(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

CONTENTS

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

(Free translation from the original in Spanish)

INDEPENDENT AUDITOR'S REPORT

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

July 27, 2020

We have audited the accompanying financial statements of **Petróleos del Perú - PETROPERU S.A.**, which comprise the statements of financial position at December 31, 2019 and 2018 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.

Gaveglio Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.
Av. Santo Toribio 143, Piso 7, San Isidro, Lima, Perú T: +51 (1) 211 6500, F: +51 (1) 211-6550
www.pwc.pe

July 27, 2020
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 and 2018, 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.

Gaveglio Aparicio y Asociados

Countersigned by

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

(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	At December 31, 2019 US$000	2018 US$000
Current assets			
Cash and cash equivalents	7	375,699	528,700
Trade receivables	8	362,632	438,698
Other receivables	9	173,991	1,455,757
Inventories	10	654,419	590,537
Prepaid expenses		3,671	431
Assets held for sale		588	1,963
Total current assets		1,571,000	3,016,086
Non-current assets			
Other receivables	9	363,609	241,751
Property, plant and equipment	11	5,094,563	4,043,033
Investment properties	12	9,569	9,579
Intangible assets		36,773	33,554
Right-of-use assets	13	11,527	-
Total non-current assets		5,516,041	4,327,917
TOTAL ASSETS		7,087,041	7,344,003

LIABILITIES AND EQUITY	Note	At December 31, 2019 US$000	2018 US$000
Current liabilities			
Other financial liabilities	14	1,009,994	1,673,112
Trade payables	15	739,128	529,801
Other payables	16	139,318	105,092
Other provisions	17	37,913	34,662
Lease liabilities	13	8,811	-
Total current liabilities		1,935,164	2,342,667
Non-current liabilities			
Other financial liabilities	14	3,153,745	3,147,610
Other provisions	17	11,700	7,067
Deferred income tax liabilities	18	75,488	109,349
Lease liabilities	13	2,682	-
Total non-current liabilities		3,243,615	3,264,026
Total liabilities		5,178,779	5,606,693
Equity			
Share capital	19	1,445,586	1,337,989
Legal reserve		52,115	40,160
Retained earnings		410,561	359,161
Total equity		1,908,262	1,737,310
TOTAL LIABILITIES AND EQUITY		7,087,041	7,344,003

The attached notes from pages 8 to 87 form part of the financial statements.

(Free translation from the original in Spanish)
PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended December 31, 2019 US$000	2018 US$000
Revenue from ordinary activities	20	4,568,327	4,884,006
Other operating profit	21	99,719	81,064
Total revenue		4,668,046	4,965,070
		-	
Cost of sales	22	(4,139,942)	(4,617,600)
Gross profit		528,104	347,470
		-	
Selling and distribution expenses	23	(78,904)	(77,409)
Administrative expenses	24	(186,088)	(156,225)
Other income	26	38,269	135,487
Other expenses	26	(36,230)	(33,480)
Total operating expenses		(262,953)	(131,627)
Profit from operating activities		265,151	215,843
Finance income	27	19,134	17,021
Finance costs	27	(37,398)	(48,928)
Exchange difference, net	3.1.a.i	6,877	(6,661)
Profit before income tax		253,764	177,275
Income tax expense	28	(82,812)	(57,723)
Net profit for the year		170,952	119,552
Other comprehensive income that can be reclassified as profit or loss:			
Proceeds from derivative instruments		-	154
Total comprehensive income		170,952	119,706
Earning per basic and diluted share	30	0.038	0.030

The attached notes from pages 8 to 87 form part of the financial statements.

(Free translation from the original in Spanish)

PETRÓLEOS 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, 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:							
Proceeds from derivative instruments	-	-	-	-	154	-	154
Total comprehensive income	-	-	-	-	154	119,552	119,706
Transactions with shareholders:							
Tranfers to additional capital and legal reserve	-	-	166,594	18,510	-	(185,104)	-
Tranfers 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:							
Tranfers to additional capital and legal reserve	-	-	107,597	11,955	-	(119,552)	-
Tranfers 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 87 form part of the financial statements.

(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF CASH FLOWS

	Note	For the year ended December 31, 2019 US$000	2018 US$000
OPERATING ACTIVITIES			
Net cash provided by (applied to) operating activities		706,063	(2,298)
Interest payment		(37,810)	(23,665)
Income tax payment		(22,511)	(108,439)
Net cash provided by (applied to) operating activities		645,742	(134,402)
INVESTING ACTIVITIES			
VAT early refund related to investing activities	9	50,712	44,002
VAT related to investing activities		(143,982)	(71,353)
Payment for purchase of property, plant and equipment		(918,892)	(604,140)
Capitalized interest payment		(150,914)	(107,425)
Sale of held-for-sale assets		4,085	-
Payment for purchase of intangible assets		(5,436)	(2,020)
Retirement of invesment in fixed term deposits		1,670,000	1,151,837
Invesment in fixed term deposits		(637,000)	(1,912,462)
Net cash applied to investing activities		(131,427)	(1,501,561)
FINANCING ACTIVITIES			
Loans from financial institutions	14-c	3,205,597	4,452,234
CESCE loans	14-c	-	1,236,717
Payment of transaction costs	14-c	-	(74,695)
Payment of loans to financial institutions	14-c	(3,856,461)	(4,113,312)
IFRS 16 asset lease payment	13	(17,485)	-
Net cash (applied to) provided by financing activities		(668,349)	1,500,944
Net decrease in cash and cash equivalents		(154,034)	(135,019)
Effect of changes in exchange rate on cash		1,033	(2,422)
Cash and cash equivalents at beginning of year	7	528,700	666,141
Cash and cash equivalents at end of year		375,699	528,700
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 87 form part of the financial statements.

(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF CASH FLOWS

	Note	For the year ended December 31, 2019 US$000	2018 US$000
Net profit for the period		170,952	119,552
Adjustments to reconcile the profits for the year to cash from operating activities:			
Estimate for impairment of trade receivables	8	1,307	382
Estimate for impairment of other receivables	9	186	553
Estimate for impairment of inventories	10	539	591
Provision for retirement pensions	17	11	33
Provision for contingencies	17	1,392	24,665
Provision for plugging and environmental remediation	17	28,174	10,806
Provision for job termination	17	6,269	-
Depreciation	11-12	69,743	48,379
Amortization		2,217	2,173
Depreciation of right-of-use assets	13	15,599	-
Deferred income tax	18	(33,861)	54,042
Reversal/Provision for impairment of fixed assets	11	324	(11,536)
Disposal of property, plant and equipment	11-26	58	102
Gain on sale of assets held for sale		(2,710)	-
Other adjustments		-	(826)
Impairment of investments		-	67
Effect on adjustment of unrealizable exchange gains and losses		(1,033)	2,422
		259,167	251,405
Net changes in operating assets and liabilities:			
Trade receivables		74,760	(95,777)
Other receivables		219,991	(33,690)
Inventories		(64,421)	52,483
Prepaid expenses		(3,240)	4,458
Trade payables		157,376	(251,345)
Other payables		2,109	(61,936)
Net cash (applied to) provided by operating activities		645,742	(134,402)

The attached notes from pages 8 to 87 form part of the financial statements.

(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

1 BACKGROUND AND ECONOMIC ACTIVITY

a) Background -

Petróleos del Perú - PETROPERÚ S.A. (hereinafter, the Company) was incorporated on July 24, 1969 under Decree Law No.17753.

The Company is a government-owned company under private law operating in the hydrocarbons subsector within the Energy and Mining Industry. The Company was organized and incorporated as a stock company, under the provisions of Legislative Decree No.043, *Ley de la Empresa Petróleos del Perú - PETROPERÚ S.A.*, published on March 4, 1981, as amended, by which the Peruvian Government holds the Company's total share capital. The Company is also subject to the provisions of article 12 of the rules for application of Law No.28840, setting forth that each member of the General Shareholders' Meeting shall represent the number of equity shares of the Company resulting from dividing the total number of shares by the number of members designated to act on behalf of the Peruvian Government.

The Company is registered with the Peruvian company and securities regulator (Superintendencia de Mercados de Valores - SMV).

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

Under the provisions of Law No. 28840, "Ley de Fortalecimiento y Modernización de la Empresa de Petróleos del Perú - PETROPERÚ S.A.", for the modernization of the Company was expressly excluded from the scope of the governmental agency that provides financing to government-owned companies, ("Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado – FONAFE) and the public investment system ("Sistema Nacional de Inversión Pública – SNIP"). Further, by means of the second final provision of Law No. 28840, the Supreme Resolution No. 290-92-PCM - by which the Company was included within the scope of the process of private investment promotion, and any other regulation opposing Law No.28840 - was superseded.

The Company's activities are governed by its Organic Law approved under Legislative Decree No. 043, its Bylaws, Law 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 and 2018 there has been no need to use those guarantees.

Additionally, on December 30, 2016, Legislative Decree No.1292 was enacted declaring of public need and national interest the safe operation of “Oleoducto Norperuano” and stipulating the re-organization and improvement of the corporate governance of the Company. By means of Law No. 30993 enacted on August 15, 2019, the development and execution of the Project for the Strengthening and Modernization of the Peruvian northern oil pipeline was declared of national interest, in order to guarantee its operation and efficient maintenance, expand its extension, as well as increase its transportation capacity and profitability. This Law also seeks to safeguard the conservation of the environment and complement the Talara Refinery Modernization Project, as well as guaranteeing adequate participation for taxes, canon and royalties in favor of the estate.

b) Economic activity -

By means of Law No.28244 enacted on June 2, 2004, the Company is authorized to enter into contracts with PERUPETRO S.A. for exploration and exploitation operations as well as petroleum-related services as permitted by law.

As established under the Law of “Fortalecimiento y Modernización de Petroperú S.A.”, the Company has economic, financial and administrative autonomy in accordance with its annual and five-year business objectives approved by the Ministry of Energy and Mines. The agreements and contracts entered into in order to achieve its business purpose are subject to the guidelines established under i) Legislative Decree No.043, as amended; ii) its Bylaws; iii) its internal rules; iv) Board agreements; v) the Standards of the National Control System; and vi) the standards and regulations specific to the Company.

The Company’s foreign trade transactions are governed by the generally accepted practices and uses of international trade and International Law standards as well as the generally accepted practices in the hydrocarbon and energy industry.

As part of its core business purpose, the Company carries out activities in accordance with the Peruvian Hydrocarbons Law (*Ley Orgánica de Hidrocarburos) - Law No.26221.* These activities consist of all oil industry phases, such as oil trade, including its by-products, basic petrochemicals and other forms of energy.

By means of Law No.29970 - law for the strengthening of the energy supply continuity throughout the Southern Region in Perú (“Ley que afianza la Seguridad Energética y promueve el desarrollo del Polo Petroquímico en el Sur del País”) the Company shall take part, individually or jointly, in the petrochemical development described in the above-mentioned law.

Pursuant to Law No.30130 the Company is authorized to sell or issue shares to be placed in the Securities Market. In this process, the Peruvian Government is allowed to incorporate a private stake of up to 49% of its share capital outstanding. Also, the Company is allowed to carry out investment activities and projects as long as no current or future firm or contingent liabilities are incurred by the Company, do not affect the guarantees for the Talara Refinery Modernization Project (PMRT the Spanish acronym); and no Treasury resources are required; which is not restrictive of those ongoing projects that enable the Company to be operational at the effective date of this law. These restrictions will cease to exist whenever the Company generates sufficient cash flows to be able to secure repayment of the borrowings contracted to invest in implementing the PMRT and a private stake of at least 40% has been incorporated in its outstanding share capital.

By means of Supreme Decree No.031-2016-MEM dated December 1, 2016 approved the assignment of contractual position in the License Agreement for the Hydrocarbons Exploration and Exploitation on Block 64, from PETROPERU to GEOPARK PERU S.A.C.; the latter now being designated as the Operator of the License Agreement. On December 2, 2016 the relevant public deed of the referred assignment was signed.

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 Perú known as "Import parity price ("Precio de paridad de importación - PPI"). Whenever the PPI is higher than to the upper range, the difference is the Compensation factor and whenever the PPI is lower than the lower range, the difference is the Contribution factor.

In 2019 and 2018 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 (0.8% of the Company's total revenue in 2018).

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.

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" retrospectively 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	13,419

Of which:

Current lease liability	10,013
Non-current lease liability	3,406
	13,419

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 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 IFRS 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. Major changes contained in the Revised Conceptual Framework as compared to the previous framework are:

- Clarification that one of the major objectives of the financial statements is evaluating performance of those who manage an entity's resources;
- Clarification of the concept of prudence as a component of neutrality needed to prepare financial statements;
- A definition of a reporting entity;
- Updated definition of assets and liabilities;
- Even though the thresholds of probability have been removed in recognizing items in the financial statements; for items to be recognized they should contribute with meeting the major financial reporting objectives, that is, the information is relevant and faithfully represents the economic substance of the transaction. The underlying idea is not to extend the range of assets and liabilities to be recognized in the financial statements but align the recognition criteria with the general objectives of the financial statements;
- Guidance is provided to derecognize assets and liabilities;
- Revised definition of the basis of measurement permitted for financial statement line items;
- The basis of measurement of the elements of the financial statements has been revised, and it is expressly stated that the statement of income is the principal source of information on the performance of an entity. In addition, there is indication that in certain exceptional circumstances, some items of income and expenses should not be recognized in the statement of income but in the statement of comprehensive income. Also, a general rationale is explained that whenever a reclassification to profit or loss of the items stated within other comprehensive income should be made when it contributes with the financial statements to provide more relevant information or a more faithful representation.

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

WTI (approximately 9 US$/Bl) 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$/Bl, reaching levels of 20.2 US$/Bl during the years 2031-2038. Recovery of the crack spread in late 2020 (18.0 US$/Bl) 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 though other comprehensive income.

The Company performs the classifications of the debt instruments whenever the underling 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).

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 receivables.

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:

	Years
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).

2.11 Investment properties -

Investment properties consists of land and buildings owned by the Company, that are held to obtain cash from terms over a long term and are not used by the Company. Investment properties are shown at cost less accumulated depreciation and impairment losses, if any. Subsequent costs attributable to investment properties are capitalized only if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of these assets can be measured reliably; if not, they are recognized as expenses when incurred.

Repair and maintenance expenses are recognized in profit and loss when they are incurred. A property’s carrying amount is written down immediately to its recoverable amount when the property’s carrying amount is greater than its estimated recoverable amount.

Cost and accumulated depreciation of properties sold or retired are eliminated from their respective accounts and any profit or loss is recognized in the income statement. Depreciation of these assets is determined under the straight-line method at a rate considered sufficient to absorb the carrying amount of assets at the end of their useful lives and considering their major components with substantially different useful lives (each component is accounted for separately for depreciation purposes over its individual useful life).

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

The Company conducts an assessment of impairment under the provisions of International Accounting Standard 36 “Impairment of assets” and performs annual tests of impairment of its items of property, plant and equipment, intangible assets, investment properties and right-of-use assets to determine whether there are indications that said items are impaired. If there is any indication of impairment, Management calculates the recoverable amount in order to determine the extent of the impairment loss (if any). If the recoverable amount of an individual asset item cannot be determined, the Company calculates the recoverable amount of the respective CGU to which the asset belongs. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Provided that consistent and reasonable criteria of asset allocation are used, common assets are also allocated to individual CGUs; or otherwise to the smallest groups of CGUs identified on a consistent and reasonable basis.

The recoverable amount is the higher of the asset’s value in use or fair value less costs of disposal. Value in use corresponds to the present value of the estimated future cash flows discounted to current value using a pre-tax discount rate that reflects the current market conditions and the specific risks associated with each asset or CGU.

Impairment losses, calculated with reference to the value in use of the assets, recognized in previous years, are reversed if there is a change in the estimates used when an impairment loss was last recognized.

Impairment losses of assets 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.

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 and 2018 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, to the extent possible, 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|.

d) Workers' profit sharing -

The Company recognizes a liability and an expense for the workers' profit sharing in accordance with laws and regulations currently in force. Workers' profit sharing is calculated applying the rate of 10% to the taxable income determined by the Company in accordance with current income tax legislation.

2.19 Provisions -

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are reviewed at each period-end. When the effect of the time value of money is significant, provisions are discounted using a pre-tax rate that reflects, when appropriate, the risks specific to the obligation. The reversal of the discount due to the passage of time gives rise to an increase of the obligation recognized with a charge to the statement of comprehensive income as finance cost. Provisions are not recognized for future operating losses.

Provision for environmental remediation and plugging wells of privatized units -

The obligation to be incurred in environment remediation and plugging wells arises from the operating units transferred by the Peruvian Government to the private sector and from a specific mandate, respectively. The Peruvian Government, through the Company assumed these obligations. In this respect, the Peruvian Government will refund all expenses incurred by the Company in meeting these obligations. The obligation assumed by the Peruvian Government was recognized with a charge to prior-year profit or loss. The amount of the provision at that date is adjusted at each year-end.

The Company recognizers 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 considered probable uncertain tax positions assumed by the Company.

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 no exceeding 45 days, which is consistent with the practice in the local market.

b) Revenue from the fuel price stabilization fund (Note 1-c) -

Revenue derived from the fuel price stabilization fund are recognized simultaneously with the revenue from sales to customers of the refined products comprising the Fuel Price Stabilization Fund, for which the General Direction of Hydrocarbons (DGH) of the Ministry of Energy and Mines sets a price range. The Company's price-setting policy is using as a reference the Import Price Parity (PPI); nevertheless, the price billed to customers must be within the price ranges set for the products within the scope of the Fund.

In accordance with the provisions of Emergency Decree No. 010-2004, whenever the Company's price is above the upper price range threshold, the Company records revenue and the respective receivable from the Ministry of Energy and Mines (MEM), for the amount equivalent to the difference between the price billed to customers and the upper price range threshold, since this is a compensating factor; whenever the Company's price is below the lower price range threshold, the Company recognizes a reduction in revenue and the receivables from MEM, for the amount equivalent to the difference between the price billed to customers and the lower price range threshold, since this is a contribution factor.

Revenue from the Price Stabilization Fund is recognized as part of revenue from ordinary activities. Balances receivable from the Ministry of Energy and Mines are accounted for as described in 2.5.

c) Revenue from sales of services -

The Company provides services at fixed prices in accordance with contractual terms.

Revenue from services rendered are recognized when control over service is transferred to the customer. For the services of operating terminals, freight, supply, and use of hydrocarbons, the transfer of control occurs when the service is completed and there are no other performance obligations remaining to be satisfied that may affect the customers' acceptance of the service (revenue recognized at a point in time). For the services of rent, transport of crude oil and other services, transfer of control occurs over time, because the relevant performance obligations are satisfied to the extent the service is being rendered given that there is no possibility for the customer not to accept the service already completed.

d) Interest income -

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

2.24 Earnings per share -

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

2.25 Reclassification of items -

In 2019, the Company reviewed the items of investment property and reclassified certain components to property, plant and equipment, because they are part of the plant leased to third parties. The Company considers that the reclassification corresponds to a more adequate presentation of its financial statements. At January 1, 2018 and December 31, 2018, the Company has reflected these reclassifications in its financial statements for US$69,943 thousand and US$64,577 thousand, respectively.

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		
	S/000	**EUR000**	**JPY000**	**S/000**	**EUR000**	**JPY000**
Assets:						
Cash and cash equivalent	242,834	84	-	229,620	8,942	-
Trade receivables	1,012,666	-	-	1,320,427	-	-
Other receivables	1,654,867	-	-	2,352,590	-	-
	2,910,367	84	-	3,902,637	8,942	-
Liabilities						
Other liabilities	(1,337,381)	-	-	(2,942,995)	-	-
Trade payables	(192,716)	(2,670)	(23,253)	(120,377)	(2,223)	-
Other payables	(587,632)	-	-	(396,082)	-	-
Other provisions	(64,669)	-	-	(49,448)	-	-
	(2,182,398)	(2,670)	(23,253)	(3,508,902)	(2,223)	-
Net asset (liability) exposition	727,969	(2,586)	(23,253)	393,735	6,719	-

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
S/	0.301	0.296
EUR	1.169	1.228
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) 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) it would have affected profit before income tax.

		Effect on profit and loss before taxes	
	Movement of	Revaluation US$000	Devaluation US$000
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)

ii) Interest rate risk -

The Company does not have significant assets which bear interest; income and operating cash flows are not impacted by the changes in market interest 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 t 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 and 2018 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 s 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 and 2018.

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 and 2018, 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$2,105,232 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 (*)	16,296	16,296	16,296	-	-
	4,930,656	7,365,731	1,916,123	146,657	5,302,951
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 (*)	21,590	21,590	21,590	-	-
	5,372,113	8,284,665	2,371,683	144,376	5,808,606

(*) 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. (AA-(pe).

At December 31, gearing ratios were as follows:

	2019 US$000	2018 US$000
Other financial liabilities	4,163,739	4,820,722
Less: Cash and cash equivalents and time deposits	(381,063)	(1,565,565)
Net debt (A)	3,782,676	3,255,157
Total equity (B)	1,908,262	1,737,310
Total capital (A)+(B)	5,690,938	4,992,467
Ratio (A)/((A)+(B))	0.66	0.65

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.

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 and 2018 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 tax expenses and obligations requires interpretation of the Peruvian tax laws. The Company seeks professional advice in tax matters before making tax-related decisions. Management considers that these estimates are reasonable and appropriate at the reporting date; however, it considers that a particular interpretation of a point of tax laws by the Peruvian tax authorities may eventually result in additional taxes payable in the future. The Company recognizes liabilities for the observations resulting from tax audits when additional taxes become payable; any differences have an impact on the balances of current and deferred income tax for the fiscal period in which those observations are determined.

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

  The current income tax determination is performed by the Company following applicable laws and regulations and it does not include any estimated provisions that may eventually give rise to differences against tax audit results. Accordingly, no sensitivity analysis has been considered necessary to be included to simulate variances in calculation, because Management considers that no significant differences will arise that may have a material impact on its financial statements.

- Review of carrying amounts and impairment provision -

  The Company performs an assessment of whether a provision for impairment is required following the accounting policy described in Note 2.12. This determination requires the Company to exercise judgment in analyzing evidence of impairment and determining the recoverable amount. In determining the latter, judgment is required to calculate the expected future cash flows, including Management's projections of the Company operations in the future, projections of economic factors that may affect the Company's expected revenue and costs as well as determining the discount rate to be applied to those cash flows.

  Estimates used in determining the recoverable amount of assets consider prior-year events, current operations, future expectations as well as changes in the Company's business strategy. These considerations were relevant in estimating the expected future cash flows and are taken into account in the coming years. The Company, taking into account internal and external information, has considered it appropriate to carry out the impairment test of the Oil Pipeline Operations CGU and the PMRT (See Note 11.vii) by other CGUs and has not identified ant indicators to carry out an impairment test.

- 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.

- 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.

- Provision for doubtful account -

  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).

- Determine the lease term -

  In determining the lease term, the Company considers the following factors that are the most relevant:

  i) For lease contracts that started on or after January 1, 2019, the first day of the month in which the contract begins has been considered as the start date.
  ii) The end date is the same as the one stated in the lease contract.
  iii) Possible contractual renewals were not considered in some contracts because no clauses that are favorable to the lessee were identified in the lease contract.

Most of the options to extend the office and vehicle rentals were not included in the lease liability since the Company may replace assets without significant costs or business disruption.

At January 1, 2019 potential future cash outflows for US$9,201 thousand (not discounted) have not been included in lease liability because it is not reasonably certain that the leases will be renewed (or not terminated).

The lease term is re-evaluated whether an option is actually exercised (or not exercised) or the Company is forced to exercise it (or not exercise it). The reasonable certainty assessment is only reviewed if a significant event or a significant change in circumstances occurs that affects this assessment and is within the control of the lessee. During the current year, the financial effect of reviewing the terms of the lease to reflect the renewal and termination options was an increase in lease liabilities and right-of-use assets for US$3,171 thousand.

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 bly 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:

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 December 31, 2019				
Assets				
Current	1,454,698	74,302	42,000	1,571,000
Non-current	5,099,959	223,294	192,788	5,516,041
Total assets	6,554,657	297,596	234,788	7,087,041
Liabilities				
Current	1,860,622	50,573	23,969	1,935,164
Non-current	3,226,112	17,503	-	3,243,615
Total liabilities	5,086,734	68,076	23,969	5,178,779
At December 31, 2018				
Assets				
Current	2,745,057	267,563	3,466	3,016,086
Non-current	3,888,085	200,991	238,841	4,327,917
Total assets	6,633,142	468,554	242,307	7,334,003
Liabilities				
Current	2,273,861	43,653	25,153	2,342,667
Non-current	3,263,908	118	-	3,264,026
Total liabilities	5,537,769	43,771	25,153	5,606,693

(*) 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				
Income from ordinary activities:				
Net sale of good	4,554,255	14,072	-	4,568,327
Provision of services	22,886	34,684	42,149	99,719
Total income from ordinary activities	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)	(82,812)
Profit (loss) for the year	171,799	(20,813)	19,966	170,952
For the year ended December 31, 2018				
Income from ordinary activities:				
Net sale of good	4,800,258	83,748	-	4,884,006
Provision of services	14,205	22,109	44,750	81,064
Total income from ordinary activities	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

(*) 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:

	2019 US$000	2018 US$000
Peru	4,197,495	4,450,327
Other countries	470,551	514,743
	4,668,046	4,965,070

6 FINANCIAL INSTRUMENTS

6.1 Financial instruments per category -

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

	At December 31,	
	2019 US$000	2018 US$000
Financial assets as per the statement of financial position		
Financial assets at amortized cost:		
- Cash and cash equivalents	375,699	528,700
- Trade receivables	362,632	438,698
- Other receivables (*)	44,367	1,088,206
	782,698	2,055,604
Financial liabilities as per the statement of financial position		
Other financial liabilities at amortized cost:		
- Other financial liabilities	4,163,739	4,820,722
- Trade payables	739,128	529,801
- Lease liabilities	11,493	-
- Other payables (*)	7,743	7,106
	4,922,103	5,357,629
Other liabilities at fair value with changes in profit or loss:		
- Derivative financial instruments (Note 16)	8,553	14,484
	4,930,656	5,372,113

(*) 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., 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 US$000	2018 US$000
Cash and cash equivalent -		
Checking accounts:		
A+	29,754	45,698
A	344,867	479,922
	374,621	525,620
Liquidity funds:		
A	1,050	3,050
Other receivables -		
Time deposits:		
A+	5,364	130,000
A	-	132,865
A-	-	774,000
	5,364	1,036,865

Risk ratings "A" and "A+" in the above table represent high quality ratings. For banks in Perú, risk ratings are obtained from the credit rating agencies authorized by the Peruvian banking regulator, (Superintendencia de Banca, Seguros y AFP - SBS).

Customers' credit quality is assessed in three 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 US$000	2018 US$000
Trade receivables (Note 8)		
Counterparties without external credit rating		
A	213	65
B	322,558	426,783
C	39,861	11,850
	362,632	438,698

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 US$000	2018 US$000
A	12,387	11,955
B	29,598	23,861
C	26,588	282,748
	68,573	318,564

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 US$000	2018 US$000
Checking accounts (a)	374,621	525,620
Liquidity funds (b)	1,050	3,050
Fixed funds	28	30
	375,699	528,700

(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% 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 US$000	2018 US$000
Wholesalers	217,200	239,987
Price Stabilization Fund - Ministry of Energy and Mines (Note 1-c)	9,796	82,472
Mining industry	44,830	32,108
Fuel traders	27,929	19,315
Oil companies	23,167	3,687
Armed Forces and National Police Force	11,037	11,555
Aviation business	6,341	7,451
External market	4,562	26,887
Construction industry	4,372	5,511
Maritime businesses	4,057	2,429
Transport industry	2,537	2,373
Fishing industry	2,406	2,513
Industrial industry	962	926
Electric power industry	543	1,063
Other customers	2,892	421
Doubtful accounts	6,270	5,019
	368,902	443,717
Expected loss of trade receivables	(6,270)	(5,019)
	362,632	438,698

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 and 2018 the total amount receivable from the General Hydrocarbons Agency (DGH) amounted to US$27,290 thousand and US$99,645 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), 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).

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
Opening balance	82,472	50,126
Price compensation	7,835	60,170
Price contribution	(28,346)	(21,405)
Net (charged) credited to revenue from ordinary activities (Note 20)	(20,511)	38,765
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)
Final balance	9,796	82,472

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 losses at December 31, 2019 and 2018 was determined as follows:

	2019			2018		
	Expected loss rate	Gross carrying amount	Expected loss	Expected loss rate	Gross carrying amount	Expected loss
	%	US$000	US$000	%	US$000	US$000
Current	0.01	352,178	33	0.01	354,397	32
From 1 to 30 days	0.62	35	-	0.48	831	4
From 31 to 60 days	-	-	-	0.54	373	2
From 61 to 90 days	-	-	-	0.68	147	1
From 91 to 120 days	1.55	39	1	-	43	-
From 121 to 150 days	4.66	57	2	-	-	-
From 151 to 180 days	4.71	6	-	-	1	-
From 181 to 210 days	8.65	4	-	1.69	59	1
From 211 to 240 days	-	-	-	5.88	17	1
From 241 to 270 days	-	-	-	-	-	-
From 271 to 300 days	-	-	-	-	-	-
From 301 to 330 days	-	-	-	67.31	52	35
From 331 to 360 days	100.00	6	6	92.44	119	110
More than 360 days	100.00	6,222	6,228	92.84	5,206	4,833
Total (*)		358,547	6,270		361,245	5,019

(*) Does not include the Price Stabilization Fund.

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

	2019	2018
	US$000	US$000
Opening balance	5,019	4,996
Expected loss for the year (Note 23)	1,307	382
Exchange difference	(25)	(229)
Recoveries	(31)	(130)
Final balance	6,270	5,019

Management considers that the estimate for the expected loss recognized in the financial statements and guarantees required are sufficient to cover any eventual risk of collection of trade receivables at the date of the statement of financial position.

Trade receivables that have reached maturity, on which no losses are expected, are related to independent customers maintaining letters of guarantee and/or whose debt is reconciled and is expected to be collected in the short term; therefore, Management has not estimated an expected loss for these accounts.

The provision for expected loss for trade receivables is included in selling expenses in the statement of comprehensive income (Note 23).

9 OTHER RECEIVABLES

This item comprises:

	At December 31,	
	2019	2018
	US$000	US$000
Tax credit - VAT and income tax (a)	122,042	385,735
Advances granted to suppliers	12,754	9,279
Loans to personnel	12,322	4,356
Assets for derivative financial instruments	11,784	302
Fixed time deposits (d)	5,364	1,036,865
Association investment with GeoPark	4,996	9,149
Loans	2,543	2,823
Others	2,186	7,248
Doubtful accounts	35,954	35,495
	209,945	1,491,252
Expected loss of other receivables (f)	(35,954)	(35,495)
Current portion	173,991	1,455,757
Non-current		
Tax credit - VAT, long-term (b)	329,405	209,563
Price Stability Fund Claims - Ministry of Energy and Mines (Note 1-c) (c)	17,494	17,173
Claims against tax authorities - SUNAT (e)	8,802	9,613
Long-term third parties' claims	-	677
Other long-tern taxes	7,908	4,725
Non-current portion	363.609	241,751

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

At December 31, 2019 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 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).

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.

In 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).

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 No16 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.

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).

(d) Fixed time deposits -

At December 31, 2019 and 2018 the Company maintains 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.

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

This item consists of claims against tax assessments involving the Turbo A-1 (fuel intended only for aviation activities) resulting from the provisions of DS 186-2002-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:

	2019 US$000	2018 US$000
File No. 03490-2012-0-1801-JR-CA-08	-	972
File No. 17806-2012 (i)	8,802	8,641
	8,802	9,613

(i) In November 2012, the Company paid a total US$8,651 thousand (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.

(f) 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 and 2018 the movement of the provision for expected loss is as follows:

	2019 US$000	2018 US$000
Opening balance	35,495	36,483
Expected losses (Note 24)	186	553
Exchange difference	309	(723)
Recoveries	(36)	(620)
Write-offs	-	(198)
Final balance	35,954	35,495

10 INVENTORIES

This item comprises:

	At December 31, 2019 US$000	2018 US$000
Crude oil	49,798	54,878
Refined products:		
In-process	214,796	220,811
Finished	253,035	187,464
Acquired refined products	71,606	93,173
In-transit inventories	45,933	18,075
Supplies	20,253	17,199
	655,421	591,600
Less - Provision for impairment of supplies	(1,002)	(1,063)
	654,419	590,537

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) 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). The average price during December 2019 was US$59.80 per barrel (US$49.53 per barrel in December 2018).

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

	2019 US$000	2018 US$000
Opening balance	(1,063)	(1,515)
Impairment of supplies	(539)	(591)
Recovery	600	1,043
	(1,002)	(1,063)

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 and 2018 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, 2018:											
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	198,914	95,792	404,195	6,125	730	22,664	-	122	2,600,899	31,911	3,361,352
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		(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	201,276	97,839	433,395	4,900	1,005	29,024	-	-	3,253,339	22,255	4,043,033
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	201,276	97,839	433,395	4,900	1,005	29,024	-	-	3,253,339	22,255	4,043,033
Year 2019:											
Opening balance of net book 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	204,162	102,087	462,824	21,565	1,819	30,970	-	-	4,237,035	34,101	5,094,563
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	204,162	102,087	462,824	21,565	1,819	30,970	-	-	4,237,035	34,101	5,094,563

(i) Major projects -

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:

	December 31, 2019		**Total Budget**	
	Disbursements	**Progress percentage**	**Planned**	**Total percentage**
	US$000	**%**	**US$000**	**%**
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
	3,923,604		5,295,502	100

	December 31, 2018		Total Budget	
	Disbursements	Progress percentage	Planned	Total percentage
	US$000	%	US$000	%
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
	2,889,588		4,999,800	100

- 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 thousand.
  - Capital contribution for US$325 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 Tecnitanques 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 and 2018 the net carrying amounts of the concession assets totaled US$83,777 thousand and US$133,423 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:

	2019 US$000	2018 US$000
Cost of sales (Note 22) (*)	55,974	33,887
Selling and distribution expenses (Note 23)	8,652	8,824
Administrative expenses (Note 24)	5,107	5,646
	69,733	48,357

(*) Not including the depreciation of investment properties for US$10 thousand at December 31, 2019 (US$22 thousand at December 31, 2018).

At December 31, 2019 and 2018 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).

(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 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). 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.

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") considering the decrease in the results of 2019.

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 -

- 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:

	Oil Pipeline Operations
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.

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:

Key assumption	**Variation**	**Impairment US$000**
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:

Key assumption	**Variation**	**Impairment US$000**
Budgeted annual growth	-5%	(1,970,000)
Prices per year	-5%	-
Budgeted annual margin	-5%	(232,000)
Production	-5%	-

12 INVESTMENT PROPERTY

	Land US$000	Buildings and other constructions US$000	Total US$000
At December 31, 2017			
Cost	9,341	1,233	10,574
Accumulated depreciation	-	(1,088)	(1,088)
Net cost	9,341	145	9,486
Year 2018			
Net opening carrying amount	9,341	145	9,486
Adjustments of the cost	-	(306)	(306)
Adjustments of the depreciation	-	421	421
Depreciation for the year	-	(22)	(22)
Net closing carrying amount	9,341	238	9,579
At December 31, 2018			
Cost	9,341	927	10,268
Accumulated depreciation	-	(689)	(689)
Net cost	9,341	238	9,579
Year 2019			
Net opening carrying amount	9,341	238	9,579
Depreciation for the year	-	(10)	(10)
Net closing carrying amount	9,341	228	9,569
At December 31, 2019			
Cost	9,341	927	10,268
Accumulated depreciation	-	(699)	(699)
Net cost	9,341	228	9,569

At December 31, 2019 and 2018 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 US$000	January 1, 2019 (*) US$000
Right-of-use asset	11,527	13,419
Lease liabilities		
Current portion	8,811	10,013
Non-current portion	2,682	3,406
	11,493	13,419

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.

(*) In the previous year, the Company did not have assets and liabilities for which it had to recognize by leasing in relation to leases classified as "finance leases" under IAS 17 Leases. Therefore, there were no assets to recognize in property, plant and equipment and liabilities as part of other financial liabilities.

At December 31, the Company does not have variable leases or leases with residual value guarantees. Leases of less than 12 months and low-value leases have not been recognized as expenses according to the policy stated in 2.17.

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

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

Right-of-use assets:

	US$000
Cost:	
Opening balance	13,419
Additions for new leases	15,465
Final balance	28,884
Depreciation:	
Opening balance	-
Operating cost - depreciation	(1,758)
Depreciation for the year	(15,599)
Net cost	11,527

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	11,493

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)	1,390
	15,599

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 US$000	2018 US$000
Current liabilities		
Unsecured loans	1,000,027	1,650,893
Accrued interest	9,967	22,219
	1,009,994	1,673,112
Non-current liabilities		
Corporate bonds (i)	1,986,078	1,985,589
CESCE loan (ii)	1,167,667	1,162,021
	3,153,745	3,147,610

(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, which is expected to occur on the first half 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, 2019 Nominal value US$000	December 31, 2019 Carrying amount US$000	December 31, 2018 Nominal value US$000	December 31, 2018 Carrying amount US$000
Unsecured loans	Soles	2.20% - 3.35%	2020	403,191	403,191	870,980	870,980
Unsecured loans	Dollars	0.99% - 1.75%	2020	596,836	596,836	779,913	779,913
CESCE loan	Dollars	3.29%	2031	1,236,717	1,167,667	1,236,717	1,162,021
Corporate bonds	Dollars	4.75%	2032	1,000,000	993,372	1,000,000	992,991
Corporate bonds	Dollars	5.63%	2047	1,000,000	992,706	1,000,000	992,598
Accrued interest				-	9,967	-	22,219
				4,236,744	4,163,739	4,887,610	4,820,722

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
Working capital	1,000,027	1,326,315
PMRT	3,153,745	3,472,188
	4,153,772	4,798,503

(*) Not including accrued interest payable.

c) Movement of financial liabilities

The movement of these balances was as follows:

	Bank loans without guarantee US$000	Corporate bonds US$000	CESCE loan US$000	Total US$000
Balance at January 1, 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)
Amortizations	(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	1,665,988	1,989,009	1,165,725	4,820,722
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
Amortizations	(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	1,002,982	1,990,069	1,170,688	4,163,739

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).

d) Fair value estimation

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

	Carrying amount		Fair value	
	2019	2018	2019	2018
	US$000	US$000	US$000	US$000
Unsecured loans	1,000,027	1,650,893	1,000,027	1,650,893
Bonds	1,986,078	1,985,589	2,272,322	1,952,383
CESCE loan	1,167,667	1,162,021	1,064,809	1,092,868
	4,153,772	4,798,503	4,337,158	4,696,144

At December 31, 2019 and 2018 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
	US$000	US$000
Foreign suppliers of crude and refined products	383,873	278,194
Suppliers of goods and services	212,847	128,275
National suppliers of crude and refined products	114,452	92,180
Shipping companies and terminal operators and sales plants	27,956	31,152
	739,128	529,801

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). The main international supplier is Exxon Mobil Sales and Suppy LLC. to which US$123,399 thousand is owed (US$178,847 thousand at December 31, 2018). Major service providers are Consorcio Cobra SCL UA&TC with a balance of US$86,026 thousand (US$36,392 thousand at December 31, 2018), Técnicas Reunidas de Talara Sociedad with a balance of US$31,648 thousand (US$17,814 thousand at December 31, 2018) 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).

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
	US$000	US$000
Workers' profit sharing (a)	43,393	2,755
Taxes (b)	25,229	36,313
Remunerations	19,844	20,384
Advances from customers (c)	19,143	24,050
OEFA (d)	15,413	-
Financial instruments liability (e)	8,553	14,484
Guarantee deposits (f)	3,977	3,699
Others	3,766	3,407
	139,318	105,092

(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) recorded with a charge to the results of the year under the following items:

	2019	2018
	US$000	US$000
Cost of sales (Note 22)	14,760	1,110
Selling and distribution expenses (Note 23)	6,687	467
Administrative expenses (Note 24)	21,946	1,177
	43,393	2,754

(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).

(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), to secure the supply of fuel that is pending delivery.

(d) Comprising 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.

(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 OTHER PROVISIONS

This item comprises:

	At December 31,	
	2019	2018
	US$000	US$000
Current -		
Provision for environmental improvements (a)	30,386	29,864
Provision for civil lawsuit (b)	512	2,229
Provision for labor-related court actions (c)	2,075	1,801
Provision for plugging of wells (a)	581	570
Provision for retirement pensions	43	42
Provision for termination (d)	4,157	-
Other provisions	159	156
	37,913	34,662
Non-current -		
Provision for environmental improvements (a)	9,544	7,011
Provision for termination (d)	2,112	-
Provision for retirement pensions	44	56
	11,700	7,067
	49,613	41,729

The movement of other 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 retirement pensions US$000	Provision for termination US$000	Other provisions US$000	Total US$000
Balances at January 1, 2018	52,850	17,809	2,547	594	110	-	162	74,072
Provision for the year (Note 24 and 26)	10,806	23,728	937	-	33	-	-	- 35,504
Update	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)	(4)	-	(6)	(1,260)
Balances at December 31, 2018	36,875	2,229	1,801	570	98	-	156	41,729
Provision for the year (Note 24 and 26)	28,174	252	1,140	-	11	6,269	-	35,846
Update	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	2	-	3	210
Balances at December 31, 2019	39,930	512	2,075	581	87	6,269	159	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 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”).

In compliance with these provisions, the Company has made provisions for the remediation of negative environment impacts caused in its privatized units for US$80,228 thousand and in its own operating units for US$23,661 thousand. At December 31, 2019 the amount implemented by the privatized units and operating units was US$68,408 thousand and US$13,756 thousand, respectively.

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 Explotación 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 (MINEN) 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), 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 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 update 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	9,163	(812)	131	8,482
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	26,462	(18,105)	21,417	29,775
Total	35,625	(18,917)	21,548	38,257
Exchange difference	1,250			1,673
Total	30,875			39,930

	Balances at January 1 US$000	Payments US$000	Provision and update US$000	Balances at December 31 US$000
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	9,769	(647)	41	9,163
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	40,863	(25,225)	10,824	26,462
Total	50,632	(25,872)	10,865	35,625
Exchange difference	2,218			1,250
Total	52,850			36,875

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 *DGAAE*; once approval is obtained, of the term of execution will be four (4) years and it will be become a medium-term project.

b) Provision for 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”.

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

The movement on the deferred income tax for the years ended December 31, 2019 and 2018 is as follows:

	Balances at January 1, 2018 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 retirement pension	32	(3)	29	(3)	26
Provision for environmental remediation	15,591	(4,734)	10,857	902	11,759
Lease liability (change of policy at January 1, 2019)	-	-	3,959	(569)	3,390
Other provisions	5,544	(904)	4,640	451	5,091
Provision for impairment of fixed assets	3,495	(3,495)	-	-	-
Unpaid labor liabilities	3,784	(3,784)	-	1,467	1,467
	28,446	(12,920)	19,485	2,248	21,733
Deferred liabilities:					
Attributed cost of property, plant and equipment and intangible assets	(109,526)	3,946	(105,580)	11,069	(94,511)
Discount Art. 57 accrued	-	-	-	(181)	(181)
Right-of-use asset (change of policy at January 1, 2019)	-	-	(3,959)	558	(3,401)
Translation effect of non-monetary items (a)	25,773	(45,068)	(19,295)	20,167	872
	(83,753)	(41,122)	(128,834)	31,613	(97,221)
Net deferred liabilities	(55,307)	(54,042)	(109,349)	33,861	(75,488)

(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.

19 EQUITY

a) Share 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:

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

Class- "A" shares have voting rights but 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 and 2018 were as follows:

At the General Shareholders' Meeting held on June 27, 2018 an increase in capital of US$166,594 thousand (equivalent to S/520,704 thousand) was approved; this increase in share capital was made through an additional capital contribution. On October 29, registration with the Lima Public Records was reported.

At the General Shareholders' Meeting held on March 29, 2019 an increase in capital of US$107,597 thousand (equivalent to S/402,478 thousand) was approved; this increase in share capital was made through an additional capital contribution. On November 20, registration with the Lima Public Records was reported.

b) Additional capital -

At the General Shareholders' Meeting held on June 27, 2018 an increase in share 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.

At the General Shareholders' Meeting held on March 29, 2019 an increase in share 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.

c) Legal reserve -

In accordance with Peruvian Corporate Law in Article No.229, a legal reserve must be formed by the transfer of 10% of the annual net profits until it reaches a 20% of the paid-in capital. In the absence of non-distributed profits or freely available reserves, the legal reserve may be applied to offset losses, and must be replenished with profit from subsequent periods.

In the context of this regulation, the legal reserve recorded at December 31, 2019 totaled US$52,115 thousand (equivalent to S/174,720); h thousand); 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.

d) 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:

	2019 US$000	2018 US$000
Local sales	4,111,515	4,324,391
Price Stabilization Fund (*) (Note 8)	(20,511)	38,765
Revenue from ordinary activities	6,772	6,107
	4,097,776	4,369,263
Foreign sales	470,551	514,743
	4,568,327	4,884,006

(*) 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 and 2018, sales are broken down as follows:

	2019 US$000	2018 US$000
Local sales:		
Diesel - others	2,345,376	2,418,171
Gasoline	1,118,485	1,132,185
Industrial oil	307,700	380,162
GLP	123,389	189,177
Turbo	96,596	125,841
Asphalt	65,129	65,884
Loreto Crude	13,624	40,266
Solvent	15,983	16,810
Primary Naphtha	11,494	767
Total local sales	4,097,776	4,369,263

	2019 US$000	2018 US$000
Foreign sales:		
Industrial oil	200,781	166,871
Diesel - others	146,437	125,775
Virgin Naphtha	63,064	98,922
Turbo	36,118	38,409
Gasoline	20,500	2,513
Asphalt	3,651	6,215
Loreto Crude	-	43,155
Primary residual/crude	-	27,239
Naphtha Cracked	-	2,453
USLD	-	2,349
HOGBS	-	842
Total foreign sales	470,551	514,743
	4,568,327	4,884,006

21 OTHER OPERATING INCOME

This item comprises:

	2019 US$000	2018 US$000
Income recognized at a point in time:		
Terminal operating fees (a)	32,149	34,124
Recoverable freight (b)	10,682	7,545
PNP supply operations	7,177	2,452
Operating services for Terminals	2,367	-
Revenue from cost of use of hydrocarbons	507	1,043
Income recognized over time:		
Crude transport via oil pipeline (c)	32,475	19,243
Savia Perú S.A. lease (Note 12)	10,000	10,000
Leases (d)	2,506	5,464
Other service revenue	1,856	1,193
	99,719	81,064

(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:

	2019 US$000	2018 US$000
Opening inventory of goods	556,287	605,294
Purchase of crude oil, refined products and supplies	3,804,865	4,255,087
Operating expenses of production (a)	368,025	313,506
Closing inventory of goods	(589,235)	(556,287)
	4,139,942	4,617,600

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

	2019 US$000	2018 US$000
Third-party services (*)	207,211	216,974
Depreciation (Note 11 and 12)	55,984	33,909
Personnel charges (Note 25)	53,897	54,063
Workers' profit sharing (Note 16-a and Note 25)	14,760	1,110
Depreciation of right-of-use asset (Note 13)	14,100	-
Other materials and production supplies	9,771	9,059
Insurance	9,705	7,352
Other management charges	687	772
Amortization	1	8
Reversal for impairment of assets (Note 11)	-	(11,536)
Others	1,909	1,795
	368,025	313,506

(*) Includes the following:

	2019	2018
Ground transport freight and expenses	67,440	51,439
Energy and water	21,419	19,724
Other freights	20,637	21,875
Maintenance and repair services	20,506	24,968
Maritime transport freight and expenses	5,759	24,016
Industrial protection and safety	4,288	5,504
Food and lodging	3,267	3,260
Others	63,895	66,188
	207,211	216,974

23 SELLING AND DISTRIBUTION EXPENSES

This item comprises:

	2019 US$000	2018 US$000
Personnel charges (Note 25)	25,285	27,464
Taxes (b)	19,108	20,156
Third-party services (a)	11,784	15,309
Depreciation (Note 11 and 12)	8,652	8,824
Workers' profit sharing (Note 16-a and Note 25)	6,687	467
Materials and supplies	2,869	2,813
Insurance	2,530	1,331
Expected loss of receivables (Note 8)	1,307	382
Other management charges	573	663
Depreciation of right-of-use asset (Note 13)	109	-
	78,904	77,409

(a) Includes the following:

	2019	2018
Maintenance and repair services	4,115	4,471
Other third-party services	3,542	5,093
Industrial protection and safety	2,306	3,684
Rentals	980	1,077
Travel and transfer expenses	418	524
Energy and water	343	316
Freight and other expenses	80	144
	11,784	15,309

(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) as well as contributions to OEFA for a total US$3,920 thousand (US$3,954 thousand in 2018).

24 ADMINISTRATIVE EXPENSES

This item comprises:

	2019 US$000	2018 US$000
Personnel charges (Note 25)	84,875	87,734
Third-party services (a)	42,122	45,980
Workers' profit sharing (Note 16-a and Note 25)	21,946	1,177
Other management charges (b)	20,474	5,291
Depreciation (Note 11 and 12)	5,107	5,646
Taxes	4,181	3,349
Amortization	2,217	2,165
Materials and supplies	1,643	1,369
Depreciation of right-of-use asset (Note 13)	1,390	-
Administrative civil and labor contingencies (Note 17)	1,392	2,191
Expected loss of receivables (Note 9)	186	553
Insurance	555	770
	186,088	156,225

(a) Includes the following:

	2019 US$000	2018 US$000
Maintenance and repair services	10,273	9,026
IBM outsourcing services	8,519	8,977
Advisory, appraisal and audits	5,342	9,055
Industrial protection and safety	3,797	3,733
Temporary services	2,385	2,581
Advertising	1,827	1,967
Freight and other freight	2,076	1,712
Travel and transfer expenses	1,435	1,731
Bank expenses	1,168	1,303
Other	5,300	5,895
	42,122	45,980

(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:

	2019 US$000	2018 US$000
Wages and salaries	60,974	62,246
Workers' profit sharing (Note 22, 23 and 24)	43,393	2,754
Bonuses	39,358	43,212
Social contributions	23,697	22,775
Statutory bonuses	12,834	13,187
Employees' severance indemnities	8,505	9,294
Termination program (Note 26) (Note 17-d)	6,288	-
Vacations	4,687	4,740
Feeding	3,746	3,752
Mutual disagreement and other	3,477	3,830
Overtime	1,131	1,433
Transportation	1,260	1,263
Others	4,388	3,529
	213,738	172,015

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

	2019 US$000	2018 US$000
Cost of sales (Note 22)	68,657	55,173
Selling expenses and distribution (Note 23)	31,972	27,931
Administrative expenses (Note 24)	106,821	88,911
Other expenses – Termination (Note 26)	6,288	-
	213,738	172,015

26 OTHER INCOME AND EXPENSES

This item comprises:

	2019 US$000	2018 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
Recovery of provision for civil claim	1,921	15,621
Claims and / or compensation (insurance / default) (b)	17,515	10,397
Labor provision recovery	307	1,230
Doubtful trade accounts provision recovery	67	668
Interest - SUNAT refund (a)	-	94,824
Others	4,138	8,730
	38,269	135,487
Other expenses		
Provision for losses in oil pipeline (Note 17-a) (e)	(28,174)	(10,806)
Voluntary termination program (Note 25) (Note 17-d)	(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)
Provision for retirement pension	(11)	(34)
Environmental Remediation (Block 8) (d) (Note 17)	-	(22,474)
Right of equity	-	(64)
	(36,230)	(33,480)

During 2019:

(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).

(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:

	2019 US$000	2018 US$000
Interest on bank deposits	4,838	4,226
Interest on receivables	807	707
Gains from derivative financial instruments	13,489	12,088
	19,134	17,021
Interest on working capital loans	(30,466)	(31,888)
Loss on derivative financial instruments	(2,110)	(17,040)
Premiums for crude oil hedging options	(4,197)	-
Interest on leases	(615)	-
Others	(10)	-
	(37,398)	(48,928)

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 ha 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 Company, in calculating its taxable income for the years ended December 31, 2019 and 2018, has determined current income tax for US$116,673 thousand and US$3,681 thousand, respectively.

The income tax expense shown in the statement of comprehensive income comprises:

	2019 US$000	2018 US$000
Current	116,673	3,681
Deferred	(33,861)	54,042
	82,812	57,723

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

	2019		2018	
	US$000	**%**	**US$000**	**%**
Pre-tax profit	253,764	100.00	177,275	100.00
Theoretical income tax 29.5%	74,860	29.50	52,296	29.50
Permanent non-deductible expenses	14,536	5.73	18,035	10.17
Permanent non-taxable income	(133)	(0.05)	(32,328)	(18.24)
Effect of exchange difference on tax fixed assets	(22,997)	(9.07)	45,068	25.42
Effect of (lower) higher current tax resulting from exchange difference	19,111	7.53	(27,296)	(15.40)
Others	(2,565)	(1.01)	1,948	1.10
Current and deferred income tax	82,812	32.63	57,723	32.55

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.

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 and 2018 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 and 2018, 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**
	US$000	**US$000**
Civil	22,858	141,219
Tax and customs claims	49,324	39,274
Labor-related	2,589	3,803
	74,771	184,296

The movement of contingencies is detailed below:

	Balance at January 1	**Additions**	**Deductions**	**Balance at December 31**
	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	3,803	1,136	(2,350)	2,589
	184,296	68,414	(177,939)	74,771

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 S.A., since the arbitration decision was issued in favor of the Company in September.

b) 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.

30 BASIC AND DILUTED EARNINGS PER SHARE

The calculation at December 31, 2019 and 2018 of earnings per basic and diluted share shows the same value as there are no shares with dilutive effect is as follows:

	Profit US$000	**Weighted average number of shares used**	**Earnings per share**
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

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, 2018 are as follows:

	2018 US$000
Less than 1 year	17,776
Between 1 year and less than 3 years	4,093
More than 3 years	1,954
Total	23,823

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.

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 and No.116-2020-PCM in March, April, May and June 2020, to declare a State of National Emergency in Peru up until July 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. However, the Company

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 income and costs in 2020 due to a lower volume of purchases and sales and due to variations in local and international prices of crude oil and refined products. However, 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 Perú 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. The Company is evaluating whether it fully takes over the operation of the License Agreement.

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.