebtedness or other obligations that may be incurred by the Issuer or the Subsidiaries, except as described under “—Covenants—Limitations on Liens,” “—Covenants—Limitations on Sale and Lease-back Transactions,” “Covenants—Requirements with Respect to Sovereign Guarantees” and “—Covenants—Limitations on Issuance of Securities Benefiting from a Sovereign Guarantee.”

As of the date of this offering memorandum, the Issuer has no Subsidiaries.

Book-Entry System; Delivery and Form

The Notes are being offered and sold solely to “qualified institutional buyers,” as that term is defined in Rule 144A (“QIBs”), pursuant to Rule 144A, and in offshore transactions to persons other than “U.S. persons,” as defined in Regulation S, in reliance on Regulation S. Following the initial offering of the Notes, the Notes may be resold to QIBs pursuant to Rule 144A, non-U.S. persons in reliance on Regulation S and pursuant to Rule 144 under the Securities Act, as described under “Transfer Restrictions.”

The Global Notes

Notes offered and sold to QIBs pursuant to Rule 144A will initially be issued in the form of one or more registered notes in global form, without interest coupons (the “Rule 144A Global Note”). The Rule 144A Global Note will be held by the Trustee as custodian for The Depository Trust Company (“DTC”), and registered in the name of Cede & Co., as nominee of DTC. Interests in the Rule 144A Global Note will be available for purchase only by QIBs.

Notes offered and sold in offshore transactions to non-U.S. persons in reliance on Regulation S will initially be issued in the form of one or more registered notes in global form, without interest coupons (the “Regulation S Global Note,” and together with the Rule 144A Global Note, the “Global Notes”). The Regulation S Global Note will be held by the Trustee as custodian for DTC in the manner described in the preceding paragraph for credit to the respective accounts of the purchasers, or to such other accounts as they may direct.

Investors may hold their interests in the Global Notes directly through Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”) or Clearstream Banking, S.A. (“Clearstream”) if they are participants in such systems or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold such interests in the Global Notes on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories. Such depositories, in turn, will hold such interests in the Global Notes in customers’ securities accounts in the depositories’ names on the books of DTC.

Global Notes

Except as set forth below, the Global Notes may be transferred, in whole and not in part, solely to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for notes in physical, certificated form (“Certificated Notes”), except in the limited circumstances described below.

The Notes will be subject to certain restrictions on transfer and will bear a restrictive legend as set forth under “Transfer Restrictions.”

All interests in the Global Notes, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

Exchanges among the Global Notes

Prior to the 40th day after the date of the closing of the sale of the Notes (the period through and including the 40th day, the “Restricted Period”), transfers by an owner of a beneficial interest in the Regulation S Global Note to a transferee who takes delivery of this interest through the Rule 144A Global Note will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferor of the beneficial interest in the form provided in the Indenture to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A. Such written certification will no longer be required after the expiration of the Restricted Period.

Transfers by an owner of a beneficial interest in the Rule 144A Global Note to a transferee who takes delivery of such interest through the Regulation S Global Note, whether before or after the expiration of the Restricted Period, will be made only upon receipt by the Trustee of a certification from the transferor to the effect that such transfer is being made in accordance with Regulation S.

Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such an interest.

Certain book-entry procedures for the Global Notes

The descriptions of the operations and procedures of DTC, Euroclear and Clearstream set forth below are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. None of the Issuer or the initial purchasers takes any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised the Issuer that it is (i) a limited purpose trust company organized under the laws of the State of New York, (ii) a “banking organization” within the meaning of the New York Banking Law, (iii) a member of the Federal Reserve System, (iv) a “clearing corporation” within the meaning of the Uniform Commercial Code, as amended and (v) a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical transfer and delivery of certificates. DTC’s participants include securities brokers and dealers (including the initial purchasers), banks and trust companies, clearing corporations and certain other organizations. Indirect access to DTC’s system is also available to other entities such as banks, brokers, dealers and trust companies, or indirect participants that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Investors who are not participants may beneficially own securities held by or on behalf of DTC only through participants or indirect participants.

The Issuer expects that pursuant to procedures established by DTC (i) upon deposit of each Global Note, DTC will credit the accounts of participants designated by the initial purchasers with an interest in the Global Note and (ii) ownership of the Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the interests of participants) and the records of participants and the indirect participants (with respect to the interests of persons other than participants).

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Accordingly, the ability to transfer interests in the Notes represented by a Global Note to such persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on

behalf of persons who hold interests through participants, the ability of a person having an interest in Notes represented by a Global Note to pledge or transfer such interest to persons or entities that do not participate in DTC's system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or Noteholder represented by the Global Note for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a Global Note will not be entitled to have Notes represented by such Global Note registered in their names, will not receive or be entitled to receive physical delivery of Certificated Notes, and will not be considered the owners or holders thereof under the Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee thereunder. Accordingly, each holder owning a beneficial interest in a Global Note must rely on the procedures of DTC and, if such holder is not a participant or an indirect participant, on the procedures of the participant through which such holder owns its interest, to exercise any rights of a holder of Notes under the Indenture or such Global Note. The Issuer understands that under existing industry practice, in the event that the Issuer requests any action of holders of Notes, or a holder that is an owner of a beneficial interest in a Global Note desires to take any action that DTC, as the holder of such Global Note, is entitled to take, DTC would authorize the participants to take such action and the participants would authorize holders owning through such participants to take such action or would otherwise act upon the instruction of such holders. None of the Issuer or the initial purchasers will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, Notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to such Notes.

Payments with respect to the principal of, premium, if any, and interest on any Notes represented by a Global Note registered in the name of DTC or its nominee on the applicable record date will be payable by the Trustee to or at the direction of DTC or its nominee in its capacity as the registered holder of the Global Note representing such Notes under the Indenture. Under the terms of the Indenture, the Issuer and the Trustee may treat the Persons in whose names the Notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving payment thereon and for any and all other purposes whatsoever. Accordingly, neither of the Issuer nor the Trustee has or will have any responsibility or liability for the payment of such amounts to owners of beneficial interests in a Global Note (including principal, premium, if any, and interest). Payments by the participants and the indirect participants to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of the participants or the indirect participants and DTC.

Transfers between participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary. However, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Notes in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream as a result of sales of interest in a Global Note by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer or the initial purchasers will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If: (i) the Issuer notifies the Trustee in writing that DTC is no longer willing or able to act as a depository or DTC ceases to be registered as a clearing agency under the Exchange Act and a successor depository is not appointed within 90 days of such notice or cessation; (ii) the Issuer, at its option, notifies the Trustee in writing that it elects to cause the issuance of Notes in definitive form under the Indenture; or (iii) upon the occurrence of certain other events as provided in the Indenture, then, upon surrender by DTC of the Global Notes, Certificated Notes will be issued to each Person that DTC identifies as a beneficial owner of the Notes represented by the Global Notes. Upon any such issuance, the Trustee is required to register such Certificated Notes in the name of such Person or Persons (or the nominee of any thereof) and cause the same to be delivered thereto.

None of the Issuer or the initial purchasers shall be liable for any delay by DTC or any participant or indirect participant in identifying the beneficial owners of the related Notes and the Issuer and the Trustee may conclusively rely on, and shall be protected in relying on, instructions from DTC for all purposes (including with respect to the registration and delivery, and the respective principal amounts, of the Notes to be issued).

Listing

The Issuer will apply for the listing and quotation of the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Note is exchanged for a Certificated Note, the Issuer will appoint and maintain a paying agent in Singapore, where the Certificated Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for a Certificated Note, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Certificated Notes, including details of the paying agent in Singapore. The Notes will be traded on the SGX-ST in a minimum board lot size of SGD\$200,000 (or its equivalent in foreign currencies) for so long as the Notes are listed on the SGX-ST.

Notices

Notice to holders of (i) Certificated Notes will be delivered to such holders as they appear in the security register and (ii) Global Notes will be given by delivery of such notices to DTC in accordance with its applicable procedures. In addition, so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST shall so require, notices regarding the Notes shall be disclosed by the Issuer to the SGX-ST via SGXNET and published by the Issuer in a leading newspaper having general circulation in Singapore (which is expected to be *The Business Times*). If and so long as such Notes are listed on any other securities exchange, notices will also be given in accordance with any applicable requirements of such securities exchange.

Replacement of Notes

In case of mutilated, destroyed, lost or stolen Notes, application for replacement thereof may be made to the Trustee or the Issuer. Any such Note will be replaced by the Trustee in compliance with such procedures, and on such terms as to evidence and indemnification, as the Trustee or the Issuer may require and subject to any applicable Law. All such costs as may be incurred in connection with the replacement of any Notes will be borne by the applicant. Mutilated Notes must be surrendered before new Notes will be issued.

Ranking

The Notes will rank senior in right of payment to all of the Issuer's future subordinated indebtedness and equal in right of payment with all of the Issuer's present and future unsubordinated indebtedness, other than in the case of certain obligations as may be preferred by provisions of law that are both mandatory and of general application.

Change of Control

Upon the occurrence of a Change of Control Event (as defined below), Noteholders will have the right to require that the Issuer purchase all or any part of the Notes pursuant to the offer described below (a “Change of Control Offer”) at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (the “Change of Control Payment”) (subject to the right of holders of record on the relevant record date to receive interest due on the relevant Payment Date).

Within 30 days following the occurrence of a Change of Control Event, the Issuer will send a notice to each holder of Notes as described in “—Notices” above, with a copy to the Trustee stating:

- (i) that a Change of Control Event has occurred and that such holder has the right to require the Issuer to purchase all or any part of such holder’s Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest on the relevant Payment Date);
- (ii) the circumstances and relevant facts regarding such Change of Control Event;
- (iii) the purchase date (which may be no earlier than 30 days nor later than 60 days from the date such notice is sent) (the “Change of Control Payment Date”); and
- (iv) the instructions, as determined by the Issuer, that a holder of Notes must follow in order to have its Notes purchased.

The Issuer will not be required to make a Change of Control Offer following a Change of Control Event if a third party makes a Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

If holders of not less than 90% in aggregate principal amount of the outstanding Notes validly tender and do not withdraw such Notes in a Change of Control Offer and the Issuer, or any third party making a Change of Control Offer in lieu of the Issuer, purchases all of the Notes validly tendered and not withdrawn by such holders, the Issuer or such third party will have the right to redeem all Notes that remain outstanding following such purchase on a date (the “Second Change of Control Payment Date”) at a price in cash equal to the Change of Control Payment in respect of the Second Change of Control Payment Date.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes as a result of a Change of Control Event. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations described herein by virtue of its compliance with such securities laws or regulations.

Subject to the limitations discussed below, the Issuer could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control Event under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect its capital structure or credit ratings. However, the Indenture does not contain any covenants or provisions that would afford Noteholders protection in the event of any such transaction.

The Issuer’s existing indebtedness contains, and future indebtedness that the Issuer may incur may contain, provisions that restrict its ability to take actions that would constitute a Change of Control or that require the repurchase of such indebtedness upon a change of control. Moreover, the exercise by the holders of their right to require the Issuer to repurchase the Notes could cause a default under such indebtedness, even if the Change of Control Event itself does not, due to the financial effect of such repurchase on the Issuer. Finally, the Issuer’s ability to pay cash to the holders of Notes following the occurrence of a Change of Control Event may be limited by its then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

The definition of “Change of Control” includes a disposition of all or substantially all of the Issuer’s assets to any Person. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable Law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of “all or substantially all” of the Issuer’s assets. As a result, it may be unclear as to whether a Change of Control Event has occurred and whether a holder may require the Issuer to make an offer to repurchase the Notes as described above.

A “Change of Control” will occur if Peru, together with its Affiliates, ceases to (i) be the sole “beneficial owners” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of a majority of the Issuer’s equity or the equity of any other Persons which succeed to all or substantially all of the Issuer’s assets (whether through a merger or consolidation, or a sale, distribution or other transfer of the Issuer’s assets); (ii) have the ability to appoint a majority of the members of the Issuer’s board of directors or the board of directors of any other Persons that succeed to all or substantially all of the Issuer’s assets (whether through a merger or consolidation, or a sale, distribution or other transfer of the Issuer’s assets); or (iii) at any time that the Issuer’s equity is represented by Capital Stock with voting rights, be the sole “beneficial owners,” directly or indirectly, of a majority of the voting power of the Issuer’s Capital Stock or of the Capital Stock of any other Persons which succeed to all or substantially all of the Issuer’s assets (whether through a merger or consolidation, or a sale, distribution or other transfer of the Issuer’s assets).

“Change of Control Event” means (i) the occurrence of a Change of Control and (ii) a Ratings Event (as defined below) in respect of such Change of Control.

“Rating Agency” means each of S&P, Moody’s and Fitch, or if S&P, Moody’s or Fitch do not make publicly available a rating of the Notes or a rating of the Issuer’s corporate credit for U.S. dollar-denominated senior unsecured long-term debt generally, an internationally recognized statistical rating agency or agencies, as the case may be, selected by the Issuer (as certified by a resolution of the Issuer’s board of directors) which will be substituted for S&P, Moody’s or Fitch or any of them, as the case may be.

“Ratings Event” means that at any time within 60 days (which period will be extended for so long as the rating of the Notes is under publicly announced consideration by any of the Rating Agencies then rating the Notes for possible downgrade due to a Change of Control, such extended period ending on such later day that the relevant Rating Agency announces its decision) after the earlier of (x) the date of public announcement of a Change of Control and (y) the date of delivery of written notice by the Issuer to the Rating Agencies then rating the Notes of any Person’s intention to effect a Change of Control, a downgrade of the Notes by (i) if three Rating Agencies are making ratings of the Notes publicly available, at least two of the Rating Agencies or (ii) if two or fewer Rating Agencies are making ratings of the Notes publicly available, then any one of the Rating Agencies, by one or more notches in whole or in part as a result of such Change of Control.

The Trustee shall not be responsible for monitoring the rating of the Notes.

Covenants

The Issuer will agree to restrictions on its activities for the benefit of Noteholders. The following restrictions will apply under the Indenture:

Limitations on liens

The Indenture provides that the Issuer will not, nor will it permit any Subsidiary to, issue, assume or guarantee any indebtedness for money borrowed (“Debt”) if such Debt is secured by a Lien upon, or directly or indirectly secure any outstanding Debt by a Lien upon, any Principal Property, now owned or hereafter acquired, unless, concurrently with the incurrence of such Debt or the creation of such Lien, the Notes shall be secured equally and ratably with such Debt for so long as such Debt is so secured; *provided* that the foregoing restriction shall not apply to the following permitted Liens (“Permitted Liens”):

- (i) Liens on any Principal Property acquired, constructed or improved after the date of the Indenture to secure or provide for the payment of the purchase price or cost of acquisition, construction or improvement (including costs such as increased costs due to escalation, interest during construction

and finance and refinance costs) thereof incurred after the date of the Indenture, *provided* that such Liens will not extend to any Property of the Issuer or any of its Subsidiaries, other than to the Principal Property so acquired or constructed or to the relevant improvements to such Principal Property;

- (ii) Liens which secure Debt of a Subsidiary owed to the Issuer or another of the Issuer's Subsidiaries;
- (iii) Liens on any Property existing at the time of the acquisition of such Property by the Issuer or any of its Subsidiaries (including any Lien existing on any Property of any Person before that Person's acquisition (in whole or in part) by merger into or consolidation with the Issuer or any of the Issuer's Subsidiaries) and not created in connection with such acquisition;
- (iv) Liens in existence on the date of the offering of the Notes;
- (v) Liens on deposits to secure, or any Lien otherwise securing, the performance of bids, statutory obligations, surety bonds, appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;
- (vi) Liens securing taxes, assessments or other governmental charges, the payment of which is not yet due or is being contested in good faith by appropriate proceedings and for which reserves or other appropriate provisions, if any, have been established as required by IFRS;
- (vii) Liens created on any Property to secure Debt incurred in connection with the financing of such Property, the repayment of which Debt is to be made from the revenues arising out of, or other proceeds of realization from, such Property, with recourse to those revenues and proceeds and other Property used in connection with, or forming the subject matter of, such Property, but without recourse to any other of the Issuer's Property or of any of its Subsidiaries;
- (viii) Liens securing the obligations under the Indenture and the Notes granted solely for the benefit of the Noteholders and the Trustee (or any agent acting on their behalf); and
- (ix) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (i), (iii), (iv) or (vii), *provided* that the principal amount of Debt so secured thereby will not exceed the principal amount of Debt so secured at the time of such extension, renewal or replacement plus a reasonable amount necessary to pay any fees and expenses, including premia and defeasance costs related to such transaction, and that such extension, renewal or replacement Lien will be limited to all or part of the Property which secured the Lien extended, renewed or replaced (plus improvements on or additions to such Property).

Notwithstanding the foregoing, the Issuer and one or more of its Subsidiaries may issue, assume or guarantee Debt secured by Liens which would otherwise be subject to the foregoing restrictions without equally and ratably securing the Notes, if the aggregate principal amount of such Debt, together with the aggregate principal amount of all other Debt otherwise subject to the foregoing restrictions (not including Debt permitted to be secured under any of clauses (i) through (ix) above) and the aggregate value of the Sale and Lease-back Transactions described under “—Limitations on sale and lease-back transactions” below (other than Sale and Lease-back Transactions the proceeds of which have been applied as provided in clause (ii) under “—Limitations on sale and lease-back transactions” below), does not at the time of issuance, assumption or guarantee thereof exceed the greater of (i) U.S.\$400.0 million and (ii) 10% of Consolidated Total Assets.

Limitations on sale and lease-back transactions

The Indenture provides that the Issuer will not, and will not permit any of its Subsidiaries to, enter into any Sale and Lease-back Transaction with respect to any Principal Property unless either:

- (i) the Issuer or such Subsidiary would be entitled, pursuant to the provisions described under “—Limitations on liens” above, to incur Debt in a principal amount equal to or exceeding the value of

such Sale and Lease-back Transaction, secured by a Lien on the Property or assets to be leased, without equally and ratably securing the Notes; or

- (ii) during, or immediately after the expiration of, 12 months after the effective date of such transaction (whether made by the Issuer or any of its Subsidiaries), the Issuer or such Subsidiary applies or causes to be applied to the voluntary retirement of its indebtedness (including the Notes) maturing by its terms more than one year after the original creation thereof (“Funded Debt”) an amount equal to the value of such transaction, less an amount equal to the sum of (i) the principal amount of Notes delivered, within 12 months after the effective date of such arrangement, to the Trustee for retirement and cancellation and (ii) the principal amount of other Funded Debt voluntarily retired by the Issuer within such 12-month period, in each case excluding retirements of Notes and other Funded Debt as a result of conversions or pursuant to mandatory sinking fund or mandatory prepayment provisions or by payment at maturity.

Consolidation, merger, sale or conveyance

The Indenture provides that the Issuer will not, and will not permit any of its Subsidiaries to, consolidate with or merge into any other Person or convey or transfer its properties and assets substantially as an entirety to any Person, unless:

- (i) in the case of the Issuer, the successor Person is a corporation organized and existing under the laws of Peru, and has expressly assumed the due and punctual payment of the principal of and interest and Additional Amounts, if any, on all the outstanding Notes and the performance of every covenant in the Indenture on the Issuer’s part to be performed or observed;
- (ii) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; and
- (iii) the Issuer has delivered to the Trustee a certificate of an Authorized Officer of the Issuer and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer complies with the foregoing provisions relating to such transaction.

Notwithstanding the foregoing, (i) any Wholly-Owned Subsidiary may consolidate with or merge into or convey or transfer all or any part of its properties and assets to the Issuer or any other Wholly-Owned Subsidiary, (ii) any Non-Wholly-Owned Subsidiary may consolidate with or merge into or convey or transfer all or any part of its properties and assets to the Issuer or any other Subsidiary, (iii) any Subsidiary may consolidate with or merge into any Person solely for the purpose of the Issuer’s acquisition of such Person, (iv) any Wholly-Owned Subsidiary may liquidate or dissolve so long as, after giving effect thereto, all of such Wholly-Owned Subsidiary’s assets are owned by the Issuer or any other Wholly-Owned Subsidiary after giving effect to such liquidation or dissolution and (v) any Non-Wholly-Owned Subsidiary may liquidate or dissolve so long as, after giving effect thereto, all of such Subsidiary’s assets (or a *pro rata* portion thereof equivalent to the ownership interest of the Issuer or a Subsidiary in such liquidated or dissolved Subsidiary before such liquidation or dissolution) are owned by the Issuer or any other Subsidiary after giving effect to such liquidation or dissolution.

In case of any consolidation, merger, conveyance or transfer by the Issuer, the successor Person will succeed to and be substituted for the Issuer as obligor on the Notes, with the same effect as if it had been named as the Person party to the Indenture.

Use of proceeds

The Indenture provides that the Issuer will cause the proceeds of the offering of the Notes to be applied exclusively to finance, Refinance or service the financial liabilities arising from the funding obtained by Issuer for, the development, construction, implementation, commissioning, operation or maintenance of the Talara Refinery Modernization Project.

Periodic reports; available information; compliance certificate

The Indenture provides that the Issuer will furnish to the Trustee:

- (i) as soon as available, and in any event within 150 days after the end of each fiscal year, (A) an English translation of its audited balance sheet as at the end of such fiscal year and the related statements of income and retained earnings and cash flows for such fiscal year presented and prepared in accordance with IFRS (including the notes thereto and a report thereon by the Issuer's auditors), together with an explanation of any changes in the basis of preparation, and (B) a Compliance Certificate; and
- (ii) as soon as available, and in any event within 60 days after the end of each of the first three fiscal quarters of each fiscal year, an English translation of its unaudited balance sheet as at the end of such fiscal quarter and the related statements of income and retained earnings and cash flows for the portion of the fiscal year through the end of such fiscal quarter, certified by an Authorized Officer of the Issuer and prepared in accordance with IFRS together with an explanation of any changes in the basis of preparation.

In addition, the Issuer will furnish to the Noteholders and to prospective purchasers of the Notes any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act, so long as the Notes are not freely transferable under the Securities Act, unless the Issuer is subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act or is exempt from such requirements pursuant to Rule 12g3-2(b) under the Exchange Act.

Requirements with respect to Sovereign Guarantees

The Indenture provides that in the event that the Issuer or any of its Subsidiaries issues, assumes or incurs any Talara Financing Debt, such Talara Financing Debt may benefit from a Sovereign Guarantee; *provided* that the Issuer will, and will cause any such Subsidiaries to, ensure that (i) the creation, issuance and terms and conditions of, and application of any proceeds from, such Sovereign Guarantee comply in all respects with the provisions of Law No. 30130, any regulations promulgated with respect thereto and any official interpretation of such law and regulations, in each case, as then in effect (including, without limitation, if applicable, the requirement that amounts payable under such Sovereign Guarantee may not exceed the Maximum Annual Amount of such Sovereign Guarantee in any calendar year or the Maximum Total Amount of such Sovereign Guarantee over the life of such Sovereign Guarantee, regardless of any acceleration of the applicable Talara Financing Debt benefiting therefrom) and (ii) the proceeds of the applicable Talara Financing Debt benefiting from such Sovereign Guarantee shall be applied to finance, Refinance or service the financial liabilities arising from any funding obtained by Issuer or any of the Issuer's Subsidiaries for, the development, construction, implementation, commissioning, operation or maintenance of the Talara Refinery Modernization Project in accordance with the provisions of Law No. 30130, any regulations promulgated with respect thereto and any official interpretation of such law and regulations, in each case, as then in effect.

For the avoidance of doubt, any principal and interest on any Notes and, if applicable, any other amounts payable by the Issuer under or in connection with the Notes or the Indenture, may be paid or repaid with proceeds from any Talara Financing Debt benefitting from a Sovereign Guarantee.

Limitations on issuance of securities benefiting from a Sovereign Guarantee

The Indenture provides that the Issuer will not, and will not permit any of its Subsidiaries to, issue any debt securities of the Issuer or any of its Subsidiaries, as applicable, or securities exchangeable for or convertible into debt securities of the Issuer or any of its Subsidiaries, which debt securities benefit in any form from any Sovereign Guarantee.

Events of Default

An "Event of Default," with respect to the Notes, will be any of the following (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

- (i) default by the Issuer in the payment of any principal of the Notes when due and payable, whether at maturity, upon redemption or otherwise, or failure to purchase Notes when required pursuant to the Indenture or the Notes; or
- (ii) default by the Issuer in the payment of any interest or any Additional Amounts when due and payable on any Notes, and the continuance of such default for a period of 30 days; or
- (iii) default by the Issuer in the performance or a breach of any other covenant, warranty or obligation of the Issuer in the Notes or the Indenture not otherwise expressly included as an Event of Default in (i) or (ii) above, and the continuance of such default for more than 60 days after there has been given, by registered or certified mail, to the Issuer by the Trustee or to the Issuer and the Trustee by holders of at least 25% in aggregate principal amount of the Notes then outstanding, a written notice specifying such default or breach; or
- (iv) a default by the Issuer or any Subsidiary in the payment of the principal of any bond, debenture, note or other evidence of indebtedness for money borrowed, or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed, having an aggregate principal amount exceeding U.S.\$25.0 million (or its equivalent in any other currency or currencies) when such indebtedness becomes due and payable following expiration of any applicable grace period with respect thereto (whether at maturity, upon redemption or acceleration or otherwise), if such default shall continue unremedied for more than 30 Business Days and within such 30 Business Days the time for payment of such amount has not been expressly extended; or
- (v) the entry of an order for relief against the Issuer, any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary under any bankruptcy law by a court having jurisdiction in the premises or a decree or order by a court having jurisdiction in the premises adjudging the Issuer, any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary bankrupt or insolvent under any other applicable Law, or the entry of a decree or order approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Issuer, any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary under any bankruptcy law, or appointing a receiver, liquidator, assignee, trustee, sequestrator (or other similar official under any bankruptcy law) of the Issuer, any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary or of any substantial part of the Property of the Issuer, any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days; or
- (vi) the consent by the Issuer, any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any bankruptcy law, or the consent by it to the filing of any such petition or to the appointment of a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official under any bankruptcy law) of the Issuer, any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary or of any substantial part of the Property of the Issuer, any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Issuer, any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary in furtherance of any such action; or
- (vii) a final judgment or judgments for the payment of money in excess of U.S.\$25.0 million, individually or in the aggregate, shall be rendered by one or more courts, administrative tribunals or other bodies

having jurisdiction against the Issuer or any Subsidiary, and the same shall not be discharged (or provision shall not be made for such discharge), stayed, bonded in full, covered by insurance or suspended by agreement within 60 days from the date that such judgment or judgments become final and non-appealable.

The Indenture provides that if an Event of Default (other than an Event of Default described in paragraphs (v) or (vi) above) occurs and is continuing with respect to the Notes, unless the full amount of principal of all the Notes shall have already become due and payable, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Notes then outstanding under the Indenture, by notice in writing to the Issuer (and to the Trustee if given by holders), may declare the principal amount of all the Notes then outstanding and all accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Notes contained to the contrary notwithstanding. If an Event of Default described in paragraphs (v) or (vi) above occurs and is continuing, then and in each and every such case, the principal amount of the Notes then outstanding and all accrued interest thereon will, without any notice to the Issuer or any other act on the part of the Trustee or any holder of such Notes, become and be immediately due and payable, anything in the Indenture or in the Notes contained to the contrary notwithstanding.

The Indenture provides that the Notes owned by the Issuer or any of its Affiliates will be deemed not to be outstanding in determining whether the holders of the requisite principal amount of such Notes outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture. Upon the satisfaction by the Issuer of certain conditions, including, but not limited to, the payment of all fees and expenses of the Trustee, the declaration of acceleration of the Notes may be annulled by the holders of a majority in aggregate principal amount of the outstanding Notes. Past defaults, other than non-payment of principal of (or premium, if any) or interest and in respect of certain covenants or provisions which cannot be modified or amended without the consent of the holder of each outstanding Note affected by the relevant modification or amendment, may be waived by the holders of a majority of aggregate principal amount of the outstanding Notes. See “—Modification of the Indenture—Amendments with Consent of Noteholders.”

The Indenture provides that the Trustee must give to the Noteholders notice of all uncured defaults known to it with respect to the Notes within 30 days after a responsible officer of the Trustee receives written notice of such a default (unless such default shall have been cured); *provided, however*, that, except in the case of default in the payment of principal of (or premium, if any), interest or Additional Amounts, the Trustee will be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interest of the Noteholders.

No holder of Notes may institute any action under the Indenture unless (a) such holder shall have previously given written notice to the Trustee of a continuing Event of Default with respect to the Notes, (b) the holders of not less than 25% in aggregate amount of the outstanding Notes will have made written request to the Trustee to institute proceedings in respect of the Event of Default in its own name as Trustee under the Indenture, (c) such holder or holders will have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request, (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity will have failed to institute any such proceeding and (e) no direction inconsistent with such written request will have been given to the Trustee during such 60-day period by the holders of a majority in aggregate principal amount of the outstanding Notes. Such limitations, however, do not apply to any suit instituted by a holder of a Note for enforcement of payment of the principal or interest on the Notes on or after the respective due dates expressed in such Notes.

The Indenture provides that, subject to the duty of the Trustee during default to act with the required standard of care, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any Noteholders, unless such holders shall have offered to the Trustee security or indemnity reasonably satisfactory to it.

Payment of Additional Amounts

The Issuer is required to make all payments in respect of principal, interest, and premium, if any, on the Notes free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, fines, penalties, assessments or other governmental charges of whatever nature (or interest on those taxes, duties, fines,

penalties, assessments or other governmental charges) (“Taxes”), imposed, levied, collected, withheld or assessed by, within or on behalf of Peru or any other jurisdiction in which the Issuer (or its successor) is organized or is a resident for tax purposes, or any political subdivision or Governmental Authority thereof having power to tax or any jurisdiction through which payment is made at the Issuer’s direction, or any political subdivision or Governmental Authority thereof having power to tax (each, a “Relevant Taxing Jurisdiction”), unless such withholding or deduction is required by law. In such event, the Issuer is required to pay to the Noteholders such additional amounts (“Additional Amounts”) as may be necessary to ensure that the net amounts received by the Noteholders, including Additional Amounts, after such withholding or deduction of Taxes will equal the amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction.

No Additional Amounts will be payable in respect of a Note for or on account of the following:

- (i) in the case of payments for which presentation of a Note is required, presentment for payment more than 30 days after the later of:
 - (a) the date on which such payment first became due; and
 - (b) if the full amount payable has not been received in the place of payment of the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect will have been given to the holder by the Trustee,except to the extent that such holder would have been entitled to such Additional Amounts on presenting such Note for payment on the last day of such period of 30 days;
- (ii) a Note held by or on behalf of a Noteholder who is liable for taxes, duties, fines, penalties, assessments or other governmental charges in respect of such Note by reason of having some present or former, direct or indirect, connection with the Relevant Taxing Jurisdiction, other than the holding of the Note or the receipt of payments in respect thereof;
- (iii) any tax, assessment or other governmental charge that is imposed or withheld by reason of the failure by the holder or the beneficial owner of a Note to comply, after reasonable notice, with the Issuer’s request, addressed to the holder (x) to provide information concerning the nationality, residence, identity or connection with the Relevant Taxing Jurisdiction, of the holder or such beneficial owner or (y) to make any declaration or other similar claim to satisfy any information or reporting requirement, which in the case of (x) or (y), is required or imposed by a statute, treaty, regulation or administrative practice of the Relevant Taxing Jurisdiction, as a precondition to exemption from all or part of such tax, assessment or other governmental charge;
- (iv) in respect of any estate, inheritance, gift, value added, sales, use, excise, transfer, personal property or similar taxes, duties, assessments or other governmental charges;
- (v) in respect of any Taxes that are payable other than by withholding or deduction from payments on the Notes;
- (vi) in respect of any payment to a holder of a Note that is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment or Note, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment or Note would not have been entitled to the Additional Amounts;
- (vii) any tax, assessment or other governmental charge which could have been avoided by a holder presenting the relevant Note (if presentation is required) or requesting that such payment be made to another paying agent; or
- (viii) any combination of (i), (ii), (iii), (iv), (v), (vi) and (vii).

Notwithstanding anything to the contrary under this section “—Payment of Additional Amounts,” none of the Issuer, any paying agent or any other person shall be required to pay any additional amounts in respect of sections 1471 to 1474 of the Internal Revenue Code of 1986, as amended (the “Code”), any successor law or regulation

implementing or complying with, or introduced in order to conform to, such sections, any intergovernmental agreement relating thereto or any agreement entered into pursuant to section 1471(b)(1) of the Code.

Within 60 days after the date of any payment of any Taxes in respect of any payment under any Note pursuant to the provisions set forth above, the Issuer will provide the Trustee with the official acknowledgment of the taxing authority of the Relevant Taxing Jurisdiction (or, if such acknowledgment is not available, without unreasonable burden or expense, a certified copy thereof or, if such certified copy is not available, other documentation satisfactory to the Trustee) evidencing any payment of such Taxes. Copies of such documentation will be made available by the Trustee to the Noteholders or the paying agents, as applicable, upon request therefor.

References to principal, interest, premium or other amounts payable in respect of the Notes will be deemed also to refer to any Additional Amounts which may be payable.

The Issuer will pay any present or future stamp, court or documentary taxes or any other excise or Property taxes, charges or similar levies which arise in any jurisdiction from the execution, delivery, enforcement or registration of the Notes or any other document or instrument relating thereto, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside a Relevant Taxing Jurisdiction (and except for certain taxes imposed in connection with a transfer or exchange). The obligations set forth above will survive the transfer or payment of a Note. The Issuer will indemnify and make whole the Noteholders for any present or future stamp, court or documentary taxes or any other excise or Property taxes, charges or similar levies payable by the Issuer as provided in this paragraph paid by such Noteholders.

Redemption

The Issuer will not be permitted to redeem the Notes before the Maturity Date, except as set forth below and under “—Change of Control.” The Notes will not be entitled to the benefit of any sinking fund, meaning that the Issuer will not deposit money on a regular basis into any separate account to repay the Notes. In addition, Noteholders will not be entitled to require the Issuer to repurchase their Notes from them before the Maturity Date, except as set forth under “—Change of Control.”

Optional make-whole redemption

The Notes will be redeemable at the Issuer’s option, in whole or in part, at any time or from time to time prior to the Maturity Date, at a redemption price calculated by the Issuer and equal to the greater of (1) 100% of the outstanding principal amount of the Notes being redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) on the Notes being redeemed discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate *plus* 45 basis points, in each case, *plus* accrued and unpaid interest thereon, if any, to the date of redemption.

If the Issuer elects to redeem the Notes as described in this section “—Optional make-whole redemption,” but fails to pay the applicable redemption price in full on the applicable redemption date, such optional redemption will be deemed cancelled.

For this purpose:

“Comparable Treasury Issue” means the United States Treasury security or securities selected by an Independent Investment Banker (as defined below) as having an actual or interpolated maturity comparable to the remaining term of the Notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

“Comparable Treasury Price” means, as determined by the Independent Investment Banker, with respect to the redemption date, (1) the average of five Reference Treasury Dealer Quotations for the redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers (as defined below) reasonably designated by the Issuer.

“Reference Treasury Dealer” means Citigroup Global Markets Inc., Goldman Sachs & Co. LLC, HSBC Securities (USA) Inc., J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated or their respective affiliates or successors which are primary United States government securities dealers and not less than one other leading primary United States government securities dealers in New York City reasonably designated by the Issuer; *provided* that if any of the former cease to be a primary United States government securities dealer in New York City (a “Primary Treasury Dealer”), the Issuer will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and a redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at or about 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

“Treasury Rate” means, with respect to a redemption date, the rate per annum, as determined by the Independent Investment Banker, equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the redemption date.

Redemption for taxation reasons

The Issuer may redeem the Notes at its option in whole, but not in part, at any time, upon giving not less than 30 nor more than 60 days’ notice to the Noteholders, at 100% of their principal amount outstanding, together with interest accrued to the date fixed for redemption, if:

- (i) the Issuer certifies to the Trustee (in the manner prescribed below) immediately prior to the giving of such notice that, as a result of certain changes in or amendment to the laws or regulations of a Relevant Taxing Jurisdiction, or any generally applicable change in the application or official interpretation of such laws or regulations (including, without limitation, the holding of a court of competent jurisdiction), which change or amendment is formally proposed and becomes effective after the date of issuance of the Notes (a “Change in Tax Law”) (*it being understood and agreed* that any tax imposed pursuant to the expiration of the exemption granted pursuant to Article 19(q) of Supreme Decree No. 179-2004-EF and Supreme Decree No. 136-2011-EF shall not be treated as a Change in Tax Law), (a) the Issuer has or will become obligated to pay Additional Amounts with respect to such Notes in excess of the Additional Amounts that would be payable were payments of interest on such Notes subject to a 4.99% withholding tax or (b) if payment of principal, premium, if any, or interest on the Notes is subject to Value added tax, the Issuer is not entitled to a tax credit with respect to such paid Value added tax due to an action or event not attributable to the Issuer; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that the notice of redemption will not be given earlier than 90 days before the earliest date on which the Issuer would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

If the Issuer elects to redeem the Notes as described in this section “—Redemption for taxation reasons,” but fails to pay the applicable redemption price in full on the applicable redemption date, such optional redemption will be deemed cancelled.

Before giving notice of redemption, the Issuer will deliver to the Trustee a certificate of an Authorized Officer of the Issuer stating that it is entitled to effect such redemption in accordance with the terms of the Indenture and stating the facts relating thereto. The statement will be accompanied by a written opinion of counsel to the effect that (i) in the case of Additional Amounts, the Issuer has or will become obligated to pay the Additional Amounts as a result of a Change in Tax Law, (ii) in the case of a Value added tax, the inability to claim the tax credit with respect

to such Value added tax is not due to an action or event attributable to the Issuer, and (iii) all governmental approvals necessary for the Issuer to effect the redemption have been or at the time of redemption will be obtained and are in full force and effect.

Redemption procedures

Notice of any redemption will be sent as described in “—Notices” above at least 30 but not more than 60 days before the redemption date to Noteholders to be redeemed. Notes called for redemption will become due on the date fixed for redemption. The Issuer will pay the redemption price for the Notes together with accrued and unpaid interest thereon through the date of redemption. On and after the redemption date, interest will cease to accrue on the Notes as long as the Issuer has deposited with the Trustee funds in satisfaction of the applicable redemption price pursuant to the Indenture. Upon redemption of the Notes by the Issuer, the redeemed Notes will be cancelled.

If less than all of the Notes are to be redeemed, such Notes shall be selected in accordance with procedures of DTC.

If fewer than all of the Notes are being redeemed, the Notes to be redeemed will be redeemed, to the extent permitted under applicable Law and securities exchange rules, on a *pro rata* basis, and in accordance with DTC’s operational procedures. Upon surrender of any Note redeemed in part, the Noteholder will receive a new Note equal in principal amount to the unredeemed portion of the surrendered Note. Once notice of redemption is sent to the Noteholder, Notes called for redemption become due and payable at the redemption price on the redemption date, and, commencing on the redemption date, Notes redeemed will cease to accrue interest.

Modification of the Indenture

Amendments without consent of Noteholders

The Issuer and the Trustee may, without the consent of the holders of Notes, amend, waive or supplement the Indenture or the Notes for certain specified purposes, including among other things:

- (i) to evidence the Issuer’s succession by another Person, and the assumption by such party of the Issuer’s obligations;
- (ii) to add to the Issuer’s covenants or surrender any of the Issuer’s rights or powers for the benefit of the Notes;
- (iii) to cure any ambiguity, omission, defect or inconsistency in the Indenture;
- (iv) to conform the text of the Indenture or the Notes to any provision of this “Description of the Notes” section to the extent that such provision in this “Description of the Notes” section was intended to be set forth, verbatim or in substance, a provision of the Indenture or the Notes;
- (v) to provide for or confirm the issuance of Additional Notes;
- (vi) to add to the rights or benefit of the Noteholders;
- (vii) to provide for the appointment of a successor Trustee;
- (viii) to add any additional Events of Default for the benefit of the Noteholders;
- (ix) to provide for the issuance of securities in certificated form;
- (x) to provide for any guarantee or to secure the Notes; and
- (xi) to make any other change to the Indenture as will not adversely affect the interests of any Noteholder.

Amendments with consent of Noteholders

In addition, the Indenture and the Notes may be modified, amended or supplemented, and future compliance therewith or past defaults by the Issuer may be waived, with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding Notes; *provided* that no such modification, amendment, supplement or waiver to the Indenture or the Notes may, without the written consent of the holder of each outstanding Note affected by the modification, amendment, supplement or waiver which would:

- (i) change the maturity of any principal of, or any premium on, or any installment of interest on, any Note or reduce the principal amount thereof or the rate of interest or any premium (or Additional Amounts, if any) payable thereon, or change the method of computing the amount of principal thereof or interest or premium (or Additional Amounts, if any) payable thereon on any date, or change any place of payment where, or the coin or currency in which, the principal or interest (including Additional Amounts) on any Notes are payable, or impair the right of holders to institute suits for the enforcement of any such payment on or after the date when due;
- (ii) reduce the percentage in aggregate principal amount of outstanding Notes, where the consent of holders is required for any such modification, amendment or supplement or for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences provided for in the Indenture; and
- (iii) modify provisions relating to waiver of certain defaults, waiver of certain covenants and the provisions summarized in this paragraph, except to increase any such percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Note affected by the modification.

In addition, the Issuer will deliver to the Trustee an opinion of counsel and an officers' certificate, each stating that such modification, amendment or supplement complies with the applicable provisions of the Indenture.

The Indenture provides that the Notes owned by the Issuer or any of its Affiliates will be deemed not to be outstanding for, among other purposes, consent to any such modification.

In case of any modification, amendment or supplement to the Indenture, the Trustee may, but will not be obligated to, enter into any modification, amendment or supplement which affects the Trustee's own rights, duties or immunities under the Indenture, the Notes or otherwise.

Satisfaction and Discharge

The Indenture provides that the Issuer may discharge its obligations under the Notes and the Indenture by irrevocably depositing in trust with the Trustee U.S. dollars or U.S. government obligations sufficient to pay principal of and interest on the Notes to maturity or redemption, subject to meeting certain other customary conditions.

Defeasance and Covenant Defeasance

The Indenture provides that the Issuer may, at its option, at any time upon the satisfaction of certain conditions described below, elect to be discharged from its obligations with respect to the Notes (a "Defeasance"). In general, upon a Defeasance, the Issuer will be deemed to have paid and discharged the entire indebtedness represented by the Notes and to have satisfied all of its obligations under the Notes, except for:

- (i) the rights of holders of Notes to receive, solely from the trust fund established for such purposes as described below, payments in respect of the principal of, and interest, and Additional Amounts, if any, on the Notes when such payments are due;
- (ii) certain provisions relating to ownership, registration and transfer of the Notes;
- (iii) the covenant relating to the maintenance of an office or agency in New York City; and
- (iv) certain provisions relating to the rights, powers, trusts, duties and immunities of the Trustee.

In addition, the Issuer may, at its option, at any time, upon the satisfaction of certain conditions described below, elect to be released with respect to the Notes from the covenants of the Indenture described above under the captions “—Payment of Additional Amounts,” “—Covenants—Consolidation, merger, sale or conveyance,” “—Covenants—Limitations on liens,” “—Covenants—Limitations on sale and lease-back transactions,” “—Covenants—Periodic reports; available information; compliance certificate,” “—Covenants—Requirements with respect to Sovereign Guarantees,” “—Covenants—Limitations on issuance of securities benefiting from a Sovereign Guarantee” and “—Ranking,” as well as its obligation to make Change of Control Offers as described under the caption “—Change of Control” and the obligation in the Indenture for officers of the Issuer to provide a statement as to an Event of Default (“Covenant Defeasance”). Following such Covenant Defeasance, the occurrence of a breach or violation of any such covenant with respect to the Notes will not constitute an Event of Default under the Indenture, and certain other events (not including, among other things, nonpayment of other obligations or certain bankruptcy and insolvency events) described under “—Events of Default” also will not constitute Events of Default.

In order to cause a Defeasance or Covenant Defeasance with respect to the Notes, the Issuer will be required to satisfy, among other conditions, the following:

- (i) the Issuer will have irrevocably deposited with the Trustee in trust cash or U.S. government obligations, or a combination thereof, sufficient, in the opinion of an internationally recognized firm of independent public accountants, to pay and discharge the principal of, premium, if any, and each installment of interest on (including Additional Amounts) the Notes on the stated maturity of such principal or installment of interest in accordance with the terms of the Notes;
- (ii) in the case of a Defeasance, the Issuer will have delivered to the Trustee an opinion of counsel stating that: (x) it has received from, or there has been published by, the Internal Revenue Service a ruling or (y) since the date of the Indenture there has been a change in the applicable United States Federal income tax law or regulations, in either case to the effect that, and based thereon such opinion will confirm that, the Noteholders will not recognize gain or loss for United States Federal income tax purposes as a result of such deposit, Defeasance and discharge;
- (iii) in the case of a Covenant Defeasance, the Issuer will have delivered to the Trustee an opinion of counsel to the effect that the Noteholders will not recognize gain or loss for United States Federal income tax purposes as a result of such deposit and Covenant Defeasance and will be subject to United States Federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and Covenant Defeasance had not occurred;
- (iv) no Event of Default, or event which with notice or lapse of time or both would become an Event of Default, will have occurred and be continuing with respect to the Notes, on the date of such deposit; and
- (v) the Issuer will have delivered to the Trustee an opinion of counsel to the effect that payments of amounts deposited in trust with the Trustee, as described above, will not be subject to future taxes, duties, fines, penalties, assessments or other governmental charges imposed, levied, collected, withheld or assessed by, within or on behalf of a Relevant Taxing Jurisdiction, except to the extent that Additional Amounts in respect thereof will have been deposited in trust with the Trustee as described above.

The Trustee

The Bank of New York Mellon is the Trustee under the Indenture and has been appointed by the Issuer as registrar and paying agent with respect to the Notes. The address of the Trustee is 240 Greenwich Street, New York, New York 10286 United States of America.

Dispute Resolution and Waiver of Immunities

The Issuer has irrevocably consented to the non-exclusive jurisdiction of any court of the State of New York or any United States Federal court sitting in the Borough of Manhattan, The City of New York, New York, United States, and any appellate court from any of these courts (collectively, the “Specified Courts”) over any suit, action or

proceeding that may be brought in connection with the Notes or the Indenture (“Related Proceedings”). With respect to any Related Proceeding, the Issuer has agreed to waive, to the fullest extent permitted by applicable Law, all immunity (whether on the basis of sovereignty or otherwise) from the jurisdiction, service of process, attachment (both before and after judgment) and execution to which it might otherwise be entitled in the Specified Courts, and the Issuer has agreed not raise or claim or cause to be pleaded any such immunity at or in respect of any such Related Proceeding, including, without limitation, any immunity pursuant to the FSIA.

The Issuer has appointed the Corporation Service Company, with offices at 1180 Avenue of the Americas, Suite 210, New York, NY 10036-8401, as its authorized agent for service of process in any Related Proceeding and has agreed that such appointment will be irrevocable so long as any of the Notes remain outstanding or until the irrevocable appointment by the Issuer of a successor in The City of New York as its authorized agent for such purpose and the acceptance of such appointment by such successor.

According to the laws of the State of New York, claims against the Issuer for the payment of principal of and premium, if any, and interest on the Notes must be made within six years from the applicable date for payment thereof.

Governing Law

The Indenture provides that it and the Notes will be governed by, and be construed in accordance with, the laws of the State of New York, without giving effect to applicable principles of conflict of laws that would lead to the application of the laws of another jurisdiction.

Definitions

“Additional Amounts” has the meaning set forth under “—Payment of Additional Amounts.”

“Affiliate” means, with respect to any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control,” when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Authorized Officer” means (i) with respect to any Person that is a corporation or a limited liability company, the Chairman, Chief Executive Officer, President, Chief Financial Officer, Chief Operating Officer, Treasurer, any Vice President or Secretary (or Assistant Secretary) of such Person and (ii) with respect to any Person that is a partnership, the Chief Executive Officer, President, Chief Financial Officer, Chief Operating Officer, Treasurer or any Vice President (or Assistant Secretary) of a general partner or managing partner of such Person.

“Business Day” means any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or trust companies are authorized or obligated by law to close in the City of (a) New York, New York or (b) Lima, Peru.

“Capital Stock” shall mean, with respect to any Person, any and all shares, interests, participations and/or rights in or other equivalents (however designated, whether voting or nonvoting, ordinary or preferred) in the equity or capital of such Person, now or hereafter outstanding, and any and all rights, warrants or options exchangeable for or convertible into any thereof.

“Certificated Notes” has the meaning set forth under “—Book-Entry System; Delivery and Form—The Global Notes—Global Notes.”

“Change in Tax Law” has the meaning set forth under “—Redemption—Redemption for taxation reasons.”

“Change of Control” has the meaning set forth under “—Change of Control.”

“Change of Control Event” has the meaning set forth under “—Change of Control.”

“Change of Control Offer” has the meaning set forth under “—Change of Control.”

“Change of Control Payment” has the meaning set forth under “—Change of Control.”

“Change of Control Payment Date” has the meaning set forth under “—Change of Control.”

“Clearstream” has the meaning set forth under “—Book-Entry System; Delivery and Form—The Global Notes—Regulation S Global Note.”

“Code” has the meaning set forth under “—Payment of Additional Amounts.”

“Comparable Treasury Issue” has the meaning set forth under “—Redemption—Optional make-whole redemption.”

“Comparable Treasury Price” has the meaning set forth under “—Redemption—Optional make-whole redemption.”

“Compliance Certificate” means a certificate executed by an Authorized Officer of the Issuer setting forth a certification that such officer has made or caused to be made a review of the transactions and financial condition of the Issuer during the preceding fiscal year and that such review did not reveal the existence of any event or condition that constitutes a Default or an Event of Default under the Indenture, or if any such event or condition existed or exists, the nature thereof and the corrective actions that Issuer has taken or proposes to take with respect thereto, and also certifying that the Issuer is in compliance with its obligations under the Indenture or, if such is not the case, stating the nature of such noncompliance and the corrective actions that the Issuer has taken or proposes to take with respect thereto.

“Consolidated Total Assets” means, as of any date of determination, the Issuer’s consolidated total assets, all as set forth on the most recent consolidated balance sheet of the Issuer and its Subsidiaries delivered to the Trustee pursuant to the terms of the Indenture.

“Covenant Defeasance” has the meaning set forth under “—Defeasance and Covenant Defeasance.”

“Debt” has the meaning set forth under “—Covenants—Limitations on liens.”

“Debt Liabilities” means (without duplication), with respect to any Person, whether recourse is to all or a portion or none of the assets of such Person and whether or not contingent, (a) every obligation of such Person for money borrowed, (b) every obligation of such Person evidenced by debentures, notes or other similar instruments, including indentures and such obligations incurred in connection with the acquisition of Property, assets or businesses, (c) every reimbursement obligation of such Person with respect to letters of credit, bankers’ acceptances or similar facilities issued or drawn upon for the account of such Person, (d) any net liability under any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate insurance, currency swap agreement, currency option, future or purchase or sale agreement or other agreement or arrangement designed to protect against fluctuations in interest rates and currency exchange rates, (e) every obligation of such Person issued or assumed as the deferred purchase price of any property or service, (f) all capitalized lease obligations of such Person, (g) every obligation of the type referred to in clauses (a) through (f) of another Person and all dividends declared or to be declared by another Person, the payment of which, in any case, such Person has Guaranteed or for which such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise and (h) all Debt Liabilities referred to in clauses (a) through (f) secured by (or for which the holder of such Debt Liabilities has an existing right, contingent or otherwise, to be secured by) any Lien on Property of such Person even though such Person has not assumed or become liable for the payment of such Debt Liabilities (and, in connection therewith, the amount of “Debt Liabilities” under this clause (h) shall be limited to the lesser of the amount of such Debt Liabilities and the value of such Property).

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Defeasance” has the meaning set forth under “—Defeasance and Covenant Defeasance.”

“DTC” has the meaning set forth under “—Book-Entry System; Delivery and Form—The Global Notes—Rule 144A Global Note.”

“Euroclear” has the meaning set forth under “—Book-Entry System; Delivery and Form—The Global Notes—Regulation S Global Note.”

“Event of Default” has the meaning set forth under “—Events of Default.”

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Fitch” means Fitch Ratings Inc. and its successors.

“FSIA” means the United States Foreign Sovereign Immunities Act of 1976, as amended.

“Funded Debt” has the meaning set forth under “—Covenants—Limitations on sale and lease-back transactions.”

“Global Notes” has the meaning set forth under “—Book-Entry System; Delivery and Form—The Global Notes—Regulation S Global Note.”

“Governmental Authority” means any government, governmental department, commission, board, bureau, agency, regulatory authority, instrumentality, judicial or administrative body, domestic or foreign, federal, state or local, having jurisdiction over the matter or matters in question, including, without limitation, those in Peru and the United States. For the avoidance of doubt, the Issuer shall not be considered as a Governmental Authority.

“Guarantee” by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt Liabilities of any other Person, including any obligation, direct or indirect, contingent or otherwise, of such other Person: (a) to purchase or pay (or advance or supply funds for the purchase or payment of) any Debt Liabilities (whether arising by virtue of partnership arrangements, by agreement to keep well, to purchase Property, securities and/or services, to take or pay or to maintain financial statement conditions or otherwise) or (b) entered into for the purpose of assuring in any other manner the holder of such Debt Liabilities of the payment thereof or to protect such holder against loss in respect thereof (in whole or in part). The term “Guarantee” used as a verb has a corresponding meaning.

“IFRS” means International Financial Reporting Standards as issued by the International Accounting Standards Board as in effect from time to time.

“Indenture” has the meaning set forth in the introduction to this “Description of the Notes” section.

“Independent Investment Banker” has the meaning set forth under “—Redemption—Optional make-whole redemption.”

“Issue Date” means June 19, 2017.

“Issuer” means Petróleos del Perú – Petroperú S.A.

“Law” means, with respect to any Person (i) any statute, law, regulation, ordinance, rule, judgment, order, decree, permit, concession, grant, franchise, license, agreement or other governmental restriction or any interpretation or administration of any of the foregoing by any Governmental Authority (including, without limitation, governmental approvals) and (ii) any directive, guideline, policy, requirement or any similar form of decision of or determination by any Governmental Authority which is binding on such Person, in each case, whether now or hereafter in effect.

“Law No. 30130” means the law which declares of national interest and public necessity the modernization of the Talara Refinery (*Ley que declara de interés nacional y necesidad pública la modernización de la Refinería de Talara*).

“Lien” means any mortgage, pledge, lien, security interest, charge or other encumbrance (including any conditional sale or other title retention agreement or lease in the nature thereof other than a title retention agreement in connection with the purchase of goods in the ordinary course of business).

“Maturity Date” has the meaning set forth under “—General.”

“Maximum Total Amount of the Sovereign Guarantee” means a maximum payment of U.S.\$1,000,000,000.

“Maximum Annual Amount of the Sovereign Guarantee” means a maximum payment of U.S.\$200,000,000 in each calendar year following the date on which the Sovereign Guarantee is triggered, or such lower amount that results in all payments under the Sovereign Guarantee to not exceed the Maximum Total Amount of the Sovereign Guarantee.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Non-Wholly-Owned Subsidiary” means any Subsidiary that is not a Wholly-Owned Subsidiary.

“Other Courts” has the meaning set forth under “—Dispute Resolution and Waiver of Immunities.”

“Payment Date” means June 19 and December 19 of each year or, if any such day is not a Business Day, on the next Business Day.

“Permitted Liens” has the meaning set forth under “—Covenants—Limitations on liens.”

“Person” means any individual, corporation, limited liability company, company, voluntary association, partnership, joint venture, trust, or other enterprises or unincorporated organization or government (or any agency, instrumentality or political subdivision thereof).

“Peru” means the Republic of Peru.

“Primary Treasury Dealer” has the meaning set forth under “—Redemption—Optional make-whole redemption.”

“Principal Property” means any oil and natural gas reserves, drilling or production equipment (including offshore platforms), refinery, processing or storage facility or building, distribution asset (including any pipeline, transportation equipment or maritime terminal), real Property (or interest in any extraction, concession or other rights related thereto), and any interest in any Person holding any of the foregoing, in each case owned by the Issuer or any of its Subsidiaries, including, in particular, any of the above in connection with the Talara refinery and part of the Talara refinery complex, except any such Property which the Issuer’s board of directors declares is not material, individually or in the aggregate, to the Issuer’s business and that of its Subsidiaries, taken as a whole.

“Property” shall mean any property of any kind whatsoever, whether movable, immovable, real, personal or mixed and whether tangible or intangible, any right or interest therein or any receivables or credit rights.

“QIBs” has the meaning set forth under “—Book-Entry System; Delivery and Form.”

“Rating Agency” has the meaning set forth under “—Change of Control.”

“Ratings Event” has the meaning set forth under “—Change of Control.”

“Reference Treasury Dealer” has the meaning set forth under “—Redemption—Optional make-whole redemption.”

“Reference Treasury Dealer Quotations” has the meaning set forth under “—Redemption—Optional make-whole redemption.”

“Refinance” means, in respect of any indebtedness, to issue any indebtedness in exchange for or to refinance, replace, defease or refund such indebtedness in whole or in part. “Refinanced” and “Refinancing” have correlative meanings.

“Regulation S” has the meaning set forth under “—General.”

“Regulation S Global Note” has the meaning set forth under “—Book-Entry System; Delivery and Form—The Global Notes—Regulation S Global Note.”

“Related Judgment” has the meaning set forth under “—Dispute Resolution and Waiver of Immunities.”

“Related Proceedings” has the meaning set forth under “—Dispute Resolution and Waiver of Immunities.”

“Relevant Taxing Jurisdiction” has the meaning set forth under “—Payment of Additional Amounts.”

“Restricted Period” has the meaning set forth under “—Book-Entry System; Delivery and Form—Exchanges among the Global Notes.”

“Rule 144A” has the meaning set forth under “—General.”

“Rule 144A Global Note” has the meaning set forth under “—Book-Entry System; Delivery and Form—The Global Notes—Rule 144A Global Note.”

“S&P” means S&P Global Ratings or any successor thereto.

“Sale and Lease-back Transaction” means any transaction or series of related transactions pursuant to which the Issuer or any of its Subsidiaries sells or transfers any Property to any Person with the intention of taking back a lease of such Property pursuant to which the rental payments are calculated to amortize the purchase price of such Property substantially over the useful life thereof and such Property is in fact so leased.

“Second Change of Control Payment Date” has the meaning set forth under “—Change of Control.”

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“SGX-ST” means the Singapore Exchange Securities Trading Limited.

“Significant Subsidiary” means any Subsidiary that would be a “significant subsidiary” as defined in Article I, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act.

“Specified Courts” has the meaning set forth under “—Dispute Resolution and Waiver of Immunities.”

“Sovereign Guarantee” means any agreement, undertaking or arrangement by which Peru or any other Person acting on behalf of Peru, in each case, pursuant to the terms of Law No. 30130, Guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise invest in, the Issuer or any of the Issuer’s Subsidiaries, or otherwise assure a creditor against loss) any portion of any Talara Financing Debt.

“Subsidiary” means any corporation or other business entity of which the Issuer owns or controls (either directly or through one or more other Subsidiaries) more than 50% of the issued share capital or other ownership interests, in each case having ordinary voting power to elect or appoint directors, managers or trustees of such corporation or other business entity (whether or not Capital Stock or other ownership interests or any other class or classes will or might have voting power upon the occurrence of any contingency).

“Talara Financing Debt” means any Debt Liabilities or Sale and Lease-back Transaction incurred or entered into by the Issuer or any of the Issuer’s Subsidiaries, the proceeds of which are, have been or are expected to be applied, fully or partially, to finance, Refinance or service the financial liabilities arising from any funding obtained by Issuer or any of the Issuer’s Subsidiaries for, the development, construction, implementation, commissioning, operation or maintenance of the Talara Refinery Modernization Project.

“Talara Refinery Modernization Project” means the *Proyecto de Modernización de la Refinería Talara* consisting of the modernization of the Talara refinery for the increase of its production capacity, the preservation of air quality and the protection of public health, in accordance with the terms of Law No. 30130 and its implementing regulations.

“Taxes” has the meaning set forth under “—Payment of Additional Amounts.”

“Treasury Rate” has the meaning set forth under “—Redemption—Optional make-whole redemption.”

“Trustee” means the party named as such in this “Description of the Notes” section until a successor replaces it and, thereafter, means the successor party.

“Value added tax” means the Peruvian value-added tax (*Impuesto General a las Ventas*), which is currently regulated by the Peruvian *Texto Único Ordenado de la Ley del Impuesto General a las Ventas*, approved by Supreme Decree 055-99-EF of the Peruvian Ministry of Economy and Finance, as in effect from time to time, including as may be amended, and any successor thereto or replacement thereof, including the Municipal Promotion Tax (*Impuesto de Promoción Municipal*).

“Wholly-Owned Subsidiary” means, at any time, any Subsidiary 100% of all of the equity interests (except directors’ qualifying shares) and voting interests of which are owned by any one or more of the Issuer and the Issuer’s other Wholly-Owned Subsidiaries at such time.

TAXATION

U.S. Federal Income Tax Considerations

The following summary describes the material U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note by a U.S. Holder (as defined below) that acquires the Note in the initial offering at the issue price on the cover of this offering memorandum and holds it as a capital asset (generally, property held for investment). This summary does not address all aspects of U.S. federal income taxation that may be applicable to a particular investor's decision to acquire, own or dispose of a Note. In particular, this summary does not address U.S. federal income tax consequences that apply to prospective investors subject to special tax rules, including, among others, tax-exempt organizations, financial institutions, insurance companies, dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting for their securities, U.S. Holders that will hold a Note as part of a "straddle," hedging transaction or "conversion transaction" for U.S. federal income tax purposes, U.S. Holders that enter into "constructive sale" transactions with respect to the Notes, U.S. Holders that own (directly or through attribution) 10.0% or more of the stock, by vote or value, of the issuer of the Notes, U.S. Holders that have a "functional currency" other than the U.S. dollar, U.S. Holders required to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement and certain U.S. expatriates. Further, this discussion does not address the U.S. federal estate and gift tax, alternative minimum tax consequences, the Medicare tax on net investment income, or any state, local and non-U.S. tax consequences of acquiring, owning and disposing of the Notes.

The discussion below is based on the Internal Revenue Code of 1986, as amended (the "Code"), U.S. Treasury regulations thereunder, and judicial and administrative interpretations thereof, all as of the date of this offering memorandum and any of which may at any time be repealed, revoked or modified or subject to differing interpretations, potentially retroactively, so as to result in U.S. federal income tax consequences different from those discussed below. No ruling has been or will be sought or obtained from the U.S. Internal Revenue Service (the "IRS") with respect to any of the U.S. federal income tax consequences discussed herein. In addition, there can be no assurances that the IRS would not assert, or that a U.S. court would not uphold, positions concerning the U.S. federal income tax consequences of a U.S. Holder's acquisition, ownership or disposition of a Note that are contrary to the discussion below.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds a Note, the U.S. federal income tax consequences to the partners of such partnership will generally depend on the activities of the partnership and the status of the partners. Such partner or partnership considering an investment in Notes should consult its own tax advisors about the consequences to it of the acquisition, ownership or other disposition of Notes by the partnership.

Prospective purchasers should consult their own tax advisors as to the particular tax considerations for them relating to the purchase, ownership and disposition of a Note, including the applicability of any U.S. federal, state, or local tax laws, or non-U.S. tax laws, any changes in applicable tax laws, and any pending or proposed legislation or regulations.

As used herein, the term "U.S. Holder" means a beneficial owner of a Note that is for U.S. federal income tax purposes: (i) an individual who is a citizen or resident of the United States; (ii) a corporation, or any other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state therein or the District of Columbia; (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust.

Pre-Issuance accrued interest

The Issuer intends to take the position that, on the first interest payment date, a portion of the interest received in an amount equal to any interest accrued prior to the date the Notes are issued ("pre-issuance accrued interest") will be treated as a return of the pre-issuance accrued interest and not as a payment of interest on the Notes. Amounts treated as a return of pre-issuance accrued interest (either at the time of the first payment of interest or upon a taxable disposition of the Notes before such payment) should not be taxable when received. In addition, a U.S. Holder's tax

basis in Notes and its purchase price for purposes of determining amortizable bond premium should not include the portion of purchase price allocable to the pre-issuance accrued interest. The remainder of this discussion does not address the treatment of pre-issuance accrued interest. U.S. Holders should consult their own tax advisors with regard to the tax treatment of the pre-issuance accrued interest on the Notes.

Payments of stated interest

In general, a payment of stated interest on a Note, including any amount withheld in respect of any taxes and any additional amounts, will be taxable to a U.S. Holder as ordinary interest income at the time it is accrued or is paid in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes. In addition, interest on the Notes (including any additional amounts) will be treated as foreign source income for U.S. federal income tax purposes and generally will constitute "passive category" income for most U.S. Holders. A U.S. Holder may, subject to certain limitations (including a minimum holding period requirement), be eligible to claim a credit in respect of any non-U.S. taxes that are withheld from the payments on the Notes. Alternatively, a U.S. Holder may be able to deduct such taxes in computing taxable income for U.S. federal income tax purposes provided that the U.S. Holder does not elect to claim a foreign tax credit for any non-U.S. income taxes paid or accrued for the relevant taxable year; however, there are substantial limitations to the deductibility of taxes for non-corporate U.S. Holders. The rules relating to foreign tax credits are complex and U.S. Holders are urged to consult their own tax advisors regarding the application of these rules to their particular situation.

Amortizable bond premium

A U.S. Holder will be considered to have purchased Notes at a premium to the extent of the excess, if any, of its purchase price for the Notes over the principal amount of the Notes, and may elect to amortize the premium as an offset to interest income, using a constant yield method, over the remaining term of the Notes. However, because the Notes may be redeemed by us prior to maturity at a premium, special rules apply that may reduce, eliminate or defer the amount of premium that a U.S. Holder may amortize with respect to the Notes. If a U.S. Holder makes the election to amortize premium, the election generally will apply to all taxable debt instruments held during or after such U.S. Holder's taxable year for which the election is made. In addition, a U.S. Holder may not revoke the election without the consent of the IRS. If a U.S. Holder elects to amortize the premium, such U.S. Holder will be required to reduce its tax basis in the Notes by the amount of the premium amortized during such U.S. Holder's holding period. If a U.S. Holder does not elect to amortize the premium, the amount of premium will be included in the U.S. Holder's tax basis in the Notes and will decrease the gain or increase the loss otherwise recognized upon the disposition of the Notes. Therefore, if a U.S. Holder does not elect to amortize premium and holds the Notes to maturity, such U.S. Holder generally will be required to treat the premium as capital loss when the Notes mature.

Sale, exchange, redemption, retirement or other taxable disposition of the Notes

Upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount of cash and the fair market value of any property received on the disposition (except to the extent such cash or property is attributable to accrued and unpaid stated interest, which will be treated like a payment of interest, as described above) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the amount paid for the Note reduced by any amortized bond premium applied to reduce interest on a Note.

Any gain or loss that a U.S. Holder recognizes upon the sale, exchange, redemption, retirement or other disposition of a Note generally will be capital gain or loss and will be long-term capital gain or loss if, at the time of the disposition, the U.S. Holder's holding period for the Note is more than one year. Long-term capital gains of noncorporate U.S. Holders (including individuals) are eligible for reduced rates of taxation. The ability of U.S. Holders to deduct capital losses is subject to limitations.

Any gain or loss recognized on the sale, exchange or other taxable disposition of a Note generally will be treated as U.S. source gain or loss, as the case may be. A U.S. Holder may, subject to certain limitations, be eligible to claim a credit or deduction in respect of any non-U.S. taxes that are withheld from the payments made upon the sale, exchange or other taxable disposition of the Notes. However, because any such gain or loss will be U.S. source gain or loss, as the case may be, a U.S. Holder may not be able to fully utilize foreign tax credits in respect of such taxes unless such U.S. Holder has other foreign source income. The rules relating to foreign tax credits and deductions

are complex and U.S. Holders are urged to consult their own tax advisors with regard to the application of these rules to their particular situation.

Information reporting and backup withholding requirements

U.S. Holders may be subject to information reporting on the amounts paid to them with respect to the Notes, unless they provide proof of an applicable exemption. Additionally, if a U.S. Holder fails to provide its taxpayer identification number, or otherwise establish that it is exempt from U.S. backup withholding, the U.S. Holder may be subject to U.S. backup withholding on such payments. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund *provided* that the required information is timely furnished to the IRS.

U.S. Holders should consult their own tax advisors regarding any reporting obligations they may have as a result of their acquisition, ownership or disposition of Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

U.S. Holders should consult their tax advisors with respect to the tax consequences to them of the acquisition, ownership and disposition of the Notes, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in U.S. federal or other tax laws.

Peruvian Tax Considerations

The following is a summary of certain Peruvian tax consequences as in force on the date of this offering memorandum resulting from the application of Peruvian tax legislation to Noteholders domiciled and not domiciled in Peru with respect to the purchase, ownership and disposition of the Notes.

Changes in the law or its interpretation may be forthcoming affecting the tax consequences to Noteholders and modifying the conclusions set forth herein. This summary: (i) does not address the tax treatment of certain investors that may be subject to special tax rules, such as banks, securities dealers, pension funds, insurance companies and tax-exempted entities; (ii) is not intended to be a comprehensive description of all the tax considerations that may be relevant to a decision to make an investment in the Notes; and (iii) does not describe any tax consequences arising under the laws of any taxing jurisdiction other than Peru.

For Peruvian tax purposes, a legal entity is deemed to be domiciled in Peru if it has been incorporated in Peru or is a permanent establishment in Peru of a foreign entity. All entities incorporated in Peru are subject to Peruvian income tax on their worldwide income, whereas permanent establishments of non-domiciled legal entities and all non-domiciled legal entities are only liable for Peruvian income tax on their Peruvian source income.

An individual is deemed to be domiciled in Peru if such individual: (i) is a Peruvian citizen that resides in Peru and has not lost such residence according to certain conditions, or (ii) is not a Peruvian citizen but has resided in Peru for a period of at least 183 calendar days during any 12-month period. As a general rule, the tax status of an individual, whether domiciled or non-domiciled in Peru, is determined according to her condition as of January 1 of each year. Any changes during the current year will only have effects in the following year.

The following considerations are general and consequences may vary if a tax treaty signed by Peru is applicable. The tax treaties currently in force are those signed with Chile, Canada, Brazil, Portugal, Korea, Mexico, Switzerland and Decision 578 applicable to countries that are members of the Andean Community (Colombia, Ecuador, Bolivia and Peru). If a non-domiciled Noteholder is a resident of any of those countries, we recommend consulting an independent tax advisor.

Income tax

Payment of interest

Interest on the Notes is subject to Peruvian income tax, as Peruvian source income, if funds are placed or economically used in Peru or if the payer of such interest is domiciled in Peru.

Peruvian source income from foreign financial transactions, such as the issuance of Notes, granted by a non-domiciled individual or entity, is subject to a withholding tax rate of 4.99%, provided some conditions are met. However, if the issuer and the Noteholder are related parties, the withholding tax rate is 30.0%. Also, if the Noteholder is a non-domiciled individual, a withholding tax rate of 30.0% will apply if the transaction originates from, or passes through, a tax haven.

We are generally required to act as withholding agent for any income tax due with respect to interest paid on the Notes. We have agreed, subject to specific exceptions and limitations, to pay additional amounts to the Noteholders in respect of the Peruvian income tax mentioned above. See “Description of the Notes—Payment of Additional Amounts.”

However, pursuant to Article 19(q) of Supreme Decree No. 179-2004-EF and Emergency Decree No. 025-2019, interest paid on financial obligations granted by non-domiciled entities, such as the Notes, to state-owned entities, such as us, is exempt from Peruvian income tax. This exemption applies to all Notes issued under this offering memorandum and will only be in effect until December 31, 2020. If this exemption is not extended beyond 2020, a withholding tax will apply to payments made after December 31, 2020. In case the exemption is not extended after December 31, 2020, a withholding tax will be applicable.

Individual domiciled Noteholders will be subject to an effective income tax rate of 5.0% on the interest from the Notes. In the case of domiciled entities, interest will form part of their taxable net income for the fiscal year, which will be subject to the corporate income tax rate of 29.5%.

Sale of the Notes

Proceeds received by a non-domiciled Noteholder on the sale, exchange or disposition of a beneficial interest in the global notes held through a clearing system will not be subject to any Peruvian withholding or capital gains tax. If the beneficial interests in the global notes are exchanged for definitive notes, any capital gain arising from the sale, exchange or other disposition by non-domiciled Noteholders of the definitive notes would be subject to the Peruvian income tax at a preferential rate of 5.0% if the following requirements are satisfied: (i) the Notes are registered with the Securities Market Public Registry of the SMV, and (ii) the Notes are negotiated in a Peruvian stock market. Otherwise, capital gains will be taxable at a 30.0% rate.

Capital gains obtained by an individual domiciled in Peru deriving from the sale, exchange or disposition of a beneficial interest in the global notes or the definitive notes will be subject to the income tax at the corresponding rates. Similarly, in the case of corporate domiciled Noteholders, the income will form part of their net income for the fiscal year, which will be subject to corporate income tax.

Capital gains are defined as the positive difference between the price at which the Notes are sold and the acquisition value of the Notes. In case of non-domiciled Noteholders, the acquisition value has to be certified by the Peruvian Tax Administration through a form presented by the seller. This certification is not needed in case the sale is made through the Peruvian centralized stock market.

VAT

Interest paid on the Notes is not subject to Peruvian VAT (*Impuesto General a las Ventas*).

The sale, exchange or disposition of the Notes is not subject to VAT.

Financial transaction tax

Additionally, in Peru there is a Financial Transactions Tax (“FTT”) with a 0.005% rate on debits and credits made in a Peruvian bank or other financial institution account, either in national or foreign currency. If the issue price paid for the Notes is deposited in a Peruvian Financial System (*Sistema Financiero Peruano*, or “PFS”) bank account, such credit will also be levied at the corresponding FTT rate. The taxpayer of the FTT is the holder of the PFS bank account.

Holders should consult an independent tax advisor regarding the specific Peruvian income tax considerations of acquiring, owning or disposing of the Notes.

PLAN OF DISTRIBUTION

Subject to the terms and conditions of the purchase agreement dated the date of this offering memorandum among us and the Initial Purchasers, each of the Initial Purchasers named below has agreed to purchase from us, severally and not jointly, and we have agreed to sell to each such Initial Purchaser, the principal amount of Notes listed opposite each such Initial Purchaser's name below at the initial offering price set forth on the cover page of this offering memorandum, less discounts and commissions:

Initial Purchaser	Principal Amount of the Notes
	<i>(in U.S.\$)</i>
HSBC Securities (USA) Inc.	333,334,000
J.P. Morgan Securities LLC.....	333,333,000
Santander Investment Securities Inc.....	333,333,000
Total	1,000,000,000

The Initial Purchasers may offer and sell the Notes through certain of their respective affiliates. The purchase agreement provides that the several and not joint obligation of the Initial Purchasers to purchase the Notes offered hereby is subject to certain conditions precedent.

After the initial offering, the Initial Purchasers may change the price and other selling terms pursuant to which they may offer and sell the Notes in secondary market transactions.

We have agreed to indemnify the Initial Purchasers and their controlling persons against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the Initial Purchasers may be required to make in respect of any of those liabilities.

Notes Are Not Being Registered

The Notes have not been and will not be registered under the Securities Act. The Initial Purchasers have agreed that they will not offer or sell the Notes within the United States or to U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act. During the initial distribution of the Notes, the Initial Purchasers will offer or sell Notes to qualified institutional buyers in compliance with Rule 144A under the Securities Act and outside the United States in compliance with Regulation S. The Notes being offered and sold pursuant to Regulation S may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless the Notes are registered under the Securities Act or an exemption from the registration requirements thereof is available. Terms used above have the meanings given to them by Rule 144A and Regulation S under the Securities Act.

Until the expiration of 40 days after the commencement of the offering, any offer or sale of Notes within the United States by a broker-dealer may violate the registration requirements of the Securities Act, unless such offer or sale is made pursuant to Rule 144A under the Securities Act or another available exemption from the registration requirements thereof.

We do not intend to register the Notes or this offering memorandum with the SMV. Accordingly, the Notes may not be sold in a public offering in Peru.

No Sales of Similar Securities

We have agreed that, for a period of 60 days from the date of this offering memorandum, other than with respect to the Notes, we will not and will not permit any of our affiliates to, without the prior written consent of the representatives of the Initial Purchasers, directly or indirectly, sell, offer, contract or grant any option to sell, pledge, transfer or establish an open "put equivalent position" within the meaning of Rule 16a-1 under the Exchange Act, or otherwise dispose of or transfer, or announce the offering of, or file any registration statement under the Securities Act in respect of, any of our or our affiliates' debt securities or securities exchangeable for or convertible into our or our affiliates' debt.

New Issue of Notes

We will apply for the listing and quotation of the Notes on the SGX-ST. We have not applied and do not intend to apply for listing of the Notes on any other national securities exchange or for inclusion of the Notes on any other automated dealer quotation system. The Initial Purchasers have advised us that they intend to make a market in the Notes as permitted by applicable law. They are not obliged, however, to make a market in the Notes and any market-making may be discontinued at any time at each Initial Purchaser's sole discretion. Accordingly, we can give no assurance as to the development or liquidity of any market for the Notes. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Short Positions and Stabilization Transactions

In connection with the offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales, purchases to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by an Initial Purchaser of a greater principal amount of notes than it is required to purchase in the offering. An Initial Purchaser purchases notes in the open market to close out any short positions. A short position is more likely to be created if an Initial Purchaser is concerned that there may be downward pressure on the price of the Notes in the open market prior to the completion of the offering.

Stabilizing transactions consist of various bids for or purchases of the Notes made by an Initial Purchaser in the open market prior to the completion of the offering. Purchases to cover a short position and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of the Notes. Additionally, these purchases may stabilize, maintain or otherwise affect the market price of the Notes.

In connection with the offering of Notes, the Initial Purchasers (or persons acting on their behalf) may engage in over-allotment of Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no assurance that the Initial Purchasers (or persons acting on their behalf) will undertake stabilization action.

If the Initial Purchasers engage in stabilizing or short-covering transactions, they may discontinue them at any time, and if begun, must be brought to an end after a limited period. Any over-allotment, stabilizing and short-covering transactions must be conducted by the relevant Initial Purchasers, or persons acting on their behalf, in accordance with applicable laws.

These transactions may be effected in the over-the-counter market or otherwise.

Settlement

We expect that delivery of the Notes will be made to investors on or about February 11, 2021, which will be the fifth business day following the date of this offering memorandum ("T+5"). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trades expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes prior to their delivery may be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their delivery should consult their own advisors.

Persons who purchase Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the law and practice of the country of purchase in addition to the offering price set forth on the cover page of this offering memorandum.

Certain Relationships

From time to time, the Initial Purchasers and their respective affiliates have provided, and may in the future provide, certain commercial banking (including loans and other bank financings), investment banking or advisory services for us and our affiliates for which they have received or may receive customary fees and commissions,

including in connection with the financing of the Talara Refinery Modernization Project, as lenders under the U.S.\$125 million syndicated loan facility guaranteed by Compañía Española de Seguros de Crédito, and other loans, bank financings and structuring advice. In addition, the Initial Purchasers may, from time to time, engage in transactions with and perform services for us and our affiliates in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses.

In the ordinary course of their business activities, the Initial Purchasers or their respective affiliates may at any time make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If an Initial Purchaser or its affiliates has a lending relationship with us, that Initial Purchaser or its affiliates routinely hedge, and certain of the other Initial Purchasers or their respective affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these Initial Purchasers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Purchasers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Certain Selling Restrictions

Prohibition of Sales to European Economic Area Retail Investors

The Notes may not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “EEA”). For these purposes, a “retail investor” means a person who is one (or more) of the following: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “Prospectus Regulation”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Prohibition of Sales to United Kingdom Retail Investors

The Notes may not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“EUWA”); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the “FSMA”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in the UK Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Notice to Prospective Investors in the United Kingdom

In the UK, this offering memorandum is being distributed only to, and is directed only at, qualified investors (as defined in the Prospectus Regulation) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Order”), or (ii) high net worth entities and other persons to whom it may be lawfully be communicated falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as

“relevant persons”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the Notes in the UK will be engaged in only with, relevant persons. Any person in the UK who is not a relevant person should not act or rely on this offering memorandum or any of its contents.

Notice to Prospective Investors in Peru

The Notes, this offering memorandum and other offering materials related to the offer of the Notes are not being publicly marketed or offered in Peru, and will not be distributed or caused to be distributed to the general public in Peru, and therefore will be supplied exclusively to those Peruvian institutional investors (as defined under Peruvian law) who have expressly requested them. Such materials may not be redistributed to any person or entity other than the intended recipients. Peruvian securities laws and regulations on public offerings will not be applicable to our company as issuer or the sellers of the Notes before or after their acquisition by prospective investors. The Notes and the information contained in this offering memorandum have not been and will not be reviewed, confirmed, approved or registered by the SMV or the BVL, or under any other Peruvian securities laws or regulations. Accordingly, the Notes cannot be offered or sold within Peruvian territory except if (a) the Notes are previously registered with the SMV or (b) to the extent any such offering or sale qualifies as a private offering under Peruvian regulations and complies with the provisions on private offerings set forth therein. The Peruvian securities laws establish, among other things, that an offer directed exclusively to institutional investors (as defined under Peruvian law) qualifies as a private offering.

The Notes may not be offered or sold in Peru except in compliance with the securities laws thereof.

Notice to Prospective Investors in the Federative Republic of Brazil

The Notes have not been and will not be registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*). The Notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or unauthorized distribution under Brazilian laws and regulations. Documents relating to the offering of the Notes, as well as information contained therein, may not be supplied to the public in Brazil, nor be used in connection with any public offer for subscription or sale of the Notes to the public in Brazil. Persons wishing to offer or acquire the Notes within Brazil should consult with their own counsel as to the applicability of registration requirements or any exemption therefrom.

Notice to Prospective Investors in Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Notice to Prospective Investors in the Republic of Chile

Pursuant to Law No. 18,045 of Chile (the “securities market law of Chile”) and Rule (*Norma de Carácter General*) No. 336, dated June 27, 2012 (“Rule 336”), issued by the Superintendency of Securities and Insurance of Chile (*Superintendencia de Valores y Seguros de Chile*, or the “SVS”), the Notes may be privately offered in Chile to

certain “qualified investors” identified as such by Rule 336 (which in turn are further described in Rule No. 216, dated June 12, 2008, of the SVS). Rule 336 requires the following information to be provided to prospective investors in Chile:

1. the date of commencement of the offer is February 4, 2021. The offer of the Notes is subject Rule No. 336;
2. the subject matter of this offer are securities not registered with the SVS, nor with the foreign securities registry (*registro de valores extranjeros*) of the SVS, due to the Notes not being subject to the oversight of the SVS;
3. since the Notes are not registered in Chile there is no obligation by the Issuer to make publicly available information about the Notes in Chile; and
4. the Notes shall not be subject to public offering in Chile unless registered with the relevant securities registry of the SVS.

Información a los Inversionistas Chilenos

De conformidad con la ley N° 18.045, de mercado de valores y la Norma de Carácter General N° 336 (la “NCG 336”), de 27 de junio de 2012, de la Superintendencia de Valores y Seguros de Chile (la “SVS”), los valores pueden ser ofrecidos privadamente a ciertos “inversionistas calificados,” a los que se refiere la NCG 336 y que se definen como tales en la Norma de Carácter General N° 216, de 12 de junio de 2008, de la SVS. La siguiente información se proporciona a potenciales inversionistas de conformidad con la NCG 336:

1. *La oferta de los valores comienza el 4 de febrero del 2021, y se encuentra acogida a la Norma de Carácter General N° 336, de fecha 27 de junio de 2012, de la SVS;*
2. *La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que tales valores no están sujetos a la fiscalización de esa Superintendencia;*
3. *Por tratarse de valores no inscritos en Chile no existe la obligación por parte del emisor de entregar en Chile información pública sobre los mismos; y*
4. *Estos valores no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el Registro de Valores correspondiente.*

Notice to Prospective Investors in the Republic of Colombia

The Notes have not been, and will not be, registered in the National Securities and Issuers Registry (*Registro Nacional de Valores y Emisores*) of Colombia or traded on the Colombian Stock Exchange (*Bolsa de Valores de Colombia*). Therefore, the Notes may not be publicly offered in Colombia or traded on the Colombian Stock Exchange except in circumstances which do not result in a public offering under Colombian law.

This offering memorandum is for the sole and exclusive use of the addressee as an offeree in Colombia, and this offering memorandum shall not be interpreted as being addressed to any third party in Colombia or for the use of any third party in Colombia, including any shareholders, administrators or employees of the addressee.

The recipient of the Notes acknowledges that certain Colombian laws and regulations (specifically foreign exchange and tax regulations) are applicable to any transaction or investment made in connection with the Notes being offered and represents that it is the sole party liable for full compliance with any such laws and regulations.

Notice to Prospective Investors in Hong Kong

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws

of Hong Kong) and any rules made thereunder or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

The Notes offered in this offering memorandum have not been and will not be registered under the Financial Instruments and Exchange Law of Japan. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (including any corporation or other entity organized under the laws of Japan), except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

Notice to Prospective Investors in the Republic of Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed for under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, then securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except: (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A), or Section 276(4)(i)(B) of the SFA; (ii) where no consideration is or will be given for the transfer; (iii) where the transfer is by operation of law; (iv) as specified in Section 276(7) of the SFA; or (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Notice to Prospective Investors in Switzerland

This offering memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes. The Notes may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (“FinSA”) and no application has or will be made to admit the Notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this offering memorandum nor any other offering or marketing material relating to the Notes constitutes a prospectus pursuant to the FinSA, and neither this offering memorandum nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Other Jurisdictions

No action has been taken in any jurisdiction (including the United States or Peru) by us or the Initial Purchasers that would permit a public offering of the Notes in any jurisdiction where action for that purpose is required. The Notes may not be offered or sold, directly or indirectly, nor may this offering memorandum or any other offering material or advertisements in connection with the offer and sale of the Notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of such jurisdiction. Persons into whose possession this offering memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the Notes and the distribution of this offering memorandum. This offering memorandum does not constitute an offer to purchase or a solicitation of an offer to sell any of the Notes in any jurisdiction in which such an offer or a solicitation is unlawful.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes.

The Notes are subject to restrictions on transfer as summarized below. By purchasing Notes, you will be deemed to have made the following acknowledgements, representations to and agreements with the Initial Purchasers and us:

1. You acknowledge that:
 - the Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction in the United States, or any other securities laws, and the Notes are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
 - unless so registered, the Notes may not be offered, sold, pledged or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.
 - The Notes are being offered in Peru only to “institutional investors” (as such term is defined in Appendix I of the Institutional Investors Market Regulation (*Reglamento del Mercado de Inversionistas Institucionales*) approved by SMV Resolution No. 021-2013-SMV/01).
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that either:
 - you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the Initial Purchasers are selling the Notes to you in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; or
 - you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.
3. You acknowledge that we, and the Initial Purchasers and any person representing us, or the Initial Purchasers have not made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to their ability to resell the Notes pursuant to Rule 144A, Regulation S or any other available exemption from registration under the Securities Act or pursuant to an effective registration statement under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent Noteholder by its acceptance of the Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes may be offered, sold or otherwise transferred only:
 - (a) to us;

- (b) under a registration statement that has been declared effective under the Securities Act;
- (c) for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;
- (d) through offers and sales to non-U.S. persons that occur outside the United States within the meaning of and in accordance with Regulation S under the Securities Act; or
- (e) under any other available exemption from the registration requirements of the Securities Act;

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller's or account's control.

You also acknowledge that:

- the above restrictions on resale will apply from the closing date until the date that is 40 days in the case of Regulation S notes after the later of the closing date and the last date that we or any of our affiliates was the owner of the Notes or any predecessor of the Notes (the "Resale Restriction Period"), and will not apply to the Regulation S Notes after the applicable Resale Restriction Period ends;
- we and the Trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under clause (e) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the Trustee; and
- each Note, will contain a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY NOT BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS NOTE, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED NOTES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE, EXCEPT IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF SUCH NOTE), ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS WITHIN THE MEANING OF AND IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM.

THIS LEGEND SHALL ONLY BE REMOVED AT THE OPTION OF THE ISSUER AFTER THE RESALE RESTRICTION TERMINATION DATE.

5. You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the Initial Purchasers in writing. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.
6. Each purchaser that is acquiring Notes pursuant to Regulation S under the Securities Act represents that it is not acquiring the Notes with a view to the resale, distribution or other disposition thereof to a U.S. person (or for the account or benefit of a U.S. person) or in the United States.
7. (A) Either (i) no portion of the assets used by you to acquire and hold the Notes or any interest therein constitutes assets of any employee benefit plan that is subject to Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), any plan, individual retirement account or other arrangement that is subject to Section 4975 of the Code, or provisions under any federal, state, local, non-U.S. or other laws, rules or regulations that are similar to such provisions of ERISA or the Code (collectively, “Similar Laws”), or any entity whose underlying assets are considered to include “plan assets” of any such plans, accounts and arrangements, or (ii) the purchase and holding of the Notes or any interest therein by you will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws, and (B) you will not sell or otherwise transfer such Notes or any interest therein otherwise than to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its purchase and holding of such Note or any interest therein. You and any fiduciary causing you to purchase any Notes agrees to indemnify and hold harmless us, and the Initial Purchasers, and their respective affiliates, from and against any cost, damage or loss incurred by any of them as a result of any of the foregoing representations, warranties and agreements being or becoming false. Any purported purchase or transfer of any Note by or to a purchaser or transferee that does not comply with the requirements of this paragraph (7) shall be null and void *ab initio*.
8. You acknowledge that the registrar will not be required to accept for registration of transfer any Notes acquired by you, except upon presentation of evidence satisfactory to us and the registrar that the restrictions set forth herein have been complied with.
9. You agree that you will, and each subsequent holder is required to, give to each person to whom they transfer the Notes notice of any restrictions on the transfer of the Notes.
10. You understand that no action has been taken in any jurisdiction (including the United States) by us or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to us or the Notes in any jurisdiction where action for that purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth above, in the Indenture and/or in this offering memorandum under “Plan of Distribution.”
11. You understand that we will not recognize any offer, sale, pledge or other transfer of the Notes made other than in compliance with the above-stated restrictions.

LISTING AND GENERAL INFORMATION

The issuance of the Notes was authorized by our board of directors on February 23, 2017 and by our general board of shareholders on March 8, 2017.

Approval in-principle has been received for the listing and quotation of the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if a Global Note is exchanged for a Certificated Note, the Issuer will appoint and maintain a paying agent in Singapore, where the Certificated Notes may be presented or surrendered for payment or redemption. In addition, if a Global Note is exchanged for a Certificated Note, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Certificated Notes, including details of the paying agent in Singapore. The Notes will be traded on the SGX-ST in a minimum board lot size of SGD\$200,000 (or its equivalent in foreign currencies) for so long as the Notes are listed on the SGX-ST.

The Notes have been accepted for clearance and settlement through DTC and Euroclear as follows:

	ISIN Number	CUSIP
144A Notes.....	US716564AB55	716564 AB5
Regulation S Notes (permanent).....	USP7808BAB38	P7808B AB3
Regulation S Notes (temporary) ⁽¹⁾	USP7808BAC11	P7808B AC1

Notes:

(1) Until the expiration of the 40-day distribution compliance period commencing on the issue date, the Notes offered hereby and sold in compliance with Regulation S will be issued and maintained under temporary ISIN and CUSIP numbers. Upon the expiration of the 40-day distribution compliance period, the Notes and the Original Notes will share the same CUSIP and ISIN numbers and be fully fungible.

Except as disclosed herein, there are no litigation or arbitration proceedings against or affecting us or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might reasonably be expected to be material in the context of the issuance of the Notes.

Except as disclosed herein, there has not occurred any material adverse change, or any development that would reasonably be expected to result in a prospective material adverse change, in the condition, financial or otherwise, or our earnings, business or operations since December 31, 2019 (the end of our most recent fiscal quarter for which financial statements have been prepared) that is material in the context of the issuance of the Notes.

To the best of our knowledge, the information contained in this offering memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information. Accordingly, we accept responsibility for the information contained in this offering memorandum.

Each of the purchase agreement, among us and the Initial Purchasers, the Indenture and the Notes will be governed by the laws of the State of New York.

LEGAL MATTERS

Certain legal matters relating to the validity of the Notes will be passed upon for us by Clifford Chance US LLP, New York, New York, our U.S. special counsel, and Rubio, Leguía, Normand Abogados, Lima, Peru, our Peruvian special counsel and for the Initial Purchasers, by Simpson Thacher & Bartlett LLP, New York, New York, their U.S. special counsel, and Estudio Echeopar, a member firm of Baker McKenzie International, Lima, Peru, their Peruvian special counsel.

INDEPENDENT AUDITORS

The financial statements of Petróleos del Perú - PETROPERÚ S.A. as of and for the years ended December 31, 2019, 2018 and 2017, included in this offering memorandum, have been audited by PricewaterhouseCoopers, independent auditors, as stated in their report appearing herein.

With respect to the unaudited interim financial information as of and for the nine-month period ended September 30, 2020 included herein, the independent auditors reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report regarding such information should be restricted in light of the limited nature of the review procedures applied.

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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)

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	LIABILITIES AND EQUITY	Nota	At September 30, 2020 US\$000 (Unaudited)	At December 31, 2019 US\$000
Current assets				Current liabilities			
Cash and cash equivalents	8	154,321	375,699	Other financial liabilities	13	1,261,832	1,009,994
Trade receivables	9	247,995	362,632	Trade payables	14	553,015	739,128
Other receivables	10	151,846	168,627	Other payables		65,803	139,318
Other financial assets at amortized cost	10	36	5,364	Provisions	15	28,880	37,913
Inventories	11	356,122	654,419	Lease liabilities		5,426	8,811
Other assets		1,875	4,259	Total current liabilities		<u>1,914,956</u>	<u>1,935,164</u>
Total current assets		<u>912,195</u>	<u>1,571,000</u>				
Non-current assets				Non-current liabilities			
Other receivables	10	407,414	363,609	Other financial liabilities	13	3,201,502	3,153,745
Property, plant and equipment	12	5,628,732	5,094,563	Provisions	15	11,487	11,700
Investment properties		9,561	9,569	Deferred income tax liabilities		82,291	75,488
Intangible assets		37,094	36,773	Lease liabilities		2,146	2,682
Right-of-use assets		9,042	11,527	Total non-current liabilities		<u>3,297,426</u>	<u>3,243,615</u>
Total non-current assets		<u>6,091,843</u>	<u>5,516,041</u>	Total liabilities		<u>5,212,382</u>	<u>5,178,779</u>
				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		<u>1,791,656</u>	<u>1,908,262</u>
TOTAL ASSETS		<u><u>7,004,038</u></u>	<u><u>7,087,041</u></u>	TOTAL LIABILITIES AND EQUITY		<u><u>7,004,038</u></u>	<u><u>7,087,041</u></u>

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	2019
		US\$000	US\$000
		(Unaudited)	(Unaudited)
Revenue from ordinary activities	17	2,199,199	3,449,318
Other operating revenue		57,733	62,463
Total revenue		<u>2,256,932</u>	<u>3,511,781</u>
Cost of sales	18	<u>(2,120,632)</u>	<u>(3,113,836)</u>
Gross profit		<u>136,300</u>	<u>397,945</u>
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	<u>(6,838)</u>	<u>(12,348)</u>
Total operating expenses		<u>(208,107)</u>	<u>(159,045)</u>
(Loss) profit from operating activities		<u>(71,807)</u>	<u>238,900</u>
Finance income		17,081	13,766
Finance costs		(26,701)	(26,533)
Exchange difference, net		<u>(28,376)</u>	<u>(4,670)</u>
(Loss) profit before income tax		<u>(109,803)</u>	<u>221,463</u>
Income tax expense	23	<u>(6,803)</u>	<u>(76,385)</u>
Net (loss) profit for the period		<u>(116,606)</u>	<u>145,078</u>
Other comprehensive income		-	-
Total comprehensive (loss) income for the period		<u>(116,606)</u>	<u>145,078</u>
(Loss) earning per basic and diluted share	25	<u>(0.015)</u>	<u>0.033</u>

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	<u>4,448,416,995</u>	<u>1,337,989</u>	<u>-</u>	<u>40,160</u>	<u>359,161</u>	<u>1,737,310</u>
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)	<u>4,448,416,995</u>	<u>1,337,989</u>	<u>107,597</u>	<u>52,115</u>	<u>384,687</u>	<u>1,882,388</u>
Balances at January 1, 2020	<u>4,850,895,325</u>	<u>1,445,586</u>	<u>-</u>	<u>52,115</u>	<u>410,561</u>	<u>1,908,262</u>
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)	<u>4,448,416,995</u>	<u>1,445,586</u>	<u>153,857</u>	<u>69,210</u>	<u>123,003</u>	<u>1,791,656</u>

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

PETROLÉOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF CASH FLOWS

		For the nine-month period ended September 30,	
	Nota	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		<u>235,199</u>	<u>597,570</u>
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		<u>(688,972)</u>	<u>(116,022)</u>
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		<u>242,263</u>	<u>(749,046)</u>
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		<u>154,321</u>	<u>261,333</u>
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	18,233

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	2019
		US\$000 (Unaudited)	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)
		<u>24,626</u>	<u>212,430</u>
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		<u>259,645</u>	<u>652,903</u>

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 interim 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 than 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:

	<u>2020</u> <u>US\$000</u> <u>(Unaudited)</u>	<u>2019</u> <u>US\$000</u>
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	<u>5,668,365</u>	<u>229,534</u>	<u>193,944</u>	<u>6,091,843</u>
	<u>6,309,165</u>	<u>480,101</u>	<u>214,772</u>	<u>7,004,038</u>
Liabilities:				
Current	1,844,098	36,894	33,964	1,914,956
Non-current	<u>3,279,982</u>	<u>17,444</u>	<u>-</u>	<u>3,297,426</u>
	<u>5,124,080</u>	<u>54,338</u>	<u>33,964</u>	<u>5,212,382</u>
At December 31, 2019				
Assets:				
Current	1,454,698	74,302	42,000	1,571,000
Non-current	<u>5,099,959</u>	<u>223,294</u>	<u>192,788</u>	<u>5,516,041</u>
	<u>6,554,657</u>	<u>297,596</u>	<u>234,788</u>	<u>7,087,041</u>
Liabilities:				
Current	1,860,622	50,573	23,869	1,935,164
Non-current	<u>3,226,112</u>	<u>17,503</u>	<u>-</u>	<u>3,243,615</u>
	<u>5,086,734</u>	<u>68,076</u>	<u>23,969</u>	<u>5,178,779</u>

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

c) Statement of comprehensive income by segments -

	Production and trading (*)	Oil Pipeline operations	Leased and privatized units	Total
	US\$000	US\$000	US\$000	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	2018
	US\$000	US\$000
	(Unaudited)	(Unaudited)
Peru	2,063,262	3,124,776
Other countries	193,670	387,005
	<u>2,256,932</u>	<u>3,511,781</u>

8 CASH AND CASH EQUIVALENTS

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

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

(a) The Company maintains cash in checking accounts in local and foreign currency with financial institutions. These funds are freely available earning preferred interest rates between 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:

	<u>2020</u> <u>US\$000</u> (Unaudited)	<u>2019</u> <u>US\$000</u>
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	<u>6,006</u>	<u>6,270</u>
	254,001	368,902
Expected loss of trade receivables	(<u>6,006</u>)	(<u>6,270</u>)
	<u>247,995</u>	<u>362,632</u>

Accounts receivable -

The balances of trade receivables are invoices in soles and U.S. dollars mainly originated by sales of refined products. For the Armed Forces and National Police Force, receivables fall due after 45 days; for wholesalers and other customers, from 7 to 45 days. Following internal policies, receivables are

mostly secured by a letter of guarantee and other instruments of the Peruvian financial system in accordance with the credit policy approved by the Board of Directors, 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
	%	US\$000	US\$000	%	US\$000	US\$000
	(Unaudited)	(Unaudited)	(Unaudited)			
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 (*)		<u>250,791</u>	<u>6,006</u>		<u>358,547</u>	<u>6,270</u>

(*) 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	<u>6,006</u>

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:

	<u>2020</u> <u>US\$000</u> <u>(Unaudited)</u>	<u>2019</u> <u>US\$000</u>
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	<u>34,629</u>	<u>35,954</u>
	<u>186,475</u>	<u>204,581</u>
Expected loss of other receivables (e)	<u>(34,629)</u>	<u>(35,954)</u>
Current portion	<u>151,846</u>	<u>168,627</u>
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-term taxes	<u>7,231</u>	<u>7,908</u>
Non-current portion	<u>407,414</u>	<u>363,609</u>
Other financial assets at amortized cost		
Fixed time deposits	<u>36</u>	<u>5,364</u>

(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	<u>34,629</u>

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	<u>30,123</u>	<u>20,253</u>
	360,724	655,421
Less - Provision for obsolescence of supplies	(4,602)	(1,002)
	<u>356,122</u>	<u>654,419</u>

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	<u>522</u>
Closing balance	<u>(4,602)</u>

This provision was recognized as a result of analyzing the net realizable value of inventories, taking into account the expectations of obtaining net cash flows from sales or consumption and considering their physical condition. At 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 US\$000	Buildings and others constructions US\$000	Machinery and equipment US\$000	Vehicles US\$000	Furniture and fixtures US\$000	Other and computer equipment US\$000	Equipment not in use US\$000	Work in progress US\$000	Additional investments US\$000	Total US\$000
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	<u>204,162</u>	<u>102,087</u>	<u>462,824</u>	<u>21,565</u>	<u>1,819</u>	<u>30,970</u>	<u>-</u>	<u>4,237,035</u>	<u>34,101</u>	<u>5,094,563</u>
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	<u>204,162</u>	<u>101,194</u>	<u>444,071</u>	<u>19,703</u>	<u>1,504</u>	<u>28,471</u>	<u>-</u>	<u>4,787,224</u>	<u>42,403</u>	<u>5,628,732</u>
At September 30, 2020 (Unaudited)										
Cost	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	<u>204,162</u>	<u>101,194</u>	<u>444,071</u>	<u>19,703</u>	<u>1,504</u>	<u>28,471</u>	<u>-</u>	<u>4,787,224</u>	<u>42,403</u>	<u>5,628,732</u>

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	Planned	Total
	US\$000	percentage	US\$000	percentage
		%		%
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
	<u>4,492,208</u>		<u>5,295,502</u>	<u>100.00</u>

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

- The 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)	<u>3,562</u>	<u>3,486</u>
	<u>34,957</u>	<u>33,771</u>

(*) 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:

	<u>Oil Pipeline Operations</u>
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:

<u>Key assumption</u>	<u>Variation</u>	<u>Impairment loss</u> <u>US\$000</u>
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:

<u>Key assumption</u>	<u>Variation</u>	<u>Impairment loss</u> <u>US\$000</u>
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:

<u>Key assumption</u>	<u>Variation</u>
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:

	<u>2020</u> <u>US\$000</u> <u>(Unaudited)</u>	<u>2019</u> <u>US\$000</u>
Current liabilities		
Unsecured loans	1,211,947	1,000,027
Accrued interest	49,885	9,967
	<u>1,261,832</u>	<u>1,009,994</u>
Non-current liabilities		
Corporate bonds (i)	1,986,463	1,986,078
CESCE loan (ii)	1,215,039	1,167,667
	<u>3,201,502</u>	<u>3,153,745</u>

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

The bonds issued are as follows:

- 2032 Notes, a principal of US\$1,000,000 thousand, with coupons paid semi-annually at a fixed rate of 4.750% per year, with a maturity of 15 years. Coupons are due from December 2017 and repayment of principal fall due on the bond maturity date. 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		At December 31, 2019	
				Nominal value US\$000 (Unaudited)	Carrying amount US\$000 (Unaudited)	Nominal value US\$000	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
				<u>4,488,775</u>	<u>4,463,334</u>	<u>4,236,744</u>	<u>4,163,739</u>

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:

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

(*) Not including accrued interest payable.

c) Movement of financial liabilities -

The movement of these balances was as follows:

	<u>Bank loans without guarantee US\$000</u>	<u>Corporate bonds US\$000</u>	<u>CESCE loan US\$000</u>	<u>Total US\$000</u>
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)	<u>1,218,108</u>	<u>2,016,249</u>	<u>1,228,977</u>	<u>4,463,334</u>

14 TRADE PAYABLES

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

	<u>2020</u> <u>US\$000</u> <u>(Unaudited)</u>	<u>2019</u> <u>US\$000</u>
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	<u>27,381</u>	<u>27,956</u>
	<u>553,015</u>	<u>739,128</u>

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:

	<u>2020</u> <u>US\$000</u> <u>(Unaudited)</u>	<u>2019</u> <u>US\$000</u>
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	<u>166</u>	<u>202</u>
	<u>28,880</u>	<u>37,913</u>
Non-current -		
Provision for environmental improvements (a)	9,493	9,544
Provision for termination (c)	1,946	2,112
Other provisions	<u>48</u>	<u>44</u>
	<u>11,487</u>	<u>11,700</u>
	<u>40,367</u>	<u>49,613</u>

The movement of provisions is as follows:

	<u>Provision for environmental improvements US\$000</u>	<u>Provision for civil lawsuits US\$000 (Unaudited)</u>	<u>Provision for labor-related court actions US\$000 (Unaudited)</u>	<u>Provision for plugging of wells US\$000 (Unaudited)</u>	<u>Provision for termination US\$000 (Unaudited)</u>	<u>Other provisions US\$000 (Unaudited)</u>	<u>Total US\$000 (Unaudited)</u>
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)	<u>31,950</u>	<u>973</u>	<u>2,049</u>	<u>536</u>	<u>4,645</u>	<u>214</u>	<u>40,367</u>

(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 JOSCANSA 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 US\$000	Payments US\$000 (Unaudited)	Provision and financial cost US\$000 (Unaudited)	Balances at September 30 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	<u>8,482</u>	<u>(128)</u>	<u>-</u>	<u>8,354</u>
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	<u>29,775</u>	<u>(5,668)</u>	<u>(1,013)</u>	<u>23,106</u>
Total	<u>38,257</u>	<u>(5,796)</u>	<u>(1,013)</u>	<u>31,460</u>
Exchange difference	<u>1,673</u>			<u>490</u>
Total	<u>39,930</u>			<u>31,950</u>

(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.

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

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

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

The movements of the share capital in 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), 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	US\$000
	(Unaudited)	(Unaudited)
Local sales	2,037,543	3,080,078
Price Stabilization Fund (*) (Note 9)	(33,535)	(21,289)
Revenue from ordinary activities	<u>1,521</u>	<u>3,524</u>
	2,005,529	3,062,313
Foreign sales	<u>193,670</u>	<u>387,005</u>
	<u>2,199,199</u>	<u>3,449,318</u>

(*) 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	US\$000
	(Unaudited)	(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	<u>2,005,529</u>	<u>3,062,313</u>
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	<u>193,670</u>	<u>387,005</u>
Total	<u>2,199,199</u>	<u>3,449,318</u>

18 COST OF SALES

This item comprises:

	For the nine-month period ended September 30,	
	2020	2019
	US\$000	US\$000
	(Unaudited)	(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)
	<u>2,120,632</u>	<u>3,113,836</u>

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

	For the nine-month period ended September 30,	
	2020	2019
	US\$000	US\$000
	(Unaudited)	(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
	<u>184,662</u>	<u>246,535</u>

(*) This item is composed of:

	For the nine-month period ended September 30,	
	2020	2019
	US\$000	US\$000
	(Unaudited)	(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
	<u>102,055</u>	<u>147,673</u>

19 SELLING AND DISTRIBUTION EXPENSES

This item comprises:

	For the nine-month period ended September 30,	
	2020	2019
	US\$000	US\$000
	(Unaudited)	(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
	<u>43,073</u>	<u>55,983</u>

(*) Includes the following:

For the nine-month period ended September 30,		
	2020	2019
	US\$000	US\$000
	(Unaudited)	(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	-
	<u>5,238</u>	<u>7,743</u>

20 ADMINISTRATIVE EXPENSES

This item comprises:

For the nine-month period ended september 30,		
	2020	2019
	US\$000	US\$000
	(Unaudited)	(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
	<u>95,904</u>	<u>114,011</u>

(a) Includes the following:

For the nine-month period ended september 30,		
	2020	2019
	US\$000	US\$000
	Unaudited)	(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
	<u>20,739</u>	<u>28,937</u>

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
	<u>106,875</u>	<u>141,621</u>
Number of staff employed at September 30	<u>2,525</u>	<u>2,784</u>

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
	<u>106,875</u>	<u>141,621</u>

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
	<u>9,154</u>	<u>23,297</u>

	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)
	<u>(6,838)</u>	<u>(12,348)</u>

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	<u>2,386</u>	<u>2,589</u>
	<u>57,491</u>	<u>74,771</u>

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	<u>2,589</u>	-	(203)	<u>2,386</u>
	<u>74,771</u>	<u>170</u>	<u>(17,482)</u>	<u>57,491</u>

(*) 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:

	<u>(Loss) / profit US\$000</u>	<u>Weighted average number of common shares (thousand)</u>	<u>(Losses) / Earnings per share</u>
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	2019
	US\$000	US\$000
	Unaudited)	(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.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

FINANCIAL STATEMENTS
DECEMBER 31, 2019, 2018 AND 2017

INDEPENDENT AUDITOR'S REPORT

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

January 12, 2021

We have audited the accompanying financial statements of **Petróleos del Perú - PETROPERÚ S.A.**, which comprise the statements of financial position at December 31, 2019, 2018 and 2017 and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes, from 1 to 33.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

January 12, 2021
Petróleos del Perú - PETROPERÚ S.A.

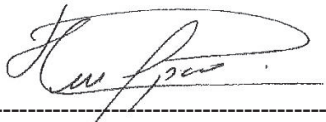
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of **Petróleos del Perú - PETROPERÚ S.A.** at December 31, 2019, 2018 and 2017, its financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

CAVEGLIO APARICIO Y ASOCIADOS

Countersigned by



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

PETROLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	At December 31,			LIABILITIES AND EQUITY	Note	At December 31,		
		2019 US\$000	2018 US\$000	2017 US\$000			2019 US\$000	2018 US\$000	2017 US\$000
Current assets					Current liabilities				
Cash and cash equivalents	7	375,699	528,700	666,141	Other financial liabilities	14	1,009,994	1,673,112	1,319,200
Trade receivables	8	362,632	438,698	343,303	Trade payables	15	739,128	529,801	772,247
Other receivables	9	168,627	418,892	384,987	Other payables	16	139,318	105,092	115,189
Other financial assets at amortized cost	9	5,364	1,036,865	276,240	Provisions	17	37,913	34,662	59,611
Inventories	10	654,419	590,537	643,611	Lease liabilities	13	8,811	-	-
Other assets		4,259	2,394	4,889	Total current liabilities		1,935,164	2,342,667	2,266,247
Total current assets		1,571,000	3,016,086	2,319,171	Non-current liabilities				
Non-current assets					Other financial liabilities	14	3,153,745	3,147,610	1,985,124
Other receivables	9	363,609	241,751	215,168	Provisions	17	11,700	7,067	14,461
Other assets		-	-	67	Deferred income tax liabilities	18	75,488	109,349	55,307
Property, plant and equipment	11	5,094,563	4,043,033	3,361,352	Lease liabilities	13	2,682	-	-
Investment properties	12	9,569	9,579	9,487	Total non-current liabilities		3,243,615	3,264,026	2,054,892
Intangible assets		36,773	33,554	33,498	Total liabilities		5,178,779	5,606,693	4,321,139
Right-of-use assets	13	11,627	-	-	Equity				
Total non-current assets		5,516,041	4,327,917	3,619,572	Share capital	19	1,445,586	1,337,989	1,171,395
					Legal reserve		52,115	40,160	21,650
					Other equity reserves		-	-	(154)
					Retained earnings		410,561	359,161	424,713
					Total equity		1,908,262	1,737,310	1,617,604
TOTAL ASSETS		7,087,041	7,344,003	5,938,743	TOTAL LIABILITIES AND EQUITY		7,087,041	7,344,003	5,938,743

The attached notes from pages 8 to 91 form part of the financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended December 31,		
		2019	2018	2017
		US\$000	US\$000	US\$000
Revenue from ordinary activities	20	4,568,327	4,884,006	3,979,292
Other operating revenue	21	99,719	81,064	72,282
Total revenue		4,668,046	4,965,070	4,051,574
Cost of sales	22	(4,139,942)	(4,617,600)	(3,537,093)
Gross profit		528,104	347,470	514,481
Selling and distribution expenses	23	(78,904)	(77,409)	(70,206)
Administrative expenses	24	(186,088)	(156,225)	(178,984)
Other income	26	38,269	135,487	68,812
Other expenses	26	(36,230)	(33,480)	(35,548)
Total operating expenses		(262,953)	(131,627)	(215,926)
Profit from operating activities		265,151	215,843	298,555
Finance income	27	19,134	17,021	3,395
Finance costs	27	(37,398)	(48,928)	(51,844)
Exchange difference, net	3.1.a.i	6,877	(6,661)	(2,043)
Profit before income tax		253,764	177,275	248,063
Income tax expense	28	(82,812)	(57,723)	(62,959)
Net profit for the year		170,952	119,552	185,104
Other comprehensive income that can be reclassified as profit or loss:				
Other reserves		-	154	219
Total comprehensive income for the year		170,952	119,706	185,323
Earning per basic and diluted share	30	0.038	0.030	0.054

The attached notes from pages 8 to 91 form part of the financial statements.

PETROLÉOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Number of shares	Share capital US\$000	Additional capital US\$000	Legal reserve US\$000	Other equity reserves US\$000	Retained earnings US\$000	Total equity US\$000
Balances at January 1, 2017	2,465,047,935	733,645	110,241	16,189	(373)	256,222	1,115,924
Comprehensive income:							
Profit for the year	-	-	-	-	-	185,104	185,104
Other comprehensive income:							
Other reserves	-	-	-	-	219	-	219
Total comprehensive income	-	-	-	-	219	185,104	185,323
Transactions with shareholders:							
Shareholder's cash contribution	-	-	316,357	-	-	-	316,357
Transfers to additional capital and legal reserve	-	-	11,152	5,461	-	(16,613)	-
Transfers to share capital from cash contribution	1,056,000,000	316,357	(316,357)	-	-	-	-
Transfers to share capital from additional capital	406,665,360	121,393	(121,393)	-	-	-	-
Total transactions with shareholders	1,462,665,360	437,750	(110,241)	5,461	-	(16,613)	316,357
Balance at December 31, 2017	3,927,713,295	1,171,395	-	21,650	(154)	424,713	1,617,604
Balances at January 1, 2018	3,927,713,295	1,171,395	-	21,650	(154)	424,713	1,617,604
Comprehensive income:							
Net profit for the year	-	-	-	-	-	119,552	119,552
Other comprehensive income:							
Other reserves	-	-	-	-	154	-	154
Total comprehensive income	-	-	-	-	154	119,552	119,706
Transactions with shareholders:							
Transfers to additional capital and legal reserve	-	-	166,594	18,510	-	(185,104)	-
Transfers to share capital	520,703,700	166,594	(166,594)	-	-	-	-
Total transactions with shareholders	520,703,700	166,594	-	18,510	-	(185,104)	-
Balance at December 31, 2018	4,448,416,995	1,337,989	-	40,160	-	359,161	1,737,310
Balances at January 1, 2019	4,448,416,995	1,337,989	-	40,160	-	359,161	1,737,310
Comprehensive income:							
Net profit for the year	-	-	-	-	-	170,952	170,952
Total comprehensive income	-	-	-	-	-	170,952	170,952
Transactions with shareholders:							
Transfers to additional capital and legal reserve	-	-	107,597	11,955	-	(119,552)	-
Transfers to share capital	402,478,330	107,597	(107,597)	-	-	-	-
Total transactions with shareholders	402,478,330	107,597	-	11,955	-	51,400	170,952
Balance at December 31, 2019	4,850,895,325	1,445,586	-	52,115	-	410,561	1,908,262

The attached notes from pages 8 to 91 form part of the financial statements.

PETROLÉOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF CASH FLOWS

Note	For the year ended December 31,		
	2019 US\$000	2018 US\$000	2017 US\$000
OPERATING ACTIVITIES			
Net cash provided by (applied to) operating activities	706,678	(2,298)	307,528
Interest payment	(38,425)	(23,665)	(34,811)
Income tax payment	(22,511)	(108,439)	(107,700)
Net cash provided by (applied to) operating activities	<u>645,742</u>	<u>(134,402)</u>	<u>165,017</u>
INVESTING ACTIVITIES			
VAT early refund related to investing activities	50,712	44,002	-
VAT related to investing activities	(143,982)	(71,353)	(149,151)
Payment for purchase of property, plant and equipment	(918,892)	(604,140)	(717,304)
Capitalized interest payment	(150,914)	(107,425)	(85,792)
Sale of other assets	4,085	-	-
Payment for purchase of intangible assets	(5,436)	(2,020)	(32)
Retirement of investment in fixed term deposits	1,670,000	1,151,837	75,000
Investment in fixed term deposits	(637,000)	(1,912,462)	(351,240)
Net cash applied to investing activities	<u>(131,427)</u>	<u>(1,501,561)</u>	<u>(1,228,519)</u>
FINANCING ACTIVITIES			
New loans from financial institutions	3,205,597	4,452,234	3,968,753
Bonds received	-	-	2,000,000
New CESCE loan	-	1,236,717	-
Payment of transaction costs	-	(74,695)	(14,876)
Payment of loans to financial institutions	(3,856,461)	(4,113,312)	(4,617,520)
Shareholder's cash contribution	-	-	316,357
Payments for right of use of assets under lease	(17,485)	-	-
Net cash (applied to) provided by financing activities	<u>(668,349)</u>	<u>1,500,944</u>	<u>1,652,714</u>
Net (decrease) increase in cash and cash equivalents	(154,034)	(135,019)	589,212
Effect of changes in exchange rate on cash	1,033	(2,422)	2,924
Cash and cash equivalents at beginning of year	528,700	666,141	74,005
Cash and cash equivalents at end of year	<u>375,699</u>	<u>528,700</u>	<u>666,141</u>
NON-CASH TRANSACTIONS FROM FINANCING AND INVESTMENT ACTIVITIES			
- Unpaid accrued interest	14	9,967	22,219
- Work in progress payable		131,681	79,730
- Profit capitalization	19	107,597	166,594
- Right-of-use asset and lease liability	13	28,884	-

The attached notes from pages 8 to 91 form part of the financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF CASH FLOWS

	Note	For the year ended December 31,		
		2019	2018	2017
		US\$000	US\$000	US\$000
Net profit for the period		170,952	119,552	185,104
Adjustments to reconcile the profits for the year to cash from operating activities:				
Estimate for expected loss of trade receivables	8	1,307	382	126
Estimate for expected loss of other receivables	9	186	553	3,218
Estimate for obsolescence of inventories	10	539	591	8
Provisions	17	11	33	32
Provision for contingencies	17	1,392	24,665	6,241
Provision for plugging and environmental remediation	17	28,174	10,806	34,953
Provision for job termination	17	6,269	-	-
Depreciation	11-12	69,743	48,379	47,241
Amortization		2,217	2,173	2,400
Depreciation of right-of-use assets	13	15,599	-	-
Deferred income tax	18	(33,861)	54,042	(22,728)
Reversal/Provision for impairment of fixed assets	11	324	(11,536)	(31,790)
Disposal of property, plant and equipment	11-26	58	102	1,802
Gain on sale of other assets		(2,710)	-	-
Other adjustments		-	(826)	-
Impairment of investments		-	67	-
Effect on adjustment of unrealizable exchange gains and losses		(1,033)	2,422	(2,924)
		<u>259,167</u>	<u>251,405</u>	<u>223,683</u>
Net changes in operating assets and liabilities:				
Trade receivables		74,760	(95,777)	(27,179)
Other receivables		219,991	(33,690)	(44,069)
Inventories		(64,421)	52,483	(47,915)
Other assets		(3,240)	4,458	(480)
Trade payables		157,376	(251,345)	204,793
Other payables		63,045	70,168	(1,305)
Net cash provided by (applied to) operating activities		<u>706,678</u>	<u>(2,298)</u>	<u>307,528</u>

The attached notes from pages 8 to 91 form part of the financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019, 2019 AND 2017

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) as well as its rules for application, as approved under Supreme Decree No.008-2014-EM, published on March 24, 2014. The Law No.30130 approved the grant by the Peruvian Government of up to US\$200 million per year and up to a cumulative total of US\$1,000 million to secure the financial obligations derived from the financing to be contracted by the Company to execute the PMRT in the event the Company is not able to obtain the necessary resources to honor its obligations. At December 31, 2019, 2018 and 2017 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.

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.

In 2019, 2018 and 2017 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 -0.4% (contribution) of the Company's total revenue in 2019 (0.8% and 1% of the Company's total revenue in 2018 and 2017, respectively).

d) Approval of the financial statements -

The financial statements at December 31, 2019 have been issued with the authorization of General Management on July 27, 2020 and will be submitted for approval of their issue by the Board and then for consideration of the General Shareholders' Meeting for final approval. The financial statements at December 31, 2018 were approved at the General Shareholders' Meeting dated March 29, 2019. The financial statements at December 31, 2017 were approved at the General Shareholders' Meeting dated June 27, 2018.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

2.1 Basis of preparation and presentation -

i) Compliance with IFRS -

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (hereinafter IFRS) issued by the International Accounting Standards Board ("IASB"), effective at the date of the financial statements.

The information contained in these financial statements is the responsibility of the Company's Board of Directors, which expressly states that in preparing them it has applied all accounting principles and criteria required under the IFRS issued by the IASB.

ii) Basis of measurement -

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

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

iii) New standards and interpretations effective at January 1, 2019 adopted by the Company -

The following standards and interpretations are effective for the first time on periods beginning on or after January 1, 2019.

- IFRS 16, "Leases" -

The Company has adopted IFRS 16 "Leases" from January 1, 2019 and has not restated the comparative information for 2018 as permitted by the specific transition provisions contained in the standard. The effects arising from adoption are not reflected in the statement of financial position at December 31, 2018 but were recognized in the opening balance of the statement of financial position at January 1, 2019.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases, which had been previously been classified as 'operating leases' under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the groups incremental borrowing rate at January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 were 0.45% in Peruvian soles and 0.41% in U.S. dollars.

a) Practical expedients used

In adopting IFRS 16 for the first time, the Company has used the following practical expedient contained in that standard:

- Using a single discount rate on a portfolio of leases with comparable characteristics;
- For operating leases with a remaining term of less than 12 months at January 1, 2019, the lessee may choose to apply the short-term lease exemption;
- Excluding initial direct costs in the measurement of the right-of-use asset at the date of initial application, and
- Use of hindsight for lease term to determine which lease renewal and termination options to include or exclude.

The Company has also opted not to re-assess whether a contract is or contains a lease at the date of initial adoption. Regarding contracts signed before the date of transition, the Company based its assessment of IAS 17 and IFRIC 4 "Determining whether a contract contains a lease".

b) Measurement of lease liabilities

	US\$000
Commitments of operating leases at December 31, 2018	23,823
Discounted at the lessee's incremental borrowing rate at date of initial adoption	(1,183)
(Less): Short-term leases recognized under the straight-line method as expense	(9,201)
(Less): Low-value asset leases recognized under the straight-line method as expense	(21)
Lease liabilities recognize at January 1, 2019	<u>13,419</u>
Of which:	
Current lease liability	10,013
Non-current lease liability	<u>3,406</u>
	<u>13,419</u>

c) Measurement of right-of-use assets

Right-of use assets were calculated based on the amount of the lease liability recognized in the statement of financial position at January 1, 2019. At December 31, 2018 the Company did not have financial leased assets classified as property, plant and equipment that require their reclassification to right-of-use assets.

d) Adjustments recognized in the statement of financial position at January 1, 2019

Adjustment in the accounting policy affected the following line items in the statement of financial position at January 1, 2019:

Increase in right-of-use assets	13,419
Increase in lease liabilities	13,419

At January 1, 2019 there was no impact on retained earnings.

e) Accounting treatment by lessor

As a lessor, the Company did not have to make any adjustments to the accounting treatment of assets under operating leases to which the Company was the lessor from the adoption of IFRS 16.

• IFRIC 23 "Uncertainty over Income Tax Treatments" -

IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

As a result of its impact assessment of IFRIC 23, the Company concluded that it has no uncertain tax positions that needs to be recognized or disclosed in the financial statements.

Additionally, since January 1, 2019, the following norms and interpretations became effective:

- Prepayment features with negative compensation - Amendments to IFRS 9.
- Long-term interests in Associates and Joint Ventures - Amendments to IAS 28.
- Annual improvements to IFRS, 2015 - 2017 cycle.
- Plan amendments, curtailments, and settlements - Amendments to IAS 19.

The other above-listed standards and interpretations have had no impact on the Company's financial statements for the previous or current year; no material impact is expected on its financial statements for the future years.

- iv) New standards, amendments and interpretations effective for the financial statements for annual periods beginning on or after January 1, 2020 and which have not been early adopted -

- 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.

The Company will evaluate the impact that the Revised Conceptual Framework will have in 2020.

- 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. Amendments are effective for annual periods beginning on or after January 1, 2020.

The Company will perform an impact assessment of these amendments over 2020.

Likewise, other standards and amendments listed below have been published that, due to the nature of its activities, the Company considers that they will not be applied:

- Definition of a Business - Amendments to IFRS 3.
- IFRS 17, "Insurance Contracts".
- Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28

The Company does not expect that other IFRS or IFRIC interpretations not yet effective to have a material impact on its financial statements.

2.2 Foreign currency translation -

a) Functional and presentation currency -

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

b) Transactions and balances -

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

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

2.3 Going concern -

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

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

The Company has reported profits of US\$170,952 thousand for 2019. At December 31, 2019 its current liabilities exceed its current assets by US\$364,164 thousand, which primarily reflects the increase in trade payables, as a result of maintaining longer payment terms and the use of funds received resulting from: (i) bond issuance for a total US\$2,000,000 thousand in 2017, that were held in term deposits in other receivables, for investments in the PMRT and; (ii) reimbursement of expenses in EPC - "Técnicas Reunidas del Financiamiento con Garantía de the Company Española de Seguros de Crédito a la Exportación" (hereinafter, CESCE loan) for US\$1,236,717 thousand in 2018, which are long-term obligations; in the advance payment of work of the investment in the PMRT. The Company monitor cash flow projections carried out on the basis of the liquidity requirements of the Company to ensure sufficient cash to cover the operating needs, while maintaining sufficient headroom on its credit facilities. In this sense, the Company considers that cash flows of its transactions and revolving credit lines with local and foreign banks for a total of US\$2,017,796 thousand will enable it to maintain sufficient cash to meet its obligations and revert the negative working capital.

The Company recognizes that the crude price uncertainty remains constant; however, a drop in the crude price has no significant impact on the financial performance of the business since the Company obtains its profit based on a net margin on refinery. Furthermore, refined products have, in the short term, a price that is relatively independent of the crude price, since they have their own dynamic; nevertheless, in the long term, the price of those products is influenced by the price of crude oil. The U.S. Energy Information Administration (EIA) considers that the price difference between Brent and West Texas Intermediate (WTI) (approximately 9 US\$/BI) reflects the competition of the two crude oil products in world export markets. Therefore, there are two components underlying the price difference, the cost to deliver WTI crude from its Cushing price-setting point to the U.S. Gulf coast, for exports and the additional transportation costs incurred in exporting crude from the U.S.A. to Asia as compared to the Brent delivery costs from the North Sea to Asia.

As per Company's projections based on PIRA ENERGY GROUP information source, projections for the years from 2020 and 2030, indicate an average crack spread (3:2:1) of 18.10 US\$/BI, reaching levels of 20.2 US\$/BI during the years 2031-2038. Recovery of the crack spread in late 2020 (18.0 US\$/BI) reflects the recovery of crude prices and a proportional increase in the prices of the refined products (gasoline and diesel).

2.4 Segment information -

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

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

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

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

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

2.5 Financial assets -

Classification -

The Company classifies its financial assets in the following categories:

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

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

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

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

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

Recognition and derecognition -

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

Measurement -

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

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

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

Impairment -

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

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

The Company has adopted IFRS 9 - "Financial Instruments" on a retroactive basis from January 1, 2018; however, it has opted not to restate the comparative period. Therefore, the comparative information shown follows the accounting policies previously implemented by the Company as follows.

Accounting policy applied until December 31, 2017-

Classification

Until December 31, 2017, the Company classifies its financial assets in the following categories: (i) financial assets at fair value through profit or loss, (ii) financial assets held-to-maturity, (iii) loans and receivables and (iv) financial assets available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and reassesses this classification on the date of each closing of financial statements.

At December 31, 2017, the Company only has financial assets in the category of (i) cash and cash equivalent, (ii) trade receivables and (iii) some items included in other receivables.

Subsequent measurement

Measurement at initial recognition is at fair value. Subsequently, loans and receivable are measured at the amortized cost under the effective interest method.

Impairment

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulties; such as: default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows expected from the asset, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss was recognized in the statement of comprehensive income.

2.6 Cash and cash equivalents -

For purposes of the statement of cash flows, cash and cash equivalents includes cash in hand in checking accounts and time deposits with maturity of less than three months, highly liquid investments with original maturities of three months or less that are easily convertible into cash and are subject to an insignificant risk of changes in value and fixed funds. Time deposits that will not be used within the following three months were classified as other financial assets at amortized cost.

2.7 Trade receivables -

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

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

2.8 Inventories -

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

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

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

2.9 Property, plant and equipment -

Property, plant and equipment are recorded at acquisition cost, less their accumulated depreciation and accumulated amount of any impairment loss. The cost of an element of property, plant and equipment comprises its purchase price or construction or manufacturing cost, including customs duties and non-reimbursable purchase taxes, as well as any necessary cost, the initial estimate of the obligation to dismantle the asset and, for qualifying assets, the finance costs. The purchase price or

construction cost comprises the total amount paid, and the fair value of any other consideration given to purchase the asset. The elements of property, plant and equipment are recognized at a major component level.

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

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

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

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

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

	<u>Years</u>
Buildings and other constructions	Between 6 and 25
Machinery and equipment	Between 2 and 42
Containers and returnable containers	20
Vehicles	Between 5 and 15
Other equipment	Between and 10
Computer equipment	Between 3 and 5
Furniture and fixtures	Between 5 and 10

The assets' residual values, useful lives and depreciation method applied are reviewed, and adjusted if appropriate, at the date of each statement of financial position. Any change in these estimates is prospectively adjusted. At December 31, 2019 there were no significant changes as a result of its review.

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

The carrying amount of property, plant and equipment is written-down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount according to what is described in note 2.12.

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

The accounting treatment of the capitalization of interest on qualifying assets is described in Note 2.16.

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

2.10 Intangible assets -

Software -

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

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

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

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

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

Hydrocarbons exploration activities -

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

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

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

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

Costs associated at December 31, 2019 amounted to US\$26,830 thousand (US\$21,578 thousand at December 31, 2018 and US\$19,634 thousand at December 31, 2017) are accounted in intangible assets.

2.11 Investment properties -

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

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

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

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

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

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

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

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

The Company evaluates annually if there is evidence that indicates that previously recognized impairment losses have been partially or totally reversed. At December 31, 2019, 2018 and 2017 the Company performed an impairment test in the CGU Oil Pipeline operations (Note 11-vii). As consequence in the years 2018 and 2017 the Company reversed the impairment recognized at January 1, 2017. At 31 December 2019, no impairment was necessary to be recognized.

2.13 Financial liabilities -

The Company classifies its financial liabilities into the following categories: i) financial liabilities at fair value through profit or loss and ii) other financial liabilities at amortized cost. The classification

depends on the purpose for which the liabilities were assumed and the way in which they are managed. The Company determines the classification of its financial liabilities at the date of initial recognition.

At December 31, 2019, 2018 and 2017 the Company only holds liabilities in “other financial liabilities at amortized cost”, which correspond to (i) corporate bonds, (ii) unsecured bank loans, which includes the CESCE loan, (iii) trade payables (iv) provisions, (v) some items included in other payables and, (vi) lease liabilities.

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

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

2.14 Trade payables -

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

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

2.15 Borrowings -

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

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

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

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

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

2.16 Borrowing costs -

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. Capitalization starts when activities are being carried out to bring the qualifying asset to its expected condition for use and costs are being incurred, as well as borrowing costs; capitalization ends when all the activities required to prepare the asset for its expected use have been completed. The Company has defined a substantial period of 1 year to capitalize borrowing costs on qualifying assets.

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

2.17 Leases -

The Company adopted IFRS 16 “Leases”, date on which application of this standard was mandatory, using the retrospective approach.

The Company mainly leases property, shipping units and other equipment. Rental contracts are usually signed for fixed periods, but they may have term extension options. The terms of the lease are agreed on a lease-by-lease basis and contain a wide range of different terms and conditions. These lease contracts do not give rise to any other performance obligation apart from guarantee on the lease assets that are held by the lessor. The lease assets cannot be used to guarantee a borrowing.

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

Assets and liabilities arising from a lease contract are initially measured at present value.

Rights-of-use assets and lease liabilities are measured as follows:

- The amount of the initial measurement of the lease liability, which includes fixed and variable payments based on an index or a rate; and
- Any lease payments made at or before the commencement date, less any lease incentives received.

Rights-of-use assets are usually depreciated under the straight-line basis over the shorter of the asset's useful life and lease term. If the Company has reasonable certainty that a purchase option will be exercised, the right-of-use asset is depreciated over the useful life of the underlying leased asset. Short-term lease payments and low-value leases are recognized under the straight-line method as expenses in profit or loss. Short-term leases are leases of 12 months or less. Low-value assets consists of IT equipment and small office furniture fixtures.

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

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

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

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

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

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

Accounting policy until December 31, 2018 -

Until December 31, 2018 the Company classifies its leases as finance or operating lease based on the substance of the transaction rather than on the form of the underlying contract.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Company as a lessee were classified as operating leases. Operating lease payments were recognized in the separate statement of profit or loss on a straight-line basis over the lease term.

Finance leases were capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment was allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, was included in other financial liabilities.

The interest element of the finance cost was charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The depreciable amount of the assets under finance lease are distributed between each of the periods of expected use, according to a systematic basis, consistent with the depreciation policy of the other depreciable assets. In the event there is reasonable certainty that the Company will obtain the leased asset at the end of the lease term, the expected period of use will be the useful life of the asset; otherwise, the asset will be depreciated over the lower of useful life or the lease term.

2.18 Employee benefits -

a) Statutory bonuses -

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

b) Employees' severance indemnities -

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

c) Vacation leave -

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

d) Workers' profit sharing -

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

2.19 Provisions -

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

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

Provision for environmental remediation and plugging wells of privatized units -

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

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

2.20 Contingent liabilities and assets -

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

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

2.21 Current and deferred income tax -

The income tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized directly in the statement of other comprehensive income or in equity. In this case tax is also recognized in the

statement of other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position. The Company periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

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

For the recognition and measurement of current and deferred income tax, the Company has assessed the existence of probable uncertain tax positions assumed by the Company; however, the Company did not identify any significant uncertain tax position to be accounted.

2.22 Capital -

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

2.23 Revenue recognition -

a) Revenue from sales of refined products -

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

In certain cases, products are sold applying discounts by retroactive volumes, based on cumulative sales for a period of 12 months. Revenue from these sales are recognized based on the list of process referred to in the agreement, net of the estimated volume discounts. Historical information is used to estimate and record discounts recognizing revenue only to the extent it is highly probable that no significant reversal will occur in the future. Discounts are stated net of the balance of trade receivables at the estimated volume discounts that are expected to be offset against customer sales billings. There was no need to separate any financing component because sales are agreed at a term not exceeding 45 days, which is consistent with the practice in the local market.

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

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

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

Revenue from the Price Stabilization Fund is recognized as part of revenue from ordinary activities. Balances receivable from the Ministry of Energy and Mines are accounted for as described in Note 2.5.

c) Revenue from sales of services -

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

Revenue from services rendered are recognized when control over service is transferred to the customer. For the services of operating terminals, freight, supply, and use of hydrocarbons, the transfer of control occurs when the service is completed and there are no other performance obligations remaining to be satisfied that may affect the customers' acceptance of the service (revenue recognized at a point in time). For the services of rent, transport of crude oil and other services, transfer of control occurs over time, because the relevant performance obligations are satisfied to the extent the service is being rendered given that there is no possibility for the customer not to accept the service already completed.

d) Interest income -

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

2.24 Earnings per share -

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

2.25 Recognition of cost of sales and expenses -

The cost of sales of products and services are recorded in results when the products are delivered or services are rendered, simultaneously with the revenue recognition according to the accounting policies described in Note 2.23. Distribution costs are present in cost of sales.

The administration and sale expenses and other expenses are recognized as they accrue, independently of the when they are paid and they are recorded in the periods to which they are related.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

3.1 Financial risk factors -

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

a) Market risk -

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

i) Foreign exchange risk -

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

Management manages the foreign exchange risk using forward exchange contracts to mitigate its exposure to fluctuations in foreign exchange rates in the short term, mainly resulting from billing of sales in the local market and working capital financing. For other transaction such as purchases from suppliers in Peruvian soles and Euros and obligations with suppliers, the Company takes the Exchange rate risk.

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

	2019			2018			2017		
	S/000	EUR000	JPY000	S/000	EUR000	JPY000	S/000	EUR000	JPY000
Assets:									
Cash and cash equivalent	242,834	84	-	229,620	8,942	-	321,312	-	-
Trade receivables	1,012,666	-	-	1,320,427	-	-	864,011	-	-
Other receivables	1,654,867	-	-	2,352,590	-	-	2,067,971	-	-
	<u>2,910,367</u>	<u>84</u>	<u>-</u>	<u>3,902,637</u>	<u>8,942</u>	<u>-</u>	<u>3,253,294</u>	<u>-</u>	<u>-</u>
Liabilities									
Other liabilities	(1,337,381)	-	-	(2,942,995)	-	-	(2,125,000)	-	-
Trade payables	(192,716)	(2,670)	(23,253)	(120,377)	(2,223)	-	(119,887)	(7,933)	-
Other payables	(587,632)	-	-	(396,082)	-	-	(297,282)	-	-
Other provisions	(64,669)	-	-	(49,448)	-	-	(87,536)	-	-
	<u>(2,182,398)</u>	<u>(2,670)</u>	<u>(23,253)</u>	<u>(3,508,902)</u>	<u>(2,223)</u>	<u>-</u>	<u>(2,629,705)</u>	<u>(7,933)</u>	<u>-</u>
Net asset (liability) exposition	<u>727,969</u>	<u>(2,586)</u>	<u>(23,253)</u>	<u>393,735</u>	<u>6,719</u>	<u>-</u>	<u>623,589</u>	<u>(7,933)</u>	<u>-</u>

The Company's assets and liabilities denominated in foreign currencies were translated into its functional currency using the exchange rates published by the Peruvian banking, insurance and pension plan regulator ("Superintendencia de Banca y Seguros y AFP- SBS"). The following exchange rates were used per each foreign currency:

	Exchange rate at December 31		
	2019	2018	2017
S/	0.301	0.296	0.308
EUR	1.169	1.228	1.216
JPY	0.010	0.009	-

For the year ended December 31, 2019 the Company recognized a net exchange gain of US\$6,877 thousand (net exchange loss of US\$6,661 thousand at December 31, 2018 and net exchange loss of US\$2,043 thousand at December 31, 2017) as stated in “Exchange difference, net” in the statement of comprehensive income.

Sensitivity analysis -

If the U.S. dollar had strengthened/weakened against the Peruvian soles, euros and yens by 5% (a variation considered reasonable) in 2019 (Peruvian soles against the US dollars and euros in 2018 and 2017) it would have affected profit before income tax.

	<u>Movement of</u>	<u>Effect on profit and loss before taxes</u>	
		<u>Revaluation</u>	<u>Devaluation</u>
		<u>US\$000</u>	<u>US\$000</u>
Year 2019			
S/	5%	10,973	(10,973)
EUR	5%	(151)	151
JPY	5%	12	(12)
Year 2018			
S/	5%	5,827	(5,827)
EUR	5%	413	(413)
Year 2017			
S/	5%	9,603	(9,603)
EUR	10%	971	(971)

ii) Interest rate risk -

The Company has some assets which bear fixed interest at market rates.

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

At December 31, 2019, 2018 and 2017 the Company maintains all of its debt to finance its operations and construction in PMRT at fixed rates according to the following: i) bullet bonds, interest are paid on a semi-annual basis from December 2017 at rates of 4.750% and 5.625% and maturity in 2032 and 2047, respectively; ii) CESCE loan at a rate of 3.285%, interest is payable on a semi-annual basis from May 2019 and maturity in 2031 and (iii) bank loans without short-term guarantees in Peruvian soles at rates between 2.20% and 3.35%, and US dollars at rates between 0.99% and 1.75% and, (iv) financial lease liabilities at rates between 0.41% and 0.45%.

iii) Price risk of crude oil or commodities -

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

As explained in Note 1-c, prices in the local market are determined considering the international prices of crude oil and by-products. Prices are expressed in soles at the effective exchange rate, taking into consideration the legal requirements issued in prior years, according to which, under the regime established for the “Price Stabilization Fund” the Peruvian Government can make

compensating payments or receive contributions to stabilize the price of certain products for final consumers. This mechanism mitigates the effect of changes in the prices of some products, which are not transferred to the final consumer.

Note 8 shows the net balance of compensations and contributions made by the Peruvian Government at December 31, 2019, 2018 and 2017.

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

b) Credit risk -

Credit risk arises from the cash and cash equivalents, time deposits with banks as well as the exposure to wholesale and retail credit customers, that is reflected by the balances of trade receivables. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted.

i) Risk management -

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

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

For trade receivables, credit risk concentration mostly relates to wholesale customers, which are nation-wide prestigious prime-rated companies. The Company has policies in place to make sure that sales of goods are made to wholesale customers with an adequate credit history and guarantees. Such policies comprise, among others, approving credit limits on a customer-by-customer basis, monitoring procedures and continuous follow-up of payment behavior. With respect to agreements signed with Government entities (Peruvian Armed Forces and National Police Force), a due date for payment has been set at 45 days. The Company does not foresee significant losses arising from its counterparties.

ii) Impairment of financial assets -

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

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

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

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

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

The rates of expected credit losses are based on the payment profiles of over a 12-month period before December 31, 2019, 2018 and 2017, respectively, and the historical credit losses are adjusted to reflect the current and prospective information about macroeconomic factors that affect customers' ability to settle the Company's trade accounts receivable. The expected credit loss is shown in Note 8.

c) Liquidity risk -

Prudent liquidity risk management involves maintaining sufficient cash and cash equivalents, the availability of financing through an adequate number of sources of committed credit facilities and the capacity to close positions in the market. In this sense, the Company does not have significant liquidity risks since the cash flows from its operations have enabled it to maintain sufficient cash to meet its obligations. The Company maintains negative working capital; however, the Company considers that it does not represent a risk as stated in Note 2.3.

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

At December 31, 2019 the Company maintains short-term revolving credit lines with local and foreign banks for a total of US\$3,104,000 thousand, of which US\$2,017,796 thousand are available at that date, a sufficient amount to meet its purchase operations in the local territory and in foreign markets and other obligations related to working capital. These credit limits involve no maintenance costs or collateral requirements.

The Company's Corporate Finance Management supervises the cash flow projections carried out based on its liquidity requirements to ensure that there is sufficient cash to cover the operating needs while maintaining sufficient headroom on its undrawn committed borrowing facilities, so that the

Company does not breach borrowing limits or covenants, where applicable, on any of its borrowing facilities. Cash surpluses and balances above what is required for the administration of working capital are invested in interest-bearing instruments and time deposits, choosing instruments with appropriate due dates or sufficient liquidity.

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

	Carrying amount US\$000	Cash flows non-discounted US\$000	Less than 1 year US\$000	More than 1 year US\$000	More than 2 years US\$000
2019					
Other financial liabilities	4,163,739	6,598,780	1,151,862	144,940	5,301,978
Trade payables	739,128	739,128	739,128	-	-
Lease liabilities	11,493	11,527	8,837	1,717	973
Other payables (*)	<u>16,296</u>	<u>16,296</u>	<u>16,296</u>	<u>-</u>	<u>-</u>
	<u>4,930,656</u>	<u>7,365,731</u>	<u>1,916,123</u>	<u>146,657</u>	<u>5,302,951</u>
2018					
Other financial liabilities	4,820,722	7,733,274	1,820,292	144,376	5,808,606
Trade payables	529,801	529,801	529,801	-	-
Other payables (*)	<u>21,590</u>	<u>21,590</u>	<u>21,590</u>	<u>-</u>	<u>-</u>
	<u>5,372,113</u>	<u>8,284,665</u>	<u>2,371,683</u>	<u>144,376</u>	<u>5,808,606</u>

	Carrying amount US\$000	Cash flows non-discounted US\$000	Less than 1 year US\$000	More than 1 year US\$000	More than 2 years US\$000
2017					
Other financial liabilities	3,304,324	5,669,871	1,425,496	103,750	4,140,625
Trade payables	772,247	772,247	772,247	-	-
Other payables (*)	13,489	13,489	13,489	-	-
	<u>4,090,060</u>	<u>6,455,607</u>	<u>2,211,232</u>	<u>103,750</u>	<u>4,140,625</u>

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

3.2 Capital risk management -

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

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings), less cash and cash equivalent. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

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

At December 31, gearing ratios were as follows:

	<u>2019</u> US\$000	<u>2018</u> US\$000	<u>2017</u> US\$000
Other financial liabilities	4,163,739	4,820,722	3,304,324
Less: Cash and cash equivalents and time deposits	(381,063)	(1,565,565)	(942,381)
Net debt (A)	3,782,676	3,255,157	2,361,943
Total equity (B)	1,908,262	1,737,310	1,617,604
Total capital (A)+(B)	5,690,938	4,992,467	3,979,547
Ratio (A)/((A)+(B))	<u>0.66</u>	<u>0.65</u>	<u>0.59</u>

At December 31, 2019 the increase in the gearing ratio was mainly due to the effect of the increase in net debt (decrease in short-term bank loans and significant decrease in term deposit for use in investments in the PMRT) and increase in equity due to profit for the year.

At December 31, 2018, the increase in the gearing ratio was mainly due to the effect of the increase in net debt for financing with the CESCE loan, decrease in cash and cash equivalents, increase in time deposits and increase in equity derived from profit or loss for the year.

3.3 Estimation of fair value -

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

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

At December 31, 2019, 2018 and 2017 the Company has only measured at fair value its forward foreign exchange contracts. The fair value of forward foreign exchange contracts is estimated discounting the future contractual cash flows, net, comparing the contractually agreed foreign exchange rate against a forward foreign exchange rate applicable at the date of measurement. Discounting is performed using a market interest rate that is available to the Company for similar financial instruments, and the inputs of which used in fair value measurement have been classified in Level 2.

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

In determining the fair value of investment properties (measured at cost less accumulated depreciation) for disclosure purposes, Management has used appraisals conducted internally; of which the respective inputs used for measurement have been classified in Level 3.

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Estimates and critical accounting criteria -

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

- Useful life of property, plant and equipment -

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

- Provisions and contingencies -

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

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

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

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

- Taxes -

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

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

The current income tax determination is performed by the Company following applicable laws and regulations and it does not include any estimated provisions that may eventually give rise to differences against tax audit results. Accordingly, no sensitivity analysis has been considered necessary to be included to simulate variances in calculation, because Management considers that no significant differences will arise that may have a material impact on its financial statements.

- Review of carrying amounts and impairment provision -

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

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

information, has considered it appropriate to carry out the impairment test of the Oil Pipeline Operations CGU and the PMRT (See Note 11.vii) by other CGUs and has not identified any indicators to carry out an impairment test.

- Impairment test of assets subject to depreciation or amortization -

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

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

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

The Company did not identify impairment indicators of the CGUs Production and commercialization and Leased and privatized units CGU; therefore, no impairment test was performed on the assets of these CGUs.

The Company, based on internal and external information, considers that there are certain indications that the assets of the Oil Pipeline operations CGU may be impaired in 2019 by calculating the value in use of this CGU, disclosure and sensitivity analysis for 2019 of which are provided in Note 11.

- Impairment test of PMRT assets in process of construction -

PMRT assets in the process of construction are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount of assets under construction is their fair value less costs of disposal. The Company has calculated the recoverable amount of the PMRT; disclosure and sensitivity analysis are provided in Note 11.

• Expected loss of trade receivables -

The Company has recognized a correction in the amount of the provision based on the expected credit losses on its financial assets applying the simplified approach. Under IFRS 9, impairment of a financial asset has to be estimated based on the expected credit losses rather than incurred losses (as stated in the predecessor IAS 39).

4.2 Critical judgments in the application of accounting policies -

Determination of functional currency - Note 2.2 - a)

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

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

In 2018 and 2019 Management has not observed any relevant change in the circumstances prevailing until 2016. However, from 2017, borrowings are mostly held in U.S. dollars as a result of the issuance of bonds in foreign markets for US\$2,000,000 thousand; this circumstance gave rise to a change in the financing structure existing until previous years. In addition, in 2018 the Company obtained a long-term loan with CESCE for US\$1,236,717 thousand.

Until 2016, since the results of the assessment of the primary indicators set forth in IAS 21 were not conclusive, the Company defined the sol as its functional currency on the grounds that this is the currency in which most borrowings are denominated. From 2017, the change in the financing structure and the notable prevalence of the U.S. dollar, have led the Company to re-assess its functional currency determination and define the United States dollar as its functional currency; accordingly, the financial statements are to be expressed in the currency in which most of the underlying transactions are denominated.

At December 31, 2019 according to Company's critical judgment, the functional currency is the US dollar.

5 SEGMENT INFORMATION

a) Description of business segments and core activities -

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

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

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

The following summary describes the operations of each reportable segment:

<u>Reportable segment</u>	<u>Operations</u>
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 December 31, 2019				
Assets				
Current	1,454,698	74,302	42,000	1,571,000
Non-current	<u>5,099,959</u>	<u>223,294</u>	<u>192,788</u>	<u>5,516,041</u>
Total assets	<u><u>6,554,657</u></u>	<u><u>297,596</u></u>	<u><u>234,788</u></u>	<u><u>7,087,041</u></u>
Liabilities				
Current	1,860,622	50,573	23,969	1,935,164
Non-current	<u>3,226,112</u>	<u>17,503</u>	-	<u>3,243,615</u>
Total liabilities	<u><u>5,086,734</u></u>	<u><u>68,076</u></u>	<u><u>23,969</u></u>	<u><u>5,178,779</u></u>
At December 31, 2018				
Assets				
Current	2,745,057	267,563	3,466	3,016,086
Non-current	<u>3,888,085</u>	<u>200,991</u>	<u>238,841</u>	<u>4,327,917</u>
Total assets	<u><u>6,633,142</u></u>	<u><u>468,554</u></u>	<u><u>242,307</u></u>	<u><u>7,334,003</u></u>
Liabilities				
Current	2,273,861	43,653	25,153	2,342,667
Non-current	<u>3,263,908</u>	<u>118</u>	-	<u>3,264,026</u>
Total liabilities	<u><u>5,537,769</u></u>	<u><u>43,771</u></u>	<u><u>25,153</u></u>	<u><u>5,606,693</u></u>
At December 31, 2017				
Assets				
Current	2,285,586	28,504	5,081	2,319,171
Non-current	<u>3,248,310</u>	<u>178,298</u>	<u>192,964</u>	<u>3,619,572</u>
Total assets	<u><u>5,533,896</u></u>	<u><u>206,802</u></u>	<u><u>198,045</u></u>	<u><u>5,938,743</u></u>
Liabilities				
Current	2,166,106	91,597	8,544	2,266,247
Non-current	<u>2,045,450</u>	<u>9,442</u>	-	<u>2,054,892</u>
Total liabilities	<u><u>4,211,556</u></u>	<u><u>101,039</u></u>	<u><u>8,544</u></u>	<u><u>4,321,139</u></u>

(*) 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 year ended December 31, 2019				
Revenue from ordinary activities	4,554,255	14,072	-	4,568,327
Other operating revenue	22,886	34,684	42,149	99,719
Total revenue	4,577,141	48,756	42,149	4,668,046
Cost of sales	(4,082,028)	(52,536)	(5,378)	(4,139,942)
Transfers	(16,042)	16,042	-	-
Gross profit	479,071	12,262	36,771	528,104
Selling and distribution expenses	(71,770)	(3)	(7,131)	(78,904)
Administrative expenses	(152,969)	(33,119)	-	(186,088)
Other income and expenses, net	13,549	(11,510)	-	2,039
Operating profit	267,881	(32,370)	29,640	265,151
Financial, net	(12,859)	1,475	(3)	(11,387)
Profit (loss) before income tax	255,022	(30,895)	29,637	253,764
Income tax	(83,223)	(10,082)	(9,671)	(102,976)
Profit (loss) for the year	171,799	(20,813)	19,966	170,952
For the year ended December 31, 2018				
Revenue from ordinary activities	4,800,258	83,748	-	4,884,006
Other operating revenue	14,205	22,109	44,750	81,064
Total revenue	4,814,463	105,857	44,750	4,965,070
Cost of sales	(4,546,234)	(65,977)	(5,389)	(4,617,600)
Transfers	(7,108)	7,108	-	-
Gross profit	261,121	46,988	39,361	347,470
Selling and distribution expenses	(69,887)	(51)	(7,471)	(77,409)
Administrative expenses	(138,247)	(17,970)	(8)	(156,225)
Other income and expenses, net	109,149	(7,140)	(2)	102,007
Operating profit	162,136	21,827	31,880	215,843
Financial, net	(36,419)	(2,135)	(14)	(38,568)
Profit before income tax	125,717	19,692	31,866	177,275
Income tax	(40,935)	(6,412)	(10,376)	(57,723)
Profit for the year	84,782	13,280	21,490	119,552
For the year ended December 31, 2017				
Revenue from ordinary activities	3,974,111	5,181	-	3,979,292
Other operating revenue	22,888	3,390	46,004	72,282
Total revenue	3,996,999	8,571	46,004	4,051,574
Cost of sales	(3,492,930)	(38,774)	(5,389)	(3,537,093)
Transfers	(191)	191	-	-
Gross profit (loss)	503,878	(30,012)	40,615	514,481
Selling and distribution expenses	(65,168)	-	(5,038)	(70,206)
Administrative expenses	(156,641)	(22,319)	(24)	(178,984)
Other income and expenses, net	57,417	(31,675)	7,522	33,264
Operating profit (loss)	339,486	(84,006)	43,075	298,555
Financial, net	(49,483)	(1,118)	109	(50,492)
Profit (loss) before income tax	290,003	(85,124)	43,184	248,063
Income tax	(71,110)	(19,329)	(11,178)	(101,617)
Net profit (loss) for the year	218,893	(65,795)	32,006	185,104

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

d) Revenue by geographical area -

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

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Peru	4,197,495	4,450,327	3,657,830
Other countries	<u>470,551</u>	<u>514,743</u>	<u>393,744</u>
	<u>4,668,046</u>	<u>4,965,070</u>	<u>4,051,574</u>

6 FINANCIAL INSTRUMENTS

6.1 Financial instruments per category -

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

	<u>At December 31,</u>		
	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Financial assets as per the statement of financial position			
Financial assets at amortized cost:			
- Cash and cash equivalents	375,699	528,700	666,141
- Trade receivables	362,632	438,698	343,303
- Other receivables (*)	60,127	51,341	68,587
- Other financial assets at amortized cost	<u>5,364</u>	<u>1,036,865</u>	<u>276,240</u>
	<u>803,822</u>	<u>2,055,604</u>	<u>1,354,271</u>
Financial liabilities as per the statement of financial position			
Other financial liabilities at amortized cost:			
- Other financial liabilities	4,163,739	4,820,722	3,304,324
- Trade payables	739,128	529,801	772,247
- Lease liabilities	11,493	-	-
- Other payables (*)	<u>7,743</u>	<u>7,106</u>	<u>9,687</u>
	<u>4,922,103</u>	<u>5,357,629</u>	<u>4,086,258</u>
Other liabilities at fair value with changes in profit or loss:			
- Derivative financial instruments (Note 16)	<u>8,553</u>	<u>14,484</u>	<u>3,802</u>
	<u>4,930,656</u>	<u>5,372,113</u>	<u>4,090,060</u>

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

6.2 Credit quality of financial assets -

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

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

	At December 31,		
	2019	2018	2017
	US\$000	US\$000	US\$000
Cash and cash equivalent -			
Checking accounts:			
A+	29,754	45,698	60,358
A	344,867	479,922	109,749
	<u>374,621</u>	<u>525,620</u>	<u>170,107</u>
Liquidity funds:			
A	1,050	3,050	496,000
Other financial assets at amortized cost -			
Time deposits:			
A+	5,364	130,000	126,008
A	-	132,865	232
A-	-	774,000	150,000
	<u>5,364</u>	<u>1,036,865</u>	<u>276,240</u>

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

Customers' credit quality is assessed in three category (internal ranking):

A: new customers / related parties (less than six months).

B: existing customers / related parties (more than six months) with no history of default.

C: existing customers / related parties (more than six months) with some history of default in the past.

	At December 31,		
	2019	2018	2017
	US\$000	US\$000	US\$000
Trade receivables (Note 8)			
Counterparties without external credit rating			
A	213	65	171
B	322,558	426,783	83,554
C	39,861	11,850	259,578
	<u>362,632</u>	<u>438,698</u>	<u>343,303</u>

Other receivables (Note 9)

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

	At December 31,		
	2019	2018	2017
	US\$000	US\$000	US\$000
A	12,387	11,955	130
B	29,598	23,861	20,706
C	18,142	15,525	47,751
	<u>60,127</u>	<u>51,341</u>	<u>68,587</u>

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

7 CASH AND CASH EQUIVALENTS

This item comprises:

	At December 31,		
	2019	2018	2017
	US\$000	US\$000	US\$000
Checking accounts (a)	374,621	525,620	170,107
Liquidity funds (b)	1,050	3,050	496,000
Fixed funds	28	30	34
	<u>375,699</u>	<u>528,700</u>	<u>666,141</u>

(a) The Company maintains cash in checking accounts in local and foreign currency with financial institutions. These funds are freely available earning preferred interest rates between 0.25% and 1.90%.

(b) At December 31, 2019 liquidity funds are short term instruments (maturity less than three months) in foreign institutions with variable returns between 1.79% and 3.30% in 2019 (between 2.29% and 2.45% in 2018 and between 1.37% and 1.66% in 2017) and are immediately available without a defined maturity date, which will be used in PMRT investment activities in the subsequent months.

8 TRADE RECEIVABLES

This item comprises:

	At December 31,		
	2019	2018	2017
	US\$000	US\$000	US\$000
Wholesalers	217,200	239,987	203,314
Price Stabilization Fund - Ministry of Energy and Mines (Note 1-c)	9,796	82,472	50,126
Mining industry	44,830	32,108	24,914
Fuel traders	27,929	19,315	20,273
Oil companies	23,167	3,687	5,681
Armed Forces and National Police Force	11,037	11,555	19,776
Aviation business	6,341	7,451	7,007
External market	4,562	26,887	341
Construction industry	4,372	5,511	5,895
Maritime businesses	4,057	2,429	3,149
Transport industry	2,537	2,373	1,364
Fishing industry	2,406	2,513	-
Industrial industry	962	926	579
Electric power industry	543	1,063	300
Other customers	2,892	421	584
Other wholesalers doubtful accounts	<u>6,270</u>	<u>5,019</u>	<u>4,996</u>
	368,902	443,717	348,299
Expected loss of trade receivables	(<u>6,270</u>)	(<u>5,019</u>)	(<u>4,996</u>)
	<u>362,632</u>	<u>438,698</u>	<u>343,303</u>

Accounts receivable -

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

Price Stabilization Fund - Ministry of Energy and Mines -

At December 31, 2019, 2018 and 2017 the total amount receivable from the General Hydrocarbons Agency (DGH) amounted to US\$27,290 thousand, US\$99,645 thousand and US\$68,008 thousand, respectively, generated from compensations and contributions transactions (Note 2.23-b) at December

31, 2019 this includes a legal recourse ("Demanda de Amparo") recorded in a Claims account for US\$17,494 thousand (US\$17,173 thousand at December 31, 2018 and US\$17,882 thousand at December 31, 2017), classified as other long-term receivables (Note 9) and the amount receivable of US\$9,796 thousand (US\$82,472 thousand at December 31, 2018 and US\$50,126 thousand at December 31, 2017).

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

	2019 US\$000	2018 US\$000	2017 US\$000
Opening balance	82,472	50,126	23,696
Price compensation	7,835	60,170	47,406
Price contribution	(28,346)	(21,405)	(22,515)
Net (charged) credited to revenue from ordinary activities (Note 20)	(20,511)	38,765	24,891
Contribution generated by import of products	(4,665)	(2,734)	-
Collection and compensation and/or contribution payments	(48,783)	-	-
Exchange difference	1,283	(3,685)	1,539
Final balance	<u>9,796</u>	<u>82,472</u>	<u>50,126</u>

Expected loss of trade receivables -

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

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

The rates of expected credit losses are based on the payment profiles of sales over a 12-month period before December 31, 2019 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 December 31, 2019, 2018 and 2017 was determined as follows:

	2019			2018			2017		
	Expected loss rate	Gross carrying amount	Expected loss	Expected loss rate	Gross carrying amount	Expected loss	Expected loss rate	Gross carrying amount	Expected loss
	%	US\$000	US\$000	%	US\$000	US\$000	%	US\$000	US\$000
Current	0.01	352,737	33	0.01	354,397	32	0.01	220,675	24
From 1 to 30 days	0.62	35	-	0.48	831	4	0.27	12,870	35
From 31 to 60 days	-	-	-	0.54	373	2	0.29	2,101	6
From 61 to 90 days	-	-	-	0.68	147	1	0.30	5,312	16
From 91 to 120 days	1.55	39	1	-	43	-	0.52	33,837	176
From 121 to 150 days	4.66	57	2	-	-	-	0.56	1,963	11
From 151 to 180 days	4.71	6	-	-	1	-	0.65	1,681	11
From 181 to 210 days	8.65	4	-	1.69	59	1	0.97	8,106	79
From 211 to 240 days	-	-	-	5.88	17	1	1.72	582	10
From 241 to 270 days	-	-	-	-	-	-	2.08	5,915	123
From 271 to 300 days	-	-	-	-	-	-	14.75	644	95
From 301 to 330 days	-	-	-	67.31	52	35	56.98	179	102
From 331 to 360 days	100.00	6	6	92.44	119	110	100.00	43	43
More than 360 days	100.00	6,222	6,228	92.84	5,206	4,833	100.00	4,265	4,265
Total (*)		<u>359,106</u>	<u>6,270</u>		<u>361,245</u>	<u>5,019</u>		<u>298,173</u>	<u>4,996</u>

(*) Does not include the Price Stabilization Fund.

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

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Opening balance	5,019	4,996	6,063
Expected loss for the year (Note 23)	1,307	382	126
Exchange difference	(25)	(229)	234
Recoveries	(31)	(130)	(1,427)
Final balance	<u>6,270</u>	<u>5,019</u>	<u>4,996</u>

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

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

The provision for expected loss for trade receivables is included in selling expenses in the statement of comprehensive income (Note 23).

9 OTHER RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTIZED COST

This item comprises:

	<u>At December 31,</u>		
	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Current			
Tax credit - VAT and income tax (a)	122,042	385,735	259,822
Advances granted to suppliers	12,754	9,279	6,622
Loans to personnel	12,322	4,356	5,364
Assets for derivative financial instruments	11,784	302	
Claims against tax authorities - SUNAT (d)	-	-	96,430
Payments for return of association			
Investment with GeoPark	4,996	9,149	9,819
Loans	2,543	2,823	-
Others	2,186	7,248	6,930
Doubtful claims to municipalities and others (e)	<u>35,954</u>	<u>35,495</u>	<u>36,483</u>
	204,581	454,387	421,470
Expected loss of other receivables (e)	(35,954)	(35,495)	(36,483)
Current portion	<u>168,627</u>	<u>418,892</u>	<u>384,987</u>
Non-current			
Tax credit - VAT, long-term (b)	329,405	209,563	163,310
Price Stability Fund Claims - Ministry of Energy and Mines (Note 1-c) (c)	17,494	17,173	17,882
Claims against tax authorities - SUNAT (d)	8,802	9,613	27,777
Long-term third parties' claims	-	677	815
Other long-term taxes	<u>7,908</u>	<u>4,725</u>	<u>5,384</u>
Non-current portion	<u>363,609</u>	<u>241,751</u>	<u>215,168</u>
Other financial assets at amortized cost			
Fixed time deposits (f)	<u>5,364</u>	<u>1,036,865</u>	<u>276,240</u>

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

At December 31, 2019 it mainly corresponds to the Value Added Tax credit (IGV in Peru) of operations for US\$24,171 thousand (equivalent to S/80,175 thousand), Value Added Tax of the PMRT for an amount of US\$77,554 thousand (equivalent to S/257,247 thousand) and tax credit for payments on account of income tax for US\$19,869 thousand (equivalent to S/65,905 thousand), which will be recovered in the short term from operations and under the VAT anticipated recovery regime. At December 31, 2018 it mainly corresponds to the Value Added Tax credit (IGV in Peru) of operations for US\$244,768 thousand (equivalent to S/827,070 thousand), Value Added Tax of the PMRT for an amount of US\$53,547 thousand (equivalent to S/180,936 thousand) and tax credit for payments on account of income tax for US\$87,195 thousand (equivalent to S/294,631 thousand). At December 31, 2017 it mainly corresponds to the Value Added Tax credit (IGV in Peru) for US\$162,133 thousand (equivalent to S/526,126 thousand), Value Added Tax of the PMRT for an amount of US\$91,614 thousand (equivalent to S/297,288 thousand) and Excise Tax (ISC in Peru) for US\$6,074 thousand (equivalent to S/19,711 thousand).

During 2019, SUNAT made the return of VAT for S/169,883 thousand (equivalent to US\$50,712 thousand), which was requested by the Company through the early recovery regime ("Régimen de Recuperación Anticipada") and effectively charged. During 2018, SUNAT approved the return of VAT for US\$44,002 thousand, which was requested by the Company through the anticipated recovery regime ("Régimen de Recuperación Anticipada").

During 2020, SUNAT approved the return of VAT for S/81,198 thousand (equivalent to US\$23,529 thousand).

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

At December 31, 2019 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\$173,211 thousand (equivalent to S/574,540 thousand) and the VAT for operations amounting to US\$113,972 thousand (equivalent to S/378,046 thousand). At December 31, 2018 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\$157,028 thousand (equivalent to S/530,599 thousand) and the VAT for operations amounting to US\$52,535 thousand (equivalent to S/177,513 thousand). At December 31, 2017 corresponds to the credit balance of Value Added Tax (IGV in Peru) paid for the acquisition of goods and services mainly related to the Talara Refinery Modernization Project amounting to US\$91,614 thousand (equivalent to S/297,288 thousand) and the VAT for operations amounting to US\$71,696 thousand (equivalent to S/232,653 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, 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\$17,494 thousand at December 31, 2019 (US\$17,173 thousand at December 31, 2018 and US\$17,882 thousand at December 31, 2017).

(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.

At December 31, this item comprises:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
File No. 17806-2012 (i)	8,802	8,641	8,651
File No.02529-2010-2-1801-JR-CA-14(ii)	-	-	36,984
File No.07873-2012-0-1801-JR-CA-13 (iii)	-	-	59,446
File No.00114-2012-1801-JR-CA-07 (iv)	-	-	18,316
File No. 03490-2012-0-1801-JR-CA-08	-	972	810
	<u>8,802</u>	<u>9,613</u>	<u>124,207</u>

- (i) In November 2012, the Company paid a total US\$8,651 thousand (equivalent to S/29,197 thousand) in respect of a number of tax determination and tax penalty resolutions involving allegedly unpaid excise tax (ISC) and VAT (IGV) for fiscal 2007. At December 31, 2019 this action remains to be resolved by Courtroom 4 of the Peruvian Tax Tribunal, under File No. 17806-2012. The Company and its legal counsel have high expectations of obtaining a favorable outcome. The expected refund is equivalent to US\$8,802 thousand at the closing exchange rate.
- (ii) In April 2011, SUNAT conducted a preventive seizure of US\$36,656 thousand (equivalent to S/120,012 thousand) for Excise tax (hereinafter, ISC) unpaid by the Company on the import of a type of fuel called Turbo A-1, in 2003. On May 31, 2017, a notice was served with the Final Decision No. 626-2017-MP-FN-FSCA by which the Supreme Tax Judge found groundless the appeal recourse submitted by the Peruvian Tax Authorities.

As per Supreme Court decision dated October 5, 2017 the appeal actions filed by the Peruvian tax authorities were declared groundless ("Casación N° 0397-2016").

By means of Division Resolution No. 000 323300/2018-000110 dated July 25, 2018 SUNAT approved the refund of the excise tax (ISC, in Peru) unduly paid by the Company for a total US\$74,989 thousand (equivalent to S/245,439 thousand), including interest for US\$38,333 thousand (equivalent to S/125,427 thousand), recognized in other income in the statement of comprehensive income (Note 25).

- (iii) In February 2013 the Company paid a total US\$55,693 thousand (S/180,723 thousand) of excise tax (ISC) and tax penalties for fiscal 2004; in July 2013 it paid a total US\$3,753 thousand (S/12,179 thousand) of excise tax (ISC) for October 2004, regarding coercive collection resolutions issued by the Peruvian tax authorities. As per Supreme Court decision dated September 27, 2017 the appeal actions filed by the Peruvian tax authorities were declared groundless and the Company was served notice on November 21, 2017 ("Casación N° 3644-2016"). In December 2017, the Company applied for a refund of the amounts already paid to the Peruvian tax authorities.

By means of resolutions ("Resoluciones de Intendencia") No.012-180-0015915/SUNAT and N°012-180-0015914/SUNAT dated February 14, 2018 refunding of US\$101,967 thousand (equivalent to S/332,044 thousand) were approved, relating to a refunding claim under case file ("Expediente N°07873-2012-0-1801-JR-CA-13"). Returns obtained include interest of US\$42,813 thousand (equivalent to S/139,142 thousand), recognized in other income in the statement of comprehensive income (Note 25).

- (iv) In July and August 2013, the Company paid a total US\$18,000 thousand (S/59,434 thousand) of VAT (IGV) and excise tax (ISC) for fiscal 2005. As per Supreme Court decision dated November 30, 2017 the appeal actions filed by the Peruvian tax authorities were declared groundless ("Casación N°3791-2016").

By means of resolutions ("Resoluciones de Intendencia") No. 012-180-0017743/SUNAT, 012-180-0017751/SUNAT, 012-180-0017742/SUNAT and 012-180-0017752/SUNAT dated November 12, 2018 SUNAT approved the refund of US\$31,251 thousand (equivalent to S/105,077 thousand) regarding VAT (IGV) and excise tax (ISC) that inadequately levied sales of fuel Turbo A-1 made in 2005. Refunds include interest for US\$13,678 thousand (equivalent to S/45,642 thousand), recognized in other income in the statement of comprehensive income (Note 25).

- (e) Expected credit loss of other receivables -

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

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

Regardless of the above analysis, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making the claim payment. With respect to the other items of other receivables, the Company considers that the credit risk of counterparties is low. Therefore, the Company has not registered an expected loss for these accounts as it is not significant.

At December 31, 2019, 2018 and 2017 the movement of the provision for expected loss is as follows:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Opening balance	35,495	36,483	33,259
Expected losses (Note 24)	186	553	3,218
Exchange difference	309	(723)	627
Recoveries	(36)	(620)	(573)
Write-offs	-	(198)	(48)
Closing balance	<u>35,954</u>	<u>35,495</u>	<u>36,483</u>

(f) Other financial assets at amortized cost -

At December 31, 2019, 2018 and 2017 corresponds to fixed time deposits with maturity of 90 days in foreign banks, whose funds come from the bond issuance and CESCE loan. However, the Company expects to renew the term of said deposits for a period greater than 90 days. The decrease in 2019 comprises the disposition of these funds to pay for the progress of the PMRT.

10 INVENTORIES

This item comprises:

	At December 31,		
	2019	2018	2017
	US\$000	US\$000	US\$000
Crude oil	49,798	54,878	118,317
Refined products:			
In-process	214,796	220,811	219,701
Finished	253,035	187,464	203,432
Acquired refined products	71,606	93,173	63,844
In-transit inventories	45,933	18,075	22,314
Supplies	<u>20,253</u>	<u>17,199</u>	<u>17,518</u>
	655,421	591,600	645,126
Less - Provision for obsolescence of supplies	(1,002)	(1,063)	(1,515)
	<u>654,419</u>	<u>590,537</u>	<u>643,611</u>

In 2019, the cost of inventories recognized as expenses and included in the cost of sales amounted to US\$3,771,917 thousand (US\$4,304,094 thousand in 2018 and US\$3,241,227 thousand in 2017) which are equivalent to cost of sales less operating expenses of production (Note 22).

At December 31, 2019 the crude oil price had a rising trend, with a closing price of US\$61.06 per barrel (US\$45.33 per barrel at December 31, 2018 and US\$60.42 per barrel at December 31, 2017). The average price during December 2019 was US\$59.80 per barrel (US\$49.53 per barrel in December 2018 and US\$57.94 per barrel in December 2017).

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

	2019	2018	2017
	US\$000	US\$000	US\$000
Opening balance	(1,063)	(1,515)	(1,507)
Obsolescence of supplies	(539)	(591)	(8)
Recovery	<u>600</u>	<u>1,043</u>	<u>-</u>
	<u>(1,002)</u>	<u>(1,063)</u>	<u>(1,515)</u>

This provision was recognized as a result of analyzing the net realizable value of inventories, taking into account the expectations of obtaining net cash flows from sales or consumption and considering their physical condition. At December 31, 2019, 2018 and 2017 the Company considers that the amount of the provision adequately reflects the risk of impairment of all its inventories both by physical obsolescence and net realizable value.

11 PROPERTY, PLANT AND EQUIPMENT

This item comprises:

	Land US\$000	Buildings and others constructions US\$000	Machinery and equipment US\$000	Vehicles US\$000	Furniture and fixtures US\$000	Other and computer equipment US\$000	Equipment not in use US\$000	In-transit units US\$000	Work in progress US\$000	Additional investments US\$000	Total US\$000
At January 1, 2017:											
Cost	198,607	135,497	708,175	22,253	4,205	39,790	13,674	122	2,100,342	15,554	3,238,219
Accumulated depreciation	-	(81,327)	(320,147)	(17,015)	(3,518)	(23,939)	(13,674)	-	-	-	(459,620)
Accumulated impairment	-	-	(43,331)	-	-	-	-	-	-	-	(43,331)
Net cost	<u>198,607</u>	<u>54,170</u>	<u>344,697</u>	<u>5,238</u>	<u>687</u>	<u>15,851</u>	<u>-</u>	<u>122</u>	<u>2,100,342</u>	<u>15,554</u>	<u>2,735,268</u>
Year 2017											
Opening balance of net book cost	198,607	54,170	344,697	5,238	687	15,851	-	122	2,100,342	15,554	2,735,268
Additions	-	534	4,788	-	-	1,551	-	-	609,112	22,135	638,120
Disposals	(549)	(1)	(4,709)	(152)	-	(38)	(1,710)	-	-	-	(7,159)
Transfers	858	47,043	54,049	2,690	338	7,429	1,903	-	(108,532)	(5,778)	-
Reclassifications	(2)	-	(121)	3	-	15	-	-	(23)	-	(128)
Reversal of impairment	-	-	31,790	-	-	-	-	-	-	-	31,790
Depreciation for the year	-	(5,959)	(30,362)	(1,866)	(307)	(2,934)	(468)	-	-	-	(41,896)
Depreciation of disposals	-	1	3,505	104	-	37	1,710	-	-	-	5,357
Transfer depreciation	-	4	558	108	12	753	(1,435)	-	-	-	-
At December 31, 2017	<u>198,914</u>	<u>95,792</u>	<u>404,195</u>	<u>6,125</u>	<u>730</u>	<u>22,664</u>	<u>-</u>	<u>122</u>	<u>2,600,899</u>	<u>31,911</u>	<u>3,361,352</u>
At December 31, 2017:											
Cost	198,914	183,073	762,126	24,791	4,542	48,763	13,867	122	2,600,899	31,911	3,869,008
Accumulated depreciation	-	(87,281)	(346,390)	(18,666)	(3,812)	(26,099)	(13,867)	-	-	-	(496,115)
Accumulated impairment	-	-	(11,541)	-	-	-	-	-	-	-	(11,541)
At December 31, 2018	<u>198,914</u>	<u>95,792</u>	<u>404,195</u>	<u>6,125</u>	<u>730</u>	<u>22,664</u>	<u>-</u>	<u>122</u>	<u>2,600,899</u>	<u>31,911</u>	<u>3,361,352</u>
Year 2018:											
Opening balance of net book value	198,914	95,792	404,195	6,125	730	22,664	-	122	2,600,899	31,911	3,361,352
Additions	3,900	-	-	-	-	-	-	-	694,117	26,280	724,297
Capitalizations	962	12,850	53,680	647	511	10,048	(3)	(96)	(42,666)	(35,936)	-
Disposals	(661)	(3,505)	(1,398)	(1,564)	(59)	(3)	(3,892)	-	-	-	(11,082)
Transfers	-	-	(1,136)	(4,732)	(107)	(1,442)	7,417	-	-	-	-
Adjustments	124	(783)	(1,775)	(47)	(219)	70	(26)	989	-	(1,670)	-
Reclassifications to assets held for sale	(1,963)	90	(90)	-	-	-	-	-	-	-	(1,963)
Reversal of impairment	-	-	11,536	-	-	-	-	-	-	-	11,536
Depreciation for the year	-	(6,578)	(35,838)	(1,646)	(395)	(3,486)	(414)	-	-	-	(48,357)
Depreciation of disposals	-	-	1,306	1,557	57	2	3,892	-	-	-	6,814
Transfer depreciation	-	-	1,014	4,488	105	1,397	(7,004)	-	-	-	-
Impairment of loaned assets	-	-	(304)	-	-	-	-	-	-	-	(304)
Adjustments	-	(27)	2,205	28	210	63	(69)	-	-	-	2,410
At December 31, 2018	<u>201,276</u>	<u>97,839</u>	<u>433,395</u>	<u>4,900</u>	<u>1,005</u>	<u>29,024</u>	<u>-</u>	<u>-</u>	<u>3,253,339</u>	<u>22,255</u>	<u>4,043,033</u>
Cost	201,276	191,725	811,407	19,139	4,840	57,147	17,462	-	3,253,339	22,255	4,578,590
Accumulated depreciation	-	(93,886)	(377,703)	(14,239)	(3,835)	(28,123)	(17,462)	-	-	-	(535,248)
Accumulated impairment	-	-	(309)	-	-	-	-	-	-	-	(309)
At December 31, 2018	<u>201,276</u>	<u>97,839</u>	<u>433,395</u>	<u>4,900</u>	<u>1,005</u>	<u>29,024</u>	<u>-</u>	<u>-</u>	<u>3,253,339</u>	<u>22,255</u>	<u>4,043,033</u>

	Land US\$000	Buildings and others constructions US\$000	Machinery and equipment US\$000	Vehicles US\$000	Furniture and fixtures US\$000	Other and computer equipment US\$000	Equipment not in use US\$000	In-transit units US\$000	Work in progress US\$000	Additional investments US\$000	Total US\$000
Year 2019:											
Opening balance of net book value	201,276	97,839	433,395	4,900	1,005	29,024	-	-	3,253,339	22,255	4,043,033
Additions	-	-	-	141	-	-	-	-	1,108,201	13,304	1,121,646
Capitalizations	2,886	9,488	87,543	18,822	1,241	5,983	-	-	(124,505)	(1,458)	-
Disposals	-	-	(24,083)	(137)	(6)	(6)	(13,899)	-	-	-	(38,131)
Transfers	-	-	(2,404)	(240)	(29)	(151)	2,824	-	-	-	-
Reclassifications	-	(10)	-	-	-	-	-	-	-	-	(10)
Depreciation for the year	-	(5,240)	(57,771)	(2,261)	(427)	(4,035)	-	-	-	-	(69,733)
Depreciation of disposals	-	-	24,054	110	6	4	13,899	-	-	-	38,073
Transfer depreciation	-	-	2,090	230	29	151	(2,500)	-	-	-	-
Adjustments	-	10	-	-	-	-	-	-	-	-	10
Impairment of loaned assets	-	-	-	-	-	-	(324)	-	-	-	(324)
At December 31, 2019	<u>204,162</u>	<u>102,087</u>	<u>462,824</u>	<u>21,565</u>	<u>1,819</u>	<u>30,970</u>	<u>-</u>	<u>-</u>	<u>4,237,035</u>	<u>34,101</u>	<u>5,094,563</u>
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)
At December 31, 2019	<u>204,162</u>	<u>102,087</u>	<u>462,824</u>	<u>21,565</u>	<u>1,819</u>	<u>30,970</u>	<u>-</u>	<u>-</u>	<u>4,237,035</u>	<u>34,101</u>	<u>5,094,563</u>

(i) Major projects -

<u>Name of the project</u>	<u>Disbursements as of December, 31, 2019</u>	<u>Progress of engineering %</u>	
	<u>US\$000</u>	<u>Real</u>	<u>Schedule</u>
Talara Refinery Modernization Project – PMRT (a)	3,923,604	85.27%	85.18%
Project to set up and operate the New Ilo Terminal (b)	19,200	54.5%	70.9%
Supply Plant in Pasco Ninacaca (c)	4,000	56%	100%
Puerto Maldonado Plant and Selling Point (1st stage) (d)	1,500	38.2%	52.5%

(a) Talara Refinery Modernization Project - PMRT -

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

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

The status of the Project at December 31, 2019 is described as follows:

- Overall progress

- Overall physical progress of PMRT: 85.27% Real vs 85.18% Scheduled.
- The scheduled progress was established from the update of the Schedule of Processing Units by Técnicas Reunidas, with the estimated date of completion of the PMRT on December 15, 2021, and the update of the Schedule of Auxiliary Units and Complementary Works by the Consorcio Cobra SCL UA&TC.
- The approved schedule of Processing Units is reviewed with Técnicas Reunidas regarding the approved schedule of Auxiliary Units and Complementary Works established with Consorcio Cobra SCL, in order to obtain the PMRT Master Schedule that includes both schedules.

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

	<u>December 31, 2019</u>		<u>Total Budget</u>	
	<u>Disbursements</u>	<u>Progress</u>	<u>Planned</u>	<u>Total</u>
	<u>US\$000</u>	<u>percentage</u>	<u>US\$000</u>	<u>percentage</u>
Técnicas Reunidas (TR) -				
Processing unit	2,521,427	86.73	2,907,343	54.90
Consorcio Cobra SCL -				
Auxiliary units	463,205	60.38	767,166	14.49
Complementary work	185,617	54.65	339,635	6.41
Others -				
Supervising	237,758	74.30	319,994	6.04
Management	139,038	57.89	240,180	4.54
Contingencies	9,531	7.58	125,689	2.37
Interest on financing	367,028	61.63	595,495	11.25
	<u>3,923,604</u>		<u>5,295,502</u>	<u>100</u>

	<u>December 31, 2018</u>		<u>Total Budget</u>	
	<u>Disbursements</u> US\$000	<u>Progress</u> <u>percentage</u> %	<u>Planned</u> US\$000	<u>Total</u> <u>percentage</u> %
Técnicas Reunidas (TR) -				
Processing unit	2,212,893	82.40	2,685,400	53.71
Consorcio Cobra SCL -				
Auxiliary units	70,774	9.20	765,300	15.30
Complementary work	92,519	31.80	290,600	5.81
Others -				
Supervising	175,158	63.90	274,000	5.48
Management	102,538	43.70	234,500	4.69
Contingencies	-	-	55,000	1.10
Interest on financing	235,706	33.90	695,000	13.90
	<u>2,889,588</u>		<u>4,999,800</u>	<u>100</u>

	<u>December 31, 2017</u>		<u>Total Budget</u>	
	<u>Disbursements</u> US\$000	<u>Progress</u> <u>percentage</u> %	<u>Planned</u> US\$000	<u>Total</u> <u>percentage</u> %
Técnicas Reunidas (TR) -				
Processing unit	2,009,800	73.61	2,730,300	50.53
Approved change orders	610	43.46	1,400	0.03
Consorcio Cobra SCL -				
Auxiliary units	-	-	891,100	16.49
Complementary work	67,740	30.04	225,500	4.17
Others -				
Management	199,700	44.08	453,000	8.38
Provision for change orders	-	-	74,400	1.38
Interest on financing	139,860	13.60	1,028,000	19.02
	<u>2,417,710</u>		<u>5,403,700</u>	<u>100</u>

- 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 55.84% Real vs. 56.15% Scheduled.
- At December 31, 2019 the cumulative total amounts to US\$536.56 million.
- Cobra SCL continues with the detailed engineering documentation delivery work: plans, calculation reports, isometrics, civil and mechanical documents, issuance of P&IDs, among others. Regarding the purchase of equipment, materials and main supplies: 100% of the orders for LLI equipment awarded, in process of activating the Reformer convective section, in process of activating Caldera 3 (LOINTEK) in transit; in process the supply of Combustor and Waste Heat Boiler, among others. Regarding construction: civil works continue in package 1 and package 2, civil works in buildings in package 3, civil works, tunneling and dredging works, pipeline excavation, hydraulic connection in package 4, civil, mechanical and welding works in package 5, as well as general civil works in general, in complementary works and buildings, as part of construction work.
- Progress of engineering was 81.07% Real vs. 94.12% Scheduled.
- Progress of Procurement was 64.59% Real vs. 72.76% Scheduled.
- Progress of construction was 44.96% Real vs. 37.29% Scheduled.

- Management

Financial structure of the PMRT:

- 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.
- Bond or loan placement of up to US\$800,000 thousand (in structuring process).
- Own resources for US\$671,000 thousand.
- Capital contribution for US\$325,000 thousand.
- Loans from the Corporate Internationalisation Fund (FIEM): US\$200,000 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 provided by Consorcio Deloitte Talara ended December 5, 2019.
- On January 15, 2020, the Consulting Service began to support Controversy Management and Decision-Making for the Talara Refinery Modernization Project together with Consorcio Deloitte Talara.

At December 31, 2019 an abbreviated process was called to contract the Consulting Service to support the controversy management and decision-making of the PMRT.

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

- At December 31, 2019 the total work force consisted of 5,645 job positions. The share of local unqualified labor was 95% (from a total of 816 unqualified labor), above the limit set in the EIA (70%), while the share of local qualified labor was 47% (from a total of 4,829 qualified labor).

Operations are expected to begin in 2021.

Agreement of Principles:

- On May 8, 2019 the Company signed a Principles Agreement with Técnicas Reunidas S.A., for US\$226,000 thousand, for the amendment of the contractual documents of the Talara Refinery Modernization Project (PMRT). These amendments derived from:
 - (i) The optimization of the startup sequence of the units in process as a consequence of the development of detailed engineering, and
 - (ii) Delays in the execution of auxiliary units as a consequence of the optimization of costs in the signing of the EPC contract for the construction of the auxiliary units. In this regard, the original BOOT Contract strategy considered Técnicas Reunidas as responsible for organizing and assisting the Company in the process of selecting contractors for the construction of the auxiliary units. This process lasted approximately 10 months and the objective was to achieve the execution of said units through third-party financing. However, the Company did not receive the expected response from the market because there was a high probability of not having valid quotes, which increased the term and cost of the PMRT. In this sense, the Company decided to change its contracting strategy to an EPC Contract, forgoing third-party financing. In May 2017, Técnicas Reunidas S.A. presented its construction proposal for auxiliary units, which amounted to US\$1,425,000

thousand. This proposal was rejected as its estimated cost did not meet the Company's budget expectations and the proposed 48-month construction term exceeded the Project's target term. In July 2017, the Company's Board of Directors authorized to start the EPC contracting process; so the construction of the auxiliary units was awarded to Consorcio Cobra SCL UA&TC, for an amount of US\$936,000 thousand and a construction period of 32 months, which was in accordance with the technical specifications and the project budget estimated by the Company and represents a savings of approximately US\$500 million, compared to quotes in the previous processes.

The cost of the Talara Refinery Modernization Project includes the following additional costs stipulated in the Agreement of Principles:

- (i) Preservation and maintenance (P&M) that corresponds to the costs necessary to ensure the integrity of the units in process already installed until the moment of putting them into operation when the works are completed by Consorcio Cobra SCL UA&TC.
- (ii) Extension of time related to the P&M period and comprises the price of permanence of Técnicas Reunidas S.A. for a period greater than that contractually established.
- (iii) Risks that comprise the quantification of different events associated with their probability of occurrence; such as the impairment of facilities, poor operation, force majeure, among others.
- (iv) Assistance from vendors that corresponds to the visit of technicians to the PMRT equipment factory, in order to guarantee its adequate preservation and the contractor is able to fulfill its commissioning obligations and warranty testing.

These additional costs are part of the cost of the Talara Refinery Modernization Project since they are part of the construction cost of the units in process and are necessary to maintain the current conditions of the asset until the completion of its construction.

At December 31, 2019 the carrying amount of the cost recognized by the Agreement of Principles amounts to US\$81,882 thousand.

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

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

At December 31, 2019 the status of this Project is described as follows:

- The investment amount totals US\$48,075 thousand, of which 40.0% has been executed. The overall physical progress of the project amounted to 54.5% real vs. 70.9% scheduled.
- Regarding the EPC service in charge of the contractor Felguera, the provisions of clause six of the Resolution Agreement were concluded (sign the resolution and submit the homologation application to the Lima Chamber of Commerce CCL). On December 17, PETROPERÚ S.A. delivered the Guarantee Letter of Faithful Compliance to Felguera IHI; therefore, the established agreements were terminated.
- The following services are in contracting process: complementary production and integration of Detail Engineering and its Monitoring. On December 23, the meeting of the NTI Metalworking Facilities Examination service was held.
- It should be noted that, the contractor Felguera has not submitted valuations since December 2018 since it does not comply with the contractual requirements and the contract "NTI EPC Service" is in the amicable termination analysis stage.
- The supervision area is reviewing deliverables, as set out in the Technical and Economic Agreement on the Completion of the Negotiation Procedure.

(c) Supply Plant in Pasco Ninacaca -

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

At December 31, 2019 the status of this Project is described as follows:

- The investment amount totals US\$8,820 thousand, of which 45.44% has been executed. The overall physical progress of the project amounted to 56% real vs. 100% scheduled.
- The Procurement and Construction (PC) service has an advance of 51.48% and is carried out by Consorcio OBS-IMECON S.A., with an advance in the management plan of 92.0%, field engineering of 95.0%, civil constructions of 56.25 %, mechanical work of 54.89% and electrical work of 54.06%. On the other hand, the stages of mobilization of equipment and infrastructure, general platform and foundation of tanks were completed 100%.
- The supervision work is carried out by contractor Tiger Engineering with an advance of 49.77%.
- Electricity supply, ITF update and risk study were completed 100%.

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

Comprising the construction of a Plant and selling point in Puerto Maldonado to sell Diesel B5 and Gasolines.

At December 31, 2019, the status of this Project is described as follows:

- The investment amount totals US\$19,491 thousand, of which 7.90% has been executed. The overall physical progress of the project amounted to 38.2% vs. 52.5% scheduled.
- The detailed engineering was completed by the Contractor NOOVI in 2018.
- The plant construction is carried out based on a Procurement and Construction (PC) service. The contract was signed on August 15, 2019 with the contractor Tecnitiques and began on October 14, 2019. The contract was in the process of engineering review, preparation of procedures and mobilization of some equipment to the area.
- The PC supervision service is awarded to the contractor GMI S.A., and the contract was signed on August 12, 2019.
- The right of 90% vehicular access roads is in charge of the contractor Dúo de Ingeniería SAC; observations were made, which are in a correction process.
- The earthmoving work is carried out by the contractor Gewald & Inkas Gold S.A.C., with an advance of 100% for the cutting of soil and 94% for the filling with borrow material. Currently, the works have been suspended since March 16, 2020.

(ii) Concession of port terminals -

The purpose of the Terminal Operation Contract is to contract operators to operate, under their sole responsibility, cost and risk, North, Central and South Terminals; additionally, for the effective period of the concession agreement, making investments as committed as well as additional investments. Terminal operation consists of receiving, storing and shipping hydrocarbons, including maintenance and compliance with the work safety and environmental technical standards.

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

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

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

The South Terminal Operation Contract was signed in 1998 for a period of 15 years with Consorcio Terminales, made up of the companies Graña y Montero Petrolera S.A. and Oiltanking Perú S.A.C., which remained in force, by means of the addenda for years 2014, 2015, 2017 and 2018, and ended on November 2, 2019.

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

At December 31, 2019, 2018 and 2017 the net carrying amounts of the concession assets totaled US\$83,777 thousand, US\$133,423 thousand and US\$80,446 thousand, respectively; included mainly in the item of land, machinery and equipment.

(iii) Insurance -

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

- a) Property and loss of profits policy for up to US\$650,000 thousand with declared values of US\$6,503,000 thousand.
- b) Sabotage and terrorism policy for up to US\$200,000 thousand with declared value of assets of US\$6,586,000 thousand.
- c) Public general liability insurance ("Póliza de responsabilidad civil general comprensiva") for up to US\$100,500 thousand.
- d) Air carrier's liability and insurance ("responsabilidad civil de aviación") for up to US\$500,000 thousand.

(iv) Depreciation -

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

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Cost of sales (Note 22) (*)	55,974	33,887	34,708
Selling and distribution expenses (Note 23)	8,652	8,824	7,291
Administrative expenses (Note 24)	<u>5,107</u>	<u>5,646</u>	<u>5,218</u>
	<u>69,733</u>	<u>48,357</u>	<u>47,217</u>

(*) Not including the depreciation of investment properties for US\$10 thousand at December 31, 2019 (US\$22 thousand at December 31, 2018 and US\$24 thousand at December 31, 2017).

At December 31, 2019, 2018 and 2017 the Company has not pledged any item of fixed assets to secure borrowings obtained.

The gross cost of totally depreciated assets still in use at December 31, 2019 was US\$138,471 thousand (US\$142,776 thousand at December 31, 2018 and US\$91,009 thousand at December 31, 2017).

(v) Major additions related to work in progress -

During 2019, additions of work in progress mostly relate to PMRT's EPC contract, PMC, PMO and Auxiliary services amounting to US\$903,300 thousand equivalent to S/3,024,521 thousand (US\$390,997 thousand equivalent to S/1,293,436 thousand in 2018 and US\$426,656 thousand equivalent to S/1,380,000 thousand in 2017); and other works in progress at corporate level amounting to US\$120,257 thousand equivalent to S/400,990 thousand).

Additionally, borrowing costs that were capitalized during 2019 related to PMRT, amounted to US\$131,322 thousand equivalent to S/439,117 thousand (US\$102,204 thousand equivalent to S/335,258 thousand during 2018 and US\$74,663 thousand equivalent to S/242,314 thousand during 2017). Capitalized interest costs are net of the return obtained from term deposits for US\$40,909 thousand at December 31, 2019 (US\$17,760 thousand at December 31, 2018).

(vi) Assets retirement -

At December 31, 2019 the balance of asset retirement mainly includes the cost of the following machinery and equipment: Process Furnace, Slide Valve, Regenerator, Fractionating Tower, Pressure Vessel, Industrial Turbine, Compressors and Reactor in Talara Refinery for US\$24,981 thousand equivalent to S/83,935 thousand; in addition, the retirement for sale of a property for US\$1,375 thousand located in Jr. Recavarren (Miraflores) according to Board Agreement No. 066-2019-PP dated July 23, 2019; and the sale of eight barges at Selva Refinery for US\$3,034 thousand equivalent to S/10,193 thousand. At December 31, 2018 the balance of asset retirement mainly includes the cost of construction of former school named "Federico Villareal" by US\$3,505 thousand equivalent to S/11,670 thousand and the cost of land "Sub Lote 1-B / Ex Campo Ferial Municipal" of Talara by US\$661 thousand equivalent to S/2,220 thousand, as per approval under Board Decision No. 096-2016-PP dated November 30, 2016.

(vii) Impairment of assets -

a) Cash-generating units (CGUs) -

At December 31, 2019 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 2019, 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 exports of Loreto crudes in 2020.
- 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:

	<u>Oil Pipeline Operations</u>
Annual growth rate (%)	9%
Budgeted gross margin (%)	40%
Prices (\$)	10
Discount rate (%)	12.34%

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 December 31, 2019 the Company has estimated that the recoverable value of the Oil Pipeline CGU amounts to US\$327,183 thousand, while the carrying amount of the assets amounts to US\$200,434 thousand.

At December 31, 2019 the Company has determined that it is not necessary to record an impairment provision in the case of the Oil Pipeline CGU.

At December 31, 2018, the Company tested its assets for impairment and based on the results obtained the impairment loss on the Oil Pipeline CGU assets of US\$11,536 thousand was reversed (US\$31,790 thousand at December 31, 2017).

Reversals of impairment of property, plant and equipment were recognized in cost of sales (Note 22).

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 was 12.34%.

If the discount rate on the Oil Pipeline CGU had been higher by 1%, an impairment would have arisen in the carrying amount for US\$22,830 thousand.

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

<u>Key assumption</u>	<u>Variation</u>	<u>Impairment</u> <u>US\$000</u>
Budgeted annual growth	-5%	(61,925)
Prices	-5%	(34,642)
Budgeted gross margin	-5%	(38,780)

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

At December 31, 2019 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.
- 24-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 24 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 IHS Consulting Services.
- Selling prices used in valuation are prices at the plant site.
- Forecast crude product volume purchases: Refinery loads are estimated by the Management of Refinery and Pipelines ("Gerencia Refinación y Ductos") using the mathematical model of Refining.
- Forecast of costs of acquisition: The Company has prepared, based on projections released by IHS Consulting Services, a forecast of costs of acquisition of crude and products, based on the movement of prices of WTI crude oil and spreads of by-products in time.

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

Annual growth rate (%)	5%
Budgeted gross margin (%)	12%
Prices (\$)	106
Discount rates (%)	6.84%

The annual growth rate corresponds to annual growth rate compound of income during the period 2021-2043. 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 24-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 December 31, 2019 the Company has estimated that the recoverable value of the PMRT amounts to US\$4,133,000 thousand, while the carrying amount of assets amounts to US\$4,012,000 thousand.

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 6.84% in determining the recoverable amount. When changing the discount rate to 7.31%, the recoverable amounts would be equal to the carrying amounts.

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

<u>Key assumption</u>	<u>Variation</u>	<u>Impairment</u> <u>US\$000</u>
Budgeted annual growth	-5%	(1,970,000)
Prices per year	-5%	-
Budgeted annual margin	-5%	(232,000)
Production	-5%	-

12 INVESTMENT PROPERTY

	<u>Land</u> <u>US\$000</u>	<u>Buildings</u> <u>and other</u> <u>constructions</u> <u>US\$000</u>	<u>Total</u> <u>US\$000</u>
At January 31, 2017			
Cost	9,339	855	10,194
Accumulated depreciation	-	(643)	(643)
Net cost	<u>9,339</u>	<u>212</u>	<u>9,551</u>
Year 2017			
Opening carrying amount	9,339	212	9,551
Additions	2	15	17
Retirements	-	(57)	(57)
Depreciation for the year	-	(24)	(24)
Closing carrying amount	<u>9,341</u>	<u>146</u>	<u>9,487</u>
At December 31, 2017			
Cost	9,341	813	10,154
Accumulated depreciation	-	(667)	(667)
Net cost	<u>9,341</u>	<u>146</u>	<u>9,487</u>

	<u>Land</u> <u>US\$000</u>	<u>Buildings and other constructions</u> <u>US\$000</u>	<u>Total</u> <u>US\$000</u>
Year 2018			
Net opening carrying amount	9,341	146	9,487
Additions	-	114	114
Depreciation for the year	-	(22)	(22)
Net closing carrying amount	<u>9,341</u>	<u>238</u>	<u>9,579</u>
At December 31, 2018			
Cost	9,341	927	10,268
Accumulated depreciation	-	(689)	(689)
Net cost	<u>9,341</u>	<u>238</u>	<u>9,579</u>
Year 2019			
Net opening carrying amount	9,341	238	9,579
Depreciation for the year	-	(10)	(10)
Net closing carrying amount	<u>9,341</u>	<u>228</u>	<u>9,569</u>
At December 31, 2019			
Cost	9,341	927	10,268
Accumulated depreciation	-	(699)	(699)
Net cost	<u>9,341</u>	<u>228</u>	<u>9,569</u>

At December 31, 2019, 2018 and 2017 this item comprises:

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

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

On September 5, 2019, the Company was notified with the partial arbitration decision to declare Savia's claims unfounded. In other words, Petroperú S.A. is recognized to maintain the ownership of the leased assets and that it should not return the US\$200,000 thousand that Savia was seeking as restitution for the delivery of the rent.

Currently, the final arbitration decision remains to be issued by the Arbitration Tribunal, whose pronouncement depends on whether there is an agreement between Petroperú S.A. and Savia on the amount of the rent for the period 2013-2023. If there is no agreement, the Arbitration Tribunal will determine it. For this reason, to date negotiations have been made with Savia to determine the amount of the lease of goods during this period.

- (b) The Company signed in March 2014 a lease contract of the assets the Pucallpa Refinery and Sales plant, Residences and Administrative Offices with Maple Gas Corporation Del Perú S.R.L. (hereinafter, MAPLE), for a period of 10 years, which expires on March 28, 2024. MAPLE pays the Company US\$1,200 thousand annually on a quarterly basis.

During 2018, the Corporate Legal Management has informed Maple that the contract has been duly terminated for breach of contract, default in rents and failure to provide the service of Receiving, Warehousing, and Dispatch. In this regard, the Company began an Arbitration process against MAPLE in order to declare the lease resolution at August 20, 2018, the payment of the pending rent and interest, as well as compensation for lost profits and damages.

Currently, we are waiting for the Arbitration Tribunal to set a date for an oral report, where the parties will present their positions, and then their written arguments. After that, the final arbitration decision should be issued.

The Company has the intention to call a public tender in 2020 involving those assets.

The annual depreciation charge on investment properties was allocated to the cost of sales (Note 22).

13 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

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

	December 31, 2019	January 1, 2019
	US\$000	US\$000
Right-of-use asset	<u>11,527</u>	<u>13,419</u>
Lease liabilities		
Current portion	8,811	10,013
Non-current portion	<u>2,682</u>	<u>3,406</u>
	<u><u>11,493</u></u>	<u><u>13,419</u></u>

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

At December 31, the Company does not have variable leases or leases with residual value guarantees.

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

- (b) At December 31, 2019 the movement of right-of-use assets and lease liabilities are as follows:

Right-of-use assets:

	US\$000
Cost:	
Opening balance	13,419
Additions for new leases	<u>15,465</u>
Final balance	<u><u>28,884</u></u>
Depreciation:	
Opening balance	-
Operating cost - depreciation	(1,758)
Depreciation for the year	<u>(15,599)</u>
Net cost	<u><u>11,527</u></u>

Lease liabilities:

US\$000

Opening balance	13,419
Additions for new leases	15,465
Lease payment	(17,485)
Exchange difference	94
Accrued interest	615
Interest paid	(615)
Final balance	<u>11,493</u>

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

2019

US\$000

Cost of sales (Note 22)	14,100
Selling and distribution expenses (Note 23)	109
Administrative expenses (Note 24)	<u>1,390</u>
	<u>15,599</u>

Interest expenses (included in finance costs), Note 27, amounted to US\$615 thousand.

Total cash flow for leases in 2019 was US\$18,100 thousand, excluding low-value, short-term lease payments.

14 OTHER FINANCIAL LIABILITIES

This item comprises:

	At December 31,		
	2019	2018	2017
	US\$000	US\$000	US\$000
Current liabilities			
Unsecured loans	1,000,027	1,650,893	1,311,971
Accrued interest	<u>9,967</u>	<u>22,219</u>	<u>7,229</u>
	<u>1,009,994</u>	<u>1,673,112</u>	<u>1,319,200</u>
Non-current liabilities			
Corporate bonds (i)	1,986,078	1,985,589	1,985,124
CESCE loan (ii)	<u>1,167,667</u>	<u>1,162,021</u>	<u>-</u>
	<u>3,153,745</u>	<u>3,147,610</u>	<u>1,985,124</u>

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

The bonds issued are as follows:

- 2032 Notes, a principal of US\$1,000,000 thousand, with coupons paid semi-annually at a fixed rate of 4.750% per year, with a maturity of 15 years. Coupons are due from December 2017 and repayment of principal fall due on the bond maturity date. 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%.

The remaining drawdown at December 31, 2019 is US\$63,283 thousand. During 2020 was received US\$40,111 thousand and the remaining balance 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 December 31, 2019 the Company has met the established covenants.

a) Debt repayment terms and timetable -

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

	Original currency	Nominal interest rate	Maturity	December 31,		2018		2017	
				Nominal value US\$000	Carrying amount US\$000	Nominal value US\$000	Carrying amount US\$000	Nominal value US\$000	Nominal value US\$000
Unsecured loans	Sol	2.40% - 2.95%	2019	-	-	-	-	654,858	654,858
Unsecured loans	Dólar	0.80% - 2.20%	2019	-	-	-	-	657,113	657,113
Unsecured loans	Sol	2.20% - 3.35%	2020	403,191	403,191	870,980	870,980	-	-
Unsecured loans	Dólar	0.99% - 1.75%	2020	596,836	596,836	779,913	779,913	-	-
CESCE loan	Dólar	3.29%	2031	1,236,717	1,167,667	1,236,717	1,162,021	-	-
Corporate bonds	Dólar	4.75%	2032	1,000,000	993,372	1,000,000	992,991	1,000,000	992,629
Corporate bonds	Dólar	5.63%	2047	1,000,000	992,706	1,000,000	992,598	1,000,000	992,495
Accrued interest				-	9,967	-	22,219	-	7,229
				<u>4,236,744</u>	<u>4,163,739</u>	<u>4,887,610</u>	<u>4,820,722</u>	<u>3,311,971</u>	<u>3,304,324</u>

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

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

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

	2019 US\$000	2018 US\$000	2017 US\$000
Working capital	1,000,027	1,326,315	977,971
PMRT	<u>3,153,745</u>	<u>3,472,188</u>	<u>2,319,124</u>
	<u>4,153,772</u>	<u>4,798,503</u>	<u>3,297,095</u>

(*) 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	Syndicated loan US\$000	Total US\$000
Balance at January 1, 2017	1,564,814	-	-	417,552	1,982,366
New loans	3,968,753	2,000,000	-	-	5,968,753
Payment of transactional costs	-	(14,876)	-	-	(14,876)
Payments of principal	(4,200,853)	-	-	(416,667)	(4,617,520)
Accrued interest	45,132	55,295	-	5,777	106,204
Interest paid	(62,066)	(51,875)	-	(6,662)	(120,603)
Balance at December 31, 2017	<u>1,315,780</u>	<u>1,998,544</u>	<u>-</u>	<u>-</u>	<u>3,304,324</u>
Balance at January 1, 2018	1,315,780	1,988,544	-	-	3,304,324
New loans	4,452,234	-	1,236,717	-	5,688,951
Payment of transactional costs	-	465	(74,695)	-	(74,230)
Payments of principal	(4,113,312)	-	-	-	(4,113,312)
Accrued interest	38,626	103,750	3,703	-	146,079
Interest paid	(27,340)	(103,750)	-	-	(131,090)
Balance at December 31, 2018	<u>1,665,988</u>	<u>1,989,009</u>	<u>1,165,725</u>	<u>-</u>	<u>4,820,722</u>
Balance at January 1, 2019	1,665,988	1,989,009	1,165,725	-	4,820,722
New loans	3,205,597	-	-	-	3,205,597
Payments of principal	(3,856,461)	-	-	-	(3,856,461)
Accrued interest	31,416	104,810	46,379	-	182,605
Interest paid	(43,558)	(103,750)	(41,416)	-	(188,724)
Balance at December 31, 2019	<u>1,002,982</u>	<u>1,990,069</u>	<u>1,170,688</u>	<u>-</u>	<u>4,163,739</u>

The Company has earmarked in 2019 a total US\$150,914 thousand of the interest paid on investing activities since they are related to the PMRT project (US\$107,425 thousand in 2018 and US\$85,792 thousand in 2017).

d) Fair value estimation -

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

	Carrying amount			Fair value		
	2019 US\$000	2018 US\$000	2017 US\$000	2019 US\$000	2018 US\$000	2017 US\$000
Unsecured loans	1,000,027	1,650,893	1,311,971	1,000,027	1,650,893	1,311,971
Bonds	1,986,078	1,985,589	1,985,124	2,272,322	1,952,383	2,002,970
CESCE loan	<u>1,167,667</u>	<u>1,162,021</u>	<u>-</u>	<u>1,064,809</u>	<u>1,092,868</u>	<u>-</u>
	<u>4,153,772</u>	<u>4,798,503</u>	<u>3,297,095</u>	<u>4,337,158</u>	<u>4,696,144</u>	<u>3,314,941</u>

At December 31, 2019, 2018 and 2017 the information used to determine the fair value of the bonds corresponds to level 1, unsecured loans at level 2 and CESCE loan at level 3 according to the hierarchy defined in Note 3.3. There were no transfers between the levels during the year. This item does not include accrued interest.

15 TRADE PAYABLES

This item comprises:

	At December 31,		
	2019	2018	2017
	US\$000	US\$000	US\$000
Foreign suppliers of crude and refined products	383,873	278,194	536,177
Suppliers of goods and services	212,847	128,275	117,933
National suppliers of crude and refined products	114,452	92,180	103,018
Shipping companies and terminal operators and sales plants	27,956	31,152	15,119
	<u>739,128</u>	<u>529,801</u>	<u>772,247</u>

At December 31, 2019 the main local supplier of crude is CNPC Perú S.A. with a balance of US\$30,117 thousand (US\$11,621 thousand at December 31, 2018 and US\$13,041 thousand at December 31, 2017). The main international supplier is Exxon Mobil Sales and Supply LLC. to which US\$123,399 thousand is owed (US\$178,847 thousand at December 31, 2018 and US\$210,630 thousand at December 31, 2017). Main service providers are Consorcio Cobra SCL UA&TC with a balance of US\$86,026 thousand (US\$36,392 thousand at December 31, 2018) which began trade relations with the Company in 2018, Técnicas Reunidas de Talara S.A.C. with a balance of US\$31,648 thousand (US\$17,814 thousand at December 31, 2018 and US\$57,512 thousand at December 31, 2017) and Gran Tierra Energy y Perú S.R.L. with a balance of US\$16,985 thousand (US\$1,650 thousand at December 31, 2018 and US\$0 at December 31, 2017).

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.

16 OTHER PAYABLES

This item comprises:

	At December 31,		
	2019	2018	2017
	US\$000	US\$000	US\$000
Workers' profit sharing (a)	43,393	2,755	30,848
Taxes (b)	25,229	36,313	34,480
Remunerations	19,844	20,384	21,393
Advances from customers (c)	19,143	24,050	14,979
OEFA (d)	15,413	-	-
Financial instruments liability (e)	8,553	14,484	3,802
Guarantee deposits (f)	3,977	3,699	4,405
Others	3,766	3,407	5,282
	<u>139,318</u>	<u>105,092</u>	<u>115,189</u>

(a) As established under current legislation, workers' profit sharing is 10% of the net income of the Company. This profit sharing is deductible for income tax calculation purposes, provided that it is paid before the annual income tax returns are filed. In 2019, workers' profit sharing increased significantly due to the tax exchange gain because the Peruvian sol strengthened, which significantly increased the tax base (Note 28).

In 2019, the Company determined profit sharing for US\$43,393 thousand (US\$2,754 thousand in 2018 and US\$30,848 thousand in 2017) recorded with a charge to the results of the year under the following items:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Cost of sales (Note 22)	14,760	1,110	12,659
Selling and distribution expenses (Note 23)	6,687	467	5,432
Administrative expenses (Note 24)	<u>21,946</u>	<u>1,177</u>	<u>12,757</u>
	<u>43,393</u>	<u>2,754</u>	<u>30,848</u>

- (b) Taxes payable at December 31, 2019 mainly include Excise Tax (ISC in Peru), tax on gasoline vehicles and the Fund for the mass use of gas (FISE) for US\$7,474 thousand, US\$6,823 thousand and US\$3,137 thousand, respectively (ISC, tax on gasoline vehicles and FISE for US\$19,555 thousand, US\$7,265 thousand and US\$3,320 thousand, respectively in 2018 and income tax, tax on gasoline vehicles and FISE for US\$19,223 thousand, US\$6,908 thousand and US\$3,320 thousand, respectively in 2017).
- (c) Advances received from local and foreign customers mainly comprise the amounts received for US\$8,477 thousand and US\$10,666 thousand, respectively at December 31, 2019 (US\$5,296 thousand and US\$18,754 thousand, respectively at December 31, 2018 and US\$4,448 thousand and US\$10,531 thousand, respectively at December 31, 2017), to secure the supply of fuel that is pending delivery.
- (d) Comprising the registration of Environmental Assessment and Enforcement Agency (OEFA, from its Spanish acronym) fine for US\$15,399 thousand (equivalent to S/51,126 thousand) according to Resolution TFA No. 015-2019-OEFA-TFA/SE, paid in January 2020.
- (e) Comprising 14 forward foreign exchange contracts to be settled from January to March 2020, which are stated at fair value and the inputs used in determining the fair value qualify as Level 2 of the fair value hierarchy, as described in Note 3.3.
- (f) Comprising security deposits received by third parties to transport fuel to cover possible loss occurrences. If no such event occurs, the security deposit is returned at the end of the contract.

17 PROVISIONS

This item comprises:

	<u>At December 31,</u>		
	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Current -			
Provision for environmental improvements (a)	30,386	29,864	38,454
Provision for civil lawsuit (b)	512	2,229	17,809
Provision for labor-related court actions (c)	2,075	1,801	2,547
Provision for plugging of wells (a)	581	570	594
Provision for termination (d)	4,157	-	-
Other provisions	<u>202</u>	<u>198</u>	<u>207</u>
	<u>37,913</u>	<u>34,662</u>	<u>59,611</u>
Non-current -			
Provision for environmental improvements (a)	9,544	7,011	14,396
Provision for termination (d)	2,112	-	-
Other provisions	<u>44</u>	<u>56</u>	<u>65</u>
	<u>11,700</u>	<u>7,067</u>	<u>14,461</u>
	<u>49,613</u>	<u>41,729</u>	<u>74,072</u>

The movement of provisions is as follows:

	Provision for environmental improvements US\$000	Provision for civil lawsuits US\$000	Provision for labor-related court actions US\$000	Provision for plugging of wells US\$000	Provision for termination US\$000	Other provisions US\$000	Total US\$000
Balances at January 1, 2017	95,790	22,537	2,242	574	-	277	121,420
Provision for the year (Note 24 and 26)	33,706	5,384	857	-	-	32	39,979
Financial cost	1,247	-	-	-	-	-	1,247
Payments	(80,114)	(113)	(603)	-	-	(46)	(80,876)
Reversal of unused provisions	-	(10,474)	(27)	-	-	-	(10,501)
Exchange difference	2,221	475	78	20	-	9	2,803
Balances at December 31, 2017	52,850	17,809	2,547	594	-	272	74,072
Provision for the year (Note 24 and 26)	10,806	23,728	937	-	-	33	35,504
Financial cost	60	-	-	-	-	-	60
Payments	(25,872)	(23,438)	(448)	-	-	(41)	(49,799)
Reversal of unused provisions	-	(15,619)	(1,229)	-	-	-	(16,848)
Exchange difference	(969)	(251)	(6)	(24)	-	(10)	(1,260)
Balances at December 31, 2018	36,875	2,229	1,801	570	-	254	41,729
Provision for the year (Note 24 and 26)	28,174	252	1,140	-	6,269	11	35,846
Financial cost	239	-	-	-	-	-	239
Payments	(18,917)	-	(404)	-	-	(24)	(19,345)
Reversal of unused provisions	(6,865)	(1,894)	(307)	-	-	-	(9,066)
Exchange difference	424	(75)	(155)	11	-	5	210
Balances at December 31, 2019	39,930	512	2,075	581	6,269	246	49,613

a) Provision for environmental improvements and plugging wells costs -

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

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

Also, within the framework of Legislative Decree No. 674, “Ley de Promoción de la Inversión Privada en las Empresas del Estado”, the Company assumed contractual obligations of environmental remediation of its privatized units, guaranteed by the Peruvian Government. Therefore, as per the applicable laws and regulations, the signed contracts and management policies, at December 31, 2019, the Company continues to implement environmental remediation activities in its own operating units and privatized units.

Own operating units consist of: Operaciones Talara, Operaciones Oleoducto, Refinería Conchán, Refinería Selva, Planta de Ventas Aeropuerto and Block 64.

During 2019, 2018 and 2017, no significant environmental remediation work was performed in the privatized units considering the new regulatory framework, but administrative and legal steps are taken within the framework of the Contracts for Privatized Units.

Of a total 230 of projects of which the environmental management programs (“Programas de Adecuación y Manejo Ambiental - PAMA”) were implemented and met by the Company from 1995 to adapt its operations to the first regulations to protect the environment - “Reglamento para la Protección Ambiental en las Actividades de Hidrocarburos” (D.S. No.046-93-EM). At December 31, 2019 the respective supplementary environmental program (PAC) for the Talara Refinery is pending approval by a governmental agency: “Dirección General de Asuntos Ambientales y Energéticos - DGAAE”).

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

With respect to its own operating units (Talara operations, Oil Pipeline operations, Refinería Conchán, Refinería Selva, Planta de Ventas Aeropuerto and Block 64), estimates were made on the basis of the Company's ISO 14001 Environmental Management System and available data of the costs of the privatized units; this information is also updated on an annual basis considering its own operational needs, the cost of work performed, actually performed or in the process of implementation, of market prices and estimates of work remaining to be completed based on information sourced from the own operating units.

With respect to its own operating units, there are new environmental obligations in place, specifically involving compliance of certain standards: “Normas de los Estándares de Calidad Ambiental para Suelo - ECA Suelo (D.S. No.002-2013-MINAM, D.S. No.002-2014-MINAM, R.M. No.085-2014-MINAM, R.M. No.034-2015-MINAM and D.S. No.013-2015-MINAM)” that will require other expenses to be incurred by the Company to conduct a number of different technical studies as required under said new regulations. In addition, for the year 2018 the Operational Environmental Remediation Program was executed for US\$430 thousand (equivalent to S/1,395 thousand), Conchán for US\$215 thousand (equivalent to S/698 thousand), Oleoducto for US\$263 thousand (equivalent to S/853 thousand), Selva for US\$175 thousand (equivalent to S/567 thousand), Commercial Management for US\$209 thousand (equivalent to S/677 thousand) and Exploitation Management for US\$329 thousand (equivalent to S/1,068 thousand). During 2019 we did not charge any amount to the accounts corresponding to the Environmental Remediation Program (“Programa de Remediación Ambiental - PRA”) within the framework of ECA Suelo.

During 2017 the “Service of identification of possibly polluted places was completed (identifying sampling) that are over the environmental quality standards for soil in the operations of PETROPERÚ S.A.” for a total budgeted amount of US\$2,670 thousand (equivalent to S/9,347 thousand), representing 99.94% of the contractual amount. With regard to the 0.06% reduction in the unimplemented amount; this resulted from lower consumption than budgeted for field work implementation as part of the service rendering, based on the approved monthly valuations and the sign-off of those responsible for managing the contract.

At December 31, 2018 the submission of 38 Reports Identifying Possibly Contaminated Sites (IISC) was completed, which were presented to the governmental agency “Dirección General de Asuntos Ambientales Energéticos” of the MINEM for review and approval, by means of Letters No. SAMB-JAAM-585-2018, SAMB-JAAM-661-2017, SAMB-JEDA-837-2017, SAMB-JEDA-856-2017, SAMB-JEDA-869-2017, SAMB-JEDA-906-2017, SAMB-JEDA-936-2017 and SAMB-JEDA-951-2017. In addition, approvals were obtained of the IISC for Iquitos Refinery, Yurimaguas Plant Sales point, Iquitos Plant and Sales point, Tarapoto Plant and Sales point, Petrocentro Río Amazonas and Morona Station.

At December 31, 2019 approvals were obtained of the IISC for Iquitos Refinery, Yurimaguas Plant Sales point, Iquitos Plant and Sales point, Tarapoto Plant and Sales point, Petrocentro Río Amazonas, Iquitos Airport Plant (by the Regional Government of Loreto), Morona Station, Station 1, Station 5, Station 6, Station 7, Station 8, Station 9, Andoas Station, Bayovar Terminal, ORN Section (“Tramo ORN”, II Section (“Tramo II”) of ONP, Patio de Tanques Tablazo, Oil Pipeline Systems of Talara Refinery (on the part of MINEM-DGAAH) which comprise 19 reports to date. In this context, in November 2019, SAMB sent the relevant Technical Conditions of the “Characterization Service, Health and Environmental Risk Assessment and Preparation of the Plan Directed to the Remediation of Prioritized Facilities of PETROPERÚ” to SCCO, and awarded the Service at the end of December 2019 for an amount of S/11,848 thousand (equivalent to US\$3,572 thousand) to the company TEMA Litoclean S.A.C.. At December 31, 2019, coordination has been carried out between the personnel of the different Company’s operating areas to implement the service for characterizing contaminated sites, which is scheduled to start in 2020. The scope of Service includes: Talara Refinery, Patio de Tanques Tablazo, Oil Pipeline Systems of Talara Refinery, Talara Plant and Sales point, Refinery Conchán, Conchán Plant and Sales point and Port Terminal, Iquitos Refinery, Iquitos Plant and Sales point, Tarapoto Sales Plant point, Yurimaguas Plant and Sales point, Petrocentro Río Amazonas, Planta Aeropuerto Tacna, Planta Aeropuerto Cusco, Station 1, Station 5, Station 6, Station 7, Station 8, Station 9, Andoas Station, Morona Station, Bayóvar Terminal Station, Section II and North Branch. From 2014 to December 2019 a total number of 30 oil spills have occurred at ONP, of which 26 have been completely served and are waiting for approval of the relevant agency (“Organismo de Evaluación y Fiscalización Ambiental” (hereinafter, OEFA); and 4 are still in remediation process, under the oversight and monitoring of the staff of the corporate environmental management (“Gerencia Corporativa Ambiente, Salud y Seguridad Ocupacional” (GCAS), which is committed to making sure PETROPERÚ S.A. will continue operating, on a sustainable basis, and reducing the potential impact on the environment.

Also, as a result of the contingencies that occurred in the ONP, the OEFA, under Director's Resolution No 012-2016-OEFA/DS, ordered the Company, among others, to submit a Project to update the IGA of ONP with the MINEM; in this context, PETROPERÚ S.A. presented its proposal to the DGAAE-MINEM containing its Terms of Reference for Updating Pama of the ONP, which were approved under Report No.022-2019-MEM-DGAAH/DEAH dated September 7, 2019.

The purpose is updating the Environmental Adequacy and Management Program ("Programa de Adecuación y Manejo Ambiental - PAMA") for the ONP and will involve identifying and characterizing the different alternatives, impact assessment, preliminary management measures, comparing, selection and justification of management alternatives; contingency plan, etc.; the estimated referential amount is S/3,641 thousand (equivalent to US\$1,078 thousand) and US\$1,040 thousand.

From 2014, 20 Environmental and Social Assessments have been performed for the significant events in the ONP, conducted in the framework of industry best practices and which have resulted in, among others, obtaining actual data on the dimension of the impact on the environment of the contingent events. It should be noted that this information is useful for the Company to defend itself against potential allegations of negligence and /or environmental and health risk; based on the results of these assessments, the environmental impacts have been determined to be temporary, restricted and reversible. In addition, risk assessments relating to health and environment are conducted; monitoring activities completed at the closure stages enable the Company to verify and support that the environmental remediation objectives in the involved areas are met. The total amount implemented in environmental and social assessments until the reporting date is US\$8,567 thousand; and there is a balance of US\$1,187 thousand that remains to be used in activities expected to last until the end of 2020.

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

The purpose is updating the Environmental Adequacy and Management Program ("Programa de Adecuación y Manejo Ambiental - PAMA") for the ONP and will involve identifying and characterizing the different alternatives, impact assessment, preliminary management measures, comparing, selection and justification of management alternatives; contingency plan, etc.; the estimated referential amount is S/3,641 thousand (equivalent to US\$1,078 thousand) and US\$1,040 thousand. In December 2018, a call was made for the award process for competence of the Service for Updating PAMA of the ONP; however, the process was declared void, while the General Directorate of Environmental Affairs (DGAAH) of the Ministry of Energy and Mines (MINEM) under record No. 171-2019-MEM-DGAAH/DEAH sent to PETROPERÚ the recommendations of the Environmental Assessment and Control Agency (OEFA). In this regard, after coordination with the relevant authority and the dependencies of the Company, the relevance and legality of each recommendation that will be part of the Terms of Reference approved by the DGAAH-MINEM is being analyzed, evaluated and agreed. At December 13, 2019 the new call process for the award of the service for updating PAMA of the ONP remains to be started, considering that MINEM has ruled on the new scope of the PAMA Update.

During 2019, the Company reported 6 significant oil spills (3 in 2018 and 6 in 2017), which are under joint investigation with OSINERGMIN. For those oil spills the Company recorded a provision of US\$10,806 thousand and disbursements were made of US\$23,640 thousand.

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.

At December 31, 2019 the provision for environmental remediation related to the above-mentioned oil spills in the ONP totals US\$48,713 thousand (US\$16,584 thousand at December 31, 2018 and US\$29,359 thousand at December 31, 2017), and there is a pending amount to be executed amounting to US\$20,614 thousand for activities that are expected to be carried out during 2020.

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

	Balances at January 1 US\$000	Payments US\$000	Provision and financial cost US\$000	Balances at December 31 US\$000
Year 2019				
Block 8	2,090	(1)	37	2,126
Block X	4,840	(808)	74	4,106
Pampilla	5	(1)	-	4
Lubricants	116	-	2	118
Northern terminals	263	-	-	263
Southern terminals	204	(1)	2	205
Mid-country terminals	1,625	(1)	16	1,640
Natural Gas Electric system	20	-	-	20
Total privatized units	<u>9,163</u>	<u>(812)</u>	<u>131</u>	<u>8,482</u>
Operations in Talara	6,037	(1,217)	59	4,879
Operations in Conchán	905	-	6	911
Operations in Oleoducto	16,584	(16,888)	21,326	21,035
Operations in Iquitos Refinery	1,391	-	9	1,400
Commercial operations	597	-	6	603
Management Exploration and Exploitation	948	-	11	959
Total own units	<u>26,462</u>	<u>(18,105)</u>	<u>21,417</u>	<u>29,775</u>
Total	<u>35,625</u>	<u>(18,917)</u>	<u>21,548</u>	<u>38,257</u>
Exchange difference	<u>1,250</u>			<u>1,673</u>
Total	<u>30,875</u>			<u>39,930</u>
Year 2018				
Block 8	2,598	(533)	25	2,090
Block X	4,841	(1)	-	4,840
Pampilla	(8)	(1)	14	5
Lubricants	117	(1)	-	116
Northern terminals	263	-	-	263
Southern terminals	20	-	-	204
Mid-country terminals	1,734	(111)	2	1,625
Natural Gas Electric system	20	-	-	20
Total privatized units	<u>9,769</u>	<u>(647)</u>	<u>41</u>	<u>9,163</u>
Operations in Talara	7,625	(1,566)	(22)	6,037
Operations in Conchán	919	(12)	(2)	905
Operations in Oleoducto	29,359	(23,640)	10,865	16,584
Operations in Iquitos Refinery	1,402	(7)	(4)	1,391
Commercial operations	602	-	(5)	597
Management Exploration and Exploitation	956	-	(8)	948
Total own units	<u>40,863</u>	<u>(25,225)</u>	<u>10,824</u>	<u>26,462</u>
Total	<u>50,632</u>	<u>(25,872)</u>	<u>10,865</u>	<u>35,625</u>
Exchange difference	<u>2,218</u>			<u>1,250</u>
Total	<u>52,850</u>			<u>36,875</u>

	Balances at January 1 US\$000	Payments US\$000	Provision and update US\$000	Balances at December 31 US\$000
Year 2017				
Block 8	3,473	(574)	(301)	2,598
Block X	5,260	(1)	(418)	4,841
Pampilla	10	(2)	(16)	(8)
Lubricants	127	-	(10)	117
Northern terminals	274	-	(11)	263
Southern terminals	218	(1)	(13)	204
Mid-country terminals	1,879	(1)	(143)	1,735
Natural Gas Electric system	19	-	-	19
Total privatized units	<u>11,260</u>	<u>(579)</u>	<u>(912)</u>	<u>9,769</u>
Operations in Talara	9,046	(1,140)	(281)	7,625
Operations in Conchán	1,094	(143)	(32)	919
Operations in Oleoducto	71,075	(77,967)	36,251)	29,359
Operations in Iquitos Refinery	1,569	(120)	(47)	1,402
Commercial operations	729	(116)	(11)	602
Management Exploration and Exploitation	<u>1,020</u>	<u>(49)</u>	<u>(15)</u>	<u>956</u>
Total own units	<u>84,533</u>	<u>(79,535)</u>	<u>35,865</u>	<u>40,863</u>
Total	<u>95,793</u>	<u>(80,114)</u>	<u>34,953</u>	<u>50,632</u>
Exchange difference	(3)			2,218
Total	<u>95,790</u>			<u>52,850</u>

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

The mandate under Article 6 of Law No.28840 by which the Peruvian Government shall compensate the Company for the environmental remediation work to be performed in its privatized units was re-confirmed by another piece of legislation ("Vigésima Sexta Disposición Complementaria Final de la Ley No.30114, Ley de Presupuesto del Sector Público") for fiscal 2014, which authorizes the Ministry of Energy and Mines to transfer financial resources to the Company so that it can complete environmental remediation activities in the privatized units that belonged to it. At December 31, 2019 a total of US\$11,000 thousand remained to be transferred for future expenditures, which was recognized by the MINEM in 2014.

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

The Company has sent communications to MINEM requesting financial remittances intended for environmental remediation, which resulted in contributions of US\$20,900 thousand (equivalent to S/62,600 thousand), during 2015; these resources covered the total expenses incurred by the Company at December 31, 2017 in environmental remediation of its privatized units. At December 31, 2019, the Company is taking the necessary steps to transfer the outstanding S/34,000 thousand to cover the environmental remediation liabilities which the Company has to fulfill.

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

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

b) Provision for civil claims -

At December 31, 2019 the Company has estimated a provision of US\$512 thousand equivalent to S/1,698 thousand, of which: US\$59 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/529 and AFP's US\$41 thousand equivalent to S/137,1 thousand, an arbitral proceeding to Securitas for US\$153 thousand equivalent to S/508 thousand, and an arbitral proceeding to Consorcio Consultora Energética & Amb. SAC. Lizandro Rosales Puño for US \$99 thousand equivalent to S/329 thousand.

At December 31, 2018 the Company has estimated a provision of US\$2,229 thousand (equivalent to S/7,533 thousand), of which US\$1,476 thousand (equivalent to S/4,885 thousand) correspond to eight (8) administrative proceeding contingencies with the energy and mining regulator "Organismo Superior de la Inversión en Energía y Minería - OSINERGMIN".

During 2018, the Company reversed a total US\$15,619 thousand (equivalent to S/50,978 thousand) involving a change in the degree of probability of the contingencies from probable to remote for the administrative proceeding with the government environmental agency "Organismo de Evaluación y Fiscalización Ambiental - OEFA".

At December 31, 2017 the Company estimated a provision of US\$17,809 thousand (equivalent to S/57,791 thousand), which comprises: (i) US\$15,710 thousand (equivalent to S/50,978 thousand) for administrative proceeding contingencies with the government environmental agency "Organismo de Evaluación y Fiscalización Ambiental - OEFA" and (ii) US\$1,505 thousand (equivalent to S/4,883 thousand) for administrative proceedings with the energy and mining regulator "Organismo Superior de la Inversión en Energía y Minería - OSINERGMIN", related to the oil spills in the ONP.

During 2017, the Company reversed a total US\$10,474 thousand of unused provisions, mainly relating to the Ventanilla Municipality for a total of US\$7,133 thousand.

c) Provision for labor-related court actions -

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

d) 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.

18 DEFERRED INCOME TAX LIABILITIES

This item comprises:

	At December 31,		
	2019	2018	2017
	US\$000	US\$000	US\$000
Deferred tax asset:			
Expected reversal in the next 12 months	4,982	19	12,920
Expected reversal after 12 months	17,623	-	41,299
	<u>22,605</u>	<u>19</u>	<u>54,219</u>
Deferred tax liability:			
Expected reversal in the next 12 months	914	11,446	3,946
Expected reversal after 12 months	97,179	98,093	105,580
	<u>97,221</u>	<u>109,539</u>	<u>109,526</u>
	<u>75,488</u>	<u>109,349</u>	<u>55,307</u>

The movement on the deferred income tax for the years ended December 31, 2019, 2018 and 2017 is as follows:

	Balances at January 1, 2017 US\$000	Credit (charge) to profit and loss US\$000	Balances at December 31, 2017 US\$000	Credit (charge) to profit and loss US\$000	Balances at December 31, 2018 US\$000	Credit (charge) to profit and loss US\$000	Balances at December 31, 2019 US\$000
Deferred assets:							
Provision for environmental remediation	28,258	(12,667)	15,591	(4,734)	10,857	902	11,759
Lease liability	-	-	-	-	3,959	(569)	3,390
(change of policy at January 1, 2019)	7,916	(2,340)	5,576	(907)	4,669	448	5,117
Other provisions	12,782	(9,287)	3,495	(3,495)	-	-	-
Provision for impairment of fixed assets	-	3,784	3,784	(3,784)	-	1,467	1,467
Unpaid labor liabilities	-	25,773	25,773	(45,068)	(19,295)	20,167	872
Translation effect of non-monetary items (a)	48,956	5,263	54,219	(57,988)	190	22,415	22,605
Deferred liabilities:							
Attributed cost of property, plant and equipment	(122,075)	12,549	(109,526)	3,946	(105,580)	11,069	(94,511)
and intangible assets	-	-	-	-	-	(181)	(181)
Discount Art. 57 accrued	-	-	-	-	(3,959)	558	(3,401)
Right-of-use asset (change of policy	(4,916)	4,916	-	-	-	-	-
at January 1, 2019)	(126,991)	17,465	(109,526)	3,946	(109,539)	11,446	(98,093)
Interest on PMRT financing	(78,035)	22,728	(55,307)	(54,042)	(109,349)	33,861	(75,488)
Net deferred liabilities							

- (a) Comprising the deferred income tax arising from the exchange rate affecting non-monetary items (mainly fixed assets) given the fact the Company is levied with income tax in a currency (Peruvian Soles) other than its functional currency (US\$). During the course of 2019 the U.S. dollar weakened in relation with the Peruvian sol giving rise to deferred income tax asset of US\$20,167 thousand; during the course of 2018 the U.S. dollar strengthened significantly in relation with the Peruvian sol, giving rise to deferred income tax liabilities of US\$45,068 thousand and during the course of 2017 the U.S. dollar weakened in relation with the Peruvian sol giving rise to deferred income tax asset of US\$25,773 thousand.

19 EQUITY

a) Share capital and additional capital -

At December 31, 2019 the authorized, subscribed and paid-in share capital comprises 4,850,895,325 common shares (4,448,416,995 at December 31, 2018) at S/1 par value each. At December 31, 2019 the share capital structure of the Company is as follows:

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

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

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

The movements of the share capital in 2019, 2018 and 2017 were as follows:

During 2017 a cash contribution of US\$316,357 thousand (equivalent to S/1,056,000 thousand) was made by the Ministry of Energy and Mines in accordance with the provisions of Legislative Decree No. 1292 "Legislative Decree that declares the adequate operation of the ONP of public need and national interest and sets forth the reorganization and improvement of the corporate governance of PETROPERÚ S.A." This contribution increased the additional capital.

At the General Shareholders' Meeting held on January 14, 2017 an increase in share capital of US\$316,357 thousand (equivalent to S/1,056,000 thousand) was approved, which was transferred from additional capital.

At the General Shareholders' Meeting held on April 18, 2017, an increase in additional capital by US\$11,152 thousand (equivalent to S/36,254 thousand) was approved, as a result of the capitalization of distributable profits reported for 2016.

On August 7, 2017 registration with the Lima Public Records was reported, consequently an increase in share capital of US\$121,393 thousand (equivalent to S/406,665 thousand) was made; which was transferred from additional capital.

At the General Shareholders' Meeting held on June 27, 2018 an increase in additional capital by US\$166,594 thousand (equivalent to S/520,704 thousand) was approved, as a result of the capitalization of distributable profits reported for 2017.

. On October 29, registration with the Lima Public Records was reported consequently an increase in share capital of US\$166,594 thousand (equivalent to S/520,704 thousand) was made; which was transferred from additional capital.

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

On November 20, registration with the Lima Public Records was reported, consequently an increase in share capital of US\$107,597 thousand (equivalent to S/402,478 thousand) was made; which was transferred from additional capital.

b) Legal reserve -

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

In the context of this regulation, the legal reserve recorded at December 31, 2019 totaled US\$52,115 thousand (equivalent to S/174,720); the legal reserve constituted in 2019 totaled US\$11,955 thousand (equivalent to S/44,720 thousand); which corresponds to 10% of the distributable profits for 2018. At December 31, 2018 totaled US\$40,160 thousand (equivalent to S/135,703 thousand); the legal reserve constituted in 2018 totaled US\$18,510 thousand (equivalent to S/65,445 thousand); which corresponds to 10% of the distributable profits for 2017.

c) Retained earnings -

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

20 REVENUE FROM ORDINARY ACTIVITIES

This item comprises:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Local sales	4,111,515	4,324,391	3,555,916
Price Stabilization Fund (*) (Note 8)	(20,511)	38,765	24,891
Revenue from ordinary activities	<u>6,772</u>	<u>6,107</u>	<u>4,741</u>
	4,097,776	4,369,263	3,585,548
Foreign sales	<u>470,551</u>	<u>514,743</u>	<u>393,744</u>
	<u>4,568,327</u>	<u>4,884,006</u>	<u>3,979,292</u>

(*) The Price Stabilization Fund is applied to some products such as GLP-E, Diesel B5, Diesel B5 S-50 and industrial oil 6 (for power generation).

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

In 2019, 2018 and 2017 sales are broken down as follows:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Local sales:			
Diesel - others	2,345,376	2,418,171	2,091,494
Gasoline	1,118,485	1,132,185	961,031
Industrial oil	307,700	380,162	165,021
GLP	123,389	189,177	206,284
Turbo	96,596	125,841	101,571
Asphalt	65,129	65,884	45,450
Loreto Crude	13,624	40,266	-
Solvent	15,983	16,810	14,697
Primary Naphtha	11,494	767	-
Total local sales	<u>4,097,776</u>	<u>4,369,263</u>	<u>3,585,548</u>
	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Foreign sales:			
Industrial oil	200,781	166,871	152,279
Diesel - others	146,437	125,775	100,637
Virgin Naphtha	63,064	98,922	90,865
Turbo	36,118	38,409	31,611
Gasoline	20,500	2,513	3,563
Asphalt	3,651	6,215	5,569
Loreto Crude	-	43,155	5,181
Primary residual/crude	-	27,239	4,039
Naphtha Cracked	-	2,453	-
USLD	-	2,349	-
HOGBS	-	842	-
Total foreign sales	<u>470,551</u>	<u>514,743</u>	<u>393,744</u>
	<u>4,568,327</u>	<u>4,884,006</u>	<u>3,979,292</u>

21 OTHER OPERATING INCOME

This item comprises:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Income recognized at a point in time:			
Terminal operating fees (a)	32,149	34,124	34,778
Recoverable freight (b)	10,682	7,545	15,011
PNP supply operations	7,177	2,452	1,331
Operating services for Terminals	2,367	-	-
Revenue from cost of use of hydrocarbons	507	1,043	267
Income recognized over time:			
Crude transport via oil pipeline (c)	32,475	19,243	3,032
Savia Perú S.A. lease (Note 12)	10,000	10,000	10,000
Leases (d)	2,506	5,464	6,850
Other service revenue	<u>1,856</u>	<u>1,193</u>	<u>1,013</u>
	<u>99,719</u>	<u>81,064</u>	<u>72,282</u>

- (a) Comprises revenue from operating agreements of the terminals of the Company signed with Consorcio Terminales regarding the terminals and southern plant of Peru and with "Terminales del Perú" for the terminals and northern and central plants.
- (b) Comprising revenue from billing of transportation expenses incurred by customers. The Company considers a handling margin when billing this type of expenses.
- (c) Comprising the revenue obtained from the transport of crude through the oil pipeline (ONP).
- (d) The Company as a private-law government-owned entity has signed agreements with private sector entities to lease a number of floors in its headquarters building, refinery exploitation machinery and equipment as well as productive facilities such as the refinery and sales plant in Pucallpa.

22 COST OF SALES

This item comprises:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Opening balance of inventory of goods	556,287	605,294	475,381
Purchase of crude oil, refined products and supplies	3,804,865	4,255,087	3,371,140
Operating expenses of production (a)	368,025	313,506	295,866
Closing balance of inventory of goods	(589,235)	(556,287)	(605,294)
	<u>4,139,942</u>	<u>4,617,600</u>	<u>3,537,093</u>

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

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Third-party services (*)	207,211	216,974	209,130
Depreciation (Note 11 and 12)	55,984	33,909	34,732
Personnel charges (Note 25)	53,897	54,063	55,345
Workers' profit sharing (Note 16-a and 25)	14,760	1,110	12,659
Depreciation of right-of-use asset (Note 13)	14,100	-	-
Other materials and production supplies	9,771	9,059	7,385
Insurance	9,705	7,352	6,363
Other management charges	687	772	584
Amortization	1	8	42
Reversal for impairment of assets (Note 11)	-	(11,536)	(31,790)
Others	<u>1,909</u>	<u>1,795</u>	<u>1,416</u>
	<u>368,025</u>	<u>313,506</u>	<u>295,866</u>

(*) Includes the following:

Ground transport freight and expenses	67,440	51,439	59,392
Energy and water	21,419	19,724	20,922
Other freights	20,637	21,875	17,465
Maintenance and repair services	20,506	24,968	21,195
Maritime transport freight and expenses	5,759	24,016	21,755
Industrial protection and safety	4,288	5,504	3,568
Food and lodging	3,267	3,260	3,226
Others	<u>63,895</u>	<u>66,188</u>	<u>61,607</u>
	<u>207,211</u>	<u>216,974</u>	<u>209,130</u>

23 SELLING AND DISTRIBUTION EXPENSES

This item comprises:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Personnel charges (Note 25)	25,285	27,464	25,983
Taxes (b)	19,108	20,156	18,076
Third-party services (a)	11,784	15,309	9,134
Depreciation (Note 11 and 12)	8,652	8,824	7,291
Workers' profit sharing (Note 16-a and Note 25)	6,687	467	5,432
Materials and supplies	2,869	2,813	2,566
Insurance	2,530	1,331	1,000
Expected loss of receivables (Note 8)	1,307	382	126
Other management charges	573	663	598
Depreciation of right-of-use asset (Note 13)	109	-	-
	<u>78,904</u>	<u>77,409</u>	<u>70,206</u>

(a) Includes the following:

Maintenance and repair services	4,115	4,471	2,877
Other third-party services	3,542	5,093	2,048
Industrial protection and safety	2,306	3,684	1,702
Rentals	980	1,077	1,194
Travel and transfer expenses	418	524	512
Energy and water	343	316	476
Freight and other expenses	80	144	325
	<u>11,784</u>	<u>15,309</u>	<u>9,134</u>

(b) The item of taxes mainly reflects the aliquots payable to OSINERGMIN for a total US\$14,818 thousand (US\$15,882 thousand in 2018 and US\$13,960 thousand in 2017) as well as contributions to OEFA for a total US\$3,920 thousand (US\$3,954 thousand in 2018 and US\$3,737 thousand in 2017).

24 ADMINISTRATIVE EXPENSES

This item comprises:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Personnel charges (Note 25)	84,875	87,734	83,258
Third-party services (a)	42,122	45,980	38,803
Workers' profit sharing (Note 16-a and 25)	21,946	1,177	12,757
Other management charges (b)	20,474	5,291	12,294
Depreciation (Note 11 and 12)	5,107	5,646	5,218
Taxes	4,181	3,349	12,674
Amortization	2,217	2,165	2,323
Materials and supplies	1,643	1,369	1,629
Depreciation of right-of-use asset (Note 13)	1,390	-	-
Administrative civil and labor contingencies (Note 17)	1,392	2,191	6,241
Expected loss of receivables (Note 9)	186	553	3,218
Insurance	555	770	569
	<u>186,088</u>	<u>156,225</u>	<u>178,984</u>

(a) Includes the following:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Maintenance and repair services	10,273	9,026	6,712
IBM outsourcing services	8,519	8,977	8,534
Advisory, appraisal and audits	5,342	9,055	4,700
Industrial protection and safety	3,797	3,733	7,017
Temporary services	2,385	2,581	1,707
Advertising	1,827	1,967	2,427
Freight and other freight	2,076	1,712	712
Travel and transfer expenses	1,435	1,731	1,472
Bank expenses	1,168	1,303	1,090
Other	5,300	5,895	4,432
	<u>42,122</u>	<u>45,980</u>	<u>38,803</u>

(b) In 2019 it includes the registration of the OEFA fine for US\$15,399 thousand (equivalent to S/51,126 thousand) according to Resolution TFA No.015-2019-OEFA-TFA/SE, paid in January 2020.

25 PERSONNEL CHARGES

This item comprises:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Wages and salaries	60,974	62,246	60,529
Workers' profit sharing (Note 22, 23 and 24)	43,393	2,754	30,848
Bonuses	39,358	43,212	43,590
Social contributions	23,697	22,775	23,555
Statutory bonuses	12,834	13,187	13,486
Employees' severance indemnities	8,505	9,294	8,908
Termination program (Note 26) (Note 17-d)	6,288	-	-
Vacations	4,687	4,740	4,225
Feeding	3,746	3,752	3,635
Mutual disagreement and other	3,477	3,830	810
Overtime	1,131	1,433	1,460
Transportation	1,260	1,263	1,163
Others	4,388	3,529	3,225
	<u>213,738</u>	<u>172,015</u>	<u>195,434</u>
Number of staff employed at year end	<u>2,527</u>	<u>2,600</u>	<u>2,784</u>

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

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Cost of sales (Note 22)	68,657	55,173	68,004
Selling expenses and distribution (Note 23)	31,972	27,931	31,415
Administrative expenses (Note 24)	106,821	88,911	96,015
Other expenses - Termination (Note 26)	6,288	-	-
	<u>213,738</u>	<u>172,015</u>	<u>195,434</u>

26 OTHER INCOME AND EXPENSES

This item comprises:

	2019 US\$000	2018 US\$000	2017 US\$000
Other income			
Recovery of losses in oil pipeline (c)	6,865	-	-
Disposal of assets held for sale	4,085	-	-
Maritime operations services	3,371	4,017	3,501
Recovery of provision for civil claim	1,921	15,621	10,474
Claims and / or compensation (insurance / default) (b)	17,515	10,397	4,001
Labor provision recovery	307	1,230	27
Doubtful trade accounts provision recovery	67	668	1,427
Interest - SUNAT refund (a)	-	94,824	31,146
Others	4,138	8,730	11,799
	<u>38,269</u>	<u>135,487</u>	<u>68,812</u>
Other expenses			
Provision for losses in oil pipeline (Note 17-a) (e)	(28,174)	(10,806)	(33,706)
Voluntary termination program (Note 17-d and 25)	(6,288)	-	-
Net cost of disposal of assets held for sale	(1,375)	-	-
Impairment of assets	(324)	-	-
Net cost of disposal of fixed assets	(58)	(102)	(1,802)
Other provisions	(11)	(34)	(32)
Environmental Remediation (Block 8) (d) (Note 17)	-	(22,474)	-
Right of equity	-	(64)	(8)
	<u>(36,230)</u>	<u>(33,480)</u>	<u>(35,548)</u>

- (a) During 2018, SUNAT issued three Resolutions ordering a refund in connection with Case Files No. 07873-2012-0-1801-JR-CA-13, No.02529-2010-2-1801-JR-CA-14 and No.00114-2012-1801-JR-CA-07. Refunds obtained included interest for a total US\$42,813 thousand, US\$38,333 and US\$13,678 thousand, respectively (Note 9). During 2017 SUNAT issued Resolutions ordering a refund in connection with Case File No 6002-2011-0-1801-JR-CA-17. Refunds obtained included interest for a total US\$31,146 thousand.
- (b) In March 2019, the Company received an insurance compensation for US\$6,931 thousand for the PP-1461 and 1446 incident occurred at the ONP. In September 2019, the Company received an insurance compensation for pipeline cut incidents at Km 51+750 section 1, Km 24+372 section 1 and explosion of tank 8D1 Station 8, for a total of US\$3,449 thousand. Likewise, in 2019, a compensation for contractual breaches of suppliers for US\$6,914 thousand was recorded.
- (c) In October 2019, the reversal of US\$6,865 thousand (S/22,942 thousand) of provisions for environmental remediation from previous years was made, since the works were carried out in less time and cost than estimated.
- (d) This is a provision for arbitration proceedings involving environmental remediation in Block 8 brought by Pluspetrol Norte S.A. for US\$22,474 thousand.
- (e) Comprising the expenses incurred by the Company in cleaning activities, environmental monitoring, recovery and collection of materials, among others, related to losses in oil pipeline ONP. The Company expects to recover these expenses with the insurance indemnities.

27 FINANCIAL INCOME AND EXPENSES

Financial income and expenses comprise:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Interest on bank deposits	4,838	4,226	1,707
Interest on receivables	807	707	1,212
Gains from derivative financial instruments	<u>13,489</u>	<u>12,088</u>	<u>476</u>
	<u>19,134</u>	<u>17,021</u>	<u>3,395</u>
Interest on working capital loans	(30,466)	(31,888)	(31,541)
Loss on derivative financial instruments	(2,110)	(17,040)	(20,210)
Premiums for crude oil hedging options	(4,197)	-	-
Interest on leases	(615)	-	-
Others	(10)	-	(93)
	<u>(37,398)</u>	<u>(48,928)</u>	<u>(51,844)</u>

28 TAX SITUATION

a) Tax rates -

In accordance with current legislation, the Company is individually subject to applicable taxes. Management considers that it has determined taxable income in accordance with the Peruvian income tax general regime, by adding to and deducting from the results shown in the financial statements, those items that are considered as taxable and non-taxable, respectively. The applicable Income tax rate has been 29.5% since 2017 onwards, by means of Legislative Decree N°1261 published on December 10, 2016.

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

b) Income tax determination -

The income tax expense shown in the statement of comprehensive income comprises:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Current	116,673	3,681	85,687
Deferred	(33,861)	<u>54,042</u>	(22,728)
	<u>82,812</u>	<u>57,723</u>	<u>62,959</u>

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

	<u>2019</u>		<u>2018</u>		<u>2017</u>	
	<u>US\$000</u>	<u>%</u>	<u>US\$000</u>	<u>%</u>	<u>US\$000</u>	<u>%</u>
Pre-tax profit	<u>253,764</u>	<u>100.00</u>	<u>177,275</u>	<u>100.00</u>	<u>248,063</u>	<u>100.00</u>
Theoretical income tax 29.5%	74,860	29.50	52,296	29.50	73,179	29.50
Permanent non-deductible expenses	14,536	5.73	18,035	10.17	18,563	7.13
Permanent non-taxable income	(133)	(0.05)	(32,328)	(18.24)	(9,256)	(3.73)
Effect of exchange difference on tax fixed assets (*)	(22,997)	(9.07)	45,068	25.42	(25,773)	(10.39)
Effect of (lower) higher current tax resulting from exchange difference (**)	19,111	7.53	(27,296)	(15.40)	16,182	6.52
Others	(<u>2,565</u>)	(<u>1.01</u>)	<u>1,948</u>	<u>1.10</u>	(<u>9,936</u>)	(<u>4.00</u>)
Current and deferred income tax	<u>82,812</u>	<u>32.63</u>	<u>57,723</u>	<u>32.55</u>	<u>62,959</u>	<u>25.38</u>

(*) Corresponds to changes in deferred income tax as a result of exchange rate fluctuations that affect the tax base of non-monetary assets.

(**) Corresponds to the higher / lower current income tax generated by the exchange rate fluctuation that affects its determination in soles but not the financial statement whose functional currency is the US dollar.

Permanent non-taxable revenue for 2018 mainly consisted of interest collected from SUNAT in the form of tax refunds on sales of Turbo A-1 fuel that is tax-exempt.

The Peruvian tax authorities have the right to review and, if necessary, amend the income tax determined by the Company in the last four years from January 1 of the year following the date of filing of the corresponding tax return (years subject to examination). Years 2014 to 2018 are subject to examination. Since discrepancies may arise over the interpretation of the tax laws applicable to the Company by tax authorities, it is not possible at present to anticipate whether any additional liabilities will arise as a result of eventual tax examinations. Any additional tax, penalties and interest, if arising, will be recognized in the results of the period when such differences of opinion with the Tax Authority are resolved. The Company considers that no significant liabilities will arise as a result of these eventual tax examinations.

Under current legislation, for purposes of determining Income Tax and VAT (IGV in Perú), transfer prices agreed between related parties and/or tax havens must have documentation and information supporting the valuation methods and criteria applied in their determination. Tax Authorities are authorized to request this information from the taxpayer. Based on an analysis of the Company's business, Management and its legal advisers consider that no significant contingencies will arise as a result of this legislation for the Company at December 31, 2019, 2018 and 2017.

c) Temporary Tax on Net Assets -

The Company is subject to the Temporary Tax on Net Assets (ITAN, from its Spanish acronym). The taxable base is the prior period adjusted net asset value less depreciation, amortization admitted by the Income Tax Law, as shown in the respective standard (Law 28424 and its Regulation). The ITAN rate is 0.4% for 2019, 2018 and 2017 applied to the amount of net assets that exceed S/1,000,000. It may be paid in cash or in nine consecutive monthly installments. The amount paid may be used as a credit against payments of the general income tax regime for taxable periods from March to December of the fiscal period for which the tax was paid until maturity date of each of the payments on account and against the regularization of income tax payments for the related fiscal year.

d) Tax on financial transactions -

For fiscal 2019, 2018 and 2017, the rate of the Tax on Financial Transactions was set at 0.005% and is applicable to bank debits and credits or cash movements through the formal financial system, unless the transaction is exempt. This tax is accounted for as tax expenses within administrative expenses.

e) Tax Regime of Value Added Tax -

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

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

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

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

By means of Ministry Resolution No.212-2019-MEM/DM published in the Peruvian gazette "El Peruano" dated June 8, 2018, the MEM authorized the Company to apply for the anticipated recovery of VAT (IGV) and approved respective listing of goods, services and construction contracts relating to the PMRT project subject to the benefit of anticipated recovery of VAT (IGV).

On July 31, 2018 the Company apply for a refund of the VAT paid in the months from October 2016 to March 2018 on the purchases related to the PMRT Project subject to the anticipated VAT recovery benefit for a total US\$25,133 thousand (equivalent to S/84,924 thousand). By means of Resolution No.012-180-0017401 SUNAT approved and refunded a balance of S/83,015 thousand.

Subsequently, on October 19, 2018 the Company applied for a refund of the VAT (IGV) paid in the months from April to September 2017 on the purchases related to the PMRT Project for a total US\$34,293 thousand (equivalent to S/115,465 thousand). By means of Resolution No 012-180-0017799 SUNAT approved and refunded a balance of US\$18,869 thousand (equivalent to S/63,760 thousand).

On December 12, the Company applied for a refund of the VAT (IGV) paid in the months from October 2017 to March 2018 on the purchases related to the PMRT Project for a total US\$23,584 thousand (equivalent to S/79,692 thousand). By means of Resolution No 012-180-0018128 dated January 2, 2019 SUNAT approved and refunded a balance of S/61,299 thousand.

On January 8, 2019 the Company applied for a refund of the VAT (IGV) paid in the months from April to September 2018 on the purchases related to the PMRT Project for a total US\$17,812 thousand (equivalent to S/59,611 thousand). By means of Resolution No 012-180-0018287 dated January 15, 2019 SUNAT approved and refunded a balance of US\$14,862 thousand (equivalent to S/49,460 thousand).

On September 27, 2019 the Company applied for a refund of the VAT (IGV) paid in the months from October 2018 to March 2019 on the purchases related to the PMRT Project for a total US\$17,828 thousand (equivalent to S/60,240 thousand). By means of Resolution No 012-180-0020438 dated October 4, 2019 SUNAT approved and refunded a balance of US\$17,497 thousand (equivalent to S/59,123 thousand).

Finally, on December 23, 2019 the Company applied for a refund of the VAT (IGV) paid in the months from April 2019 to September 2019 on the purchases related to the PMRT Project for a total US\$24,478 thousand (equivalent to S/81,198 thousand). By means of Resolution No 012-180-0021030 dated January 3, 2020 SUNAT approved and refunded a balance of US\$24,478 thousand (equivalent to S/81,198 thousand).

f) Main tax changes in force at January 1, 2019 -

On September 13, 2018 Legislative Decree No. 1422 was enacted setting certain changes in tax laws and regulations with effect from 2019. Changes that are considered most significant by the Company are as follows:

- Final beneficiaries: The mandatory requirement is set for legal entities and/or “entes jurídicos” in Peru to inform about the identity of their final beneficiaries.
- Transfer pricing: The scope of Transfer Pricing regulations is extended to transactions entered into to/from and through no-cooperating countries or territories or involving parties whose revenue or earnings benefit from a preferred tax treatment. Also, the requirement is established that the market value of transaction of export and import of goods, with a known market quoted price, including derivative financial instruments; or goods with prices that are set based on those quoted prices.
- Accrual: A legal definition of accrual is established for the recognition of income and expenses for income tax purposes. As per this definition, Peruvian third-category (corporate) income is considered accrued whenever the underlying income-generating events have substantially occurred and the right to that income is not restricted by any suspensive condition. Income is accrued regardless of the timing of settlement and even if the payment conditions have not been set. When the consideration or a portion thereof is set based on an event or fact that is expected to occur in the future, income will be accrued when such a future event or fact occurs. Apart from the above-explained general rule, specific rules have been introduced that should be adhered to considering the kind of transactions that is required for the accrual to be triggered.
- Deductibility of financial expenses: New rules are established on interest deductibility effective from 2021 that are based on the EBITDA determined by entities.
- General Anti-Tax Avoidance Clause (Peruvian Tax Standard XVI): A special procedure has been set up for the enforcement of Peruvian Tax Standard XVI, by which SUNAT will be entitled to enforce paragraphs second to fifth of Tax Standard XVI in the framework of a final tax examination, provided that a favorable opinion is obtained from a Reviewing Committee, comprising three (3) SUNAT auditors. In addition, boards of directors are now required to approve, ratify or amend the events, situations or economic relations to be implemented (or already implemented) as part of “tax planning”. Ultimately, a new assumption of joint and several liability is established for the legal representatives of a tax debtor; whenever, the latter is subject to the provisions of Tax Standard XVI, provided that those legal representatives had demonstrably helped design, approve or implement initiatives, acts or economic relations intended for tax avoidance.

g) Examination by the tax authorities -

With respect to income tax review by the tax authorities from January to December 2012 dated January 11, 2019, SUNAT issued Tax Determination Resolutions No.012-003-0101487 to 012-003-0101498 and 012-003-0101500 to 012-003-0101504; however, an appeal against said resolutions was presented within the term set by law. On September 30, 2019, a notice was served to the Company with the Resolution No. 0150140015102 that declared the claim unfounded, and an appeal had been filed in due course. At December 31, 2019 the appeal remains to be resolved in Chamber 1 of the Tax Tribunal, signed with Case File No.13504-2019.

On the other hand, as a result of the income tax review by the tax authorities for fiscal 2011, the Company paid a total of US\$2,940 thousand (equivalent to S/9,540 thousand) in respect of unpaid taxes, interest and tax penalties. However, given the difference between the tax loss determined by SUNAT and the tax loss filed by the Company for fiscal 2008, under Resolution No. 0150140009896 dated July 27, 2011, SUNAT issued a Tax Determination Resolution No. 012-003-0090872 for the amount of US\$2,667 thousand (equivalent to S/8,653 thousand). An appeal against said resolution was presented by the Corporate and Legal Management ("Gerencia Corporativa Legal, Sub Gerencia Tributaria, Cumplimiento Regulatorio y ambiental") within the term set by law with an outcome adverse for the Company as per Resolution No 0150150014244 dated July 16, 2018. The Company has filed an appeal against that Resolution, which was resolved by the Tax Tribunal under Resolution No.08286-9-2019 dated September 16, 2019. The Tax Court ordered SUNAT to re-settle the 2011 tax loss based on the determination of the 2008 tax loss.

With respect to the tax loss for fiscal 2008, the Tax Tribunal, under Resolution No. 08272-9-2019, dated September 16, 2019, revoked the Resolution No. 0150140009896, and ordered that SUNAT issue a new pronouncement. At December 31, 2019, SUNAT is pending the issuance of this pronouncement.

With respect to fiscal 2007, an appeal filed with the Tax Tribunal remains to be resolved involving tax assessments determined by SUNAT on the VAT (IGV) and excise tax (ISC) (Case File No.17806-2012).

With respect to fiscal 2006, under Resolution No.7238-4-2019 dated August 13, 2019, the Tax Tribunal resolved in favor of the Company an appeal filed involving prepaid Income Tax and annual regularization of said tax. In August 2018, a notice was served to the Company with the Tax Tribunal Resolution No.06573-1-2018 containing a pronouncement that was favorable to the Company revoking the VAT tax assessments for the period from January to December 2006.

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

29 CONTINGENCIES

The Company has the following labor-related court actions, civil lawsuits, tax and customs claims pending resolution, which are considered possible contingencies:

	At December 31,		
	2019	2018	2017
	US\$000	US\$000	US\$000
Civil	22,858	141,219	40,839
Tax and customs claims	49,324	39,274	61,817
Labor-related	<u>2,589</u>	<u>3,803</u>	<u>6,628</u>
	<u>74,771</u>	<u>184,296</u>	<u>109,284</u>

The movement of contingencies is detailed below:

	Balance at January 1, 2019	Additions	Deductions	Balance at December 31, 2019
	US\$000	US\$000	US\$000	US\$000
Civil (a)	141,219	32,984	(151,345)	22,858
Tax and customs claims (b)	39,274	34,294	(24,244)	49,324
Labor-related	<u>3,803</u>	<u>1,136</u>	<u>(2,350)</u>	<u>2,589</u>
	<u>184,296</u>	<u>68,414</u>	<u>(177,939)</u>	<u>74,771</u>

	Balance at January 1, 2018 US\$000	Additions US\$000	Deductions US\$000	Balance at December 31, 2018 US\$000
Civil (a)	40,839	130,023	(29,643)	141,219
Tax and customs claims (b)	61,817	3,374	(25,917)	39,274
Labor-related	<u>6,628</u>	<u>1,691</u>	<u>(4,516)</u>	<u>3,803</u>
	<u>109,284</u>	<u>135,088</u>	<u>(60,076)</u>	<u>184,296</u>

	Balance at January 1, 2017 US\$000	Additions US\$000	Deductions US\$000	Balance at December 31, 2017 US\$000
Civil (a)	19,297	24,425	(2,883)	40,839
Tax and customs claims (b)	44,836	17,062	(81)	61,817
Labor-related	<u>8,254</u>	<u>977</u>	<u>(2,603)</u>	<u>6,628</u>
	<u>72,387</u>	<u>42,464</u>	<u>(5,567)</u>	<u>109,284</u>

- (a) In 2019, a contingency from an OEFA process decreased by US\$25,677 thousand and determined in December 2019 a final penalty for US\$15,399 thousand with provision at December 31, 2019 (Note 24) and paid in January 2020.

In 2019, contingencies for US\$100,000 thousand were returned, which were related to a claim to the lease agreement that the Company provides to Savia Perú S.A., since the arbitration decision was issued in favor of the Company in September.

During 2018, the Company added to its disclosures the arbitration process brought by Savia Perú S.A. for US\$100,000 thousand in 2018, involving a claim against the rent agreement signed by the Company and an administrative and challenging actions brought by the OEFA for alleged violations of the environmental standards for a total US\$24,238 thousand. Also, the arbitration proceedings brought by Pluspetrol Norte S.A. and Refinería La Pampilla S.A. for US\$22,474 thousand and US\$5,180 thousand.

During 2017, the Company mainly added to its disclosures the arbitration process brought by Pluspetrol Norte S.A. (International) for US\$20,000 thousand relating to the Company's alleged failure to reimburse expenses incurred in remediation work in Block 8, in connection with the Contractual Position Assignment Agreement and a civil court action brought by the Regional Government of Lambayeque for US\$7,000 thousand.

- (c) In 2019, US\$22,220 thousand were returned for the tax disputes related to income for years 2015 and 2006. In addition, two lawsuits were added for improper acceptance of the merchandise replacement regime in relief from customs duties, related to certificates of years 2009 and 2010 for a total amount of US\$32,058 thousand including interest.

During 2018, the Company obtained favorable outcome in the tax challenging action of Files Nos. 8616-2016 and 11967-2017 for US\$9,295 thousand and US\$14,563 thousand, respectively.

At December 31, 2017 this item mainly includes administrative process followed against the Tax Tribunal and the Tax Authorities for S/118,700 thousand (equivalent to US\$36,579 thousand) related to income tax examinations for the years between 2005 and 2008. Management and its legal advisers consider that no significant liabilities will arise for the Company.

30 BASIC AND DILUTED EARNINGS PER SHARE

The calculation at December 31, 2019, 2018 and 2017 of earnings per basic and diluted share shows the same value as there are no shares with dilutive effect is as follows:

	<u>Profit US\$000</u>	<u>Weighted average number of shares used</u>	<u>Earnings per share</u>
2019:			
Basic and diluted earnings per share	170,952	4,493,626	0.038
2018:			
Basic and diluted earnings per share	119,552	4,019,014	0.030
2017:			
Basic and diluted earnings per share	185,104	3,415,046	0.054

31 GUARANTEES AND COMMITMENTS

(a) Guarantees and performance bonds -

At December 31, 2019 the Company has given performance bonds backed by local financial institutions to suppliers for a total US\$33,057 thousand (equivalent to S/109,651 thousand) and US\$34,059 thousand.

Guarantees related to borrowings are disclosed in Note 14.

(b) Commitments -

a) Investment costs -

The investment commitments are related to the PMRT, whose planned budget is disclosed in Note 11.i).

b) Non-cancellable operating leases -

The Company leases housing, boats, barges and information technology assets under non-cancellable operating leases expiring within six months to eight years. Leases contain variable terms, escalation clauses, and renewal rights. On renewal, the terms of the leases are renegotiated. At December 31, 2018, there were no leases with contingent variable income.

From January 1, 2019, the Company has recognized the right-of-use assets for these leases, except for short-term and low-value leases, see Note 2.1.iii and Note 13 for more information.

Future minimum non-cancellable operating lease payments at December 31, are as follows:

	<u>2018 US\$000</u>	<u>2017</u>
Less than 1 year	17,776	26,861
Between 1 year and less than 3 years	4,093	21,884
More than 3 years	<u>1,954</u>	<u>1,894</u>
Total	<u>23,823</u>	<u>50,639</u>

Since January 1, 2019, the Company adopted IFRS 16 Leasing (Note 2.1.iii)

32 RELATED PARTIES

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

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

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>	<u>2017</u> <u>US\$000</u>
Short-term employee benefits:			
Salaries of key management (Excluding remuneration of Directors)	6,868	7,417	5,651
Remuneration of Directors (all of which are non - executives)	174	163	158

There were no post-employment benefits, long-term benefits, termination benefits and share-based payments in 2019, 2018 and 2017.

33 SUBSEQUENT EVENTS

Given the severe outbreak of COVID-19 worldwide over the first months of the year, the Peruvian Government enacted Supreme Decrees No.044-2020-PCM, No.051-2020-PCM, No.064-2020-PCM, No.075-2020-PCM, No.083-2020-PCM, No.094-2020-PCM, No.116-2020-PCM No.135-2020-PCM, No.146-2020-PCM, No.156-2020-PCM, No.174-2020-PCM and No.184-2020-PCM between March and November 2020, to declare a State of National Emergency in Peru up until December 31, 2020 including an order of mandatory social isolation (quarantine) because of the risks for the health and lives of the nation's population. The aforementioned Supreme Decrees set forth restrictions to a large number of economic, trade, cultural, recreational, activities as well as those of hotels and restaurants.

Nonetheless, the Company has continued operating under the provisions of Supreme Decree No.044-2020-PCM that secures the supply of food products and provision of health services, and the continuity of other related industries; in this sense, since the Company is engaged in the refining and marketing of fuel, it provides services that complement and are involved in the acquisition, production and supply of food and provision of health services, and then, linked to the productive chain of goods and services and therefore, an activity within those industrial activities that cannot be halted because they are deemed to be essential. The Company considers that this event does not disclose any condition for which the 2019 financial statements must be adjusted.

The Company's financial sustainability is based on the high commercialization of products in the market, which today is affected by social isolation. For the Company, this situation represents a temporary event, which will gradually normalize starting in July 2020. The Company considers that this situation will not affect its long-term plans, the compliance with borrowings, and the recoverability assessment of its Cash Generating Units. The Company recognizes that the crude price uncertainty remains constant; however, a drop in the crude price has no significant impact on the financial performance of the business since the Company obtains its profit based on a net margin on refinery.

This situation temporarily stopped the works during the state of emergency; however, the activities of the PMRT have been reactivated progressively and the protocols have been met strictly, which were approved and established in the surveillance, prevention and control plans of COVID-19 for this project which has a 89.55% of advance at June 30, 2020, so it is not expected to affect the start of operations of the PMRT scheduled for 2021. Likewise, the Company is evaluating whether this situation will represent a higher cost.

In addition, receivables are guaranteed by bank guarantees, so the increase in the risk of impairment of receivables from customers is covered.

Also, based on information available to date, the state of emergency has significantly affected the Company's results in 2020. The income, costs, gross profit and net profit for the period as of September 30, 2020 has decreased in around 36%, 32%, 66% and 146%, respectively, compared to September 30, 2019 due to a lower volume of purchases and sales and due to variations in local and international prices of crude oil and refined products. However, flows have covered their fixed and variable costs incurred, and the culmination of social isolation has led to an improvement in their profits.

On the other hand, in July 2020, Geopark Peru S.A.C. notified PETROPERÚ S.A. that it has irrevocably decided to withdraw from the License Agreement for Block 64 where it has a 75% interest. 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. 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. The Company is evaluating whether it fully takes over the operation of the License Agreement or license another operator.

In addition, 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.

Subsequent to December 31, 2019 to the date of approval of the financial statements no other events occurred, apart from those described in the above paragraph that need to be disclosed in notes to the financial statements.

ISSUER

Petróleos del Perú – Petroperú S.A.
Avenida Enrique Canaval Moreyra 150
Lima 27
Peru

INDEPENDENT AUDITORS

Gaveglío Aparicio y Asociados S. Civil de R. L., a member firm of PricewaterhouseCoopers
Torre KPMG
Av. Santo Toribio 143
San Isidro, Lima 27
Peru

LEGAL ADVISORS

*To Petróleos del Perú – Petroperú S.A.
as to matters of United States Law*

Clifford Chance US LLP
31 West 52nd Street
New York, New York 10019
United States of America

*To the Initial Purchasers
as to matters of United States Law*

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
United States of America

*To Petróleos del Perú – Petroperú S.A.
as to matters of Peruvian Law*

Rubio, Leguía, Normand Abogados
Av. Dos de Mayo 1321
San Isidro, Lima 27
Peru

*To the Initial Purchasers
as to matters of Peruvian Law*

Estudio Echeopar
Av. Los Conquistadores 1118, piso 6
San Isidro, Lima 15073
Peru

TRUSTEE, PAYING AGENT AND REGISTRAR

The Bank of New York Mellon
240 Greenwich Street
New York, New York 10286
United States of America

SINGAPORE LISTING AGENT

Clifford Chance Pte Ltd
12 Marina Boulevard
25th Floor, Marina Bay Financial Centre, Tower 3
Singapore 018982



PETRÓLEOS DEL PERÚ – PETROPERÚ S.A.

U.S.\$1,000,000,000

5.625% Notes due 2047

OFFERING MEMORANDUM

Joint Bookrunners

HSBC
J.P. Morgan
Santander

February 4, 2021