(Free translation from the original in Spanish)

**PETROLEOS DEL PERU - PETROPERU S.A.**

CONDENSED INTERIM FINANCIAL STATEMENTS
AT JUNE 30, 2018 (UNAUDITED), DECEMBER 31, 2017 AND
JUNE 30, 2017 (UNAUDITED)

*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 6565*
www.pwc.com/pe

(Free translation from the original in Spanish)

**PETROLEOS DEL PERU - PETROPERU S.A.**

CONDENSED INTERIM FINANCIAL STATEMENTS
AT JUNE 30, 2018 (UNAUDITED), DECEMBER 31, 2017 AND
JUNE 30, 2017 (UNAUDITED)

CONTENTS



S/ = Sol
US$ = United States dollar
EUR = Euro
GBP = Pounds Sterling

(Free translation from the original in Spanish)

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**

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

September 6, 2018

We have reviewed the accompanying condensed interim financial statements of **Petróleos del Perú - PETROPERU S.A.** at June 30, 2018, which comprise the condensed interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 28. Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" issued by the International Accounting Standards Board. Our responsibility is to express an opinion on these condensed interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements do not present fairly, in all material respects, the financial position of **Petróleos del Perú - PETROPERU S.A.** at June 30, 2018, its financial performance and cash flows for the six-month period then ended, in accordance with International Accounting Standard 34 - "Interim Financial Reporting" issued by the International Accounting Standards Board.

*Gaveglio Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.*
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*www.pwc.com/pe*

September 6, 2018
Petróleos del Perú - PETROPERU S.A.

Other matter

Effective January 1, 2017 the Company changed its functional currency to the United States dollar. The condensed interim financial statements expressed in U.S. dollars for the six-month period ended June 30, 2017 were not audited.

Caveglio Aparicio y Asociados

Countersigned by

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

(Free translation from the original in Spanish)

**PETROLEOS DEL PERU - PETROPERU S.A.**

**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION**

| ASSETS | Note | At June 30, 2018 US$000 (Unaudited) | At December 31, 2017 US$000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 140,679 | 666,141 |
| Trade receivables | | 350,348 | 293,177 |
| Other receivables | 10 | 928,915 | 711,353 |
| Inventories | 11 | 656,013 | 643,611 |
| Prepaid expenses | | 2,972 | 4,889 |
| **Total current assets** | | 2,078,927 | 2,319,171 |
| **Non-current assets** | | | |
| Other receivables | 10 | 240,168 | 215,168 |
| Other assets | | 67 | 67 |
| Property, plant and equipment | 12 | 3,649,317 | 3,291,409 |
| Investment properties | | 76,850 | 79,430 |
| Intangible assets | | 33,297 | 33,498 |
| **Total non-current assets** | | 3,999,699 | 3,619,572 |
| **TOTAL ASSETS** | | 6,078,626 | 5,938,743 |

| LIABILITIES AND EQUITY | Note | At June 30, 2018 US$000 (Unaudited) | At December 31, 2017 US$000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Other financial liabilities | 13 | 1,580,992 | 1,319,200 |
| Trade payables | 14 | 551,008 | 772,247 |
| Other payables | | 67,594 | 115,189 |
| Other provisions | 15 | 83,879 | 59,611 |
| **Total current liabilities** | | 2,283,473 | 2,266,247 |
| **Non-current liabilities** | | | |
| Other financial liabilities | 13 | 1,985,351 | 1,985,124 |
| Other provisions | 15 | 16,240 | 14,461 |
| Deferred income tax liabilities | | 62,512 | 55,307 |
| **Total non-current liabilities** | | 2,064,103 | 2,054,892 |
| **Total liabilities** | | 4,347,576 | 4,321,139 |
| **EQUITY** | 16 | | |
| Share capital | | 1,171,395 | 1,171,395 |
| Additional capital | | 166,594 | - |
| Legal reserve | | 40,161 | 21,650 |
| Other equity reserves | | - | (154) |
| Retained earnings | | 352,900 | 424,713 |
| **Total equity** | | 1,731,050 | 1,617,604 |
| **TOTAL LIABILITIES AND EQUITY** | | 6,078,626 | 5,938,743 |

The attached notes from pages 8 to 40 form part of the condensed interim financial statements.

(Free translation from the original in Spanish)

PETROLEOS DEL PERU - PETROPERU S.A.

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME**

| | Note | For the three-month period ended June 30, | | For the six-month period ended June 30, | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| | | US$000 (Unaudited and not reviewed) | US$000 (Unaudited and not reviewed) | US$000 (Unaudited) | US$000 (Unaudited) |
| Revenue from ordinary activities | 17 | 1,207,840 | 923,482 | 2,340,438 | 1,856,231 |
| Other operating profit | | 17,764 | 20,504 | 38,802 | 36,166 |
| Total revenue | | 1,225,604 | 943,986 | 2,379,240 | 1,892,397 |
| Cost of sales | 18 | (1,075,412) | (855,915) | (2,081,227) | (1,685,396) |
| Gross profit | | 150,192 | 88,071 | 298,013 | 207,001 |
| Selling and distribution expenses | 19 | (36,176) | (32,859) | (70,427) | (64,831) |
| Administrative expenses | 20 | (65,503) | (43,068) | (104,976) | (75,150) |
| Other income | 22 | 4,126 | 45,244 | 50,855 | 52,485 |
| Other expenses | 22 | (6,210) | (1,279) | (6,218) | (1,331) |
| Total operating expenses | | (103,763) | (31,962) | (130,766) | (88,827) |
| Operating profit | | 46,429 | 56,109 | 167,247 | 118,174 |
| Finance income | | 4,927 | 1,017 | 7,369 | 1,547 |
| Finance costs | | (4,789) | (12,072) | (13,840) | (22,327) |
| Exchange difference, net | | (4,875) | 7,285 | (1,053) | (6,474) |
| Profit before income tax | | 41,692 | 52,339 | 159,723 | 90,920 |
| Income tax | 23 | (17,399) | (6,123) | (46,431) | (5,600) |
| Profit for the year | | 24,293 | 46,216 | 113,292 | 85,320 |
| Other comprehensive income that may be reclassified as profit or loss: | | | | | |
| Proceeds from derivatives | | - | (574) | 154 | (969) |
| Total other comprehensive income | | - | (574) | 154 | (969) |
| Total comprehensive income | | 24,293 | 45,642 | 113,446 | 84,351 |
| Earning per basic and diluted share | 25 | 0.003 | 0.013 | 0.029 | 0.028 |

The attached notes from pages 8 to 40 form part of the condensed interim financial statements.

(Free translation from the original in Spanish)

**PETROLEOS DEL PERU - PETROPERU S.A.**

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY**
**FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2018 AND 2017**

| | Number of shares | Share capital US$000 | Additional capital US$000 | Legal reserve US$000 | Other equity reserves US$000 | Retained earnings US$000 | Total equity US$000 |
|---|---|---|---|---|---|---|---|
| **Balances at January 1, 2017** | 2,465,047,935 | 733,645 | 110,241 | 16,189 | (373) | 256,222 | 1,115,924 |
| Comprehensive income: | | | | | | | |
| Profit for the year | - | - | - | - | - | 85,320 | 85,320 |
| Other comprehensive income: | | | | | | | |
| Proceeds from derivatives | - | - | - | - | (969) | - | (969) |
| Total comprehensive income | - | - | - | - | (969) | 85,320 | 84,351 |
| Transactions with shareholders: | | | | | | | |
| Shareholder's cash contribution | - | - | 316,357 | - | - | - | 316,357 |
| Transfer to additional capital and legal reserve | - | - | 11,152 | 5,461 | - | (16,613) | - |
| Transfer to share capital of cash contribution | 1,056,000,000 | 316,357 | (316,357) | - | - | - | - |
| Transfer to share capital of additional capital | 406,665,360 | - | - | - | - | - | - |
| Total transactions with shareholders | 1,462,665,360 | 316,357 | 11,152 | 5,461 | - | (16,613) | 316,357 |
| **Balance at June 30, 2017 (unaudited)** | 3,927,713,295 | 1,050,002 | 121,393 | 21,650 | (1,342) | 324,929 | 1,516,632 |
| **Balances at January 1, 2018** | 3,927,713,295 | 1,171,395 | - | 21,650 | (154) | 424,713 | 1,617,604 |
| Comprehensive income: | | | | | | | |
| Profit for the year | - | - | - | - | - | 113,292 | 113,292 |
| Other comprehensive income: | | | | | | | - |
| Proceeds from derivatives | - | - | - | - | 154 | - | 154 |
| Total comprehensive income | - | - | - | - | 154 | 113,292 | 113,446 |
| Transactions with shareholders: | | | | | | | |
| Transfer to additional capital and legal reserve | - | - | 166,594 | 18,511 | - | (185,105) | - |
| Total transactions with shareholders | - | - | 166,594 | 18,511 | - | (185,105) | - |
| **Balance at June 30, 2018 (unaudited)** | 3,927,713,295 | 1,171,395 | 166,594 | 40,161 | - | 352,900 | 1,731,050 |

The attached notes from pages 8 to 40 form part of the condensed interim financial statements.

(Free translation from the original in Spanish)

**PETROLEOS DEL PERU - PETROPERU S.A.**

**CONDENSED INTERIM STATEMENT OF CASH FLOWS**

| | Note | For the six-month period ended June 30, 2018 US$000 (Unaudited) | 2017 US$000 (Unaudited) |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net cash generated from operating activities | | (114,380) | (88,829) |
| Interest payment | | (10,120) | (11,342) |
| Tax payment | | (60,751) | (70,660) |
| **Net cash applied to operating activities** | | (185,251) | (170,831) |
| **INVESTING ACTIVITIES** | | | |
| Value added tax related to investing activities | | (36,015) | (75,567) |
| Purchases of property, plant and equipment | | (339,075) | (406,821) |
| Capitalized interest payment | | (51,875) | (21,681) |
| Invesment in time deposits | 10 | (172,506) | (300,000) |
| Net cash applied to investing activities | | (599,471) | (804,069) |
| **FINANCING ACTIVITIES** | | | |
| Loans from financial institutions | 13 | 2,399,705 | 2,350,046 |
| Bonds received, net of transaction costs | 13 | - | 2,000,000 |
| Payment of transaction costs | 13 | - | (4,996) |
| Payment of loans to financial institutions | 13 | (2,140,471) | (2,563,309) |
| Shareholder's cash contribution | | - | 316,357 |
| Net cash provided by financing activities | | 259,234 | 2,098,098 |
| (Net decrease) net increase in cash and cash equivalents | | (525,488) | 1,123,198 |
| Effect of changes in exchange rate on cash | | 26 | 376 |
| Cash and cash equivalents at the beginning of the period | | 666,141 | 74,005 |
| Cash and cash equivalents at the end of the period | | 140,679 | 1,197,579 |
| **NON-CASH TRANSACTIONS FROM FINANCING AND INVESTING ACTIVITIES** | | | |
| - Accrued interest non paid | | 9,788 | 14,906 |
| - Work in progress payable | | 59,616 | 90,062 |

(Free translation from the original in Spanish)

**PETROLEOS DEL PERU - PETROPERU S.A.**

**CONDENSED INTERIM STATEMENT OF CASH FLOWS**

| | Note | For the six-month period ended June 30, 2018 US$000 (Unaudited) | 2017 US$000 (Unaudited) |
|---|---|---|---|
| Profit for the period | | 113,292 | 85,320 |
| Adjustments to reconcile the net profits for the year to cash from operating activities: | | | |
| Provision for retirement pensions | 15 | 16 | 21 |
| Provision for contingencies | 15 | 28,731 | 588 |
| Provision for plugging and environmental remediation | 15 | 6,172 | 915 |
| Depreciation | | 23,243 | 21,850 |
| Amortization | | 1,365 | 1,393 |
| Deferred income tax liabilities | | 7,205 | (15,364) |
| Effect on adjustment of non-realizable exchange difference | | (27) | (375) |
| | | 179,997 | 94,348 |
| Net changes in operating assets and liabilities: | | | |
| Trade receivables | | (57,171) | 1,040 |
| Other receivables | | (34,042) | 12,313 |
| Inventories | | (12,402) | (6,230) |
| Prepaid expenses | | 1,917 | 3,684 |
| Trade payables | | (210,025) | (136,221) |
| Other payables | | (53,525) | (139,765) |
| Net cash applied to operating activities | | (185,251) | (170,831) |

The attached notes from pages 8 to 40 form part of the condensed interim financial statements.

(Free translation from the original in Spanish)

**PETROLEOS DEL PERU - PETROPERU S.A.**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
AT JUNE 30, 2018 (UNAUDITED), DECEMBER 31, 2017 AND
JUNE 30, 2017 (UNAUDITED)

## 1 BACKGROUND AND ECONOMIC ACTIVITY

### a) Background -

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

Under the provisions of Law No 28840, "Ley de Fortalecimiento y Modernización de la Empresa Petróleos del Perú – Petroperú S.A.", for the modernization of Petroperu, 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"). 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, PETROPERU 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 12$^{th}$ 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 PETROPERU S.A. to execute the PMRT in the event the Company is not able to obtain the necessary resources to honor its obligations. At June 30, 2018, December 31, 2017 and June 30, 2017 there has been no need to use those guarantees.

Additionally, on December 30, 2016, Legislative Decree No.1292 was enacted declaring of public need and national interest the safe operation of the "Oleoducto Norperuano" and stipulating the re-organization and improvement of the corporate governance of PETROPERU S.A.

**b) Economic activity -**

By means of Law No.28244 enacted on June 2, 2004, PETROPERU 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 Ley de "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 PETROPERUS.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 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. 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 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") PETROPERU S.A. shall take part, individually or jointly, in the petrochemical development described in the above-mentioned law.

Pursuant to Law No.30130 PETROPERU 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, PETROPERU S.A. 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 PETROPERU 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 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 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 No 29970 to implement the Talara Refinery Modernization Project and the amendment of article 4 and Complementary Provision to Law No 28840.

Legislative Decree No 1292 under the above regulation, once the reorganization and modernization mentioned in subsection 3.1, article 3th is completed, PETROPERU 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). The Peruvian Congress has not yet reconsidered an approved Bill No1063/2016-CR, in the hands of the Constitution Commission since 2017. Therefore, there is still a possibility that PETROPERU S.A. may be back within FONAFE.

By means of the above-mentioned Legislative Decree No.1292 the Energy and Mines Ministry is additionally commissioned at the proposal of OSINERGMIN to approve a regulated rate schedule to be used in the final concession of Oleoducto Norperuano and Oleoducto Ramal Norte ("Concesión Definitiva para el Transporte de Hidrocarburos Líquidos por el Oleoducto Norperuano y el Oleoducto Ramal Norte") whenever the parties do not reach a price agreement within a period of 60 days.

**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 PETROPERU S.A approved by the Board establishes that:

- The prices of products will follow the international market trend reflected in the Import Parity Prices calculated by PETROPERU S.A.

- The net prices of certain products of the listing of PETROPERU S.A., including the factors of contribution/offsetting of the Fuel Price Stabilization Fund are allowed to fluctuate within a range of prices set by policy. These products include GLP-E, Diesel B5, Diesel B5 S-50 and industrial petroleum 6.

- In the event that prices exceed the ranges set for each product or product basket during a given period of time (taking into account the Fund Factors) a proposal of price re-adjustment will be put forward to the Pricing Executive Committee ("Comité Ejecutivo de Precios") for approval.

- For gasolines, gasohol, middle distillates and industrial petroleum, the comparison of net prices is made against the Import Parity price effective in Callao; for Liquefied Petroleum Gas (LPG) the export Parity price effective in Callao will be used and the cost of acquisition of LPG in the local market.

- The analysis of the net prices of the product listing of PETROPERU S.A. will consider the reference prices published by OSINERGMIN plus a differentiated trade margin for each type of fuel, Exchange rate, local competitors' prices and any other relevant circumstances or event having an impact on the fundamentals of the global hydrocarbons market.

- Price Stabilization Fund.

  The Fuel Price Stabilization fund ("Fondo de Estabilizaci6n de Precios de los Combustibles") 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.

  At June 30, 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, representing 1.54% of the Company's total revenue (-0.64% of the Company's total revenue at June 30, 2017).

### d) Approval of the financial statements -

The financial statements for the six-month period ended June 30, 2018 have been issued with the authorization of General Management on July 31, 2018. The financial statements at December 31, 2017 were approved at the General Shareholders' Meeting dated March 26, 2018.

## 2 BASIS OF PREPARATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements for the six-month period ended June 30, 2018 have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34) issued by the International Accounting Standards Board (IASB).

Information on the statement of financial position at December 31, 2017 and its related notes are derived from the audited financial statements at that date.

The condensed interim financial statements (unaudited) are based on the respective accounting records and are prepared under the historical cost convention, except for derivative financial instruments, which are measured at fair value. The condensed interim financial statements are presented in thousands of United States Dollars, unless otherwise stated.
The applied accounting policies are consistent with those applied at 2017 year-end and comparative interim period, except for the income tax exception (see Note 23).

The unaudited condensed interim financial statements do not include all the information and disclosures required for annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the IASB.

## 3 SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Changes in the applicable standards from January 1, 2018-

The following standards and amendments have been adopted by the Company for the first time for the period that began on January 1, 2018:

IFRS 9, "Financial instruments"

Major changes introduced by this standard

It replaces IAS 39, "Financial instruments: recognition and measurement", and all prior versions of IFRS 9. IFRS 9 addresses three major aspects of the accounting for financial instruments: classification and measurement, impairment and hedging accounting.

IFRS 9 came into effect on January 1, 2018, accordingly, it was applied by the Company.

Impacts on adoption -

The Company has assessed the changes introduced under IFRS 9 and the nature and effect of these changes on the Group's adoption are summarized below:

*Classification and measurement -*

IFRS 9 changes the categories of classification of financial assets, removing the held-to-maturity, loans and receivables and available-for-sale categories. The Group's financial assets will now be classified into one of the following categories: measured at amortized cost, measured at fair value through other comprehensive income (FVOCI) or measured at fair value through profit or loss (FVPL). Classification of the financial assets under IFRS 9 is dependent on the business model in which the financial asset is managed and the contractual cash flows characteristics.

At June 30, 2018 the Company has assets mostly recorded at the amortized cost and immaterial amount derivative financial measured at FVTPL, which means no change in relation with the policy in place before adoption of this standard.

*Impairment -*

IFRS 9 replaces the incurred credit losses model under IAS 39 and introduces the expected credit losses model to test impairment of financial assets. The new impairment model is applied to financial assets at amortized costs including trade receivables, contractual financial assets, and debt instruments recognized at fair value through other comprehensive income.

The most significant impact for the Company is impairment of other receivables measured at the amortized cost. The Company opted to apply the simplified approach set under IFRS 9 and determined impairment losses of other receivables over the lifespan of the financial asset and the use of a matrix of provision for impairment losses, which are not considered material.

IFRS 15, "Revenue from contracts with customers"

Major changes introduced by this standard

IFRS 15- "Revenue from contracts with customers" introduces a comprehensive IFRS 15- "Revenue from contracts with customers" introduces a comprehensive framework to determine the amount and timing for recognizing revenue. It replaced the guidance contained in IAS 18 – "Revenue" that was applied by the Company until December 31, 2017.

A new five-step process must be applied before revenue can be recognized, which should occur when control of a good or service transfers to a customer in exchange of a consideration.

IFRS 15 came into effect on January 1, 2018, which was adopted by the Company using the full retrospective transition method for the implementation of IFRS 15. Therefore, the effects and changes in disclosures should be presented in the condensed interim financial statements at June 30, 2017. Also, the Company concluded that the amounts that were modified to meet the IFRS 15 requirements are not material at the cut-off date to justify changes in presentation.

The Company's adoption of IFRS 15 has not resulted in significant changes in the timetable for the satisfaction of performance obligations or the amount of revenue recognition against the amount that would have been reported under IAS 18. In this sense, the impact of IFRS 15 on the Company's statement of financial position, the statements of income and cash flows are not material.

Impacts on adoption

The Company has assessed the changes introduced under IFRS 15 and the nature and effect of these changes on the Company adoption are summarized below:

*Identify the separate performance obligations and when these performance obligations are satisfied.*

The Company has mainly identified a single performance obligation comprising the sales and transportation of its products to its customers. No other significant performance obligations were identified besides those mentioned given that the free-of-charge transportation bonus and the loaned products are not significant for the Company.

The Company has arrived at the conclusion that its revenue from ordinary activities meet the IFRS 15 requirements regarding revenue from contracts with customers. Accordingly, no changes in presentation were considered in these condensed interim financial statements and in the foreseeable future.

*Determine the transaction price and prices allocated to each separate performance obligation*

In determining the transaction price and the amounts assigned to performance obligations, the Company has considered the terms of the contract and its customary business practices. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to its customers. The transaction price is assigned to each performance obligation based on a relative independent selling price.

The Company has concluded that the transaction price and the prices allocated to the performance obligations meet the requirements of IFRS 15; accordingly, no changes were considered in the price allocation to performance obligations.

## 3.2 New standards and interpretations effective after January 1, 2018 and which have not been early adopted -

- IFRS 16, "Leases" -

This standard replaces IAS 17 "Leases" and IFRIC 4 "Contracts that may contain a lease" and other related interpretations.

IFRS 16, 'Leases' (IFRS 16) will have far-reaching consequences for lessees since it requires the recognition of almost all leases in the statement of financial position. The standard removes the distinction between finance and operating leases and requires lessees to recognize an asset representing their right of use of the leased asset and a liability for the obligation of future contractual payments, except for lease contracts of less than 12 months (considering in this determination the likelihood of contract extension) and low-value asset lease contracts.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expenses will be replaced with interest and depreciation expenses, so financial metrics like EBITDA will also be affected.

In the cash flow statement, financing cash flows will be higher because of cash payments for the principal portion of the lease liability. Only the portion of payments that reflects interest may continue to be presented as operating cash flows.

Accounting for lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 is effective for financial periods beginning on or after January 1, 2019; early application is permitted. The Company does not expect the changes introduced by IFRS 16 to have a significant impact on the financial statements.

There are no other NIIF or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements.

## 3.3 Significant accounting policies -

The significant accounting policies are consistent with those used in the annual financial statements for the year ended December 31, 2017, as described in them, except for the adoption of the new accounting standards described in Note 3.2 and the accounting treatment of the income tax for the interim period at the tax rate that is expected to be effective on the estimated future annual taxable profit or loss (see Note 4 and Note 23). The income tax expense is recognized at each interim period at Management's best estimate of the income tax rate expected to be effective at year-end. Management considers that the accrued income tax amount for the interim period can be adjusted over a subsequent interim period of a same year, whenever the annual income tax rate estimate changes.

As a result, the adoption of the new accounting standards, as described in Note 3.2, was made effective from January 1, 2018 included the following:

**3.3.1 Financial assets -**

Classification -

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be 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 assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. The Company has derivative financial instruments that are measured at fair value through profit or loss.

Financial assets measured at amortized cost consists of trade receivables and some items included in other receivables.

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 through profit or loss (FVPL), 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.

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 profit or loss.

Impairment -

From 1 January 2018, 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 trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected financial asset's lifetime losses to be recognized from initial recognition of the receivables.

**3.3.2 Revenue recognition -**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of sales taxes, rebates and discounts. The Company recognizes its revenue when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below

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 over products has been transferred to the buyer and there is no unmet selling condition that may affect the acceptance of the product. Transfer of control over the refined products sold in the local market to the buyer occurs when the products are delivered under the agreed contractual conditions, the product is accepted by the buyer; with respect to products that are exported, it all depends on the export contractual conditions, which mainly occurs when the goods are delivered to the port of shipment, when there is objective evidence of acceptance of the product. Revenue from these sales is recognized based on the contractual selling price, net of discounts given to customers based on sales volumes up to the end of the reporting period.

b) Revenue from sales of services -

Revenue from services rendered (terminal operations fee, rentals, crude transportation and other services) are recognized in the accounting period in which they are rendered, with reference to the entire specific service, calculated on the basis of the service actually rendered as a portion of the total services to be provided.

c) Interest income -

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

## 4 ESTIMATES AND CRITICAL ACCOUNTING CRITERIA

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

In preparing the condensed interim financial statements, the critical judgements and estimates made by Management in applying its accounting policies and assessing the sensitive information required for estimating uncertainties were the same as those used in the financial statements for the year ended December 31, 2017, except for changes in the estimates that are needed to determine the provision for income tax.

Income tax -

In determining the income tax for the interim periods, Management uses the effective tax rate that would be applicable to the expected annual profit or loss for the interim periods (see Note 3 and Note 23) that require Management to exercise judgement in estimating those expected results for tax purposes.

The Company performed a sensitivity analysis on the income tax expense for interim periods based on estimates of the income tax rate expected to be effective at year-end.

If the income tax rate had been +/- 1% other that Management's estimates, the Company would have needed to increase / decrease the income tax expense by US$464 thousand for the six-month period ended June 30, 2018 (US$56 thousand or the six-month period ended June 30, 2017).

Determination of the functional currency -

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 notably the United States market. In view of the above, 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 2016.

Until 2016, since the results of the assessment of the primary indicators set forth in IAS 21 were not conclusive, the Company defined the Peruvian 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 defined 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.

## 5 RECLASSIFICATION OF ITEMS -

During the course of 2017 the Company reviewed the presentation of certain items in its financial statements; as a result of this process, certain changes were made in the presentation of income and cash flow. Furthermore, on January 1, 2018, IFRS 15 was made effective and it was adopted by the Company using the modified retrospective method included in the same standard. Accordingly, the effect and disclosures should be presented in the condensed interim financial statements at June 30, 2017; however, the Company arrived at the conclusion that the amounts to be modified to meet the IFRS 15 requirements are not material at that cut-off date to give rise to significant changes in presentation.

The financial statements at June 30, 2017 were restated to be consistent with this revised presentation:

| | For the six-month period ended June 30, 2017 S/000 (Previously reported) | For the six-month period ended June 30, 2017 US$000 | Reclassification US$000 | For the six-month period ended June 30, 2017 US$000 (Unaudited) |
|---|---|---|---|---|
| Revenue from ordinary activities | 6,082,424 | 1,856,231 | - | 1,856,231 |
| Other operating income | 118,252 | 36,166 | - | 36,166 |
| Total revenue | 6,200,676 | 1,892,397 | - | 1,892,397 |
| Cost of sales | ( 5,533,822) | ( 1,682,702) | ( 2,694) | ( 1,685,396) |
| Gross profit | 666,854 | 209,695 | | 207,001 |
| Selling and distribution expenses | ( 211,881) | ( 64,831) | | ( 64,831) |
| Administrative expenses | ( 235,576) | ( 77,844) | 2,694 | ( 75,150) |
| Other income | 169,622 | 52,485 | - | 52,485 |
| Other expenses | ( 4,376) | ( 1,331) | - | ( 1,331) |
| Operating profit | 384,643 | 118,174 | | 118,174 |
| Financial income | 5,051 | 1,547 | - | 1,547 |
| Finance costs | ( 72,616) | ( 22,327) | - | ( 22,327) |
| Exchange difference, net | 146,371 | ( 6,474) | - | ( 6,474) |
| Profit before income tax | 463,449 | 90,920 | - | 90,920 |
| Income tax | ( 110,691) | ( 5,600) | - | ( 5,600) |
| Profit before income tax | 352,758 | 85,320 | - | 85,320 |

Reclassification of depreciation on investment properties.

| | For the six-month period ended June 30, 2017 S/000 (Previously reported) | For the six-month period ended June 30, 2017 US$000 | Reclassification US$000 | | For the six-month period ended June 30, 2017 US$000 (Unaudited) |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| - Net cash from operating activities | (100,818) | (13,977) | (63,884)<br>(10,967) | (a)<br>(b) | (88,829) |
| - Payment of interest | (72,616) | (22,309) | 10,967 | (b) | (11,342) |
| - Payment of income tax | (683,911) | (210,111) | 63,884 | (a) | (70,660) |
| - Value added tax related to Investment activities | - | - | 75,567 | (c) | - |
| - Investment in time deposits | (976,500) | (300,000) | 300,000 | (e) | - |
| **Net cash provided by operating activities** | (1,833,845) | (546,397) | 375,567 | | (170,831) |
| **Investment activities** | | | | | |
| - Payment for purchase of property, plant and equipment | (1,440,396) | (428,494) | 21,673 | (d) | (406,821) |
| - Paid capitalized interest | - | - | (21,681) | (d) | (21,681) |
| - Payment for purchase of intangibles | (26) | (8) | 8 | (d) | - |
| - Value added tax related to Investment activities | - | - | (75,567) | (c) | (75,567) |
| - Investment in time deposits | - | - | (300,000) | (e) | (300,000) |
| **Net cash applied to Investment activities** | (1,440,422) | (428,502) | (375,567) | | (804,069) |

(a) Reclassification of payment of taxes other than income tax to net cash from operating activities.
(b) Reclassification of payments of derivatives to net cash from operating activities.
(c) The general sales tax relating to investment projects is reclassified.
(d) Capitalized interest paid are separated from purchases of property, plant and equipment.
(e) Reclassification of the time-deposit investments relating to investment projects.

## 6 FINANCIAL RISK MANAGEMENT

### 6.1 Financial risk factors -

The Company's activities expose it to a variety of financial risks: market risk (mainly 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 financial risk management information and disclosures that are required in the annual financial statements; they should be read together with the Company's annual financial statements at December 31, 2017, since no changes have occurred in the results of the financial risks assessments performed since last year-end.

No changes have occurred in the financial risk management or policy since last year-end.

### 6.2 Liquidity risk -

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

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

At June 30, 2018 the Company maintains revolving credit lines with local and foreign banks for a total of US$2,778,790 thousand, of which US$1,147,584 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 management -

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

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

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

At June 30, 2018 and December 31, 2017 gearing ratios were as follows:

| | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000 |
|---|---|---|
| Other financial liabilities | 3,566,343 | 3,304,324 |
| Less: Cash and cash equivalents and time deposits | ( 140,679) | ( 666,141) |
| Less: Time deposits | ( 449,557) | ( 276,240) |
| Net debt (A) | 2,976,107 | 2,361,943 |
| Total equity (B) | 1,731,050 | 1,617,604 |
| Total capital (A+B) | 4,707,157 | 3,979,547 |
| Ratio (A/(A+B)) | 0.63 | 0.59 |

At June 30, 2018 the increase in the gearing ratio was mainly due to the increase in short-term financing and higher equity balance given the financial results for the period.

## 7 SEGMENT INFORMATION

### a) Description of business segments and core activities -

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

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

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

The following summary describes the operations of each reportable segment:

| Reportable segment | Operations |
|---|---|
| Production and trading | Refining and commercialization of petroleum products. |
| Oil Pipeline operations | Service of transfer and custody of crudes from the Northern jungle of 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 trading (*) US$000 | Oil Pipeline operations US$000 | Leased and privatized units US$000 | Total US$000 |
|---|---|---|---|---|
| **At June 30, 2018 (Unaudited)** | | | | |
| Assets: | | | | |
| Current | 2,040,540 | 30,369 | 8,018 | 2,078,927 |
| Non-current | 3,627,214 | 180,727 | 191,758 | 3,999,699 |
| | 5,667,754 | 211,096 | 199,776 | 6,078,626 |
| Liabilities: | | | | |
| Current | ( 2,187,426) | ( 85,793) | ( 10,254) | ( 2,283,473) |
| Non-current | ( 2,063,958) | ( 145) | - | ( 2,064,103) |
| | ( 4,251,384) | ( 85,938) | ( 10,254) | ( 4,347,576) |
| **At December 31, 2017** | | | | |
| Assets: | | | | |
| Current | 2,285,586 | 28,504 | 5,081 | 2,319,171 |
| Non-current | 3,248,310 | 178,298 | 192,964 | 3,619,572 |
| | 5,533,896 | 206,802 | 198,045 | 5,938,743 |
| Liabilities: | | | | |
| Current | 2,166,106 | 91,597 | 8,544 | 2,266,247 |
| Non-current | 2,045,450 | 9,442 | - | 2,054,892 |
| | 4,211,556 | 101,039 | 8,544 | 4,321,139 |

(*) 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 |
|---|---|---|---|---|
| **At June 30, 2018 (Unaudited)** | | | | |
| Revenue from ordinary activities | 2,327,030 | 13,408 | - | 2,340,438 |
| Provision of services | 7,439 | 8,157 | 23,206 | 38,802 |
| Total revenue from ordinary activities | 2,334,469 | 21,565 | 23,206 | 2,379,240 |
| Cost of sales | ( 2,052,571) | ( 25,961) | ( 2,695) | ( 2,081,227) |
| Transfers | ( 4,952) | 4,952 | - | - |
| Gross profit (loss) | 276,946 | 556 | 20,511 | 298,013 |
| Selling and distribution expenses | ( 67,491) | ( 2) | ( 2,934) | ( 70,427) |
| Administrative expenses | ( 97,530) | ( 7,435) | ( 11) | ( 104,976) |
| Other income and expenses | 47,563 | ( 3,384) | 458 | 44,637 |
| Operating profit (loss) | 159,488 | ( 10,265) | 18,024 | 167,247 |
| Financial, net | ( 7,427) | ( 97) | - | ( 7,524) |
| Profit before income tax | 152,061 | ( 10,362) | 18,024 | 159,723 |
| Income tax | ( 44,172) | ( 3,056 | ( 5,315) | ( 46,431) |
| Profit for the year | 107,889 | ( 7,306) | 12,709 | 113,292 |
| **At June 30, 2018 (Unaudited)** | | | | |
| Revenue from ordinary activities | 1,856,169 | 62 | - | 1,856,231 |
| Provision of services | 13,151 | 1,116 | 21,899 | 36,166 |
| Total revenue from ordinary activities | 1,869,320 | 1,178 | 21,899 | 1,892,397 |
| Cost of sales | ( 1,660,769) | ( 21,934) | ( 2,693) | ( 1,685,396 |
| Transfers | 2,817 | ( 2,817) | - | - |
| Gross profit (loss) | 211,368 | ( 23,573) | 19,206 | 207,001 |
| Selling and distribution expenses | ( 62,788) | ( 66) | ( 1,977) | ( 64,831) |
| Administrative expenses | ( 67,130) | ( 8,013) | ( 7) | ( 75,150) |
| Other income and expenses | 50,005 | 860 | 289 | 51,154 |
| Operating profit (loss) | 131,455 | ( 30,792) | 17,511 | 118,174 |
| Financial, net | ( 27,104) | ( 148) | ( 2) | ( 27,254) |
| Profit before income tax | 104,351 | ( 30,940) | 17,509 | 90,920 |
| Income tax | ( 9,562) | 9,127 | ( 5,165) | ( 5,600) |
| Profit for the year | 94,789 | ( 21,813) | 12,344 | 85,320 |

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

d) **Revenue by geographical area -**

At June 30, 2018 and 2017 revenue by geographical segment is based on the customers' geographical location:

| | 2018 US$000 (Unaudited) | 2017 US$000 (Unaudited) |
|---|---|---|
| Peru | 2,100,841 | 1,686,851 |
| Other countries | 239,597 | 169,380 |
| | 2,340,438 | 1,856,231 |

## 8 SIGNIFICANT CHANGES IN CURRENT PERIOD

The Company's financial position and performance was most notably affected by the following events and transactions over the six-month period ended June 30, 2018:

- A significant increase in revenue (Note 17) mainly due to higher volumes (by 1,676 MBL) and prices in refined products as a result of an increase in the price of crude oils, the main raw materials used by the Company, increased from US$45.17 per barrel from June 30, 2017 to US$74.15 per barrel at June 30, 2018; this had an impact on the sales price that is proportionally increased; also, higher demand resulted in higher sales.
- A decrease in the balance of current assets due to the use of PMRT funds.
- An increase in non-current assets as a result of investments in the PMRT shown in the item of property, plant and equipment.

## 9 CASH AND CASH EQUIVALENTS

At June 30, 2018 and December 31, 2017 this item comprises:

| | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000 |
|---|---|---|
| Checking accounts (a) | 85,500 | 170,107 |
| Liquidity funds (b) | 55,150 | 496,000 |
| Fixed funds | 29 | 34 |
| | 140,679 | 666,141 |

(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 1.5% and 2.5%.

(b) At June 30, 2018 and December 31, 2017 liquidity funds are short-term instruments, they are liquid and have a stable price with average monthly yield of 1.98% (1.52% in 2017) and are immediately available without a defined maturity date, which will be used in PMRT investment activities in the subsequent months.

## 10 OTHER RECEIVABLES

At June 30, 2018 and December 31, 2017 this item comprises:

| | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000 |
|---|---|---|
| Price Stability Fund - Ministry of Energy and Mines (Note 1-c) (a) | 85,935 | 50,126 |
| Price Stability Fund Claims - Ministry of Energy and Mines (b) | 17,723 | 17,882 |
| Claims against tax authorities - SUNAT (c.1) | 36,656 | 96,430 |
| Claims against tax authorities – SUNAT, long-term (c.2) | 28,074 | 27,777 |
| Tax credit - VAT (d) | 322,900 | 259,822 |
| Tax credit – VAT, long-term (e) | 188,839 | 163,310 |
| Fixed time deposits (f) | 449,557 | 276,240 |
| Long-term third parties claims | 738 | 815 |
| Loans to personnel | 4,697 | 5,364 |
| Advances granted to suppliers | 9,059 | 6,622 |
| Payments for return of association investment with GeoPark | 9,112 | 9,819 |
| Other long-tern taxes (g) | 4,793 | 5,384 |
| Others | 11,000 | 6,930 |
| Doubtful accounts (g) | 36,306 | 36,483 |
| | 1,205,389 | 963,004 |
| Less - Doubtful accounts estimate | ( 36,306) | ( 36,483) |
| Total | 1,169,083 | 926,521 |
| Current portion (a), (c.1), (d), (f) | 928,915 | 711,353 |
| Non-current portion (b), (c2), (e), (h) and (i) | 240,168 | 215,168 |

(a) Price Stability Fund - Ministry of Energy and Mines -

At June 30, 2018 and December 31, 2017 the total amount receivable from the General Hydrocarbons Agency (DGH) amounted to US$103,658 thousand and US$68,008 thousand, respectively, generated from compensations and contributions transactions (Note 2.24-b) at June 30, 2018 this includes a legal recourse ("Demanda de Amparo") recorded in a Claims account for US$85,935 thousand.

(b) 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.

Since the above-mentioned Action was deemed groundless by the first lower court, the Company filed an appeal; this appeal was admitted and subsequently sent to the Third Civil Court of Lima.

By means of a notice received on April 2, 2018 from the Third Civil Court, the constitutional court's sentence declaring that the action was groundless was revoked; as a result, the judge was ordered to issue a new pronouncement. At June 30, 2018 the Second Constitutional Court remains to allow the defendant to speak, at its request, and to issue sentence.

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 be able to recover the whole account receivable recorded.

At June 30, 2018 and December 31, 2017 the movement of the total balance of the item Price Stabilization Fund is explained as follows:

| | **2018**<br>**US$000**<br>**(Unaudited)** | **2017**<br>**US$000** |
|---|---|---|
| Opening balance | 68,008 | 41,578 |
| Price compensation | 36,500 | 47,406 |
| Price contribution | - | (22,515) |
| Net (charged) credited to revenue from ordinary activities (Note 19) | 36,500 | 24,891 |
| Exchange difference | (850) | 1,539 |
| Final balance | 103,658 | 68,008 |

(c) 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 made by profit-making entities since they were finally directed to aviation entities by virtue of private contracts.

At June 30, 2018 and December 31, 2017 this item comprises:

| | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000 |
|---|---|---|
| File No02529-2011-2-1801-JR-CA-14 (i) (c.1) | 36,656 | 36,984 |
| File No07873-2012-0-1801-JR-CA-13 (ii) (c.1) | - | 59,446 |
| File No00114-2012-1801-JR-CA-07 (iii) (c.2) | 18,153 | 18,316 |
| File No03490-2012-0-1801-JR-CA-08 (c.2) | 1,003 | 810 |
| File No17806-2012 (c.2) | 8,377 | 8,450 |
| ISC tax penalty and Income Tax 2002 (c.2) | 541 | 201 |
| | 64,730 | 124,207 |

(i) In April 2011, SUNAT conducted a preventive seizure of S/120,012 thousand (equivalent to US$36,984 thousand) for the alleged taxes (Excise tax) unpaid by the Company on the import of a type of fuel called Turbo A-1, in 2003. On May 31, 2017 a notice was served with the Final Decision No. 626-2017-MP-FN-FSCA by which the Supreme Tax Judge found groundless the appeal recourse submitted by the Peruvian Tax Authorities.

On October 5, 2017 the file of the matter was acknowledged (Casación No0397-2016). The Company and its legal counsel consider that the claim will have a favorable outcome in the short term.

(ii) In February 2013 the Company paid a total S/180,723 thousand (US$55,693 thousand) of excise tax (ISC) and tax penalties for fiscal 2004; in July 2013 it paid a total S/12,179 thousand (US$3,753 thousand) of excise tax (ISC) for October 2004, regarding coercive collection resolutions issued by the Peruvian tax authorities. As per Supreme Court decision dated September 27, 2017 the appeal actions filed by the Peruvian tax authorities were declared groundless and the Company was served respective notice on November 21, 2017 ("Casación N° 3644-2016"). In December 2017, the Company applied for a refund of the amounts already paid to the Peruvian tax authorities. By means of the relevant resolutions ("Resoluciones de Intendencia No 012-180-0015915/SUNAT and No. 012-180-0015914/SUNAT refundings of S/225,054 thousand (US$79,403) and S/106,990 thousand (US$37,748 thousand), respectively, were approved, relating to a refunding claim under case file ("Expediente N°07873-2012-0-1801-JR-CA-13"). Returns obtained include interest of S/139,142 thousand (equivalent to a US$42,813 thousand), recognized in the statement of condensed interim comprehensive income (Note 22).

(iii) In July and August 2013, the Company paid a total S/59,434 thousand of VAT (IGV) and excise tax (ISC) for fiscal 2005. Under a Supreme Court sentence dated November 30, 2017, the appeal filed by the Peruvian tax authorities ("Casación No 3791-2016) was not rejected. The Company's and legal counsel's expectation of obtaining the requested refund from tax authorities is high.

Management expects that, considering the favorable pronouncement obtained by the Company regarding No.07873-2012-0-1801-JR-CA-13 (a court action described in (ii)), similar criteria would be followed at the time of deciding on the remaining case files involving the inapplicability of the excise tax (ISC) on imports and/or sales of Turbo A-1 aviation fuel.

Accordingly, the Company and its legal counsel consider that the outcome of the court actions involving the Turbo A-1 fuel, which remain to be decided by the Supreme Court, will be favorable to the Company, given the above-mentioned precedents, in which the unconstitutional nature of the ruling underlying the creation of the tax on the sales of Turbo A-1 fuel was demonstrated.

(d) Tax credit - Value added tax, short-term -

Comprising the VAT (IGV) on transactions amounting to S/666,007 thousand (equivalent to US$203,423 thousand), VAT on the PMRT amounting to S/356,244 thousand (equivalent to US$108,810 thousand), income tax amounting to S/20,934 (equivalent to US$6,394 thousand) and Excise Tax (ISC, in Peru) for S/13,990 (equivalent to US$4,273 thousand).

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

Comprising the VAT credit balance (IGV in Peru) paid for the acquisition of goods and services mainly related to the Talara Refinery Modernization Project amounting to S/356,244 thousand (equivalent to US$108,810 thousand) and the VAT on transactions amounting to S/262,013 thousand (equivalent to US$80,029 thousand). This credit balance of tax credit has no expiry date.

(f) Fixed term deposits -

At June 30, 2018 and at December 31, 2017 the Company maintains time deposits with maturity of 90 days in foreign banks. However, Management expects to renew the term of said deposits for a period greater than 90 days.

(g) Doubtful accounts -

This item reflects claims submitted to municipalities involving property taxes and municipal taxes; the probability of a favorable outcome is low. At June 30, 2018 and at December 31, 2017 the movement of the provision for doubtful accounts is as follows:

| | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000 |
|---|---|---|
| Opening balance | 36,483 | 33,259 |
| Additions | - | 3,218 |
| Exchange difference | ( 158) | 627 |
| Recoveries | - | ( 573) |
| Write-offs | ( 19) | ( 48) |
| | 36,306 | 36,483 |

The aging detail of other receivables is as follows:

| | At June 30, 2018 (Unaudited) | | At December 31, 2017 | |
|---|---|---|---|---|
| | Impaired<br>US$000 | Not impaired<br>US$000 | Impaired<br>US$000 | Not impaired<br>US$000 |
| Within the periods | - | 454,545 | - | 300,032 |
| From 0 to 90 days | - | 26,108 | - | 17,449 |
| From 91 to 360 days | - | 28,960 | - | 16,516 |
| Over one year | 36,306 | 15,649 | 36,483 | 14,182 |
| | 36,306 | 525,262 | 36,483 | 348,179 |

## 11 INVENTORIES

At June 30, 2018 and December 31, 2017 this item comprises:

| | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000 |
|---|---|---|
| Crude oil | 97,264 | 118,317 |
| Refined products: | | |
| In-process | 258,385 | 219,701 |
| Finished | 208,272 | 203,432 |
| Acquired refined products | 47,708 | 63,844 |
| In-transit inventories | 27,919 | 22,314 |
| Supplies | 17,980 | 17,518 |
| | 657,528 | 645,126 |
| Less - Provision for impairment of | ( 1,515) | ( 1,515) |
| | 656,013 | 643,611 |

At June 30, 2018 the cost of inventories recognized as expenses and included in the cost of sales amounted to US$1,959,790 thousand (US$1,573,628 thousand at June 30, 2017) equivalent to the cost of sales less operating production expenses. (Note 18).

At June 30, 2018 the crude oil price had a rising trend, with a closing price of US$74.15 per barrel (US$46.04 per barrel at June 30, 2017). The average price during June 2018 was US$67.66 per barrel (US$45.17 per barrel in June 2017).

At June 30, 2018 and December 31, 2017 the movement of the provision for impairment of supplies was as follows:

| | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000 |
|---|---|---|
| Opening balance | ( 1,515) | ( 1,507) |
| Impairment of supplies | - | ( 8) |
| Final balance | ( 1,515) | ( 1,515) |

This provision was recognized as a result of analyzing the net realizable value of inventories, taking into account the expectations of obtaining net cash flows from sales or consumption and considering their physical condition. At June 30, 2018 and at December 31, 2017 Management considers that the amount of the provision adequately reflects the risk of impairment of all its inventories.

## 12 PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings and others constructions | Machinery and equipment | Vehicles | Furniture and fixtures | Other and computer equipment | Equipment not in use | In-transit units | Work in progress | Additional investments | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | US$000 | US$000 | US$000 | US$000 | US$000 | US$000 | US$000 | US$000 | US$000 | US$000 | US$000 |
| **At December 31, 2017** | | | | | | | | | | | |
| Cost | 198,914 | 183,073 | 646,722 | 24,111 | 4,209 | 48,507 | 13,867 | 122 | 2,600,899 | 31,911 | 3,752,335 |
| Accumulated depreciation | - | (87,281) | (300,909) | (17,992) | (3,479) | (25,857) | (13,867) | - | - | - | (449,385) |
| Accumulated impairment | - | - | (11,541) | - | - | - | - | - | - | - | (11,541) |
| Net cost | 198,914 | 95,792 | 334,272 | 6,119 | 730 | 22,650 | - | 122 | 2,600,899 | 31,911 | 3,291,409 |
| **Year 2018** | | | | | | | | | | | |
| **(Unaudited)** | | | | | | | | | | | |
| Opening balance of net book cost | 198,914 | 95,792 | 334,272 | 6,119 | 730 | 22,650 | - | 122 | 2,600,899 | 31,911 | 3,291,409 |
| Additions | - | 4,554 | 18,907 | 202 | 1 | 1,805 | - | (27) | 353,408 | 885 | 379,735 |
| Disposals | - | - | (876) | (1,560) | (4) | (1) | (1,723) | - | - | - | (4,164) |
| Transfers | - | - | (909) | (4,461) | (35) | (958) | 6,363 | - | - | - | - |
| Reclassifications | - | - | - | - | - | - | - | - | (951) | - | (951) |
| Depreciation for the year | - | (3,305) | (14,137) | (820) | (194) | (1,851) | (370) | - | - | - | (20,677) |
| Depreciation of disposals | - | - | 703 | 1,552 | 2 | 1 | 1,707 | - | - | - | 3,965 |
| Transfer depreciation | - | - | 797 | 4,224 | 33 | 923 | (5,977) | - | - | - | - |
| **At June 30, 2018** | 198,914 | 97,041 | 338,757 | 5,256 | 533 | 22,569 | - | 95 | 2,953,356 | 32,796 | 3,649,317 |
| Cost | 198,914 | 187,627 | 663,844 | 18,292 | 4,171 | 49,353 | 18,507 | 95 | 2,953,356 | 32,796 | 4,126,955 |
| Accumulated depreciation | - | (90,586) | (313,546) | (13,036) | (3,638) | (26,784) | (18,507) | - | - | - | (466,097) |
| Accumulated impairment | - | - | (11,541) | - | - | - | - | - | - | - | (11,541) |
| Net cost | 918.14 | 97,041 | 338,757 | 5,256 | 533 | 22,569 | - | 95 | 2,953,356 | 32,796 | 3,649,317 |

Talara Refinery Modernization Project - PMRT -

The status of the Project at June 30, 2018 is described as follows:

Setting up new units to enlarge the processing capacity and produce fuels under new specifications.

- Overall physical progress of PMRT: 69.81% Actual vs 88.32% Scheduled. Construction of Auxiliary Units still pending together with Supplementary Work.

  The estimated investment in this Project is estimated to be US$4,999.8 million; of which, 53.01% has been implemented at June 30, 2018.

- Técnicas Reunidas (TR) continues to implement detail engineering, procurement and construction (EPC) work.

  - Progress of engineering totaled 99.99% Actual vs 100% Scheduled.
  - Procurement of equipment totaled 99.56% Actual vs 99.97% Scheduled.
  - Procurement of construction totaled 74.68% Actual vs. 88.61% Scheduled.

- Auxiliary Units: Terms and conditions required to build the Auxiliary Units and Supplementary Works are set under an EPC contract.

  - On January 30, 2018 an agreement was signed between Petroperú S.A and Consorcio Cobra SCL.
  - On February 8, 2018 an entrance meeting relating to this agreement was held.
  - In April 2018, Consorcio Cobra SCL delivered time schedule Version 0.
  - In May 2018, Petroperú/ Consorcio PMC Talara issued comments and observations to time schedule presented by Cobra SCL.
  - In June 2018, Consorcio Cobra SCL delivered time schedule Version 1. Petroperú/ Consorcio PMC Talara issued some observations to time schedule Versión 1.
  - Cobra SCL performes preliminary work in Talara.

- Regarding Project financing:

  - On June 12, 2017 the opening placement of US$2,000,000 thousand was completed successfully in the international markets of debt instruments. The transaction was completed in two tranches: US$1,000,000 thousand at 15 years and at a 4.750% annual interest rate and US$1,000,000 thousand at 30 years and at a 5.625% annual interest rate, in both cases with one single payment upon maturity.
  - Bank loan secured by Compañía Española de Crédito a la Exportación - CESCE: pre-conditions for draw-down are in the process of being met. Due date has been extended from 90 to 180 days, until September 30, 2018. Actual draw-down is expected to begin over the second half of 2018.
  - International bond placement of up to US$600,000 thousand expected for 2019.

  - 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 continues to be provided by Consorcio Deloitte Talara.
  - Social responsibility and Community Relations.
  - Site visits were scheduled with the local Committee to monitor work conditions of contractors and sub-contractors. Also, training is given to the Talara Staff to increase its possibilities to find job. Training is also provided in tree planting and medical campaigns.

- At June 30, 2018 the total work force consisted of 6,646 job positions. The share of local unqualified labor was 85%, above the limit set in the EIA (70%), while the share of local qualified labor was 30%.
- Operations are expected to begin in 2021.

During the six-month period ended June 30, 2018 additions of work in progress mostly relate to the PMRT´s EPC contract amounting to US$74 thousand, equivalent to S/239 thousand (US$427 thousand equivalent to S/1,380 thousand in 2017).

Additionally, borrowing costs that were capitalized over the period ended June 30, 2018, related to PMRT, amounted to US$75,704 thousand equivalent to S/188,107 thousand (US$74,663 thousand during 2017 equivalent to S/242,314 thousand).

Depreciation -

For the six-month period ended June 30, 2018 and 2017 the annual depreciation charge to profit or loss on property, plant and equipment is allocated to the following cost centers:

| | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000<br>(Unaudited) |
|---|---|---|
| Cost of sales (Note 18) | 13,691 | 16,252 |
| Selling and distribution expenses (Note 19) | 4,313 | 3,004 |
| Administrative expenses (Note 20) | 2,673 | 1,646 |
| | 20,677 | 20,902 |

Impairment of assets -

At June 30, 2018 the Company performed an impairment test and found not significant indications that its assets were impaired.

At December 31, 2017 the Company performed impairment tests on its cash-generating Units Production and Sales and Operations in Oil Pipeline; as a result, no events were noted at June 30, 2018 that may affect the results and conclusions obtained en la evaluación anual

## 13 OTHER FINANCIAL LIABILITIES

At June 30, 2018 and December 31, 2017 this item comprises:

| | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000 |
|---|---|---|
| Current liabilities | | |
| Bank loans without guarantee | 1,571,204 | 1,311,971 |
| Accrued interest | 9,788 | 7,229 |
| | 1,580,992 | 1,319,200 |
| Non-current liabilities | | |
| Corporate bonds (i) | 1,985,351 | 1,985,124 |
| | 1,985,351 | 1,985,124 |

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 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. At June 30, 2018 transaction expenses totaled US$7,193 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. At June 30, 2018 transaction expenses totaled US$7,455 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).

### a) Debt repayment terms and timetable -

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

| | Original currency | Nominal interest rate | Maturity | At June 30, 2018 Nominal value US$000 (Unaudited) | At June 30, 2018 Carrying amount US$000 (Unaudited) | At December 31, 2017 Nominal value US$000 | At December 31, 2017 Carrying amount US$000 |
|---|---|---|---|---|---|---|---|
| Bank loans without guarantee | Soles | 2.00% - 3.10% | 2018 | 388,516 | 388,516 | 654,858 | 654,858 |
| Bank loans without guarantee | Dollars | 1.10% - 2.86% | 2018 | 1,182,688 | 1,182,688 | 657,113 | 657,113 |
| Corporate bonds | Dollars | 4.75% | 2032 | 1,000,000 | 992,806 | 1,000,000 | 992,629 |
| Corporate bonds | Dollars | 5.63% | 2047 | 1,000,000 | 992,545 | 1,000,000 | 992,495 |
| Accrued interest | | | | - | 9,788 | - | 7,229 |
| | | | | 3,571,204 | 3,566,343 | 3,311,971 | 3,304,324 |

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

### b) Movement of financial liabilities -

The movement of these balances was as follows:

| | Bank loans US$000 | Corporate Bonds US$000 | Total US$000 |
|---|---|---|---|
| Balance at January 1, 2018 | 1,315,780 | 1,988,544 | 3,304,324 |
| New loans | 2,399,704 | - | 2,399,704 |
| Amortized costs | - | 228 | 228 |
| Amortizations | ( 2,140,471) | - | ( 2,140,471) |
| Accrued interest | 12,671 | 51,883 | 64,554 |
| Interest paid | ( 10,120) | ( 51,876) | ( 61,996) |
| Balance at June 30, 2018 (Unaudited) | 1,577,564 | 1,988,779 | 3,566,343 |

## 14 TRADE PAYABLES

At June 30, 2018 and December 31, 2017 this item comprises:

| | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000 |
|---|---|---|
| Local suppliers of crude and refined products | 115,571 | 103,018 |
| Foreign suppliers of crude and refined products | 324,986 | 536,177 |
| Suppliers of goods and services | 93,931 | 117,933 |
| Shipping companies and terminal operators and sales plants | 16,520 | 15,119 |
| | 551,008 | 772,247 |

At June 30, 2018 the main local supplier of crude is Savia Perú S.A. with a balance of US$36,804 thousand (US$27,668 thousand at December 31, 2017). The main foreign supplier is Exxon Mobil Sales and Suppy LLC. to which US$140,222 thousand is owed (US$210,630 thousand at December 31, 2017).

This account reflects the Company's obligations related to the acquisition of crude oil and refined products, transportation and plant operators, supplies and spare parts. The invoices are issued in U.S. dollars, are of current maturity, are non-interest bearing and have no specific guarantees.

## 15 OTHER PROVISIONS

At June 30, 2018 and December 31, 2017 this item comprises:

| | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000 |
|---|---|---|
| Current - | | |
| Provision for civil lawsuit (b) | 46,037 | 17,809 |
| Provision for environmental improvements (a) | 34,328 | 38,454 |
| Provision for labor-related court actions | 2,721 | 2,547 |
| Provision for plugging of wells | 589 | 594 |
| Provision for retirement pensions | 44 | 45 |
| Other provisions | 160 | 162 |
| | 83,879 | 59,611 |
| Non-current | | |
| Provision for environmental improvements (a) | 16,183 | 14,396 |
| Provision for retirement pensions | 57 | 65 |
| | 16,240 | 14,461 |
| | 100,119 | 74,072 |

The movement of other provisions was as follows:

| | Provision for retirement pensiones<br>US$000 | Provision for environmental improvements<br>US$000 | Provision for labor-related court actions<br>US$000 | Provision for civil lawsuits<br>US$000 | Provision for plugging of wells<br>US$000 | Other provisions<br>US$000 | Total<br>US$000 |
|---|---|---|---|---|---|---|---|
| Balances at January 1, 2018 | 110 | 52,850 | 2,547 | 17,809 | 594 | 162 | 74,072 |
| Provision for the year | 16 | 6,172 | 284 | 28,447 | - | - | 34,919 |
| Payments | - | ( 8,298) | - | - | - | - | ( 8,298) |
| Reversal of unused provisions | ( 25) | ( 213) | - | - | - | - | ( 238) |
| Exchange difference | - | - | ( 110) | ( 219) | ( 5) | ( 2) | ( 336) |
| Balances at June 30, 2018 (Unaudited) | 101 | 50,511 | 2,721 | 46,037 | 589 | 160 | 100,119 |

a) Provision for environmental remediation and plugging of wells -

During the first half for 2018, the Company has reported 3 significant oil spills at the Peruvian Northern Oil Pipeline, as a result of third-party attacks on this pipeline; this event resulted in the complete halt of the oil pumping activity from the Peruvian jungle area to the coast-line. At June 30, 2018 the provision for environmental remediation of the above-mentioned oil spills totals US$27,863 thousand (US$29,359 thousand at December 31, 2017). During the course of 2018 a provision was made for these spill events of US$6,172 thousand and expenses were incurred of US$8,298 thousand with a present value adjustment of US$213 thousand.

As part of its contingency plan, the Company contracted specialized companies to halt and contain the oil spills and begin environmental remediation of the affected areas.

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 June 30 US$000 |
|---|---|---|---|---|
| **Year 2018 (Unaudited)** | | | | |
| Block 8 | 2,598 | (523) | (37) | 2,038 |
| Block X | 4,841 | - | (95) | 4,746 |
| Terminales del Centro | 1,734 | - | (18) | 1,716 |
| Northern terminals | 263 | - | - | 263 |
| Southern terminals | 204 | (1) | (1) | 202 |
| Lubricants | 117 | - | (1) | 116 |
| Pampilla | (8) | (25) | 50 | 17 |
| Natural Gas Electric system | 20 | - | - | 20 |
| Total privatized units | 9,769 | (549) | (102) | 9,118 |
| Operations in Oil Pipeline | 29,359 | (6,776) | 6,171 | 28,754 |
| Operations in Talara | 7,625 | (965) | (73) | 6,587 |
| Operations in Iquitos Refinery | 1,402 | (8) | 9 | 1,387 |
| Operations in Conchán | 919 | - | (5) | 914 |
| Commercial operations | 602 | - | (10) | 592 |
| Management Exploration and Exploitation | 956 | - | (15) | 941 |
| Total own units | 40,863 | (7,749) | 6,061 | 39,175 |
| Total | 50,632 | (8,298) | 5,959 | 48,293 |
| Exchange difference | 2,218 | | | 2,218 |
| | 52,850 | | | 50,511 |

b) Provision for civil claims -

At June 30, 2018, the Company has estimated a provision of US$46,037 thousand, equivalent to a S/150,723 thousand, of which, US$ 22,474 thousand (equivalent to a S/73,580 thousand) relate to two arbitration processes with Pluspetrol Norte S.A., US$ 5,180 thousand (equivalent to a S/16,959 thousand); one arbitration process with Refinería La Pampilla S.A., S/50,978 thousand (equivalent to a US$15,571 thousand), two administrative actions with an environmental agency (Organismo de Evaluación y Fiscalización Ambiental – OEFA) and S/4,885 thousand (equivalent to a US$1,492 thousand) for seven (7) administrative actions with the energy investment regulator ("Organismo Superior de la Inversión en Energía y Minería – OSINERGMIN").

During 2018 the Company recorded a provision of US$28,228 for two arbitration processes with Pluspetrol Norte S.A and Refinería La Pampilla S.A. for US$22,474 thousand and US$5,180 thousand, respectively.

At December 31, 2017 the Company has estimated a provision of US$17,809 thousand equivalent to S/57,791 thousand, which comprises: (i) US$15,710 thousand, equivalent to S/50,978 thousand for administrative proceeding contingencies with the government environmental agency "Organismo de Evaluación y Fiscalización Ambiental – OEFA"; (ii) US$1,505 thousand, equivalent to S/4,883 thousand for administrative proceedings with the energy and mining regulator "Organismo Superior de la Inversión en Energía y Minería – OSINERGMIN related to the oil spills in the "Oleoducto Nor Peruano." During 2017 the Company reversed a total US$10,474 thousand of unused provisions, mainly relating to the Ventanilla Municipality for a total of US$7,133 thousand.

## 16 EQUITY

a) Share capital -

At June 30, 2018 the authorized, subscribed and paid-in share capital comprises 3,927,713,295 common shares, at S/.1 par value each.

During 2018 there were no changes in the share capital and total subscribed shares in relation with those at December 31, 2017.

b) Additional capital -

On June 27, 2018 at the General Shareholders' Meeting, the decision was made to approve a capital increase of S/520,703 thousand, equivalent to US$166,594 thousand (from S/3,927,713 thousand to S/4,448,416 thousand) as a result of the capitalization of a portion of the 2017's profits subject to distribution; the relevant registration with Public Records, the consequential amendment of the by-laws and new share certificates are currently in progress.

c) Legal reserve -

In accordance with Peruvian Corporate Law, Article No. 229, the Company established a legal reserve S/57,856 (equivalent to US$18,511 thousand) in 2018, representing 10% of the net profits subject to distribution for 2017.

## 17 REVENUE FROM ORDINARY ACTIVITIES

This item comprises:

| | For the three-month period ended June 30 | | For the six-month period ended June 30 | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **US$000 (Unaudited and not reviewed)** | **US$000 (Unaudited and not reviewed)** | **US$000 (Unaudited)** | **US$000 (Unaudited)** |
| Local sales | 1,080,240 | 860,083 | 2,064,341 | 1,698,979 |
| Fuel by-product price stabilization fund (*) | 23,323 | (15,392) | 36,500 | (12,128) |
| | 1,103,563 | 844,691 | 2,100,841 | 1,686,851 |
| Foreign sales | 104,277 | 78,791 | 239,597 | 169,380 |
| | 1,207,840 | 923,482 | 2,340,438 | 1,856,231 |

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

At June 30, 2018 and 2017 sales are broken down as follows:

| | For the three-month period ended June 30 | | For the six-month period ended June 30 | |
|---|---|---|---|---|
| | 2018<br>US$000<br>(Unaudited and not reviewed) | 2017<br>US$000<br>(Unaudited and not reviewed) | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000<br>(Unaudited) |
| Local sales: | | | | |
| Diesel - others | 608,834 | 502,011 | 1,156,335 | 987,000 |
| Gas | 280,685 | 228,263 | 550,957 | 458,671 |
| Industrial oil | 101,096 | 34,197 | 179,616 | 75,417 |
| GLP | 51,948 | 45,206 | 102,248 | 96,560 |
| Turbo | 32,106 | 24,308 | 64,286 | 47,221 |
| Asphalt | 11,799 | 7,003 | 26,125 | 14,395 |
| Loreto Nac. crude | 13,246 | - | 13,246 | - |
| Solvent | 3,849 | 3,703 | 8,028 | 7,587 |
| Total ventas nacionales | 1,103,563 | 844,691 | 2,100,841 | 1,686,851 |
| Ventas al exterior: | | | | |
| Industrial oil | 49,515 | 37,097 | 98,473 | 65,068 |
| Nafta Virgen | 31,405 | 9,191 | 59,289 | 34,812 |
| Diesel - others | 10,233 | 21,890 | 41,984 | 45,268 |
| Turbo | 9,174 | 8,856 | 18,357 | 14,480 |
| Loreto Exp. Crude | - | - | 12,440 | - |
| Asphalt | 1,178 | 844 | 3,410 | 2,150 |
| Nafta Craqueada ADQ. (Exp) | - | - | 2,453 | - |
| USLD (exp) | 2,349 | - | 2,349 | - |
| HOGBS (Exp) | 423 | - | 842 | - |
| Gas | - | 913 | - | 3,563 |
| Reduced Crude | - | - | - | 4,039 |
| Total foreign sales | 104,277 | 78,791 | 239,597 | 169,380 |
| | 1,207,840 | 923,482 | 2,340,438 | 1,856,231 |

## 18 COST OF SALES

This item comprises:

| | For the three-month period ended June 30 | | For the six-month period ended June 30 | |
|---|---|---|---|---|
| | 2018<br>US$000<br>(Unaudited and not reviewed) | 2017<br>US$000<br>(Unaudited and not reviewed) | 2018<br>US$000<br>(Unaudited) | 2017<br>US$000<br>(Unaudited) |
| Opening inventory of goods | 564,803 | 490,230 | 605,294 | 475,381 |
| Purchase of crude oil, refined products and supplies | 1,061,757 | 773,522 | 1,966,125 | 1,561,985 |
| Operating expenses of production (a) | 60,481 | 55,901 | 121,437 | 111,768 |
| Final inventory of goods | ( 611,629) | ( 463,738) | ( 611,629) | ( 463,738) |
| | 1,075,412 | 855,915 | 2,081,227 | 1,685,396 |

The composition of operating production expenses is as follows:

| | For the three-month period ended June 30 | | For the six-month period ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$000 (Unaudited and not reviewed) | US$000 (Unaudited and not reviewed) | US$000 (Unaudited) | US$000 (Unaudited) |
| Personnel charges | 11,312 | 12,008 | 23,361 | 24,741 |
| Third-party services (*) | 34,715 | 31,583 | 65,733 | 59,235 |
| Depreciation (Note 12) (**) | 7,537 | 8,096 | 16,256 | 16,252 |
| Workers' profit sharing (Note 21-b) | 1,572 | ( 124) | 6,063 | 3,088 |
| Materials and supplies | 2,630 | 1,827 | 5,290 | 3,939 |
| Insurance | 1,734 | 1,604 | 3,275 | 3,184 |
| Other management charges | 197 | 126 | 264 | 143 |
| Amortization | 2 | 4 | 4 | 7 |
| Others | 782 | 777 | 1,191 | 1,179 |
| | 60,481 | 55,901 | 121,437 | 111,768 |

(**) In 2018 the depreciation balance includes US$13,691 thousands of property, plant and equipment and US$2,565 thousand of investment properties.

(*) Includes the following:

| | For the three-month period ended June 30 | | For the six-month period ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$000 (Unaudited and not reviewed) | US$000 (Unaudited and not reviewed) | US$000 (Unaudited) | US$000 (Unaudited) |
| Ground transport freight and expenses | 8,973 | 9,215 | 17,248 | 18,085 |
| Energy and water | 5,960 | 5,100 | 10,744 | 10,345 |
| Maintenance and repair services | 5,952 | 4,865 | 10,876 | 7,486 |
| Maritime transport freight and expenses | 5,860 | 5,248 | 11,977 | 10,586 |
| Other freight, freight and expenses | 5,738 | 3,092 | 9,927 | 6,577 |
| Industrial protection and safety | 878 | 1,026 | 2,585 | 1,728 |
| Food and lodging | 752 | 892 | 1,400 | 1,411 |
| Other third-party services | 602 | 2,145 | 976 | 3,017 |
| | 34,715 | 31,583 | 65,733 | 59,235 |

## 19 SELLING AND DISTRIBUTION EXPENSES

This item comprises:

| | For the three-month period ended June 30 | | For the six-month period ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$000 (Unaudited and not reviewed) | US$000 (Unaudited and not reviewed) | US$000 (Unaudited) | US$000 (Unaudited) |
| Third-party services (*) | 21,290 | 20,535 | 39,648 | 38,233 |
| Personnel charges | 5,974 | 5,690 | 12,030 | 11,303 |
| Taxes | 5,012 | 4,319 | 9,679 | 8,971 |
| Depreciation (Note 12) | 2,037 | 1,492 | 4,313 | 3,004 |
| Workers' profit sharing (Note 21-b) | 675 | ( 56) | 2,602 | 1,386 |
| Materials and supplies | 734 | 464 | 1,476 | 1,198 |
| Insurance | 173 | 266 | 374 | 520 |
| Other management charges | 281 | 132 | 305 | 195 |
| Doubtful accounts | - | 17 | - | 21 |
| | 36,176 | 32,859 | 70,427 | 64,831 |

(*) Including the following:

| | | | | |
|---|---|---|---|---|
| Products dispatch | 7,684 | 7,534 | 14,782 | 14,366 |
| Warehousing of products | 6,187 | 5,160 | 12,019 | 10,251 |
| Other freight, freight and expenses | 2,413 | 4,699 | 4,246 | 8,694 |
| Other third-party services | 2,042 | 1,494 | 3,341 | 2,695 |
| Maintenance and repair services | 1,065 | 509 | 1,530 | 956 |
| Advertising | 947 | 367 | 1,610 | 265 |
| Industrial protection and safety | 802 | 642 | 1,874 | 811 |
| Travel and transfer expenses | 150 | 130 | 246 | 195 |
| | 21,290 | 20,535 | 39,648 | 38,233 |

## 20 ADMINISTRATIVE EXPENSES

This item comprises:

| | For the three-month period ended June 30 | | For the six-month period ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$000 (Unaudited and not reviewed) | US$000 (Unaudited and not reviewed) | US$000 (Unaudited) | US$000 (Unaudited) |
| Personnel charges (Note 21) | 19,886 | 19,036 | 40,676 | 36,071 |
| Other management charges | 29,402 | 5,915 | 30,812 | 7,407 |
| Third-party services (*) | 11,279 | 8,770 | 20,036 | 15,693 |
| Workers' profit sharing (Note 21-b) | 1,584 | ( 138) | 6,110 | 3,423 |
| Depreciation (Note 12) | 1,331 | 837 | 2,673 | 1,646 |
| Taxes | 767 | 7,439 | 2,162 | 8,560 |
| Amortization | 680 | 682 | 1,361 | 1,386 |
| Materials and supplies | 394 | 380 | 808 | 670 |
| Insurance | 180 | 147 | 338 | 294 |
| | 65,503 | 43,068 | 104,976 | 75,150 |

(*) Including the following:

| | For the three-month period ended June 30 | | For the six-month period ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$000 (Unaudited and not reviewed) | US$000 (Unaudited and not reviewed) | US$000 (Unaudited) | US$000 (Unaudited) |
| Maintenance and repair services | 2,420 | 1,549 | 3,840 | 2,542 |
| Advisory, appraisal and audits | 2,209 | 776 | 3,472 | 1,770 |
| IBM outsourcing services | 2,194 | 2,180 | 3,421 | 3,515 |
| Other third-party services | 1,616 | 1,221 | 2,982 | 2,102 |
| Industrial protection and safety | 792 | 1,623 | 2,148 | 2,866 |
| Freight and other freight | 346 | 168 | 962 | 318 |
| Advertising | 559 | 379 | 908 | 842 |
| Travel and transfer expenses | 410 | 303 | 874 | 610 |
| Temporary services | 431 | 321 | 872 | 626 |
| Bank expenses | 302 | 250 | 557 | 502 |
| | 11,279 | 8,770 | 20,036 | 15,693 |

## 21 PERSONNEL CHARGES

This item comprises:

| | For the three-month period ended June 30 | | For the six-month period ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$000 (Unaudited and not reviewed) | US$000 (Unaudited and not reviewed) | US$000 (Unaudited) | US$000 (Unaudited) |
| Wages and salaries | 14,596 | 14,359 | 28,891 | 27,744 |
| Bonuses | 7,418 | 7,578 | 15,046 | 15,075 |
| Workers' profit sharing | 3,831 | ( 318) | 14,775 | 7,897 |
| Social contributions | 5,648 | 6,250 | 11,265 | 11,614 |
| Statutory bonuses | 3,024 | 3,098 | 6,043 | 6,054 |
| Employees' severance indemnities | 2,175 | 1,724 | 4,562 | 4,047 |
| Vacations | 1,137 | 1,117 | 2,323 | 2,276 |
| Food | 905 | 916 | 1,839 | 1,819 |
| Overtime | 341 | 337 | 646 | 781 |
| Transportation | 322 | 296 | 628 | 594 |
| Others | 1,606 | 1,059 | 4,824 | 2,111 |
| | 41,003 | 36,416 | 90,842 | 80,012 |

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

| | For the three-month period ended June 30 | | For the six-month period ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$000 (Unaudited and not reviewed) | US$000 (Unaudited and not reviewed) | US$000 (Unaudited) | US$000 (Unaudited) |
| Cost of sales (Note 18) | 12,884 | 11,884 | 29,424 | 27,829 |
| Selling expenses and distribution (Note 19) | 6,649 | 5,634 | 14,632 | 12,689 |
| Administrative expenses (Note 20) | 21,470 | 18,898 | 46,786 | 39,494 |
| | 41,003 | 36,416 | 90,842 | 80,012 |

## 22 OTHER INCOME AND EXPENSES

Other income and expenses comprises:

| | For the three-month period ended June 30 | | For the six-month period ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | US$000 (Unaudited and not reviewed) | US$000 (Unaudited and not reviewed) | US$000 (Unaudited) | US$000 (Unaudited) |
| **Other income** | | | | |
| Interest – SUNAT refund (*) | - | - | 42,813 | - |
| Claims and/or indemnities (insurance/ non-compliance) | 2,961 | 32,065 | 3,935 | 33,139 |
| Maritime operations services | 911 | 811 | 1,682 | 1,601 |
| Doubtful trade accounts provision recovery | 24 | 1,462 | 36 | 1,611 |
| Present value of environmental remediation | ( 1,369) | 733 | 150 | 1,249 |
| Other income | 1,599 | 10,173 | 2,239 | 14,885 |
| | 4,126 | 45,244 | 50,855 | 52,485 |
| **Other expenses** | | | | |
| Provision for claims | ( 6,172) | ( 915) | ( 6,172) | ( 915) |
| Net cost of disposal | ( 30) | ( 354) | ( 30) | ( 354) |
| Provision for retirement pension | ( 8) | ( 10) | ( 16) | ( 21) |
| Impairment of supplies | - | - | - | ( 41) |
| | ( 6,210) | ( 1,279) | ( 6,218) | ( 1,331) |

(*) On February 14, 2018 SUNAT issued two Resolutions ordering a refund in connection with Case File N°07873-2012-0-1801-JR-CA-13 (Note 10). Refunds obtained included interest for a total US$42,813 thousand.

## 23 INCOME TAX

Income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for fiscal year 2018 is 29%.

## 24 CONTINGENCIES

At June 30, 2018 and December 31, 2017 the Company has the following labor-related court actions, civil lawsuits, tax and customs claims pending resolution, which are considered possible contingencies:

| | 2018 | 2017 |
|---|---|---|
| | US$000 (Unaudited and not reviewed) | US$000 |
| Labor-related | 4,889 | 6,628 |
| Civil (a) | 15,739 | 40,839 |
| Tax and customs claims (b) | 40,966 | 61,817 |
| | 61,594 | 109,284 |

(a) At June 30, 2018 this item mainly includes: i) a civil court action brought by the Regional Government of Lambayeque for US$7,000 thousand, ii) arbitration process brought by INTTCORP for US$2,000 thousand, iii) civil court action brought by an entity called COVISE for S/10,000 thousand (equivalent to US$3,054 thousand), iv) civil court action brought by Pluspetrol Norte S.A. for S/3,000 thousand (equivalent to US$916 thousand), v) arbitration process brought by the National Police Force for S/3,000 thousand (equivalent to US$916 thousand) and vi) dos (2) arbitration processes brought by SECURITAS S.A.C. for S/2,000 thousand (equivalent to US$611 thousand).

(b) At June 30, 2018 this item mainly includes administrative process brought against the Tax Tribunal and the Tax Authorities for S/129,600 thousand (equivalent to US$39,584 thousand) related to income tax examinations for the years between 2005 and 2008. Management and its legal advisers consider that no significant liabilities will arise for the Company.

Management and its legal counsel consider that the outcome of these contingencies will be favorable to the Company.

## 25 BASIC AND DILUTED EARNINGS PER SHARE

The calculation at June 30, 2018 and 2017 of earnings per basic and diluted share shows the same value as there are no shares with dilutive effect is as follows:

| | Profit US$000 | Weighted average number of common shares | Earnings per share |
|---|---|---|---|
| **At June 30, 2018 (Unaudited)** | | | |
| Basic and diluted earnings per share | 113,292 | 3,927,713 | 0.029 |
| **At June 30, 2017 (Unaudited)** | | | |
| Basic and diluted earnings per share | 85,320 | 3,063,448 | 0.028 |

## 26 GUARANTEES AND COMMITMENTS

Guarantees and performance bonds -

At June 30, 2018 the Company has given performance bonds backed by local financial institutions to suppliers for a total S/74,931 thousand (equivalent to US$22,886 thousand) and US$34,795 thousand.

Guarantees related to borrowings are disclosed in Note 13.

At June 30, 2018 and at December 31, 2017 the Company maintains no long-term operating lease commitments.

## 27 RELATED PARTIES

The Peruvian Government owns the Company's share capital and it is represented by each member of the General Shareholders' Meeting. As per the twenty-third article of the Bylaws of PETROPERU 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.

## 28 SUBSEQUENT EVENTS

On July 31, 2018 SUNAT refunded the Company S/245,439 thousand (equivalent to US$ 74,966 thousand), including interest of S/ 125,427 thousand (equivalent to US$ 38,310 thousand) resulting from the application for refunding of the excise tax (ISC in Peru) unduly charged on the imports of Turbo A-1 plane fuel over fiscal 2003 in compliance with Appeal Sentence No397-2016-Lima dated October 5, 2017 issued by the Constitutional and Social Court Room of the Peruvian Supreme Court.

For the period from July 1, 2018 and the date of approval for release of these condensed interim financial statements, no significant events have occurred that may require additional disclosures or adjustments other than those already reported.