PETROLEOS DEL PERU - PETROPERÚ S.A.

CONDENSED INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2019, DECEMBER 31, 2018 AND SEPTEMBER 30, 2018

(Free translation from the original in Spanish)

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

(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

ASSETS	Note	As of September 30 2019 US$000	As of December 31 2018 US$000
Current assets			
Cash and cash equivalent	9	261,333	528,700
Trade receivables	10	328,410	438,698
Other receivables	11	725,816	1,455,757
Inventories	12	597,833	590,537
Prepaid expenses		6,405	431
Assets held for sale		1,963	1,963
Total current assets		1,921,760	3,016,086
Activo no corriente			
Other accounts payable	11	299,712	241,751
Property, plant and equipment	13	4,593,992	3,978,456
Investment properties		70,123	74,156
Intangible assets		35,226	33,554
Total non-current assets		4,999,053	4,327,917
TOTAL ASSETS		6,920,813	7,344,003

LIABILITIES AND EQUITY	Note	As of September 30 2019 US$000	As of December 31 2018 US$000
Current liabilities			
Other financial liabilities	14	960,725	1,673,112
Trade accounts payable	15	661,382	529,801
Other payables		108,960	105,092
Other provisions	16	32,163	34,662
Total current liabilities		1,763,230	2,342,667
Non-current liabilities			
Other financial liabilities	14	3,151,634	3,147,610
Other provisions	16	7,260	7,067
Deferred income tax liabilities		116,301	109,349
Total non-current liabilities		3,275,195	3,264,026
Total liabilities		5,038,425	5,606,693
EQUITY			
Share capital	17	1,337,989	1,337,989
Additional capital		107,597	
Legal reserve		52,115	40,160
Retained earnings		384,687	359,161
Total equity		1,882,388	1,737,310
TOTAL LIABILITIES AND EQUITY		6,920,813	7,344,003

The accompanying notes on page 6 thtough 37 are part of the financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

		For the three month period ended on September 30		For the nine month period ended on September 30	
	Note	**2019**	**2018**	**2019**	**2018**
		US$000	**US$000**	**US$000**	**US$000**
Income from ordinary activities	18	1,172,965	1,258,179	3,449,318	3,598,617
Other operational income		19,268	16,871	62,463	55,673
Total income		1,192,233	1,275,050	3,511,781	3,654,290
Cost of sales	19	(1,075,296)	(1,215,066)	(3,113,836)	(3,329,795)
Gross profit		116,937	59,984	397,945	324,495
Selling and distribution expenses	20	(16,651)	(20,343)	(55,983)	(57,268)
Administrative expenses	21	(33,544)	(43,730)	(114,011)	(121,053)
Other income	23	6,748	46,173	23,297	98,397
Other expenses	23	(89)	(249)	(12,348)	(35,490)
Total operating expenses		(43,536)	(18,149)	(159,045)	(115,414)
Profit from operating activities		73,401	41,835	238,900	209,081
Finance income		5,384	5,816	13,766	13,186
Finance costs		(12,172)	(11,768)	(26,533)	(25,609)
Exchange difference, net		(11,120)	(1,321)	(4,670)	(2,374)
Profit before income tax		55,493	34,562	221,463	194,284
Income tax expense	24	(25,495)	4,126	(76,385)	(42,305)
Net result from the financial year		29,998	38,688	145,078	151,979
Other comprehensive results that could be reclassified to results:					
Results of derivative instruments		-	-	-	154
Total comprehensive results		29,998	38,688	145,078	152,133
Basic and diluted earnings per share	26	0.007	0.010	0.033	0.039

The accompanying notes on page 6 thtough 37 are part of the financial statements.

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTH PERIOD ENDED ON SEPTEMBER 30, 2019 AND 2018

	Number of shares	Share capital	Additional capital	Legal reserve	Other equity reserve	Accumulated results	Total equity
		US$000	US$000	US$000	US$000	US$000	US$000
Balance as of January 1, 2018	3,927,713,295	1,171,395	-	21,650	(154)	424,713	1,617,604
Comprehensive results:							
Net income for the period	-	-	-	-	-	145,078	145,078
Other comprehensive results:							
Results of derivative instruments	-	-	-	-	154	-	154
Total comprehensive results	-	-	-	-	154	145,078	145,232
Transfer to additional capital and legal reserve			166,594	18,511	-	(185,105)	
Transactions with shareholders			166,594	18,511	-	(185,105)	-
Balance as of June 30, 2018	3,927,713,295	1,171,395	166,594	40,161	-	384,686	1,762,836
Balance as of January 1, 2019	4,448,416,995	1,337,989	-	40,160	-	359,161	1,737,310
Comprehensive results:							
Net income for the period	-	-	-	-	-	145,078	145,078
Other comprehensive results:							
Results of derivative instruments	-	-	-	-	-	-	-
Total comprehensive results	-	-	-	-		145,078	145,078
Transactions with shareholders:							
Transfer to additional capital and legal reserve	-	-	107,597	11,955	-	(119,552)	-
Total transactions with shareholders	-	-	107,597	11,955	-	25,526	-
Balance as of September 30, 2018	4,448,416,995	1,337,989	107,597	52,115	-	384,687	1,882,388

The accompanying notes on page 6 thtough 37 are part of the financial statements.

PETROLEOS DEL PERU - PETROPERU S.A.

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	For the nine month period ended on September 30 2019 US$000	2018 US$000
OPERATING ACTIVITIES			
Cash generated by operations		640,519	(217,418)
Interest payment		(32,824)	(16,345)
Income tax payment		(22,509)	(86,337)
Net cash provided by operating activities		585,186	(320,100)
INVESTMENT ACTIVITIES			
General sales tax related to investment activities	11	33,215	25,133
Refund of general sales tax related to investment activities		(67,320)	(43,915)
Payment for property, plant and equipment purchase		(519,442)	(475,390)
Paid capitalized interest		(78,162)	(55,550)
Payment for the purchase of intangible assets		(3,313)	(1,219)
Withdrawal of investment from term deposits		1,156,000	467,506
Investment in time deposits		(637,000)	(537,506)
Net cash used in investment activities		(116,022)	(620,941)
FINANCING ACTIVITIES			
Loans received from financial institutions	14	2,461,722	3,872,589
Payment of loans to financial institutions	14	(3,198,384)	(3,458,102)
Net cash provided by financing activities		(736,662)	414,487
Net decrease in cash and cash equivalent		(267,498)	(526,554)
Effect of exchange rate variation on cash		131	(1,294)
Cash and cash equivalent at the beginning of the year		528,700	666,141
Cash and cash equivalent at the end of the year		261,333	138,293
- Accrued interest not paid	14	46,495	38,069
- Works in progress to be paid		127,410	66,787
- Profits capitalization	17	107,597	166,594

PETROLEOS DEL PERU - PETROPERU S.A.

CONDENSED INTERIM STATEMENT OF CASH FLOW

	Note	For the nine month period ended on September 30 2019	2018
		US$000	**US$000**
Net income for the year		**145,078**	**151,979**
Adjustments to reconcile the net income of the year with the cash from the operation activities:			
Provision of retirement pensions	16	11	26
Provision for contingencies	16	950	29,940
Provision of plugging and environmental remediation	16	11,960	6,172
Depreciation		33,779	33,316
Amortization		1,641	1,722
Estimation of impairment of trade accounts receivable		9	349
Deferred income tax		6,952	12,620
Adjustment effect difference unrealized exchange rate		(131)	1,294
		200,249	237,418
Net variations in assets and operating liabilities:			
Trade accounts receivable		110,289	(57,290)
Other accounts receivable		187,075	(125,435)
Inventories		(7,295)	(102,637)
Expenses hired in advance		(5,974)	(16,993)
Commercial accounts payable		83,901	(217,943)
Other accounts payable		16,941	(37,220)
		585,186	(320,100)

PETROLEOS DEL PERU - PETROPERÚ S.A.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2019, DECEMBER 31, 2018 AND SEPTEMBER 30, 2018

1. BACKGROUND AND ECONOMIC ACTIVITY

a) Background -

Petróleos del Perú - PETROPERÚ S.A. (hereinafter, PETROPERÚ S.A. or 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 PETROPERÚ S.A. 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 PETROPERÚ S.A. is at Av. Enrique Canaval y Moreyra No.150, San Isidro, Lima Perú.

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

The Company's activities are governed by its Organic Law approved under Legislative Decree N° 043, its Bylaws, Law No. 28840 - Law for the Strengthening and Modernization of Empresa de Petróleos del Perú PETROPERÚ S.A. (its internal rules, approved under Supreme Decree No.012-2013-EM dated April 27, 2013); it is also governed by the Peruvian Corporate Law on a supplementary basis and is under the oversight of the Peruvian Comptroller's Office ("Contraloría General de la República (CGR), the Peruvian tax and customs Regulator ("Superintendencia Nacional de Aduanas y de Administración Tributaria – SUNAT") and the local hydrocarbons regulator.

Also, under the third final provisions of Legislative Decree No. 1031, by which the efficiency of the government-run companies is promoted, dated June 23, 2008, the Company is subject to subsection 9.3, article 9th and article 12th of Legislative Decree No. 1031. With respect to the former, the Company's financial statements are audited, on an annual basis, by external independent auditors designated by the General Shareholders' Meeting; with respect to the latter, under decision at the General Shareholders' Meeting the minimum level of capital stock to be registered with the Peruvian Securities Stock Market is to be determined in adherence to the regulations issued by the SMV.

Other applicable laws and regulations are the provisions of the legislation stating the need for the modernization of the Talara Oil Refinery, Law No.30130 enacted on December 18, 2013 (originally called "Ley que declara de necesidad pública e interés nacional la prioritaria ejecución de la modernización de la Refinería de Talara para asegurar la preservación de la calidad del aire y la salud pública y adopta medidas para fortalecer el Gobierno Corporativo de Petróleos del Perú - PETROPERÚ S.A."), hereinafter the PMRT as well as its rules for application, as approved under Supreme Decree N° 008-2014-EM, published on March 24, 2014. In accordance with article 5 "Approval of granting of guarantees" of Law No. 30130 which approves the grant by the Peruvian Government of up to US$200 million per year and up to a cumulative total of US$1,000 million to secure the financial obligations derived from the financing to be contracted by PETROPERÚ S.A. to execute the PMRT in the event the Company is not able to obtain the necessary resources to honor its obligations. At September 30, 2019 and December 31, 2018 there has been no need to use those guarantees.

Additionally, on December 30, 2016, Legislative Decree N°1292 was enacted declaring of public need and national interest the safe operation of "Oleoducto Norperuano" and stipulating the re-organization and improvement of the corporate governance of PETROPERÚ S.A.

b) Economic activity -

By means of Law N°.28244 enacted on June 2, 2004, PETROPERÚ S.A. is authorized to enter into contracts with PERUPETRO S.A. for exploration and exploitation operations as well as petroleum-related services as permitted by law.

As established under the Law for the Strengthening and Modernization of PETROPERU S.A., the Company has economic, financial and administrative autonomy in accordance with its annual and five-year business objectives approved by the Ministry of Energy and Mines. The agreements and contracts entered into in order to achieve its business purpose are subject to the guidelines established under i) Legislative Decree N°043, as amended; ii) its Bylaws; iii) its internal rules; iv) Board agreements; v) the Standards of the National Control System; and vi) the standards and regulations specific to PETROPERÚS.A.

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

As part of its core business purpose, the Company carries out activities in accordance with Law N°.26221, Organic Law that regulates the activity of Hydrocarbons in National Territory. These activities consist of all oil industry phases, such as oil trade, including its by-products, basic petrochemicals and other forms of energy. The Company's activities in the hydrocarbon industry include exploration and exploitation, refinery, trade and transport of oil and by-products, basic and intermediary petrochemical products and other forms of energy.

By means of Law N°.29970 - law for the strengthening of the energy supply continuity throughout the Southern Region in Perú ("Ley que afianza la Seguridad Energética y promueve el desarrollo del Polo Petroquímico en el Sur del País") PETROPERÚ S.A. shall take part, individually or jointly, in the petrochemical development described in the above-mentioned law.

Pursuant to Law No.30130, PETROPERÚ S.A. 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, PETROPERÚ S.A. is allowed to carry out investment activities and projects as long as no current or future firm or contingent liabilities that are incurred by the Company, do not affect the guarantees for the Talara Refinery Modernization Project (PMRT the Spanish acronym); and no Treasury resources are required; which is not restrictive of those ongoing projects that enable the Company to be operational at the effective date of this law. These restrictions will cease to exist whenever PETROPERÚ S.A. 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 PETROPERÚ S.A. 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, published on December 30, 2016, the safe operation of the Peruvian northern oil pipeline ("Oleoducto Norperuano") was declared of public need and national interest; in this sense, the Company was ordered to re-organize and enhance its corporate governance, authorizing a period of 720 calendar days counted from the date of publication of said Legislative Decree, to prepare a plan to govern, among others: the contracting and amending of agreements/contracts as well as service agreements relating to the Company's business units; the participation of PETROPERÚ S.A. in contracts of hydrocarbon exploration and exploitation; the possibility for the Company to take part in social responsibility actions under the mechanism of work in exchange for taxes; using the capital increase referred to in subsection 8.1, article 8th, Law N°29970 to implement the Talara Refinery Modernization Project and the amendment of article 4 and Complementary Provision to Law N°28840, Law for the Strengthening and Modernization of Empresa de Petróleos del Perú - PETROPERÚ S.A. to implement Legislative Decree No. 1292" approved by the Board of Directors is in execution.

Legislative Decree N°1292 under the above regulation, once the reorganization and modernization mentioned in subsection 3.1, article 3th is completed, PETROPERÚ S.A. will come within the scope of the national fund for financing government-run companies ("Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado - FONAFE). However, on November 28, 2018, Law No. 30873 was published, which partially repealed the aforementioned Legislative Decree, eliminating the obligation of PETROPERU S.A. to enter the scope of FONAFE.

On August 6, 2018, by means of Board of Directors Agreement No. 067-2018-PP the Reorganization and Modernization Plan for the implementation of Legislative Decree No. 1292 was approved, the different Corporate Management of the Company participated in the drafting.

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 PETROPERÚ S.A approved by the Board establishes that:

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

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

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

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

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

- Fund for the Stabilization of Petroleum Derived Fuel Prices (hereinafter, Price Stabilization Fund)-

  The Price Stabilization fund was established by the Peruvian Government under Emergency Decree No.010-2004, relevant rules standards and amendments. Pursuant to this piece of legislation the Peruvian Government establishes a contingency fund to prevent the volatility of the hydrocarbon prices being transferred to the final consumers; however, the Ministry of Energy and Mines (MEM, the Spanish acronym) will compensate the Company for the pricing differences that are not transferred to its clients.

  Under the above-mentioned regulations, the National Hydrocarbons Office ("Dirección General de Hidrocarburos - DGH") within the Ministry of Energy and Mines sets a price range per each fuel product sold in Perú. Article 6th, of Supreme Decree No.133-2010-EF (dated June 23, 2010) stipulates that OSINERGMIN shall update and publish every two months in the Peruvian official gazette "El Peruano", the price ranges ("bandas de precios") per each product the last Thursday of the second month, computed from the effective date of the last price update.

  On a weekly basis, OSINERGMIN publishes a reference price per each fuel product sold in Perú known as "Import Parity Price ("Precio de paridad de importación - PPI"). Whenever the PPI is higher than to the upper range, the difference is the Compensation factor and whenever the PPI is lower than the lower range, the difference is the Contribution factor.

  On September 30, 2019 and 2018, the Price Stabilization Fund was applied to the following fuel items: GLP-E, Diesel B5, Diesel B5 S-50 and industrial petroleum 6. This fund represented 0.6% (contribution) of the Company's revenues (1.3% of revenues in September 30, 2018).

d) Approval of the financial statements -

The financial statements for the nine-month period ended on September 30, 2019 have been approved by the General Management of the Company on October 31, 2019. The financial statements as of December 31, 2018 were approved by the General Shareholders' Meeting on March 29, 2019.

2. BASIS OF PREPARATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements for the nine-month period ended on September 30, 2019, have been prepared in accordance with International Accounting Standard No.34, "Interim Financial Information" (IAS 34) issued by the International Accounting Standards Board (IASB). "

The information on the statement of financial position as of December 31, 2018 and the corresponding notes are derived from the audited financial statements as of that date.

The unaudited condensed interim financial statements arise from the accounting records and are prepared on the basis of historical cost, except for derivative financial instruments that are measured at fair value. The condensed interim financial statements are presented in thousands of US Dollars, except when a different monetary currency is indicated. The accounting policies applied are consistent with those of the 2018 annual exercise and the comparative interim period.

The condensed interim financial statements do not include all the information and disclosures required for the annual financial statements and must be read together with the financial statements for the year ended on December 31, 2018, which were prepared in accordance with the IFRS issued by the IASB.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in the applicable standards as of January 1, 2019 –

The following standard and modifications have been adopted by the Company for the first time for the year that began on January 1, 2019:

- IFRS 16, “Leases” -

  IFRS 16 mainly affect the accounting of lessees and result in the recognition of almost all leases in the balance sheet. The standard eliminates the current difference between operating and financial leases and requires the recognition of an asset (the right to use the leased asset) and a financial liability to pay rents for virtually all leases. There is an optional exception for short-term and low-value leases.

  The income statement is also affected, because the total expense is usually higher in the first years of a lease and lower in subsequent years. Instead of recognizing operating expenses, interest and depreciation are recognized, so key metrics such as EBITDA change.

  The operating cash flows will be higher, since the cash payments for the principal portion of the lease liability are classified within the financing activities. Only the part of the payments that reflects the interest can continue to be presented as operating cash flows.

  The accounts of the lessors do not change significantly.

  IFRS 16 is effective from the period beginning on January 1, 2019. The lessee may choose to apply the standard using a comprehensive or modified retroactive approach; in the latter case, the standard allows certain practical applications for the transition.

  As a result of the application of IFRS 16, an effect on total liabilities of less than 0.2% has been determined as a result of recognizing lease liabilities arising from operating leases that under the previous accounting rules correspond to operating expenses throughout the term of the contract (see Note 27). Likewise, an increase in its non-current assets of less than 0.2% corresponding to the right of use established by IFRS 16. The recognition of these new liabilities and assets items generates an impact of less than 0.2% of the retained earnings as of said date and less to 1.5% of operating earnings.

  This variation in the financial indicators would not impact the fulfillment of the contractual commitments (covenants) of the Company.

  For the transition to IFRS 16, the Company plans to apply the modified retrospective method; however, as of September 30, 2019, the Company has not accounted for the effects of the application of IFRS 16 because they are not considered significant.

  As a result of the application of the new concepts proposed by IFRS 16, the Company will make certain changes to its current processes substantially in contract management.

- IFRIC 23, “Uncertainty over Income Tax Treatments” -

  IFRIC 23 clarifies the recognition and measurement requirements of IAS 12 “Income Taxes”, in cases of uncertainty about any tax position assumed by the entity in the determination of the income tax. The interpretations committee had previously clarified that the uncertain tax positions accounting associated with the income tax must be handled under the IAS 12 and not under the IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”.

  IFRIC 23 establishes how to recognize and measure the current and deferred tax assets and liabilities in those cases where an entity has got uncertain tax positions associated with the income tax. An uncertain tax position is any tax treatment applied by an entity which entails an uncertainty whether it will be accepted by the taxing authority. IFRIC 23 covers all aspects that may be affected by the existence of uncertain tax positions, in other words, that may affect the determination of the tax income or loss, the tax base of assets and liabilities, tax credits or the used tax rates.

  IFRIC 23 will be effective as of the period beginning on January 1, 2019.

  As a consequence of the application of the IFRIC 23, it has been determined an effect on the tax amount calculated lower than 0.5% as a result of recognizing an uncertainty in the income taxation.

  In order to perform the transition to the IFRIC 23, the Company envisages to apply the modified retrospective method; nevertheless, as of September 30, 2019, the Company has not recorded the effects of the implementation of the IFRIC 23, as they are considered to be insignificant.

3.2 Significant accounting policies –

The accounting policies applied are consistent with those of the annual financial statements for the year ended on December 31, 2018, as described therein, except for the accounting treatment of income tax in the interim periods, which are accounted using the tax rate applicable to the expected total annual profit or loss (see Note 4 and Note 24). The income tax expense is recognized in each interim period based on the best estimate of the expected effective annual income tax rate for the entire year. The Company Management considers that the amount accrued for the income tax expense in an interim period may have to be adjusted in a later interim period of that same year, if the estimate of the annual effective income tax rate changes.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In preparing the condensed interim financial statements, the relevant judgments and estimates made by the Management in the application of the Company's accounting policies and in the critical information for the estimation of uncertainties were the same as those applied in the financial statements by the year ended on December 31, 2018, with the exception of changes in the estimates that are required to determine the provision for income tax.

Income Tax –

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

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

If the effective income tax rate had been +/- 1% different from Management's estimates, the Company would need to increase / decrease the income tax expense by US$764 thousand in the nine-month period ended on September 30, 2019 (US$423 thousand in the nine-month period ended September 30, 2018).

5. RECLASSIFICATION OF ITEMS –

In 2018, the Company reviewed the presentation of certain items of its financial statements. As a result of this process, some changes were made to the income statements.

The condensed interim comprehensive income statements as of September 30, 2018 have been modified to be consistent with this revised presentation form:

	For the nine-month period ended on September 30, 2018	**Reclassification**		**For the nine-month period ended on September 30, 2018**
	US$000 (Previously reported)	**US$000**		**US$000**
Income from ordinary activities	3,598,618	-		3,598,618
Other operating income	55,673	-		55,673
Total income	3,654,290	-		3,654,290
Sales cost (a)	(3,325,025)	(4,770)	(a)	(3,329,795)
Gross income	329,265	(4,770)		324,495
Sales and distribution expenses	(62,038)	4,770	(a)	(57,268)
Administration expenses	(121,053)	-		(121,053)
Other income	98,397	-		98,397
Other expenses	(35,490)	-		(35,490)
Operating income	209,081	-		209,081
Financial income	13,186	-		13,186
Financial expenses	(25,609)	-		(25,609)
Exchange difference, net	(2,374)	-		(2,374)
Income before tax	194,284	-		194,284
Income tax	(42,305)	-		(42,305)
Income after tax	151,979	-		151,979

(a) Reclassification of storage, shipping and freight expenses for US$4,770 thousands.

6. FINANCIAL RISK MANAGEMENT

6.1 Financial risk factors -

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

The condensed interim financial statements do not include all the information and disclosure of the financial risk management required in the annual financial statements; they must be read together with the Company's annual financial statements as of December 31, 2018, as there have been no changes in the related assessments of financial risks since the end of the year.

There have been no significant changes in the risk management department or in any risk management policy since the end of 2018.

6.2 Liquidity risk -

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

The Company has sufficient credit capacity to access credit lines with the best qualified financial institutions (institutions with no history of default and with local prestige) in terms of market. In addition, the Company develops new banking relationships in order to have adequate funds available at all times.

As of September 30, 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.

6.3 Capital risk -

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings), minus cash and cash equivalent. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

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

At September 30, 2019 and December 31, 2018, the gearing ratios were as follows:

	2019 US$000	2018 US$000
Other financial liabilities	4,112,359	4,820,722
Minus: Cash and cash equivalent and term deposits	(783,551)	(1,565,565)
Net debt (A)	3,328,808	3,255,157
Total equity (B)	1,882,388	1,737,310
Total capital (A+B)	5,211,196	4,992,467
Ratio (A/(A+B))	0.64	0.65

The decrease in the gearing ratio, as of September 30, 2019, is explained by the effect of the amortization of financial liabilities with the fund obtained with the recovery of the tax credit of the general sales tax and with the profit generated as of September 2019.

7. SEGMENT INFORMATION

a) Description of business segments and core activities -

The Company's chief operating decision-maker (General Management) evaluates the Company's performance in its three divisions that are considered reportable segments. These divisions offer different products and services and are managed separately since they required different sales and financial business strategies.

The Company's operating segments are assessed by the activities of the following business units: (i) Production and trading, (ii) Oil Pipeline operations y (iii) leased and privatized units.

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

The following summary describes the operations of each reportable segment:

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

The Company's General Management reviews the internal management reports of each segment on a quarterly basis.

There are several levels of transactions between the Production and trading segments and Oil Pipeline operations. These transactions include oil transfers or some transportation products and services, respectively.

b) Statement of financial position by segments –

	Production and marketing (*)	**Oil pipeline operations**	**leased and privatized units**	**Total**
	US$000	**US$000**	**US$000**	**US$000**
As of September 30, 2019				
Assets:				
Current	1,643,394	268,426	9,940	1.921.760
Non-current	4,551,487	212,137	235,429	4,999.053
	6,194,881	480,563	245,369	6,920.813
Liabilities:				
Current	1,701,277	39,103	22,850	1,763.230
No-current	3,275,084	111	-	3,275,195
	4,976,361	39,214	22,850	5,038,425
As of 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 service station, commercial area and main office.

c) Statement of comprehensive income by segments –

	Production and marketing (*)	Oil pipeline operations	Leased and privatized units	Total
	US$000	US$000	US$000	US$000
For the nine-month period ended on September 30, 2019				
Ordinary activities income	3,435,300	14,018	-	3,449,318
Provision of services	15,829	14,960	31,674	62,463
Total income	3,451,129	28,978	31,674	3,511,781
Sales cost	(3,072,721)	(37,082)	(4,033)	(3,113,836)
Transfers	(11,908)	11,908	-	-
Gross Profit (loss)	366,500	(3,804)	27,641	397,945
Sales and distribution expenses	(50,391)	(2)	(5,590)	(55,983)
Administration expenses	(101,705)	(12,306)	-	(114,011)
Other income and expenses	11,797	(848)	-	10,949
Operating Profit (loss)	226,201	(9,352)	22,051	238,900
Financial, net	(16,080)	(1,352)	(5)	(17,437)
Profit before income tax	210,121	(10,704)	22,046	221,463
Income tax	(72,474)	3,692	(7,603)	(76,385)
Profit for the period	137,647	(7,012)	14,443	145,078

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

	Production and marketing (*)	Oil pipeline operations	Leased and privatized units	Total
	US$000	US$000	US$000	US$000
For the nine-month period ended on September 30, 2018				
Ordinary activities income	3,558,022	40,595	-	3,598,617
Provision of services	8,995	13,066	33,612	55,673
Total income	3,567,017	53,661	33,612	3,654,290
Sales cost	(3,282,679)	(43,072)	(4,044)	(3,329,795)
Transfers	(3,946)	3,946	-	-
Gross Profit (loss)	280,392	14,535	29,568	324,495
Sales and distribution expenses	(52,624)	(49)	(4,595)	(57,268)
Administration expenses	(108,440)	(12,540)	(73)	(114,011)
Other income and expenses	66,028	(3,121)	-	62,907
Operating Profit (loss)	185,356	(1,175)	24,900	209,081
Financial, net	(14,628)	(180)	11	(14,797)
Profit before income tax	170,728	(1,355)	24,911	194,284
Income tax	(37,176)	295	(5,424)	(42,305)
Profit for the period	133,552	(1,060)	19,482	151,979

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

d) Revenue by geographical area -

At September 30, 2019 and 2018 the Revenue by geographical segment is based on the customers' geographical location:

	2019	2018
	US$000	US$000
Perú	3,124,776	3,270,459
Other countries	387,005	383,381
	3,511,781	3,654,290

8. SIGNIFICANT CHANGES IN THE CURRENT PERIOD

The financial position and performance of the Company were especially affected by the following events and transactions during the nine-month period ended on September 30, 2019:

- Decrease in current assets by:

  - Recovery of the tax credit of the General Sales Tax through an early recovery regime and balance in favor of the exporter of US$33,215 thousand and US$228,239 thousand, respectively, these funds were used to pay current obligations.

  - Exchange of accounts receivable by the Price Stabilization Fund as of December 2018 for cancellation documents for US$48,783 thousand used for tax payments.

  - Decrease of the fund raised by issue of bonds and the loan made by the ECESB regarding the payment for the work progress and short-term financial obligations.

- Increase in non-current assets mainly due to investments made in the PMRT presented in the property, plant and equipment item.

- Reduction of current liabilities mainly due to the repayment of bank loans due to the greater use of funds available in cash and cash equivalents, for the recovery of the tax credit of the General Sales Tax and the generation of profits for the period.

9. CASH AND CASH EQUIVALENTS

As of September 30, 2019 and December 31, 2018 this item comprises:

	2019	**2018**
	US$000	**US$000**
Current accounts (a)	260,255	525,620
Liquidity funds (b)	1,050	3,050
Fixed funds	28	30
	261,333	528,700

(a) The Company maintains cash deposited in financial institutions in the form of current accounts in national currency and in foreign currency. The funds in these accounts are freely available and earn preferential interest rates between 0.25% and 2.10%.

(b) As of September 30, 2019, liquidity funds are short-term instruments in foreign institutions with variable returns between 2.45% and 3.30%, and are immediately available without a defined maturity date, which will be used in PMRT investment activities in the following months.

10. TRADE RECEIVABLES

As of September 30, 2019 and December 31, 2018 this item comprises:

	2019 US$000	2018 US$000
Wholesale distributors	193,769	239,987
Fuel Stabilization Price Fund -		
Ministry of Energy and Mines	8,476	82,472
Mining Sector	46,169	32,108
Fuel distributors	24,961	19,315
Armed Forces and National Police of Peru	11,696	11,555
Aviation business	9,016	7,451
Oil companies	10,954	3,687
Construction sector	7,396	5,511
Foreign market	5,473	26,887
Maritime business	5,020	2,429
Transport sector	2,435	2,373
Industrial sector	1,151	926
Various customers	1.026	421
Energy sector	697	1,063
Fishing sector	170	2,513
doubtful collection accounts	4,980	5,019
	333,390	443,717
Minus - doubtful collection estimate	(4,980)	(5,019)
Total	328,410	438,698

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

Fuel Price Stabilization Fund - Ministry of Energy and Mines -

The total amount receivable from the General Hydrocarbons Agency (DGH), as of September 30, 2019 and December 31, 2018, amounts to US$ 25,618 thousand and US$ 99,645 thousand, respectively, generated by compensations and contributions which includes, as of September 30, 2019, the legal recourse (“Demanda de Amparo”) recorded in a Claims account for US$17,142 thousand (US$17,173 thousand as of December 31, 2018), classified, as other long-term accounts receivable (Note 11) and the amount receivable of US$8,476 thousand (US$82,472 thousand at December 31, 2018).

As of September 30, 2019 and December 31, 2018, the movement of the total balance of the item Price Stabilization Fund is explained as follows:

	2019 US$000	2018 US$000
Initial balance	82,472	50,126
Price compensation (income)	4,392	60,170
Price contribution	(25,681)	(21,405)
Net (charged) paid to income from ordinary activities (note 18	(21,289)	38,765
Product import fund	(5,013)	(2,734)
Collection and compensation payments and / or contribution	(48,783)	-
Exchange difference	1,089	(3,685)
Final balance	8,476	82,472

Expected loss of trade accounts receivable –

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

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

Expected loss rates are based on sales payment profiles in a 12-month period before September 30, 2019 and December 31, 2018, and historical credit losses are adjusted to reflect current and prospective information on Macroeconomic factors that affect the ability of customers to settle trade accounts receivable.

On that basis, the provision for losses as of September 30, 2019 and December 31, 2018 was determined as follows:

	2019			**2018**		
	Expected loss rate	**Gross amount in books**	**Expected loss**	**Expected loss rate**	**Gross amount in books**	**Expected loss**
	%	**US$000**	**US$000**	**%**	**US$000**	**US$000**
Current	0.01	312,093	29	0.01	354,397	32
From 1 to 30 days	0.62	1,200	7	0.48	831	4
From 31 to 60 days	1.16	653	8	0.54	373	2
From 61 to 90 days	1.30	890	12	0.68	147	1
From 91 to 120 days	1.55	784	12	-	43	-
From 121 to 150 days	4.66	850	40	-	-	-
From 151 to 180 days	4.71	1,150	54	-	1	-
From 181 to 210 days	8.65	830	72	1.69	59	1
From 211 to 240 days	15.66	1,449	227	5.88	17	1
From 241 to 270 days	39.36	23	9	-	-	-
From 271 to 300 days	100.00	8	8	-	-	-
From 301 to 330 days	100.00	-	-	67.31	52	35
From 331 to 360 days	100.00	-	-	99.44	119	110
More than 360 days	100.00	4,502	4,502	92.84	5,206	4,833
Total (*)		324,432	4,980		299,348	5,019

(*) Does not include the Price Stabilization Fund.

As of September 30, 2019 and December 31, 2018, the estimate movement of the expected loss of trade accounts receivable was as follows:

	2019	**2018**
	US$000	**US$000**
Initial balance	5,019	4,996
Additions	-	382
Exchange difference	28	(229)
Recoveries and Penalties	(67)	(130)
Final balance	4,980	5,019

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

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

11.OTHER ACCOUNTS RECEIVABLE

As of September 30, 2019 and December 31, 2018, this item comprises:

	2019 US$000	2018 US$000
Current		
Time deposit (a)	522,218	1,036,865
Tax credit - General Tax on Sales (b)	153,422	385,73
Cancellation Documents (c)	16,588	-
Advances to suppliers	8,908	9,279
Account receivable association - GEOPARK	6,046	9,149
Loans to personnel	4,200	4,356
Loan - with guarantee	2,551	2,823
Act Instrum Financ-Deriv-Instrum Coverage	7,870	302
Sundry	4,013	7,248
Doubtful collection accounts (g)	35,437	35,495
	761,253	1,491,252
Minus - Estimate for doubtful accounts	(35,437)	(35,495)
	725,816	1,455,757
Non-current		
Tax credit - General Tax on Sales, long term (d)	265,940	209,563
Fuel Price Stabilization Fund - Ministry of Energy and Mines (Note 1(c)) - (e)"	17,142	17,173
Claims to the Superintendency of Tax Administration (f)	9,781	9,613
Long term third party claims	-	677
Other long term	6,849	4,725
	299,712	241,751
	1,025,528	1,697,508

(a) Fixed time deposits –
As of September 30, 2019, and December 31, 2018, the Company maintains fixed time deposits with 90-day maturities in foreign banks; however, Management plans to renew the term of said deposits for a period greater than 90 days.

(b) Tax credit - General Sales Tax, income tax and excise tax, short term –
As of September 30, 2019, it corresponds mainly to the General Sales Tax of operations for US$46,431 thousand (equivalent to S/157,169 thousands), General Sales Tax of the PMRT for an amount of US$49,593 thousand (equivalent to S/167,873 thousands), which will be recovered in the short term through operations and via the VAT early recovery regime.

It also has US$57,399 thousand (equivalent to S/194,296 thousands) for income tax.

During 2019, SUNAT carried out the tax credit refund of the investment VAT for US$33,215 thousand (equivalent to S/110,760 thousands) and US$228,239 thousands per balance in favor of the exporter (equivalent to S/ 759,000 thousands).

(c) Account receivable swap for the Price Stabilization Fund as of December 2018 for cancellation documents for US$48,783 thousand used for tax payments, as of September 30, 2019 there is a balance of US$16,588 thousand (equivalent to S/56,150 Thousands).

(d) Tax credit - General Sales Tax, long term –
Corresponds to the balance in favor of the VAT paid for the acquisition of goods and services related mainly to the Talara Refinery Modernization Project that amount to

US$470,849 thousand (equivalent to S/239,824 thousands) and the VAT for operations amounting to US$195,091 thousand (equivalent to S/660,383 thousands). This balance in favor of tax credit has no expiration period. The Company expects to recover this tax credit through the VAT early recovery regime in the long term.

(e) **Claims to the fuel price stabilization fund of the Ministry of Energy and Mines –**

In April 2010, the General Hydrocarbons Agency (DGH) issued Resolution 075-2010-EM/DG, by which the producers and importers of fuel are required to amend the weekly statements presented since August 2008 and apply, on a retroactive basis, the reference values established in said Resolution. The Company, based on the opinion of Management and legal counsel, has filed an Action seeking constitutional protection with the second constitutional court in Lima, on the grounds that this resolution was unconstitutional. Said action was signed with File No. 21022-2010-0-1801-JR-CI-02

On November 28, 2018, the Judgment contained in Resolution No. 16 has been issued whereby the Second Constitutional Specialized Court of Lima declares the claim inadmissible. By resolution No. 17, it was granted the Appeal of the abovementioned Judgement on 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 amount receivable recorded, which amounts to US$17,142 thousands as of September 30, 2019 (US$17,173 thousands as of December 31, 2018).

(f) 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 Perú). In this respect, the Company considers it illegal to restrict the tax to sales conducted by profit-making entities since they were finally directed to aviation entities by virtue of private contracts.

	2019	**2018**
	US$000	**US$000**
File No. 03490-2012-0-1801-JR-CA-08 (i)	989	972
File No. 17806-2012 (ii)	8,792	8,641
	9,781	9,613

(i) In February 2013, the Company paid US$777 thousand (equivalent to S/2,627 thousand) on the tax assessments relating to allegedly unpaid Excise Tax (ISC) for fiscal 2002. By Resolution of Intendency No. 012-180-0017009 / SUNAT dated July 16, 2018, SUNAT approved the refund of US$195 thousand (equivalent to S/ 656 thousand) corresponding to the ISC of November 2002 approving a total amount of refund ascending to S/ 1,199 thousands.

On August 13, 2018 SUNAT issued Resolution of Intendency 012-180-0017018 that declared inadmissible the refund of S/ 2,627 thousand, which was later claimed before the SUNAT and resolved unfavorably to the Company by Resolution of Intendance 0150140014459 dated October 31, 2018. As of September 30, 2019, the filing of an Appeal against this last resolution is still pending.

(ii) In November 2012, the Company paid US$8.651 thousand (equivalent to S/ 29,197 thousand) in respect of a number of tax determination and tax penalty resolutions involving allegedly unpaid excise tax (ISC) and VAT (IGV) for fiscal 2007. At September 30, 2019, this action remains to be resolved by Courtroom 4 of the Peruvian Tax Tribunal, under File No. 17806-2012. Based on the favorable resolution of other similar claims, the Company and its legal counsel have high expectations of obtaining a favorable outcome. The expected refund is equivalent to US$8,792 thousand at the closing exchange rate.

(g) Expected loss of other accounts receivable –

On that basis, the provision for losses as of September 30, 2019 and December 31, 2018 (after the adoption of IFRS 9) was determined as follows:

	2019			**2018**		
	Expected loss rate	**Gross amount in books**	**Expected loss**	**Expected loss rate**	**Gross amount in books**	**Expected loss**
	%	**US$000**	**US$000**	**%**	**US$000**	**US$000**
Current	4.66	3158	147	2.15	9,821	10
From 1 to 30 days	24.75	122	30	19.75	562	111
From 31 to 60 days	33.23	24	8	28.00	75	21
From 61 to 90 days	63.75	18	11	40.00	45	18
From 91 to 120 days	66.56	9	6	50.00	22	11
From 121 to 150 days	80.36	217	174	50.00	4	17
From 151 to 180 days	101.71	14	14	60.71	28	2
From 181 to 210 days	85.53	37	31	66.67	3	2
From 211 to 240 days	76.81	1	1	81.82	11	19
From 241 to 270 days	84.69	57	49	88.89	9	8
From 271 to 300 days	100.00	1	1	90.48	21	9
From 301 to 330 days	100.00	-	-	-	-	-
From 331 to 360 days	100.00	340	340	100.00	654	654
More than 360 days	100.00	34,624	34,624	100.00	34,613	34,613
Total (*)		38,622	35,437		45,868	35,495

(*) Only includes other accounts receivable.

The expected loss is mainly related to claims made to municipalities involving property and municipal taxes; the probability of a favorable outcome is low. As of September 30, 2019 and December 31, 2018, the movement of the provision for the expected loss is as follows:

	2019	**2018**
	US$000 (Unaudited)	**US$000**
Initial balance	35,495	36,483
Expected loss	9	553
Exchange difference	(68)	(723)
Recoveries	1	(620)
Penalties	-	(198)
Final balance	35,437	35,495

12.INVENTORIES

As of September 30, 2019 and December 31, 2018, this item comprises:

	2019 US$000	2018 US$000
Crude oil	55,228	54,878
Refined products:		
In process	205,490	220,811
Finished	201,418	187,464
Refined products purchased	93,897	93,173
Inventories in transit	24,231	18,075
Supplies	18,632	17,199
	598,896	591,600
Minus - Estimation for devaluation of supplies	(1,063)	(1,063)
	597,833	590,537

As of September 30, 2019, the cost of inventories recognized as expenses and included in the cost of sales amounted to US$2,867,301 thousand (US$3,091,770 thousand as of September 2018) that equals the cost of sales minus operating manufacturing costs (Nota 19).

As of September 30, 2019 the crude oil price had a downward trend, with a closing price of US$55.09 per barrel (US$73.25 per barrel at September 30, 2018). The average price during September 2019 was US$54.84 per barrel (US$70.25 per barrel in September 30, 2018).

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

	2019 US$000	2018 US$000
Initial balance	(1,063)	(1,515)
Impairment of supplies	-	(591)
Reversals	-	1,043
Final balance	(1,063)	(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 September 30, 2019 and December 31, 2018 Management 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.

13.PROPERTY, PLANT AND EQUIPMENT

	Lands US$000	Buildings and other constructions US$000	Machinery and equipment US$000	transportation unit US$000	Furniture and fixtures US$000	miscellaneous and computer equipment US$000	equipment out of use US$000	Units to be received US$000	Works in progress US$000	Additional investments US$000	Total US$000
As of December 31, 2018											
Cost	201,276	191,725	696,018	18,459	4,506	56,892	17,463	-	3,253,339	22,255	4,461,932
Accumulated depreciation	-	(93,886)	(326,871)	(13,565)	(3,502)	(27,880)	(17,463)	-	-	-	(483,167)
Accumulated impairment	-	-	(309)	-	-	-	-	-	-	-	(309)
Net cost	201,276	97,839	368,838	4,894	1,004	29,011	-	-	3,253,339	22,255	3,978,456
Year 2019											
Opening balance of net book cost	201,276	97,839	368,938	4,894	1,004	29,011	-	-	3,253,339	22,255	3,978,456
Additions	-	-	-	-	-	-	-	-	640,441	5,219	645,660
Capitalizations	-	2,887	24,413	4,230	570	1,750	-	-	(32,392)	(1,458)	-
Withdrawals	-	-	(24,074)	(114)	(3)	(6)	(8,025)	-	-	-	(32,222)
Transfer	-	-	(2,242)	(195)	(25)	(145)	2,607	-	-	-	-
Reclassification to assets held for sale	-	(10)	-	-	-	-	-	-	-	-	(10)
Depreciation for the year	-	(3,887)	(21,492)	(1,251)	(309)	(2,807)	-	-	-	-	(29,746)
Withdrawal depreciation	-	-	24,045	88	3	4	8,025	-	-	-	
32,165											
Expenses for discontinued operations of fixed assets	-	-	-	-	-	-	(321)	-	-	-	(321)
Depreciation Transfers	-	-	1,929	188	25	144	(2,286)	-	-	-	-
Adjustment	-	10	-	-	-	-	-	-	-	-	10
As of September 30, 2019	201,276	98,839	371,417	7,840	1,265	27,951	-	-	3,861,388	26,016	4,593,992
Cost	201,276	194,602	694,115	22,380	5,048	58,490	12,045	-	3,861,388	26,016	5,075,360
Accumulated depreciation	-	(97,763)	(322,389)	(14,540)	(3,783)	(30,539)	(12,045)	-	-	-	(481,059)
Accumulated impairment	-	-	(309)	-	-	-	-	-	-	-	(309)
Net cost	201,276	96,839	371,417	7,840	1,265	27,951	-	-	3,861,388	26,016	4,593,992

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 September 30, 2019 is described as follows:

- Comprehensive progress

  - Overall physical progress of PMRT is 80.56%.

  - The PMRT Integrated Schedule, which defines the updating of the baseline of the project, which must integrate the Schedule of Auxiliary Units and Complementary Works, under review (by Consorcio Cobra SCL UA&TC) and the Schedule for the activities to be executed of the Process Units (in charge of Técnicas Reunidas) are being reviewed.

The composition of the estimated total cost of the project compared to disbursements incurred is detailed below:

	September 30, 2019		Total budget	
	Disbursement US$000	Percentage of completion %	Planned US$000	Total percentage %
Técnicas Reunidas (TR) -				
Process units	2,294,523	85.44%	2,685,500	53.71%
Consorcio Cobra SCL -				
Auxiliary units	357,099	46.66%	765,290	15.30%
Complementary works	144,548	49.74%	290,580	5.81%
Others -				
Supervision	218,912	79.89%	274,000	5.48%
Management	127,019	54.18%	234,430	4.69%
Contingencies	10,407	18.92%	55,000	1.10%
Interest on financing	331,525	47.70%	695,000	13.90%
	3,484,033		4,999,800	100.00%

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

- Progress of the EPC Contract with Cobra SCL UA & TC Consortium is 38.27% Actual.
- As of September 30, 2019, valuations were approved to Cobra SCL for an accumulated amount of MMUS$401.99.
- Cobra SCL continues with the work of delivering detailed engineering documentation (drawings, calculation reports, data sheets and more); equipment, materials and supplies purchasing management, equipment manufacturing; with regard to the construction, there is a progress in the civil works in package 1 (casting, pedestal stripping, column assembly and more), soil improvement in package 2 (filling, compression and more), civil works in package 3 (steel placing, formwork, concrete casting and more), civil works in package 4 (scaffolding assembly, placing steel in columns and more), civil works in package 5 (placing of filling around the perimeter, concrete pouring and more), as well

as general civil works in complementary works and buildings, as part of the constructive works.

- Engineering progress was 69.87% Actual.
- Procura's progress was 46.21% Actual.
- Construction progress was 24.82% Actual.

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

  - TR continues to develop the Detail Engineering, Procurement and Construction (EPC) activities, with a progress of 92.04% Actual vs 92.25% Scheduled.
  - As of September 30, 2019, Valuations to Cobra SCL by an accumulated amount of MMUS$2,289.55 were approved.
  - Engineering progress amounted to 100% Actual vs 100% Scheduled.
  - Progress of procurement of equipment amounted to 99.89% Actual vs 100% Scheduled.
  - Construction progress amounted to 88.53% Actual vs 88.85% Scheduled.

  - Management

    Financial structure of the PMRT:

  - International bond issue for MMUS$2,000, placed in June 2017.
  - CESCE loan MMUS$1,300. In January 2018 the CESCE loan was signed, in November 2018 the disbursement was made for MMUS$1,236.7.
  - The remaining tranche of the amount to be funded to the PMRT has still to de defined.
  - Own resources for MMUS$774.
  - Capital contribution for MMUS$325.

  PMC (Project Management Consultancy):

  - The supervision of the Project continues under the PMC Talara Consortium (CPT).

  PMO (Project Management Office):

  - The Project Management Office service continues to be carried out by the Deloitte Talara Consortium.

  - Social Management and Communications

Local Workforce Program:

- As of September 30, 2019, the workforce totaled 8,332 jobs. The unskilled local labor had an 87% participation, surpassing the minimum established in the EIA (70%), while the local skilled labor had a participation of 38%.

The start of operations is expected for the year 2021.

Depreciation -

For the nine-month period ended on September 30, 2019 and 2018, the charge to income for the period depreciation of property, plant and equipment and investment properties is distributed among the following cost centers:

	2019 US$000	2018 US$000
Cost of sales (Note 19) (*)	23,458	22,626
Sales and distribution expenses (Note 20)	6,835	6,322
Administration expenses (Note 21)	3,486	4,368
	33,779	33,316

(*) Cost of Sale includes depreciation of investment properties as of September 30, 2019 and 2018.

As of September 30, 2019 and 2018, the Company has not granted any element of its fixed assets as collateral for loans.

Impairment of assets -

As of September 30, 2019, the Company carried out the evaluation of impairment signs and did not find significant events that are indicative of assets impairment.

As of December 31, 2018, the Company performed the impairment tests of the Production and Marketing and pipeline Operations Cash Generating Units, and also performed the impairment test of the assets under construction of the PMRT and considers that as of September 30, 2019 there are no events that could modify the result and conclusions obtained in the annual evaluation.

14. OTHER FINANCIAL LIABILITIES

As of September 30, 2019 and December 31, 2018, this item includes:

	2019 US$000	2018 US$000
Current liabilities		
Bank loans without guarantee	914,230	1,650,893
Accrued interest	46,495	22,219
	960,725	1,673,112
Non-current liabilities		
Corporate bonds (i)	1,985,953	1,985,589
CESCE loan (ii)	1,165,681	1,162,021
	3,151,634	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. Transaction expenses totaled US$6,822 thousand, net of the liability.

- 2047 Notes, a principal of US$1,000,000 thousand with coupons paid semi-annually at a fixed rate of 5.625% per year with maturity of 30 years. Coupons are due from

December 2017 and repayment of principal will take place on the bond maturity date. Transaction expenses totaled US$7,349 thousand, thousand, net of the liability.

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

Bonds issued are not secured with specific guarantees; nevertheless, under Law No. 30130 guarantees are approved to be given by the Government for up to US$1,000 million (Note 1-a).

ii) On January 31, 2018, the loan contract was signed with the guarantee of the Spanish Export Credit Insurance Company (CESCE) being the administrative agent Deutsche Bank SAE for US$1,300,000 thousand. On November 2018, US$1,236,717 thousand was received, a fund that was used to reimburse the different sources of financing used to pay PMRT invoices, corresponding to the EPC with Técnicas Reunidas. The transactional costs are comprised of the disbursement commission of US$61,880 thousands and other structuring costs of US$15,678 thousands. Interest is paid semiannually as of May 2019 with maturity in 2031 based on the fixed interest rate of 3.285%.

As of September 30, 2019, the disbursement amount pending amounts to US$63,283 thousand.

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

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

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

As of September 30, 2019, the Company complied with the commitments established in the financing contract.

a) **Debt repayment terms and timetable**

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

				As of September 30, 2019		As of December 31, 2018	
amount	Original currency	Nominal interest rate	maturity	Nominal value	Carrying amount	nominal value	Carrying
				US$000	US$000	US$000	US$000
Bank loans without guarantee	Soles	2.03% - 3.85%	2019	450,447	450,447	870,980	870,980
Bank loans without Guarantee	Dollars	0.99% - 2.64%	2019	463,783	463,783	779,913	779,913
CESCE loan	Dollars	3.29%	2031	1,236,717	1,165,681	1,236,717	
	1,162,021						
Corporate bonds	Dollars	4.75%	2032	1,000,000	993,275	1,000,000	992,991
Corporate bonds	Dollars	5.63%	2047	1,000,000	992,678	1,000,000	992,598
Accrued interest				-	46,495	-	22,219
				4,150,947	4,112,359	4,887,610	,820,722

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

b) **Movement of financial liabilities**

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

	Bank loans Without guarantee US$000	Corporate bonds US$000	CESCE loan US$000	Total US$000
Balance as of January 1, 2019	1,665,988	1,989,009	1,165,725	4,820,722
New loans	2,461,722	-	-	2,461,722
Amortizations	(3,198,384)	-	-	(3,198,384)
Amortized cost	-	954	3,070	4,024
Accrued interest	26,744	77,652	30,865	135,261
Interest rate paid	(38,572)	(51,875)	(20,539)	(110,986)
Balance as of September 30, 2019	917,498	2,015,740	1,179,121	4,112,359

15.TRADE ACCOUNTS PAYABLE

As of September 30, 2019 and December 31, 2018, this item comprises:

	2019 US$000	2018 US$000
Foreign suppliers of crude and refined products	360,225	278,194
Goods and service suppliers	169,745	128,275
National suppliers of crude and refined products	100,575	92,180
Shipping companies and operators of terminals and sales plants	30,837	31,152
	661,382	529,801

As of September 30, 2019, the main national supplier of crude oil is Savia Perú S.A. whose balance amounts to US$26,048 thousand (US$25,481 thousands as of December 31, 2018). The main foreign provider is Motiva Entrerprises LLC to which it is owed US$124,399 thousands (2019 new provider).
The main service providers are Consortium Cobra SCL UA&TC whose balance amounts to US$97,598 thousand (US$36,392 thousands as of December 30, 2019), Técnicas Reunidas de Talara Sociedad whose balance amounts to US$21,521 thousands (US$17,814 thousands as of December 31, 2018) and Sima Iquitos S.R.Ltda whose balance amounts to US$7,445 thousands (US$6,186 thousands as of December 31, 2018).

This account reflects the Company's obligations related to the acquisition of crude oil and refined products with the transportation services of plant operation and with the acquisition of supplies and spare parts; and with 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 PROVISIONS

As of September 30, 2019, and December 31, 2018, this item comprises:

	2019 US$000	2018 US$000
Current		
Provision for Environmental improvements (a)	29,017	29,864
Provisions for civil claims (b)	258	2,229
Provisions for labor claims	2,121	1,801
Provision for well plugging	569	570
Provision for retirement pensions	42	42
Other provisions	156	156
	32,163	34,662
Non-current		
Provision for Environmental improvements (a)	7,211	7,011
Provision for retirement pensions	49	56
	7,260	7,067
	39,423	41,729

The movement of other provisions is as follows:

	Provision for environment improvement US$000	Provision for civil claims US$000	Provision for labor claims US$000	Provision for well plugging US$000	Provision for retirement pension US$000	Other provisions US$000	Total US$000
Balance as of January 1, 2018	52,850	17,809	2,547	594	110	162	74,072
Provision for the year	10,806	23,728	937	-	33	-	35,504
Update	60	-	-	-	-	-	60
Payments	(25,872)	(23,438)	(448)	-	(41)	-	(49,799)
Reversion of unused provisions	-	(15,619)	(1,229)	-	-	-	(16,848)
Exchange rate difference	(969)	(251)	(6)	(24)	(4)	(6)	(1,260)
Balance as of December 31, 2018	36,875	2,229	1,801	570	98	156	41,729
Provision for the year	11,960	-	950	-	11	-	12,921
Payments	(12,944)	-	(317)	-	(18)	-	(13,279)
Present Value Update	218	-	-	-	-	-	218
Reversion of unused provisions	-	(1,894)	(96)	-	-	-	(1,990)
Exchange rate difference	119	(77)	(217)	(1)	-	-	(176)
Balance as of September 30, 2019	36,228	258	2,121	569	91	156	39,423

a) Provision for environmental improvements and well plugging -

In 2019, the Company has reported 6 significant oil spills (3 in 2018) which are being investigated in cooperation with OSINERGMIN. These acts resulted in the total stoppage of oil pumping from the Peruvian jungle to the coast. As a result of these spills, the Company recorded a provision for US$11,960 thousand and disbursements for 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.

As of the end of September, 2019 the amount implemented in environmental remediation related to the above-mentioned oil spills in the Oleoducto Norperuano is US$48,713 thousand and there is a pending amount to be implemented of US$20,614 thousand (US$16,584 thousand at December 31, 2018) for activities which are expected to last until the end of 2019.

The movement of the provision for environmental improvements is as follows:

	Balance as of January 1 US$000	Payments US$000	Provision and update US$000	Balance as of September 30 US$000
Year 2019				
Lot 8	2,090	-	33	2,123
Lot X	4,840	(772)	64	4,132
Pampilla	5	-	-	5
Lubricants	116	-	1	117
North terminals	263	-	-	263
South terminals	204	(1)	2	205
Central terminals	1,625	(1)	15	1,639
Natural Gas Electric system	20	-	-	20
Total Privatized units	9,163	774	16	8,504
Talara operations	6,037	(1,170)	53	4,920
Conchán operations	905	-	6	911
Oil pipeline operations	16,584	(11,000)	11,912	17,496
Iquitos refinery operations	1,391	-	9	1,400
Commercial operations	597	-	6	603
Exploration and Exploitation management	948	-	10	958
Total Own units	26,462	(12,170)	11,996	26,289
Total	35,625	(12,944)	12,112	34,793
Exchange rates difference	1,250			1,435
Total	36,875			36,228

As of September 30, 2019, the Company has estimated a provision for US$258 thousand equivalent to S/872 thousand, of which US$58 thousand (equivalent to S/195 thousand) are for an administrative process with the Supervisory Organism of Investment in Energy and Mines-OSINERGMIN, a process with Transgas Shipping for US$160 thousand (equivalent to S/540 thousand) and a process with AFP's for US$40 thousand (equivalent to S/137 thousand) and the rest of the processes were adjusted and / or reversed.

As of December 31, 2018, the Company has estimated a provision for US$2,229 thousand (equivalent to S/7,533 thousand) of which S/4,885 thousand (equivalent to US$1,476 thousand) are due to eight (8) administrative processes with the Supervisory Organism of Investment in Energy and Mines – OSINERGMIN.

17. EQUITY

a) Share capital -

At September 30, 2019 the share capital has been authorized, subscribed, paid-in and comprises 4,448,416,995 common shares, at one sol par value each.

b) Additional capital -

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

c) Legal reserve -

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

The legal reserve registered as of September 30, 2019 amounts to US$52,115 thousand (equivalent to S/174,720 thousand); in 2019 a legal reserve amounting to US$11,955 thousand (equivalent to S/44,720 thousands), corresponding to 10% of the distributable net income of 2018, was constituted.

18. REVENUE FROM ORDINARY ACTIVITIES

This item comprises:

	For the three-month period Ended on September 30		For the nine-month period ended on September 30	
	2019	2018	2019	2018
	US$000	US$000	US$000	US$000
National sales	1,046,848	1,101,856	3,080,078	3,164,329
Income related to ordinary activities	(2,517)	10,324	(21,289)	46,824
Derivative fuel price stabilization fund (*)	2,073	1,765	3,524	3,633
	1,046,404	1,113,945	3,062,313	3,214,786
Sales abroad	126,561	144,234	387,005	383,831
	1,172,965	1,258,179	3,449,318	3,598,617

(*) The Price Stabilization Fund is applied to some products such as LPG-E, Diesel B5, Diesel B5 S-50 and industrial oil 6.

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

The sales are broken down as follows:

	For the three-month period ended on September 30		For the nine-month period ended on September 30	
	2019	2018	2019	2018
	US$000	US$000	US$000	US$000
National sales:				
Various diesel	600,431	630,064	1,750,869	1,786,399
Gasolines	291,298	287,709	835,342	838,667
Industrial oils	72,024	91,127	228,308	270,743
GLP	27,867	48,060	87,495	150,308
Turbo	25,648	32,291	78,691	96,577
Asphalt	20,541	20,405	48,409	46,529
Loreto Nat. Crude	-	-	13,624	13,246
Solvents	3,782	3,957	11,665	11,985
Primary Naphth	2,570	332	5,667	332
Other	2,243	-	2,243	-
Total mational sales	1,046,404	1,113,945	3,062,313	3,214,786

	For the three-month period Ended on September 30		For the nine-month period ended on September 30	
	2019	2018	2019	2018
	US$000	US$000	US$000	US$000
Foreign sales:				
Industrial oils	53,943	36,966	162,479	135,439
Various Diesel	31,331	39,494	126,388	81,478
Virgin Naphtha	25,024	15,196	52,233	74,485
Turbo	8,598	9,269	27,314	27,626
Gasoline	6,743	227	15,741	227
Asphalt	922	1,203	2,850	4,613
Loreto Nat. Crude	-	14,641	-	27,081
Cracked Naphtha ADQ. (Exp)	-	-	-	2,453
Reduced crude	-	27,238	-	27,238
ULSD (Exp)	-	-	-	2,349
HOGBS(Exp)	-	-	-	842
Total foreign sales	126,561	144,234	387,005	383,831
Total	1,172,965	1,258,179	3,449,318	3,598,617

19.COST OF SALES

This item comprises:

	For the three-month period ended on September 30		For the nine-month period ended on September 30	
	2019	2018	2019	2018
	US$000	US$000	US$000	US$000
Initial stock inventory	556,310	611,629	556,287	605,294
Purchase of crude oil, refined products and supplies	995,642	1,202,669	2,867,047	3,168,794
Production Operating expenses (a)	79,377	83,086	246,535	238,025
Final stock inventory	(556,033)	(682,318)	(556,033)	(682,318)
	1,075,296	1,215,066	3,113,836	3,329,795

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

	For the three-month period ended on September 30		For the nine-month period ended on September 30	
	2019	2018	2019	2018
	US$000	US$000	US$000	US$000
Third party services (*)	55,043	52,378	158,842	154,613
Personnel costs (Note 22)	12,818	18,670	38,189	42,031
Depreciation (Note 13)	8,705	6,369	23,458	22,626
Participation of workers (Note 22)	(1,179)	(900)	10,058	5,163
Other materials and production supplies	1,517	1,383	7,687	6,673
Insurances	2,272	1,804	6,733	5,079
Miscellaneous management costs	153	256	241	20
Amortization	-	2	-	5
Others	48	124	1,327	1,315
	79,377	83,086	246,535	238,025

(*) Includes the following:

	For the three-month period ended on September 30		For the six month period ended on September 30	
	2019	2018	2019	2018
	US$000	US$000	US$000	US$000
Freight and land transport expenses	15,537	13,167	41,836	35,042
Freight and shipping expenses	4,623	6,553	16,924	18,530
Other freight	4,855	5,228	15,217	15,155
Maintenance and repair services	4,223	7,321	12,653	18,197
Energy and water	4,847	4,090	16,067	14,834
Industrial protection and safety	1,040	1,126	3,197	3,711
Food and lodging	768	771	2,390	2,171
Third-party services - Miscellaneous	19,150	16,672	50,558	46,973
	55,043	55,378	158,842	154,613

20.SELLING AND DISTRIBUTION EXPENSES

This item comprises:

	For the three-month period ended on September 30		For the six month period ended on September 30	
	2019	2018	2019	2018
	US$000	US$000	US$000	US$000
Personnel costs (Note 22)	6,150	8,514	18,311	20,544
Taxes	4,772	5,135	14,444	14,814
Third party services (a)	2,609	3,536	7,818	9,682
Depreciation (Note 13)	2,211	2,009	6,835	6,322
Materials y supplies	660	642	2,132	2,118
Insurances	590	349	1,750	723
Miscellaneous management costs	151	195	497	500
Doubtful collection account	-	349	(1)	349
Participation of workers (Note 22)	(492)	(386)	4,197	2,216
	16,651	20,343	55,983	57,268

(a) Includes the following:

	For the three-month period ended on September 30		For the six month period ended on September 30	
	2019	2018	2019	2018
	US$000	US$000	US$000	US$000
Maintenance and repair services	768	942	2,589	2,472
Third-party services – Miscellaneous	847	1,099	2,157	2,896
Industrial protection and safety	515	969	1,673	2,843
Leases	275	274	795	776
Travel expenses and transfers	90	152	283	398
Energy and water	92	75	260	231
Freight and other freight expenses	22	25	61	66
	2,609	3,536	7,818	9,682

21. ADMINISTRATIVE EXPENSES

This item comprises:

	For the three-month period ended on September 30		For the nine-month period ended on September 30	
	2019	2018	2019	2018
	US$000	US$000	US$000	US$000
Personnel costs (Note 22)	20,566	27,222	58,969	67,898
Third party services (a)	10,083	11,494	29,874	31,530
Participation of workers (Note 22)	(1,394)	(907)	11,897	5,203
Depreciation (Note 13)	1,201	1,484	3,486	4,368
Taxes	970	687	3,097	2,849
Sundry management charges	1,224	2,622	2,451	5,780
Amortization	547	575	1,094	1,150
Materials and supplies	218	252	1,220	1,061
Insurances	130	308	377	647
	33,544	43,730	114,011	121,053

(a) Includes the following:

	For the three-month period ended on September 30		For the nine-month period ended on September 30	
	2019	2018	2019	2018
	US$000	US$000	US$000	US$000
Maintenance and repair services	2,636	2,580	6,921	6,420
IBM Outsourcing Services	1,579	3,001	5,575	7,011
Third-party services - Miscellaneous	1,017	1,115	3,805	3,682
Consulting, expertise and audits	1,271	1,548	3,671	4,431
Industrial protection and safety	939	708	3,004	2,857
Temporary services	684	770	1,667	1,642
Freight and other freight	538	335	1,609	1,298
Travel expenses and transfers	374	451	1,132	1,325
Advertising	527	491	1,114	1,399
Bank costs	364	344	887	902
Medical services	154	150	489	565
Total	10,083	11,494	29,874	31,530

22.PERSONNEL CHARGES

This item comprises:

US$000	For the three-month period ended on September 30 2019 US$000	2018 US$000	For the nine-month period ended on September 30 2019 US$000	2018
Wages and salaries	15,191	16,808	45,304	45,699
Participation of the workers	(3,065)	(2,193)	26,152	12,582
Bonuses	7,982	20,787	23,062	38,681
Social contributions	5,629	5,796	18,518	17,060
Gratifications	4,121	4,673	10,291	10,715
Compensation for time of service	2,104	2,348	6,558	6,911
Vacations	1,171	1,514	3,482	3,837
Food	969	981	2,831	2,820
Overtime	288	540	971	1,186
Transport	316	324	940	952
Others	1,763	635	3,512	2,610
Total	36,469	52,213	141,621	143,055

The workers participation expense was recorded against the income of the period in the following items:

	For the three-month period ended on September 30 2019 US$000	2018 US$000	For the nine-month period ended on September 30 2019 US$000	2018 US$000
Sales cost (Note 19)	11,639	17,770	48,247	47,194
Sales and distribution expenses (Note 20)	5,658	8,127	22,508	22,759
Administration expenses (Note 21)	19,172	26,316	70,866	73,101
	36,469	52,213	141,620	43,053

23.OTHER INCOME AND EXPENSES

This item comprises:

	For the three-month period ended on September 30 2019 US$000	2018 US$000	For the nine-month period ended on September 30 2019 US$000	2018 US$000
Other income				
Claims and / or indemnities (insurance / default)	4,316	2,327	14,883	6,262
Recovery of civil provisions	-	-	1,921	-
Maritime operations service	823	1,073	2,448	2,755
Recovery of doubtful commercial collection provision	24	471	-	507
Interests - return of SUNAT (a)	-	38,333	-	81,146
Recover labor provisions	12	-	96	-
Present value environmental remediation	-	-	-	1,5169
Other income	1,621	3,969	3,949	6,208
	6,748	46,173	23,297	98,397

	For the three-month period ended on September 30		For the nine-month period ended on September 30	
	2019	2018	2019	2018
	US$000	US$000	US$000	US$000
Other expenses				
Environmental remediation (Lot 8 y RELAPASA)	-	-	-	(27,654)
Accidents provision in the Pipeline (b)	-	-	(11,960)	(6,172)
Net cost of disposal	(84)	13	(377)	(16)
Retirement pension provision	-	(252)	-	(1,621)
	(5)	(10)	(11)	(27)
	(89)	(249)	(12,348)	(35,490)

(a) As of 30 September 2018, SUNAT issued two Intendancy Resolutions in favor of the Company, corresponding to the refund of the claim of Records No. 07873-2012-0-1801-JR-CA-13 and No. 02559-2012-2-1801-JR-CA-14. Such refunds include interest for US$42,813 thousand and US$38,333 thousand respectively.

(b) Environmental remediation provision derived from oil spills in the ONP at Km. 20 + 204 Section I and at Km. 87 + 887 Section I, caused by third parties (Note 16-a).

24. INCOME TAX

Income tax expense is recognized in accordance with the Management's estimate of the expected annual income tax rate for the entire financial year. The estimated annual effective rate used for the years 2019 and 2018 is 34% and 22%, respectively.

25. CONTINGENCIES

The Company has the following labor-related court actions, civil lawsuits, tax and customs claims pending resolution, which are considered possible contingencies:

	2019	2018
	US$000 (Unaudited)	US$000
Civil proceedings	45,916	141,219
Tax and customs proceedings	23,635	39,274
Labor proceedings	2,152	3,803
	71,703	184,296

The movement of contingencies is detailed below:

	Balance as of January 1st	Additions	Ristournes	Balance as of September 30
	US$000	US$000	US$000	US$000
Civil proceedings (a)	141,219	30,275	(125,578)	45,916
Tax and customs proceedings (b)	39,274	1,929	(17,568)	23,635
Labor proceedings	3,803	699	(2,350)	2,152
	184,296	255,122	(367,715)	71,703

(a) As of September 30, 2019, an amount of US$ 1000,000 thousand corresponding to the arbitration proceeding filed by Savia Perú S.A. initiated in 2018 was reversed, corresponding to a claim to the leased contract offered by the Company, due to the fact that the arbitral Award in favor of PETROPERU S.A. was issued in September.

(b) As of September 30, 2019, an amount of US$14,944 thousand corresponding to the tax policy controversies associated with the income tax of the year 2015, that was notified through the Tax Court Resolution No. 03921-4-2019 in favor of PETROPERÚ S.A.

26.BASIC AND DILUTED EARNINGS PER SHARE

The calculation at September 30, 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:

	Income US$000	Weighted average of outstanding shares	Earnings per share
As of September 30, 2019			
Basic and diluted earnings per share	145,077	4,448,416	0.033
As of September 30, 2018			
Basic and diluted earnings per share	113,292	3,927,713	0.029

27.GUARANTEES AND COMMITMENTS

(a) Guarantees and performance bonds -

At September 30, 2019 the Company has performance bonds backed by local financial institutions to suppliers for a total US$30,49 thousand (equivalent to S/103,214 thousand) and US$34,028 thousand.

At September 30, 2019 and December 31, 2018, the Company does not have long-term operating lease commitments.

Guarantees related to financial obligations are disclosed in Note 14.

(b) Commitments –

As of September 30, 2019 and December 31, 2018, the contracted investment expense that represents commitments as of the date of the statement of financial position but not recognized is as follows:

	2019 US$000	2018 U$000
Property, plant and equipment	6,879	23,298

The expense for the periods as of September 30, 2019 and December 31, 2018 for this concept amounted to US$3,504 thousand and US$26,861 thousand respectively, and was recorded in the sales expenses and sale cost of the comprehensive income statement.

The minimum future payments under non-cancellable operating leases as of September 30, 2019 and December 31, 2018, are as follows:

	2019 US$000	2018 US$000
Less than 1 year	3,969	17,701
Between 1 year and less than 3 years	2,112	4,594
More than 3 years	798	1,003
Total	6,879	23,298

As of 2019, the Company has applied IFRS 16 Lease, however, as of September 30, 2019, the Company has not accounted for the effects of the application of IFRS 16 because it is not considered significant (Note 3.1).

28. RELATED PARTIES

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

29. SUBSEQUENT EVENTS

Between October 1, 2019 and the approval date of these condensed interim financial statements by the General Management, there were no additional significant subsequent events that required adjustments or disclosures to what was reported.