



(Free translation from the original in Spanish)

PETROLEOS DEL PERU - PETROPERU S.A.

FINANCIAL STATEMENTS
DECEMBER 31 2017 AND 2016

(Free translation from the original in Spanish)

PETROLEOS DEL PERU - PETROPERU S.A.

**FINANCIAL STATEMENTS
DECEMBER 31 2017 AND 2016**

CONTENTS	Page
Independent auditor's report	1 - 2
Statement of financial position	3
Statement of comprehensive income	4
Statement of changes in equity	5
Statement of cash flows	6 - 7
Notes to the financial statements	8 - 80

S/ = Sol
US\$ = United States dollar
EUR = Euro
JPY = Japanese yen



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INDEPENDENT AUDITOR'S REPORT

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

May 25, 2018

We have audited the financial statements of **Petróleos del Perú - PETROPERU S.A.**, which comprise the statement of financial position at December 31, 2017 and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 32.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing approved for application in Peru by the Board of Deans of Institutes of Peruvian Certified Public Accountants and in accordance with the Governmental Financial Audit Manual. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

Gavoglio Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.

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May 25, 2018
Petróleos del Perú - PETROPERU S.A.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of **Petróleos del Perú - PETROPERU S.A.** at December 31, 2017 its financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Emphasis of a matter

Without modifying our opinion, we draw attention to Notes 2.2-a) and 4.2 to the financial statements, effective January 1, 2017 the Company changed its functional currency to the United States dollar.

Other matter

The financial statements for 2016 expressed in soles which was the basis for the translation of balances into US dollars at that date, were audited by other independent auditors who expressed an unqualified opinion in their report, dated April 4, 2017 on those statements. These financial statements for 2016 in US dollars are presented for comparative purposes. Our opinion is not modified in this respect.

CAVEGHIO 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.

STATEMENT OF FINANCIAL POSITION

	At December 31,		Note	At December 31,		Note	At December 31,	
	2017	2016		2017	2016			
ASSETS	US\$000	US\$000		US\$000	US\$000		US\$000	US\$000
Current assets								
Cash and cash equivalents	7	666,141		74,005	1,319,200	13	1,733,443	
Trade receivables	8	293,177		266,124	772,247	14	722,593	
Other receivables	9	711,353		207,791	115,189	15	156,417	
Inventories	10	643,611		595,704	59,611	16	115,768	
Prepaid expenses		4,899		4,409	2,266,247		2,728,221	
Total current assets		2,319,171		1,148,033				
Non-current assets								
Other receivables	9	215,168		252,488	1,985,124	13	248,923	
Other assets		67		67	14,461	16	5,652	
Property, plant and equipment	11	3,291,409		2,665,281	55,307	17	78,035	
Investment properties	12	79,430		84,859	2,054,892		332,610	
Intangible assets		33,498		26,027	4,321,139		3,060,831	
Total non-current assets		3,619,572		3,028,722				
TOTAL ASSETS		5,938,743		4,176,755				
LIABILITIES AND EQUITY								
Current liabilities								
Other financial liabilities								
Trade payables								
Other payables								
Other provisions								
Total current liabilities								
Non-current liabilities								
Other financial liabilities								
Other provisions								
Deferred income tax liabilities								
Total non-current liabilities								
Total liabilities								
EQUITY								
Issued capital	18	1,171,395						
Additional capital		-						
Legal reserve		21,650						
Other equity reserves		(154)						
Retained earnings		424,713						
Total equity		1,617,604						
TOTAL LIABILITIES AND EQUITY		5,938,743		4,176,755				

The attached notes from pages 8 to 80 form part of the financial statements.

(Free translation from the original in Spanish)

PETROLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended	
		December 31,	
		2017	2016
		US\$000	US\$000
Revenue from ordinary activities	19	3,979,292	3,317,738
Other operating profit	20	72,282	72,236
Total income		<u>4,051,574</u>	<u>3,389,974</u>
Cost of sales	21	<u>(3,462,327)</u>	<u>(2,834,756)</u>
Gross profit		<u>589,247</u>	<u>555,218</u>
Selling and distribution expenses	22	(144,972)	(139,522)
Administrative expenses	23	(178,984)	(165,982)
Other income	25	68,812	33,078
Other expenses	25	<u>(35,548)</u>	<u>(177,054)</u>
Total operating expenses		<u>(290,692)</u>	<u>(449,480)</u>
Profit from operating activities		<u>298,555</u>	<u>105,738</u>
Finance income	26	3,395	6,845
Finance costs	26	(51,844)	(23,318)
Exchange difference, net	3.1.a.i	<u>(2,043)</u>	<u>15,009</u>
Profit before income tax		<u>248,063</u>	<u>104,274</u>
Income tax	27	<u>(62,959)</u>	<u>(63,588)</u>
Profit for the year		<u>185,104</u>	<u>40,686</u>
Other comprehensive income that can be reclassified as profit or loss:			
Proceeds from derivatives		219	(373)
Effect of foreign exchange translation		-	22,999
Total other comprehensive income		<u>219</u>	<u>22,626</u>
Total comprehensive income		<u>185,323</u>	<u>63,312</u>
Earning per basic and diluted share	29	<u>0.054</u>	<u>0.019</u>

The attached notes from pages 8 to 80 form part of the financial statements.

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PETROLEOS DEL PERÚ - PETROPERÚ S.A.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (Note 18)**

	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, 2016	1,949,988,400	571,336	18,365	1,210	-	347,518	938,429
Comprehensive income:							
Profit for the year	-	-	-	-	-	40,686	40,686
Other comprehensive income:							
Proceeds from derivative instruments	-	-	-	-	(373)	-	(373)
Effect of foreign exchange translation	-	6,508	(2,443)	(125)	-	19,059	22,999
Total other comprehensive income	-	6,508	(2,443)	(125)	(373)	19,059	22,626
Total comprehensive income	-	6,508	(2,443)	(125)	(373)	59,745	63,312
Transactions with shareholders:							
Transfer to legal reserve	-	-	-	15,104	-	(15,104)	-
Transfers to additional capital - actuarial reserve	-	-	114,183	-	-	-	114,183
Transfers to additional capital of profits	-	-	135,937	-	-	(135,937)	-
Transfers to share capital	515,079,535	155,801	(155,801)	-	-	-	-
Total transactions with shareholders	515,079,535	155,801	94,319	15,104	-	(151,041)	114,183
Balance at December 31, 2016	2,465,047,935	733,645	110,241	16,189	(373)	256,222	1,115,924
Balances at January 1, 2017	2,465,047,935	733,645	110,241	16,189	(373)	256,222	1,115,924
Comprehensive income:							
Profit for the year	-	-	-	-	-	185,104	185,104
Other comprehensive income:							
Proceeds from derivative instruments	-	-	-	-	219	-	219
Total comprehensive income	-	-	-	-	219	-	219
Transactions with shareholders:							
Shareholder's cash contribution	-	-	316,357	-	-	-	316,357
Transfers to additional capital and legal reserve	-	-	11,152	5,461	-	(16,613)	-
Transfers to share capital from cash contribution	1,056,000,000	316,357	(316,357)	-	-	-	-
Transfers to share capital from additional capital	406,665,360	121,393	(121,393)	-	-	-	-
Total transactions with shareholders	1,462,665,360	437,750	(110,241)	5,461	-	(16,613)	316,357
Balance at December 31, 2017	3,927,713,295	1,171,395	-	21,650	(154)	424,713	1,617,604

The attached notes from pages 8 to 80 form part of the financial statements.

(Free translation from the original in Spanish)

PETROLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF CASH FLOWS

	Note	For the year ended	
		December 31,	
		2017	2016
		US\$000	US\$000
OPERATING ACTIVITIES			
Net cash generated from operating activities		307,529	427,619
Interest payment		(34,812)	(15,172)
Income tax payment		(107,700)	(37,559)
Net cash provided by operating activities		<u>165,017</u>	<u>374,888</u>
INVESTING ACTIVITIES			
VAT related to investing activities		(149,151)	(171,762)
Purchases of property, plant and equipment		(717,304)	(897,414)
Capitalized interest payment		(85,792)	(30,884)
Purchase of intangible assets		(32)	(940)
Investment in fixed term deposits	9	(276,240)	-
Net cash applied to investing activities		<u>(1,228,519)</u>	<u>(1,101,000)</u>
FINANCING ACTIVITIES			
Loans from financial institutions	12	3,968,753	2,479,814
Bonds received	12	2,000,000	-
Payment of transaction costs	12	(14,876)	-
Payment of loans to financial institutions	12	(4,617,520)	(1,685,913)
Shareholder's cash contribution	17	316,357	-
Net cash provided by financing activities		<u>1,652,714</u>	<u>793,901</u>
Net increase in cash and cash equivalents		589,212	67,789
Effect of changes in exchange rate on cash		2,924	(12,821)
Cash and cash equivalents at beginning of year	7	74,005	19,037
Cash and cash equivalents at end of year		<u>666,141</u>	<u>74,005</u>
NON-CASH TRANSACTIONS FROM FINANCING AND INVESTMENT ACTIVITIES			
- Unpaid accrued interest		7,229	21,630
- Work in progress payable		80,000	224,102
- Transfers of pension liabilities, net of deferred income tax		-	110,241

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PETROLEOS DEL PERÚ - PETROPERÚ S.A.

STATEMENT OF CASH FLOWS

	Note	For the year ended	
		December 31,	
		2017	2016
		US\$000	US\$000
Profit for the year		185,104	40,686
Adjustments to reconcile the net profits for the year with cash from operating activities:			
Estimate for impairment of trade receivables	8	126	199
Estimate for impairment of other receivables	9	3,218	624
Estimate for impairment of inventories	10	8	(103)
Provision for retirement pensions	15	32	67
Provision for contingencies	15	6,241	15,734
Provision for plugging and environmental remediation	15	34,953	69,116
Depreciation	11-12	47,241	47,472
Amortization		2,400	2,870
Deferred income tax	17	(22,728)	(18,425)
Reversal/Provision for impairment of fixed assets	11	(31,790)	37,183
Disposal of property, plant and equipment	25	1,802	9,910
Impairment of investments		-	2,042
Effect on adjustment of non-realizable exchange difference		(2,924)	12,821
		<u>223,683</u>	<u>220,196</u>
Net changes in working capital:			
Trade receivables		(27,179)	(32,356)
Other receivables		(44,069)	(21,139)
inventories		(47,915)	(95,243)
Prepaid expenses		(480)	907
Trade payables		204,793	185,034
Other payables		(143,816)	117,490
Net cash provided by operating activities		<u>165,017</u>	<u>374,888</u>

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PETROLEOS DEL PERU - PETROPERU S.A.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1 BACKGROUND AND ECONOMIC ACTIVITY

a) Background -

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

The Company is a government-owned company under private law operating in the hydrocarbons subsector within the Energy and Mining Industry. The Company was organized and incorporated as a stock company, under the provisions of Legislative Decree No.043, *Ley de la Empresa Petróleos del Perú - 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 Perú.

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 12th of Legislative Decree No 1031. With respect to the former, the Company's financial statements are audited, on an annual basis, by external independent auditors who are designated at the General Shareholders' Meeting; with respect to the latter, under decision at the General Shareholders' Meeting the minimum level of capital stock to be registered with the Peruvian Securities Stock Market is to be determined in adherence to the regulations issued by the SMV.

Other applicable laws and regulations are the provisions of the legislation stating the need for the modernization of the Talara Oil Refinery, Law No.30130 enacted on December 18, 2013 (originally called "Ley que declara de necesidad pública e interés nacional la prioritaria ejecución de la modernización de la Refinería de Talara para asegurar la preservación de la calidad del aire y la salud pública y adopta medidas para fortalecer el Gobierno Corporativo de Petróleos del Perú - PETROPERU S.A."), hereinafter the PMRT as well as its rules for application, as approved under Supreme Decree No.008-2014-EM, published on March 24, 2014. The Law No.30130 approved the grant by the Peruvian Government of up to US\$200 million per year and up to a cumulative total of US\$1,000 million to secure the financial obligations derived from the financing to be contracted by 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 December 31, 2017 and 2016 there has been no need to use those guarantees.

Additionally, on December 30, 2016, Legislative Decree No.1292 was enacted declaring of public need and national interest the safe operation of "Oleoducto Norperuano" and stipulating the re-organization and improvement of the corporate governance of 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 PETROPERU S.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 PETROPERU 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). In this respect, in March 2017 a commission in the Peruvian Congress approved the amendment of Legislative Decree No. 1292; one of these amendments stipulated that the provision by which PETROPERU S.A was made part of the scope of FONAFE was revoked.

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, gasohols, 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 Estabilización 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. See accounting policy in Note 2.24-b.

In 2017 the fuel price stabilization fund was applied to the following fuel items: GLP-E, Diesel B5, Diesel B5 S-50 and industrial petroleum 6, representing 1% of the Company's total revenue (2% of the Company's total revenue in 2016).

d) Approval of the financial statements -

The financial statements at December 31, 2017 have been issued with the authorization of General Management on March 26, 2018 and will be submitted for approval of their issue by the Board and then for consideration of the General Shareholders' Meeting for final approval. The financial statements at December 31, 2016 were approved at the General Shareholders' Meeting dated March 31, 2017.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation and presentation -

i) Compliance with IFRS -

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (hereinafter IFRS) issued by the International Accounting Standards Board ("IASB"), effective at the date of the financial statements.

The information contained in these financial statements is the responsibility of the Company's Board of Directors, which expressly states that in preparing them it has applied all accounting principles and criteria required under the IFRS issued by the IASB.

ii) Basis of measurement -

The financial statements of the Company have been prepared under the historical cost convention, except for derivative financial instruments recorded at fair value. The financial statements are presented in thousands of US Dollars, unless a different monetary expression is indicated.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

iii) New standards and amendments applicable from January 1, 2017 -

The following standards and interpretations are effective for the first time for periods beginning on or after January 2017:

- Disclosure Initiative - Amendments to IAS 7 "Statement of Cash Flows" -

This amendment requires an entity to disclose in the financial statements a numerical explanation of the changes in the year in the liabilities related to financing activities. This explanation applies to the changes arising from operations which generate cash flows, such as disbursements and payments of loans; as well as changes arising from operations that do not generate cash flow, such as the incorporation of liabilities assumed from a business acquisition, debt extinction, interest accrual and unrealized exchange gains and losses. An entity should also include changes related to financial assets to the extent that their cash flows are, or will be, included in the cash flows related to financing activities; such as, for example, assets that cover liabilities arising from financing liabilities.

The Company has applied the requirements of this amendment in preparing its 2017 financial statements, which has resulted in the incorporation of the disclosure set out in Note 13.

- Recognition of deferred tax assets for unrealized losses - Amendment to IAS 12 "Income tax" -

Amendments to IAS 12 substantially clarify the accounting treatment of deferred tax assets for unrealized losses when an asset is measured at fair value and this fair value is below the tax base of the instrument. Also, the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this and tax deductions resulting from the reversal of the deferred tax assets must be excluded.

This amendment had no impact on the preparation of the Company's financial statements.

- Annual improvements, 2014-2016 cycle: Amendments to IFRS 12 "Disclosure of interests in other entities".

Amendments to IFRS 12 clarify that the disclosure requirements also apply to interests in entities that are classified as held for sale, except for summarized financial information.

This amendment has had no impact on the preparation of the Company's financial statements.

- iv) New standards and interpretations effective for the financial statements for annual periods beginning on or after January 1, 2018 and which have not been early adopted -

New IFRSs and amendments to certain IFRSs, the application of which is not required for 2017 and which have not been early adopted by the Company, have been issued. The impact assessment of these new standards and amendments applicable to the activities of the Company is summarized below:

- IFRS 9, "Financial Instruments" -

IFRS 9 replaces IAS 39, "*Financial instruments: Recognition and measurement*" mainly in the following areas:

- (a) Classification and measurement of financial assets. Classification of financial assets into debt instruments will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt and equity instruments, including certain debt instruments, must be recognized at fair value through profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in other comprehensive income (without subsequent recycling to profit or loss) and certain debt instruments whose business model is mixed (collect and sell), in which case changes in fair value are recognized in other comprehensive income (and subsequently reclassified to profit or loss).
- (b) For financial liabilities that are measured under the fair value, entities will need to recognize the part of the fair value change that is due to changes in their own credit risk in other comprehensive income.
- (c) New standards are established to apply hedge accounting that aim to align the accounting treatment to the entity's risk management practices. The new standard also introduces expanded disclosure requirements and changes in presentation.
- (d) IFRS 9 also establishes a new model for the recognition of impairment losses on financial assets, based on a new expected credit loss (ECL) model. Two models of application are introduced depending on the type of financial asset: "the general model", by which impairment of financial assets is measured over a three-stage lifespan of the instruments; and the "simplified model" applicable to short-term trade receivables. When applying the simplified model, a provision matrix is required to be used.
- (e) The treatment of renegotiations of financial liabilities measured at amortized cost that do not qualify to be written-off is modified. In these cases, a gain or loss should be immediately recognized in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified contractual cash flows discounted at the original effective interest rate. Under the IAS 39 rules, the resulting difference was allocated over the remaining life of the instrument.

In relation to the classification of financial instruments, the Company does not expect a relevant impact from the application of the new requirements of IFRS 9. In general, financial assets held (trade receivables and other receivables) will continue to be measured at amortized cost. The Company does not hold financial assets in equity instruments.

In relation to derivative financial instruments, the Company does not expect a relevant impact from the application of the new requirements of IFRS 9.

In relation to the impairment of trade receivables, considering the credit quality of its customers, the Company does not expect a significant impact resulting from the application of the PCE concept. The new approach is not expected to significantly modify the current levels of recognized provisions.

For loans outstanding, the Company will apply the general model prescribed by IFRS 9; however, based on a credit risk analysis, the conclusion is reached that no relevant ECL are expected to be recognized.

In relation to the application of the IFRS 9 requirements on renegotiation of liabilities, Management considers that no impact is expected since the Company has had no financial liabilities that have been renegotiated.

- IFRS 15, "Revenue from contracts with customers" -

This will replace IAS 18, IAS 11 and various interpretations associated with revenue recognition. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognized: (i) identify contracts with customers, (ii) identify the separate performance obligation, (iii) determine the transaction price of the contract, (iv) allocate the transaction price to each of the separate performance obligations, and (v) recognize the revenue as each performance obligation is satisfied.

Key changes to current practice are:

- Any bundled goods or services that are individually distinct must be separately recognized.
- Revenue may be recognized earlier than under current standards if the consideration varies for any reason (for example, incentives, rebates, performance fees, royalties, success of an outcome etc.) - a minimum amount of variable income must be recognized if it is not at significant risk of reversal.
- The point at which revenue is able to be recognized may change: some revenue which is currently recognized at a given point in time at the end of a contract may have to be recognized over the term of the contract and vice versa.
- There are also increased disclosures.

IFRS 15 is effective for financial periods beginning on or after January 1, 2018. For the transition, entities will have the choice of applying the full retrospective method, the full retroactive method with practical applications or the modified retroactive method with changes recognized in retained earnings at January 1, 2018 with additional disclosures.

The Company is still in the process of determining the potential impacts of the standard. As a result of the application of the new concepts set forth in IFRS 15, changes may be required in the internal financial reporting processes currently in place.

- 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 part of the 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.

- IFRIC 22, 'Foreign currency transactions and advance consideration' -

IFRIC 22 clarifies the exchange rate to be used on the transaction date when a foreign currency transaction involves an advance payment or receipt. The interpretation provides additional guidance for the definition of "date of transaction" under two circumstances: i) a single payment or receipt of cash: for the purpose of determining the exchange rate to be used on initial recognition of the related item, the date on which an entity initially recognizes the asset or liability arising from the advance consideration must be identified; ii) multiple payments or cash receipts: for the purpose of determining the exchange rate to be used, the entity must assess the dates for each payment or cash receipt.

This interpretation will impact all entities that enter into foreign currency transactions for which consideration is paid or received in advance.

This interpretation is effective for financial periods beginning on or after January 1, 2018; early application is permitted. As part of the impact assessment of this standard, the Company considers that the changes introduced by IFRIC 22 will not have an impact on its financial statements, since it already applied the definition criteria of "transaction date".

- IFRIC 23, "Uncertainty over income tax treatments" -

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 "Income taxes", are applied where there is uncertainty over income tax treatments. The IFRIC had previously clarified that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments.

IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

IFRIC 23 is effective for financial periods beginning on or after January 1, 2019. The Company will conduct an impact assessment of this IFRIC during the course of 2018.

v) Other amendments to standards to become effective in future years that are not relevant to the Company's operations -

- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IAS 40 - Transfers of investment property
- Annual improvements - 2014 - 2016 cycle: IFRS 1 and IAS 28 were amended in respect of an investment held by an entity that is a venture capital organization.
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Amendment to IFRS 9 "Financial instruments" for instruments that give the possibility of advance payment
- Annual improvements - 2015 - 2017 cycle- amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23
- IFRS 17, "Insurance Contracts."

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.

2.2 Foreign currency translation -

a) Functional and presentation currency -

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in US Dollars which is the Company's functional currency and presentation currency with effect from January 1, 2017.

Determination of the Company's functional currency requires Management to exercise professional judgment to the extent to which its revenue and costs are influenced by factors associated with a number of different economic environments. Until 2016, Management defined the sol as the Company's functional currency; and therefore, the financial statements were prepared and presented in said currency. During the course of 2017 the intensification of the activities relating to the Talara Refinery Modernization Project (PMRT) resulted in a significant increase in the Company's US Dollar cash flows, comprising both investment cash outflows as well as financing required.

In this context, as required under IAS 21, "Effect of changes in foreign exchange rates" resulting from changes in circumstances and events that affect the business of an entity, the Company re-assessed the factors originally supporting the determination of its functional currency and arrived at the conclusion that a change in functional currency from the Sol to the US dollar responds to these new characteristics of the operations. This change has been implemented prospectively with effect from January 1, 2017. The Company has performed a prospective translation of all its items into the new functional currency (US dollar) using the Exchange rate prevailing at the date of the change. The resulting converted amounts, for non-monetary items, are considered as their respective historical costs. From January 1, 2017 the foreign currency transactions and balances are accounted as described in 2.2.b).

For comparative purposes, prior-year figures originally denominated in soles have been translated into US dollars applying the following procedure:

- i) Assets, liabilities and equity balances at December 31, 2016 and January 1, 2016 have been translated at the exchange rate of S/3.36 per US\$1 and S/3.413 per US\$1, respectively, on said dates.
- ii) Income and expenses have been translated at the current exchange rates at the dates of the transactions; and
- iii) Any exchange gains or losses resulting from translation are stated in "other comprehensive income".

b) Transactions and balances -

Foreign currency transactions (different from the US dollar) are translated into the functional currency using the exchange rates prevailing at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

2.3 Going concern -

The financial statements have been prepared under the going concern assumption; that is, the Company will be able to continue its activities normally in the foreseeable future.

Under this assumption, the Company will be able to honor its financial obligations disclosed in Note 13.

The Company has reported profits of US\$185,104 thousand for 2017. At December 31, 2017 its current assets exceed its current liabilities by US\$52,924 thousand, which primarily reflects the balance of cash and cash equivalents kept in deposits of US\$782,285 thousand (US\$496,000 thousand in liquidity funding, US\$11,285 thousand in checking accounts and US\$275,000 thousand in time deposits shown within other receivables), resulting from bond issuance for a total US\$2,000,000 thousand in 2017. Reduced by the liabilities related to the PMRT execution for US\$391,401 thousand (US\$1,247,920 thousand at December 2016)

The Company has access to revolving short-term credit lines granted by local and foreign banks for up to US\$2,361,000 thousand; of which, US\$1,063,556 thousand are available at December 31, 2017.

Management recognizes that the crude price uncertainty remains constant; however, a drop in the crude price has no significant impact on the financial performance of the business since the Company obtains its profit based on a net margin on refinery. Furthermore, refined products have, in the short term, a price that is relatively independent of the crude price, since they have their own dynamic; nevertheless, in the long term, the price of those products is influenced by the price of crude oil. The U.S. Energy Information Administration (EIA) considers that the price difference between Brent and WTI (approximately 4 US\$/BI) reflects the competition of the two crude oil products in world export markets. Therefore, there are two components underlying the price difference, the cost to deliver WTI crude from its Cushing price-setting point to the U.S. Gulf coast, for exports and the additional transportation costs incurred in exporting crude from the U.S.A. to Asia as compared to the Brent delivery costs from the North Sea to Asia. As per Management's projections based on PIRA ENERGY GROUP information source, projections for the years from 2017 to 2023 indicate an average crack spread (3:2:1) of 17.90 US\$/BI, reaching levels of 17.85 US\$/BI during the years 2024-2035. Recovery of the crack spread in late 2017 (17.5 US\$/BI) reflects the recovery of crude prices and a proportional increase in the prices of the refined products (gasoline and diesel).

2.4 Segment information -

Segment information is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker of the Company.

The Company's board has designated General Management as the chief operating decision-maker, which assesses the financial performance and position, makes strategic decisions and is responsible for allocating resources to the operating segments.

For management purposes, Management analyzes the performance of PETROPERÚ S.A. on the basis of three operating segments for the purposes of disclosure of financial information (Note 5).

Management evaluates the performance of operating segments based on operating profit. Management determines the segment's assets as the total assets attributable to each segment and the liabilities as the total liabilities attributable to each segment.

The accounting policies used in segment reporting are the same as those used in preparing the financial statements. Inter-segment transfer prices are based on market prices.

Revenue by geographical area is determined based on the location of the customer. All of the Company's non-current assets are located in Perú. Accordingly, no other information by geographical area is prepared on non-current assets.

2.5 Financial assets -

Classification -

The Company classifies its financial assets in the following categories: i) financial assets at fair value through profit or loss, ii) financial assets held to maturity, iii) loans and receivables, and iv) financial assets available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at the date of initial recognition and reassesses this classification on the date of each closing of individual financial statements.

At December 31, 2017 and 2016 the Company only holds financial assets in the category of loans and receivables which corresponds to (i) cash and cash equivalents, (ii) trade receivables and (iii) certain items included in other receivables, which are described as follows:

Loans and receivables -

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of negotiating the receivable. They are included in current assets, except for those with maturities greater than 12 months after the date of the statement of financial position. They are classified as non-current assets. Receivables are included in trade receivables and certain items in other receivables in the statement of financial position.

Recognition and measurement -

Receivables are initially recognized at fair value and are subsequently measured at amortized cost less the provision for impairment. The Company assesses at each date of the statement of financial position if there is objective evidence of impairment or impairment in the value of a financial asset or group of financial assets. The impairment policy on receivables is described in Note 2.6.

Derecognition of financial assets -

Financial assets are derecognition when the contractual rights to receive cash from the asset have expired or have been transferred and the Company has transferred substantially all risks and benefits inherent to its ownership.

2.6 Impairment of financial assets recorded at amortized cost -

The Company assesses at the end of each period if there is objective evidence of impairment of a financial asset or group of financial assets. If there is impairment of a financial asset or group of financial assets, the impairment loss is recognized only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated cash flows of the financial asset or group of financial assets that can be estimated reliably.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulties; such as: default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows expected from the asset, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income and other comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and said decrease can be objectively related to an event occurring after said impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the statement of income and other comprehensive income.

2.7 Cash and cash equivalents -

For purposes of the statement of cash flows, cash and cash equivalents includes cash in hand in checking accounts and time deposits with maturity of less than three months, highly liquid investments with original maturities of three months or less that are easily convertible into cash and are subject to an insignificant risk of changes in value and fixed funds. Time deposits that will not be used within the following three months were classified as other receivables.

2.8 Trade receivables -

Trade receivables are amounts owed to the Company by customers for items sold or services rendered in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are initially recognized at their fair value and are subsequently measured at their amortized cost using the effective interest method, less the provision for impairment.

2.9 Inventories -

Inventories are stated at the lower of cost and net realizable value. The cost includes direct material costs and, where applicable, direct labor related production overheads (based on normal operating capacity). It excludes borrowing costs and exchange differences and includes costs incurred in transferring inventories to their actual location and conditions. The cost of crude oil and acquired by-products/derived products is determined using the first-in / first-out method. Refined products in process and finished products are determined at average production cost. Material and supplies at weighted average cost. In-transit inventories are stated at specific cost of acquisition. The volume of crude oil acquired and kept in the oil pipeline ("Oleoducto") is accounted for at the initial cost of acquisition.

The provision for impairment of inventories of in-process refined products, finished products and by-products acquired is applied directly to the carrying amount of inventories, with a charge to cost of sales; the carrying amount of these inventories is reduced to their net realizable value in the same year. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

With respect to supplies, Management makes a periodic provision for obsolescence based on a technical study or considering those items with no movement for more than two years; said estimated provision is recognized with a charge to results of the period they relate to.

2.10 Property, plant and equipment

Property, plant and equipment are recorded at acquisition cost, less their accumulated depreciation and accumulated amount of any impairment loss. The cost of an element of property, plant and equipment comprises its purchase price or construction or manufacturing cost, including customs duties and non-reimbursable purchase taxes, as well as any necessary cost, the initial estimate of the obligation to dismantle the asset and, for qualifying assets, the finance costs.

The purchase price or construction cost comprises the total amount paid and the fair value of any other consideration given to purchase the asset. The elements of property, plant and equipment are recognized at a major component level.

Costs incurred to replace a component of an item or element of property, plant and equipment are capitalized separately if the qualifying criterion is met and the carrying amount of the component being replaced is written down.

Subsequent costs attributable to an item of fixed assets are capitalized, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably, otherwise they are accounted for as expenses.

Assets under construction are capitalized as a separate component. Recognition of costs will cease when the item is ready for use as expected by Management and from that date those items are depreciated. When the items are ready for their intended use, they are transferred to their final category.

The cost of the items of property, plant and equipment, net of their residual value is depreciated over their estimated useful lives. Depreciation of assets is recognized as cost or expense depending on their function.

Land is not depreciated. Depreciation is calculated using the straight-line method over the estimated useful life of each asset, as follows:

	<u>Years</u>
Buildings and other constructions	Between 25 and 50
Machinery and equipment	Between 10 and 12
Containers and returnable containers	20
Vehicles	Between 5 and 10
Other equipment	10
Computer equipment	3
Furniture and fixtures	5

The assets' residual values, useful lives and depreciation method applied are reviewed, and adjusted if appropriate, at the date of each statement of financial position. Any change in these estimates is prospectively adjusted. At December 31, 2017 there were no significant changes as a result of its review.

Items of property, plant and equipment are written off when they are disposed of or when economic benefits are no longer expected from their use or subsequent sale.

Gains or losses on disposal are determined considering the difference between the proceeds and carrying amount of the assets. These are included in statement of income and other comprehensive income.

The accounting treatment of the capitalization of interest on qualifying assets is described in Note 2.17.

The income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.11 Intangible assets

Software -

Intangible assets include acquired computer software licenses and software, which are capitalized based on costs incurred to acquire and put the specific software to use. These costs are amortized over their estimated useful lives (between three and ten years).

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated that the software product will generate probable future economic benefits;
- adequate technical, financial and other resources are available to complete the development and to use or sell the software product; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of the corresponding overheads.

Hydrocarbons exploration activities -

Exploration costs such as seismic lines and exploratory drilling of wells are capitalized until the technical and commercial feasibility of extracting the resources in the area is demonstrated.

If the exploration and evaluation activities are not expected to be successful, such assets are charged to profit or loss recognizing an impairment loss in the statement of comprehensive income. In the event feasible reserves are identified, exploration and evaluation assets are re-classified from said category as development costs after evaluating their recoverability. Depreciation is not recognized during the exploration and evaluation phase.

If events or circumstances indicate a possible impairment of resource exploration and evaluation assets has occurred, their recoverability is assessed by grouping assets at the lowest levels for which there are separately identifiable cash flows (cash-generating units) based on considerations such as geographical and geological features, common use of facilities and contractual terms and conditions. Such events and circumstances include the interpretation of seismic data, return requirements of areas, drilling results, remaining period to comply with the exploration commitment period, remaining capital investment plans and political and market conditions.

The hydrocarbons exploration activity comprises the Project for the Exploration and Exploitation of Hydrocarbons in Block 64 ("Proyecto de Exploración y Explotación de Hidrocarburos en el Lote 64"), which consists of the implementation of the project called "Desarrollo y explotación del yacimiento Situche Central Lote 64", to bring to production the crude oil reserves discovered in Block 64.

Costs associated at December 31, 2017 amounted to US\$19,634 thousand (US\$9,836 thousand at December 31, 2016).

2.12 Investment properties -

Investment properties are shown at cost less accumulated depreciation and impairment losses, if any. Subsequent costs attributable to investment properties are capitalized only if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of these assets can be measured reliably; if not, they are recognized as expenses when incurred.

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

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

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

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

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

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

Impairment losses of assets related to ongoing operations are recognized in the statement of income and other comprehensive income in the categories of expenses corresponding to the nature of the impaired asset.

The Company evaluates annually if there is evidence that indicates that previously recognized impairment losses have been partially or totally reversed.

2.14 Financial liabilities -

The Company classifies its financial liabilities into the following categories: i) financial liabilities at fair value through profit or loss and ii) other financial liabilities. The classification depends on the purpose for which the liabilities were assumed and the way in which they are managed. The Company determines the classification of its financial liabilities at the date of initial recognition. At December 31, 2017 and 2016 the Company only holds liabilities in "other financial liabilities", which correspond to (i) trade payables, (ii) certain items included in other payables; and, (iii) borrowings.

2.15 Trade payables -

Trade payables are payment obligations for goods or services acquired from suppliers in the normal course of business. Payables are classified as current liabilities if payment must be made within one year or less (or in the normal operating cycle of the business if it is greater), otherwise, they are presented as non-current liabilities.

Payables are initially recognized at their fair value and subsequently, if the time value of money is relevant, they are remeasured at amortized cost using the effective interest method, otherwise they are shown at their nominal value.

2.16 Borrowings -

Borrowings consist of loans obtained from financial institutions, including loans for working capital and corporate bonds. Borrowings are classified based on the terms and conditions of the agreements signed and considering the economic substance of the agreement.

Loans maintained by the Company are initially recognized at their fair value, net of transaction costs incurred. These loans are subsequently recorded at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the loan using the effective interest method. The Company presents borrowings within other financial liabilities.

Fees and commissions paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case transaction costs are deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as payments for services to obtain liquidity and amortized over the period of the facility to which it relates.

Borrowings are derecognized from the statement of financial position when the obligation specified in the contract is settled or expires. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the paid consideration, including non-cash transferred or the liabilities assumed are recognized in profit or loss within other finance income or finance cost.

Borrowings are classified as current liabilities unless the Company obtains the unconditional right to defer the payment of the obligation by no less than 12 months from the statement of financial position date.

2.17 Borrowing costs -

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. Capitalization starts when activities are being carried out to bring the qualifying asset to its expected condition for use and costs are being incurred, as well as borrowing costs; capitalization ends when all the activities required to prepare the asset for its expected use have been completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are recognized in the statement of comprehensive income in the period in which they are incurred.

2.18 Leases -

a) Leases in which the Company is the lessee -

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

The Company leases buildings, equipment and vehicles. Leases of buildings, equipment and vehicles in which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Lease payments are apportioned between the liability and finance expenses so as to achieve a constant rate of interest on the remaining balance of the liability. The obligation for the corresponding leasing minimum payments, net of finance charges, is included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Equipment and vehicles acquired through finance leases are depreciated over their useful lives.

b) Leases in which the Company is the lessor -

Property and land leased under operating lease agreements are included in the investment property category in the statement of financial position.

Property assets under operating leases are stated within property, plant and equipment.

Revenues related to operating leases are recognized in the statement of income on the basis of the straight-line method over the period of the lease.

2.19 Employee benefits -

a) Statutory bonuses -

The Company recognizes an expense for statutory bonuses and related liability in accordance with laws and regulations currently in force. Statutory bonuses consist of two one-month salaries per year paid every July and December, respectively. Statutory bonuses are recognized proportionally to the time during which a worker has provided the services that entitle him/her to said benefit.

b) Employees' severance indemnities -

Employees' severance indemnities for time of service of the Company's personnel correspond to their indemnification rights, calculated in accordance with the regulations in force in Perú, which has to be credited to the banks accounts designated by the workers in May and November every year. Personnel severance indemnity is equivalent to one-half of a one-month salary prevailing at the date of deposit, which is recognized in profit or loss as accrued. The Company does not have additional payment obligations once the annual deposits of the funds that the worker is entitled to are made.

c) **Vacation leave -**

Personnel's annual vacation leave is recognized on an accrual basis. The provision for the estimated obligation for annual vacations of personnel resulting from services provided by the employees is recognized at the date of the statement of financial position.

d) **Workers' profit sharing -**

The Company recognizes a liability and an expense for the workers' profit sharing in accordance with laws and regulations currently in force. Workers' profit sharing is calculated applying the rate of 5% to the taxable income determined by the Company in accordance with current income tax legislation.

2.20 Provisions -

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are reviewed at each period-end. When the effect of the time value of money is significant, provisions are discounted using a pre-tax rate that reflects, when appropriate, the risks specific to the obligation. The reversal of the discount due to the passage of time gives rise to an increase of the obligation recognized with a charge to the statement of comprehensive income as finance cost.

Provisions are not recognized for future operating losses.

Provision for environmental remediation and plugging wells of privatized units -

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

The Company recognizes a provision for environmental remediation and plugging of wells as part of its legal obligations to remediate the environment at the end of operation of these wells and in adherence to a specific legal mandate. At the date of initial recognition of the liability arising from this obligation, as measured at its fair value discounted to its present value, the same amount is simultaneously charged to the statement of comprehensive income. Subsequently, the liability amount is reviewed and increased in each period, if applicable. In settling this liability, the Company recognizes any resulting profit or loss. Changes in the estimated fair value of the initial obligation and in the interest rates are recognized in the statement of comprehensive income.

2.21 Contingent liabilities and assets -

Contingent liabilities are recognized in the financial statements to the extent that cash outflows are probable; and they are only disclosed in a note to the financial statements when cash outflows are possible.

Contingent assets are not recognized and are only disclosed if it is probable that economic benefits will flow to the Company in the future.

2.22 Current and deferred income tax -

The income tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized directly in the statement of other comprehensive income or in equity. In this case tax is also recognized in the statement of other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using the tax rates (and tax laws) enacted at the date of the statement of financial position and expected to be applicable when the deferred income tax is realized or settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority.

2.23 Capital -

Subscribed and paid-in common shares are classified as equity. Shareholder cash capital contributions, profit capitalization, transfer of retirement liabilities to the Peruvian pension fund (ONP) by the Peruvian Government (shareholder) (Note 18-a) for which shares remain to be subscribed and issued are recognized as additional capital when they occur and are approved by shareholders.

2.24 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 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 all the risks and rewards inherent to the ownership of the assets have been transferred to the buyer, collection of the consideration is probable; the associated costs and eventual returns of assets can be estimated reliably and there is no longer ongoing involvement in the management of the assets. For products sold in the local market, the transfer of the risks and rewards occurs when the goods are delivered; for exported goods, it all depends on the export contractual conditions, which mainly occurs when the goods are delivered to the port of shipment.

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

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

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

Balances receivable from the Ministry of Energy and Mines are accounted for as described in 2.5.

c) 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.

d) Interest income -

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

2.25 Earnings per share -

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

2.26 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 assets, liabilities and profit or loss. The financial statements at December 31, 2016 were restated so as to be consistent with this revised presentation:

Statement of financial Position -	At December 31,		Reclassification US\$000	2016 US\$000 (Revised)
	2016 S/000 (Previously reported)	2016 US\$000		
ASSETS				
Current assets				
Cash and cash equivalent	248,656	74,005	-	74,005
Trade receivables	894,176	266,124	-	266,124
Other receivables	698,179	207,791	-	207,791
Inventories	2,001,567	595,704	-	595,704
Prepaid expenses	14,814	4,409	-	4,409
Total current assets	3,857,391	1,148,033	-	1,148,033
Non-current assets				
Other receivables	848,359	252,488	-	252,488
Other assets	19,294	5,742	(5,675) (a)	67
Property, plant and equipment	9,254,453	2,754,301	(5,675) (a)	2,865,281
			(9,836) (b)	
			(84,859) (c)	
Investment properties	-	-	84,859 (c)	84,859
Intangible assets	54,402	16,191	9,836 (b)	26,027
Total non-current assets	10,176,508	3,028,722	-	3,028,722
Total assets	14,033,899	4,176,755	-	4,176,755
LIABILITIES				
Current liabilities				
Other financial liabilities	5,751,693	1,711,813	21,630 (d)	1,733,443
Trade payables	2,427,912	722,593	-	722,593
Other payables	598,238	178,047	(21,630) (d)	156,417
Other provisions	388,979	115,768	-	115,768
Total current liabilities	9,166,822	2,728,221	-	2,728,221
Non-current liabilities				
Other financial liabilities	836,383	248,923	-	248,923
Other provisions	18,989	5,652	-	5,652
Deferred income tax liabilities	262,198	78,035	-	78,035
Total non-current liabilities	1,117,570	332,610	-	332,610
Total liabilities	10,284,392	3,060,831	-	3,060,831
EQUITY				
Share capital	2,465,048	733,645	-	733,645
Additional capital	370,411	110,241	-	110,241
Legal reserve	54,395	16,189	-	16,189
Other equity reserves	(1,251)	(373)	-	(373)
Retained earnings	860,904	256,222	-	256,222
Total equity	3,749,507	1,115,924	-	1,115,924
TOTAL LIABILITIES AND EQUITY	14,033,899	4,176,755	-	4,176,755

- (a) and (b) Comprising the reclassification of financial investments (Other assets) to intangible assets for costs incurred in exploration activity in Block 64.
- (c) Reclassification of property, plant and equipment to investment properties arising from the rental agreements of land and buildings with Savia and Maple.
- (d) Reclassification from other payables to other financial liabilities from accrued interest payable

For comparison purposes, such amendments were carried out at January 1, 2016:

<u>Statement of financial position</u>	<u>At January 1, 2016</u> S/000 (Previously reported)	<u>2016</u> US\$000	<u>Reclassification</u> US\$000		<u>At January 1, 2016</u> US\$000 (Revised)
ASSETS					
Current assets					
Cash and cash equivalent	64,971	19,036	-		19,036
Trade receivables	798,529	233,967	-		233,967
Other receivables	192,173	56,464	-		56,464
Inventories	1,707,722	500,358	-		500,358
Prepaid expenses	18,142	5,316	-		5,316
Total current assets	2,782,077	815,141	-		815,141
Non-current assets					
Other receivables	721,978	211,538	-		211,538
Other assets	7,213	2,113	-		2,113
Property, plant and equipment	5,825,724	1,706,922	(25,574)	(a)	1,592,771
Investment properties	-	-	(88,577)	(b)	-
Intangible assets	59,339	17,386	88,577	(b)	88,577
Total non-current assets	6,614,254	1,937,959	-	(a)	1,937,959
Total assets	9,396,331	2,753,100	-		2,753,100
LIABILITIES					
Current liabilities					
Other financial liabilities	2,498,485	732,050	5,568	(c)	737,618
Trade payables	1,083,636	317,503	-		317,503
Other payables	304,731	89,285	(5,568)	(c)	83,717
Provisions	135,361	39,660	-		39,660
Total current liabilities	4,022,213	1,178,498	-		1,178,498
Non-current liabilities					
Other financial liabilities	1,422,083	416,667	-		416,667
Other provisions	569,119	116,750	-		166,750
Deferred income tax liabilities	180,060	52,757	-		52,757
Total non-current liabilities	2,171,262	636,174	-		636,174
Total liabilities	6,193,475	1,814,672	-		1,814,672
EQUITY					
Share capital	1,949,969	571,336	-		571,336
Additional capital	62,679	18,365	-		18,365
Legal reserve	4,128	1,209	-		1,209
Retained earnings	1,186,080	347,518	-		347,518
Total equity	3,202,856	938,428	-		938,428
TOTAL LIABILITIES AND EQUITY	9,396,331	2,753,100	-		2,753,100

- (a) Comprises the reclassification of costs incurred in exploration activity in Block 64 to intangible assets.
(b) Reclassification of property, plant and equipment to investment properties arising from the rental agreements of land and buildings with Savia and Maple.
(c) Reclassification from other payables to other financial liabilities from accrued interest payable

Statement of Comprehensive Income	For the year ended December 31, 2016		Reclassification US\$000	December 31, 2016 US\$000 (Revised)
	S/000 (Previously reported)	US\$000		
Income from ordinary activities	11,199,109	3,317,738	-	3,317,738
Other operational income	243,897	72,236	-	72,236
Total income	11,443,006	3,389,974	-	3,389,974
Cost of sales	(9,529,432)	(2,828,501)	(6,255) (e)	(2,834,756)
Gross profit	1,913,574	561,473	(6,255)	555,218
Selling and distribution expenses	(452,883)	(134,469)	(5,053) (d)	(139,522)
Administrative expenses	(587,410)	(177,290)	5,053 (d)	(165,982)
			6,255 (e)	
Other income	111,648	34,161	(1,083)	33,078
Other expenses	(589,238)	(178,137)	1,083	(177,054)
Operating profit	395,891	105,738	-	105,738
Finance income	23,353	6,845	-	6,845
Finance costs	(78,529)	(23,318)	-	(23,318)
Exchange difference, net	50,431	15,009	-	15,009
Profit before income tax	391,146	104,274	-	104,274
Income tax	(213,655)	(63,588)	-	(63,588)
Profit for the year	177,491	40,686	-	40,686

(d) Reclassification of depreciation of fixed assets related to sales and shipment of products.

(e) Reclassification of depreciation of investment properties.

Statement of cash flows

	At December 31,		Reclassification US\$000	At December 31, 2016 US\$000 (Revised)
	2016 S/000 (Previously reported)	2016 US\$000		
Operating activities				
- Cash from operating activities	1,331,389	410,542	(14,472) (f)	427,619
			39,749 (g)	
			(8,200) (h)	
- Payment of interest	(78,529)	(23,372)	8,200 (h)	(15,172)
- Payment of income tax	(751,943)	(223,793)	14,472 (f)	(209,321)
Net cash provided by operating activities	500,917	163,377	39,749	203,126
Investing activities				
- Purchases of property, plant and equipment	(2,957,516)	(927,345)	(953) (i)	(897,414)
			30,884 (j)	
- Capitalized interest paid	-	-	(30,884) (j)	(30,884)
- Purchases of intangibles	(3,159)	(940)	-	(940)
- Investment in joint venture	(3,201)	(953)	953 (i)	-
Net cash applied to investing activities	(2,963,876)	(929,238)	-	(929,238)
Financing activities				
Borrowings obtained from Financial institutions	8,332,173	2,479,814	-	2,479,814
Repayment of borrowings with financial institutions	(5,636,815)	(1,646,164)	(39,749) (g)	(1,686,913)
Net cash provided by financing activities	2,695,358	833,650	(39,749)	793,901
Net increase in cash	232,399	69,166	(1,377) (g)	67,789
Effect of change in e.r. on cash	(43,079)	(12,821)	-	(12,821)
Effect of change in e.r. on other accounts	(5,635)	(1,677)	1,677 (g)	-
Cash and cash equivalents at beginning of year	64,971	19,337	(300)	19,037
Cash and cash equivalents at end of year	248,656	74,005	-	74,005

- (f) Reclassification of payment of taxes other than income tax to net cash from operating activities
- (g) Reclassification from exchange difference of other items to net cash from operating activities.
- (h) Reclassification of payments of derivatives to net cash from operating activities
- (i) Reclassification from investment in joint ventures to purchases of property, plant and equipment.
- (j) Capitalized interest paid are separated from purchases of property, plant and equipment.

2.27 Change in accounting policy -

Over 2017, as a result of the significant increase in cash flows derived from the investing activities relating to the PMRT development, the Company revised the presentation in the statement cash flows of the Value Added Tax - VAT (IGV in Perú) cash flows that is charged in the invoices issued by the suppliers of capital goods required for that Project; until fiscal 2016 these cash flows were presented as operating activities. As a result of this review, the Company changed its accounting policy to present said cash outflows as part of investment activities.

Management considers that this accounting change is intended to reflect more faithfully the economic substance of these cash outflows.

This modification represents a change in accounting policy, which, in accordance with IAS 8 – Accounting policies, Changes in accounting estimates and errors, the Company applied retrospectively, restating its cash flow statement for fiscal 2016:

This change had the following impact on the statement cash flows:

	<u>At December 31,</u>		<u>Reclassification</u> US\$000	<u>At December 31,</u>
	<u>2016</u> S/000 (Revised) (*)	<u>2016</u> US\$000		<u>2016</u> US\$000 (Restated)
Statement of cash flows				
Operating activities	500,917	203,126	171,762	374,888
Investing activities	(2,963,876)	(929,238)	(171,762)	(1,101,000)

(*) Amounts after the reclassifications described in Note 2.26.

3 FINANCIAL RISK MANAGEMENT

Management is responsible for establishing and supervising the risk management structure. Corporate Finance Management is responsible for risk management. This department identifies, evaluates and manages financial risks.

The Company's risk management policies are established to identify and assess the risks to which the Company is exposed and set adequate risk limits and controls and monitor risks and compliance of limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and entity-specific operations.

The Company seeks to develop a disciplined and constructive control environment through its risk management standards and procedures in which all personnel fully understands their functions and duties.

3.1 Financial risk factors -

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

a) Market risk -

The most significant market risks for the Company's activities are explained below:

i) Foreign exchange risk -

Transactions in foreign currency are mainly agreed in soles, euros and yen. The Company is exposed to the risk of severe fluctuations in the exchange rate of said currencies.

Management manages the foreign exchange risk using forward exchange contracts (forwards) to mitigate its exposure to fluctuations in foreign exchange rates in the short term.

At December 31 assets and liabilities related to transactions in foreign currency, as well as the net position exposed to exchange risk, are summarized as follows:

	2017		2016		
	S/000	EUR000	US\$000	EUR000	JPY000
Assets:					
Cash and cash equivalent	321,312	-	33,646	-	-
Trade receivables	864,011	-	19,327	-	-
Other receivables	<u>694,908</u>	<u>-</u>	<u>12,699</u>	<u>-</u>	<u>-</u>
	<u>1,880,231</u>	<u>-</u>	<u>65,672</u>	<u>-</u>	<u>-</u>
Liabilities					
Other liabilities	(2,125,000)	-	(841,774)	-	-
Trade payables	(119,887)	(7,933)	(640,153)	(42,141)	(477,292)
Other payables	<u>(233,142)</u>	<u>-</u>	<u>(5,202)</u>	<u>-</u>	<u>-</u>
	<u>(2,478,029)</u>	<u>(7,933)</u>	<u>(1,487,129)</u>	<u>(42,141)</u>	<u>(477,292)</u>
Net liability exposition	<u>(597,798)</u>	<u>(7,933)</u>	<u>(1,421,457)</u>	<u>(42,141)</u>	<u>(477,292)</u>

The Company's assets and liabilities denominated in foreign currencies were translated into its functional currency using the exchange rates published by the Peruvian banking, insurance and pension plan regulator ("Superintendencia de Banca y Seguros y AFP- SBS"). The following exchange rates were used per each foreign currency:

	Exchange rate at December 31	
	2017	2016
S/	0.308	0.298
EUR	1.216	1.072
JPY	0.00924	0.00923

For the year ended December 31, 2017 the Company recognized a net exchange loss of US\$2,043 thousand (net exchange gain of US\$15,009 thousand at December 31, 2016) as stated in "Exchange difference, net" in the statement of comprehensive income.

Sensitivity analysis -

If the U.S. dollar had strengthened/weakened against the soles and euros by 10% (a variation considered reasonable) in 2017 (soles against the US dollars, euros and yen in 2016), it would have affected profit before income tax.

	<u>Movement of</u>	<u>Effect on profit and loss before taxes</u>	
		<u>Revaluation</u> US\$000	<u>Devaluation</u> US\$000
Year 2017			
S/	5%	9,211	(9,211)
EUR	10%	964	(964)
Year 2016			
US\$	5%	72,364	(72,364)
EUR	10%	4,516	(4,516)
JPY	5%	220	(220)

ii) Interest rate risk -

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

The Company's interest rate risk arises from long-term borrowings. Borrowings at variable rates expose the Company to cash flow interest rate risk. Borrowings at fixed rates expose the Company to fair value interest rate risk on its borrowings. Management's policy is to maintain financing mainly at fixed interest rates. Management considers that the fair value interest rate risk is not material because the interest rates of its financing contracts are similar to those available to the Company in the market for similar financial instruments.

At December 31, 2017 the Company has fully repaid the syndicated loan contracted at a variable interest rate (LIBOR plus 1.75% for the first two years; LIBOR plus 2.00% subsequently) to finance part of the PMRT.

At December 31, 2017 the Company has recognized fixed-interest-rate bullet bonds issued to finance part of the PMRT; interest is payable on a semi-annual basis from December 2017, at rates of 4.750% and 5.625% and maturity in 2032 and 2047, respectively.

At December 31, 2017 and 2016 the interest rate position of financial instruments is as follows:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Instruments at fixed rate (*)		
Other financial liabilities (Note 13)	3,311,971	1,545,146
Instruments at variable rate (syndicated loan) (*)		
Other financial liabilities (Note 13)	-	416,667

(*) Comprising the principal of the debt, excluding US\$7,229 thousand of interest and US\$-14,876 thousand of amortized cost for 2017; for 2016, excluding US\$21,630 thousand of interest and US\$-1,078 thousand of amortized cost

Sensitivity analysis of fair value for variable rate instruments -

A variation in the interest rates at December 31, 2016 on the syndicated loan would not have increased (decreased) profit for the period since interest expenses are capitalized as part of the cost of fixed assets.

iii) Price risk of crude oil or commodities -

Selling prices of the products traded by the Company are exposed to commercial risks inherent to the volatility of international prices. Prices invoiced by the Company are modified according to the variations in international prices (Note 1-c).

As explained in Note 1-c, prices in the local market are determined considering the international prices of crude oil and by-products. Prices are expressed in soles at the effective exchange rate, taking into consideration the legal requirements issued in prior years, according to which, under the regime established for the "*Fondo para la Estabilización de los Precios de los Combustibles*", the Peruvian Government can make compensating payments or receive contributions to stabilize the price of certain products for final consumers. This mechanism mitigates the effect of changes in the prices of some products which are not transferred to the final consumer.

Note 9-a) shows the net balance of compensations and contributions made by the Peruvian Government at December 31, 2017 and 2016.

The Company seeks to enter into agreements with crude oil suppliers and manufacturers in Perú in order to mitigate the price risk by signing long-term purchase agreements at referential basket prices of crude oil or WTI pricing formulas, taking into account the expected margins in the international market. In addition, in purchasing crude oil and imported products, the best price quotes are obtained based on international public bidding processes.

b) Credit risk -

Credit risk is the risk that a counterparty is unable not meet its borrowings in relation to a financial instrument or sales contract, generating a financial loss. The Company's financial assets potentially exposed to credit risk concentrations, mainly comprise bank deposits, trade receivables and some items included in other receivables.

With respect to bank deposits, the Company reduces the probability of significant concentrations of credit risk by distributing its excess funds in prestigious financial institutions and sets limits on the amounts of credit risk exposure with any of these financial institutions.

For trade receivables, credit risk concentration mostly relates to wholesale customers, which are nation-wide prestigious prime-rated companies. Management has policies in place to make sure that sales of goods are made to wholesale customers with an adequate credit history and guarantees. Such policies comprise, among others, approving credit limits on a customer-by-customer basis, monitoring procedures and continuous follow-up of payment behavior. With respect to agreements signed with Government entities (Peruvian Armed Forces and National Police Force), a due date for payment has been set at 45 days. The Company does not foresee significant losses arising from its counterparties.

c) Liquidity risk -

Prudent liquidity risk management involves maintaining sufficient cash and cash equivalents, the availability of financing through an adequate number of sources of committed credit facilities and the capacity to close positions in the market. In this sense, the Company does not have significant liquidity risks since the cash flows from its operations have enabled it to maintain sufficient cash to meet its obligations.

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.

At December 31, 2017 the Company maintains revolving credit lines with local and foreign banks for a total of US\$2,361,000 thousand, of which US\$1,063,556 thousand are available at that date, a sufficient amount to meet its purchase operations in the local territory and in foreign markets and other obligations related to working capital. These credit limits involve no maintenance costs or collateral requirements.

The Company's Corporate Finance Management supervises the cash flow projections carried out based on its liquidity requirements to ensure that there is sufficient cash to cover the operating needs while maintaining sufficient headroom on its undrawn committed borrowing facilities, so that the Company does not breach borrowing limits or covenants, where applicable, on any of its borrowing facilities. Cash surpluses and balances above what is required for the administration of working capital are invested in interest-bearing instruments and time deposits, choosing instruments with appropriate due dates or sufficient liquidity.

The table below analyzes the Company's financial liabilities into relevant maturity groupings based on the period remaining at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the undiscounted cash flows.

	<u>Carrying amount</u> US\$000	<u>Cash flows non-discounted</u> US\$000	<u>Less than 1 year</u> US\$000	<u>More than 1 year</u> US\$000	<u>More than 2 years</u> US\$000
2017					
Other financial liabilities	3,304,324	5,669,871	1,425,496	103,750	4,140,625
Trade payables	772,247	772,247	772,247	-	-
Other payables (*)	<u>13,489</u>	<u>13,489</u>	<u>13,489</u>	<u>-</u>	<u>-</u>
	<u>4,090,060</u>	<u>6,455,607</u>	<u>2,211,232</u>	<u>103,750</u>	<u>4,140,625</u>
2016					
Other financial liabilities	1,982,366	2,014,354	1,756,716	173,154	84,484
Trade payables	722,593	722,593	722,593	-	-
Other payables (*)	<u>8,767</u>	<u>8,767</u>	<u>8,767</u>	<u>-</u>	<u>-</u>
	<u>2,713,726</u>	<u>2,745,714</u>	<u>2,488,076</u>	<u>173,154</u>	<u>84,484</u>

(*) Other payables do not include liabilities for taxes, advances, or labor liabilities.

3.2 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.

PETROPERU S.A. 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 December 31, gearing ratios were as follows:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Other financial liabilities	3,304,324	1,982,366
Less: Cash and cash equivalents and time deposits	(942,381)	(74,005)
Net debt (A)	2,361,943	1,908,361
Total equity (B)	<u>1,617,604</u>	<u>1,115,924</u>
Total capital (A+B)	<u>3,979,547</u>	<u>3,024,285</u>
Ratio (A/(A+B))	<u>0.59</u>	<u>0.63</u>

At December 31, 2017 the decrease in the gearing ratio was mainly due to the effect of the increase in equity, from the capital contribution in cash of US\$316,357 thousand (S/1,056,000 thousand) and the profit of the year of US\$185,104 thousand, balanced by the increase in net debt relating to the bond issuance.

3.3 Estimation of fair value -

The information used by the Company to estimate the fair value is classified as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs generally based on the Company's internal estimates and assumptions).

At December 31, 2017 and 2016 the Company has only measured at fair value its forward foreign exchange contracts. The fair value of forward foreign exchange contracts is estimated discounting the future contractual cash flows, net, comparing the contractually agreed foreign exchange rate against a forward foreign exchange rate applicable at the date of measurement. Discounting is performed using a market interest rate that is available to the Company for similar financial instruments, and the inputs of which used in fair value measurement have been classified in Level 2.

In determining the fair value of bonds (measured at the amortized cost), Management uses observable market inputs (Bloomberg), that are classified in Level 1. In determining the fair value of other borrowings (measured at amortized cost) with long-term maturity for disclosure purposes, the expected future cash flows are discounted using a current market interest rate that is available to the Company for similar financial instruments and the inputs of which have been classified in Level 2.

In determining the fair value of investment properties (measured at cost less accumulated depreciation) for disclosure purposes, Management has used appraisals conducted internally; of which the respective inputs used for measurement have been classified in Level 3.

The carrying amount of cash and cash equivalents corresponds to their fair value. The Company considers that the carrying amount of receivables and payables (including borrowings) are similar to their fair values due to their short-term maturity and the impact of the discount is not significant.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Estimates and critical accounting criteria

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the reported assets and liabilities are addressed below:

- Useful life of property, furniture and equipment -

Depreciation is calculated under the straight-line method over the estimated useful life of the asset. This results in depreciation charges that are proportional to the estimated wear and tear of the assets as measured in number of years. The useful life of the assets is assessed on the basis of: i) the physical wear and tear of the asset and ii) expected use of the asset. These calculations require estimates and assumptions to be made regarding the market demand for the Company's production and the capital disbursements that will be required in the future.

- Provisions and contingencies -

The Company is subject to a number of laws and regulations as well as business practices effective in Perú. In this sense, Management makes judgement and estimates in recording environmental matters and seeking to meet the technical standards issued by the local regulatory authorities. Actual costs may differ from estimates for a number of reasons, such as changes in the assumptions and differing interpretations of laws, opinions and assessments in determining the amount of losses.

The Company updates the provision for remediation of privatized and own units as well as the provision of plug-back costs to reflect new events, changes in circumstances and any other relevant information available to determine the costs that it will incur to cover these items. Changes in the variables used to establish the amount of the environmental obligation and plugging wells costs may give rise to major adjustments to the balance of the obligation. Also, the Company determines the provisions required for the environmental remediation obligation arising from oil spills derived from the events that occurred on the Northern Peruvian Oil Pipeline ("Oleoducto Norperuano"), considering the contracts remaining to be implemented and currently in the contracting process.

Furthermore, in the ordinary course of business, the Company is exposed to certain contingent liabilities relating to existing or potential claims, litigation and other actions brought against it, including some involving taxes.

A provision is recorded for contingencies when it is probable that a liability has been incurred and the amount of the loss can be estimated reliably. The Company's estimates are based on projections that are updated considering the results of the above-mentioned litigation or other actions and the previous experience of its technical staff and legal counsel both internal and external to address and resolve legal, labor-related and tax claims. To the extent the amount of obligations is being more clearly defined or further information become available, the Company may change its future cost estimates, which may have a significant effect on the results of its operations and its financial position or liquidity.

- Taxes -

Determination of tax expenses and obligations requires interpretation of the Peruvian tax laws. The Company seeks professional advice in tax matters before making tax-related decisions. Management considers that these estimates are reasonable and appropriate at the reporting date; however, it considers that a particular interpretation of a point of tax laws by the Peruvian tax authorities may eventually result in additional taxes payable in the future.

- Review of carrying amounts and impairment provision -

The Company performs an assessment of whether a provision for impairment is required following the accounting policy described in Note 2. This determination requires Management to exercise judgment in analyzing evidence of impairment and determining the recoverable amount. In determining the latter, judgment is required to calculate the expected future cash flows, including Management's projections of the Company operations in the future, projections of economic factors that may affect the Company's expected revenue and costs as well as determining the discount rate to be applied to those cash flows.

Estimates used in determining the recoverable amount of assets consider prior-year events, current operations, future expectations as well as changes in the Company's business strategy. These considerations were relevant in estimating the expected future cash flows and are taken into account in the coming years.

- Assets subject to depreciation or amortization -

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount of an asset comprise the higher of its fair value less cost of disposal or its value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The Company groups its assets into three cash-generating units: (i) Production and trading; (ii) Oil Pipeline operations and (iii) Leased Units.

Company's Management did not identify impairment indicators of the Leased units CGU; therefore, no impairment test was performed on the assets of this CGU.

The Company, based on internal and external information, considers that there are certain indications that the assets of the Production and trading and Oil Pipeline operations CGUs may be impaired in 2017 and 2016 by calculating the value in use of these CGUs; disclosure of which is provided in Note 11.

- PMRT assets in process of construction -

PMRT assets in the process of construction are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount of assets under construction is their fair value less costs of disposal. The Company has calculated the recoverable amount of the PMRT; disclosure is provided in Note 11.

- Provision for doubtful collection -

The Company estimates its provision for uncollectable receivables based on a specific analysis of those unsecured invoices, which is carried out periodically, taking into account the aging of the maturities, start of the legal process and the uncollectability of the debtor.

4.2 Critical judgments in the application of accounting policies -

Determination of functional currency - Note 2.2 - a) -

Under IAS 21, "The Effects of Changes in Foreign Exchange Rates", an entity must define its functional currency as the currency of the primary economic environment in which the Company operates. As part of its assessment, an entity analyzes primary indicators (those associated with the economic forces that mainly influence sales prices and costs); when the primary indicators are not conclusive, it analyzes secondary indicators (those associated with the currency in which funds from financing activities are generated and in which cash surpluses are maintained). After this evaluation, the determination of the functional currency may not be evident, in which case, Management should exercise judgment to determine its functional currency as the currency that most faithfully reflects the economic effects of the Company's underlying transactions.

The Company sells its products and services mostly in the Peruvian market; selling prices of crude are influenced by the international market and by the local market and regulations. Most of the costs correspond to the import of crude, this cost is denominated in U.S. dollars and is mainly influenced by the international markets, most 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 sol as its functional currency on the grounds that this is the currency in which most borrowings are denominated. From 2017, the change in the financing structure and the notable prevalence of the U.S. dollar, have led the Company to re-assess its functional currency determination and define the United States dollar as its functional currency; accordingly, the financial statements are to be expressed in the currency in which most of the underlying transactions are denominated.

5 SEGMENT INFORMATION

a) Description of business segments and core activities -

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

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

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

The following summary describes the operations of each reportable segment:

<u>Reportable segment</u>	<u>Operations</u>
Production and trading	Refining and commercialization of petroleum products.
Oil Pipeline operations	Service of transfer and custody of crudes from the Northern jungle of 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 -

	<u>Production and trading (*)</u> US\$000	<u>Oil Pipeline operations</u> US\$000	<u>Leased and privatized units</u> US\$000	<u>Total</u> US\$000
At December 31, 2017				
Assets				
Current	2,285,586	28,504	5,081	2,319,171
Non-current	<u>3,248,310</u>	<u>178,298</u>	<u>192,964</u>	<u>3,619,572</u>
Total assets	<u>5,533,896</u>	<u>206,802</u>	<u>198,045</u>	<u>5,938,743</u>
Liabilities				
Current	2,116,106	91,597	8,544	2,266,247
Non-current	<u>2,045,450</u>	<u>9,442</u>	-	<u>2,054,892</u>
Total liabilities	<u>4,211,556</u>	<u>101,039</u>	<u>8,544</u>	<u>4,321,139</u>

	<u>Production and trading (*)</u> US\$000	<u>Oil Pipeline operations</u> US\$000	<u>Leased and privatized units</u> US\$000	<u>Total</u> US\$000
At December 31, 2016				
Assets				
Current	1,104,478	40,477	3,078	1,148,033
Non-current	<u>2,698,125</u>	<u>172,527</u>	<u>158,070</u>	<u>3,028,722</u>
Total assets	<u>3,802,603</u>	<u>213,004</u>	<u>161,148</u>	<u>4,176,755</u>
Liabilities				
Current	2,583,721	135,280	9,220	2,728,221
Non-current	<u>332,542</u>	<u>68</u>	<u>-</u>	<u>332,610</u>
Total liabilities	<u>2,916,263</u>	<u>135,348</u>	<u>9,220</u>	<u>3,060,831</u>

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

c) Statement of comprehensive income by segments -

	<u>Production and trading (*)</u> US\$000	<u>Oil Pipeline operations</u> US\$000	<u>Leased and privatized units</u> US\$000	<u>Total</u> US\$000
For the year ended December 31, 2017				
Revenue from ordinary activities				
Net sales of good	3,974,111	5,181	-	3,979,292
Provision of services	<u>22,888</u>	<u>3,390</u>	<u>46,004</u>	<u>72,282</u>
Total revenue from ordinary activities	<u>3,996,999</u>	<u>8,571</u>	<u>46,004</u>	<u>4,051,574</u>
Cost of sales	(3,418,164)	(38,774)	(5,389)	(3,462,327)
Transfers	<u>(191)</u>	<u>191</u>	<u>-</u>	<u>-</u>
Gross profit (loss)	<u>578,644</u>	<u>30,012</u>	<u>40,615</u>	<u>589,247</u>
Selling and distribution expenses	(139,934)	-	(5,038)	(144,972)
Administrative expenses	(156,641)	(22,319)	(24)	(178,984)
Other income and expenses, net	<u>57,417</u>	<u>(31,675)</u>	<u>7,522</u>	<u>33,264</u>
Operating profit (loss)	<u>339,486</u>	<u>(84,006)</u>	<u>43,075</u>	<u>298,555</u>
Financial, net	(49,483)	(1,118)	109	(50,492)
Profit (loss) before income tax	<u>290,003</u>	<u>85,124</u>	<u>43,184</u>	<u>248,063</u>
Income tax	<u>(71,110)</u>	<u>19,329</u>	<u>(11,178)</u>	<u>(62,959)</u>
Profit (loss) for the year	<u>218,893</u>	<u>(65,795)</u>	<u>32,006</u>	<u>185,104</u>
For the year ended December 31, 2016				
Income from ordinary activities				
Net sale of good	3,317,738	-	-	3,317,738
Provision of services	<u>22,837</u>	<u>4,861</u>	<u>44,538</u>	<u>72,236</u>
Total income from ordinary activities	<u>3,340,575</u>	<u>4,861</u>	<u>44,538</u>	<u>3,389,974</u>
Cost of sales	(2,745,880)	(82,621)	(6,255)	(2,834,756)
Transfers	<u>(1,882)</u>	<u>1,882</u>	<u>-</u>	<u>-</u>
Gross profit (loss)	<u>592,813</u>	<u>75,878)</u>	<u>38,283</u>	<u>555,218</u>
Selling and distribution expenses	(134,469)	-	(5,053)	(139,522)
Administrative expenses	(140,610)	(20,200)	(172)	(165,982)
Other income and expenses, net	<u>29,315</u>	<u>(164,577)</u>	<u>(8,714)</u>	<u>(143,976)</u>
Operating profit (loss)	<u>342,049</u>	<u>(260,655)</u>	<u>24,344</u>	<u>105,738</u>
Financial, net	<u>507</u>	<u>(2,427)</u>	<u>456</u>	<u>(1,464)</u>
Profit (loss) before income tax	<u>342,556</u>	<u>(263,082)</u>	<u>24,800</u>	<u>104,274</u>
Income tax	<u>(107,361)</u>	<u>52,196</u>	<u>(8,423)</u>	<u>(63,588)</u>
Profit (loss) for the year	<u>235,195</u>	<u>(210,886)</u>	<u>16,377</u>	<u>40,686</u>

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

d) Revenue by geographical area -

Revenue by geographical segment is based on the customers' geographical location:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Perú	3,657,830	3,124,756
Other countries	<u>393,744</u>	<u>265,218</u>
	<u>4,051,574</u>	<u>3,389,974</u>

6 FINANCIAL INSTRUMENTS

6.1 Financial instruments per category -

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

	<u>At December 31</u>	
	<u>2017</u> US\$000	<u>2016</u> US\$000
Financial assets as per the statement of financial position		
Loans and receivables:		
- Cash and cash equivalents	666,141	74,005
- Trade receivables	293,177	266,124
- Other receivables (*)	<u>491,383</u>	<u>245,243</u>
	<u>1,450,701</u>	<u>585,372</u>

(*) Not including taxes nor advances.

Financial liabilities as per the statement of financial position

Other financial liabilities at amortized cost:		
- Other financial liabilities	3,304,324	1,982,366
- Trade payables	772,247	722,593
- Other payables (*)	<u>9,687</u>	<u>8,738</u>
	<u>4,086,258</u>	<u>2,713,697</u>
Derivative financial instruments:		
- Other liabilities at fair value	<u>3,802</u>	<u>29</u>

(*) Not including taxes, labor liabilities nor advances.

6.2 Credit quality of financial assets -

The credit quality of financial assets that are neither past-due nor impaired can be evaluated on the basis of external credit ratings (if any) or historical information of the counterparty default ratios:

According to the information provided by Apoyo & Asociados Internacionales S.A.C., the credit quality of the financial institutions in which cash is maintained in checking accounts, liquidity funds and time deposits is broken down as follows:

	<u>At December 31,</u>	
	<u>2017</u> US\$000	<u>2016</u> US\$000
Cash and cash equivalent -		
Checking accounts:		
A+	60,358	34,997
A	<u>109,749</u>	<u>38,973</u>
	<u>170,107</u>	<u>73,970</u>

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>US\$000</u>	<u>US\$000</u>
Liquidity funds:		
A	<u>496,000</u>	<u>-</u>
Other receivables -		
Time deposits:		
A+	126,008	-
A	232	-
A-	<u>150,000</u>	<u>-</u>
	<u>276,240</u>	<u>-</u>

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

Customers' credit quality is assessed in three category (internal ranking):

- A: new customers / related parties (less than six months).
- B: existing customers / related parties (more than six months) with no history of default.
- C: existing customers / related parties (more than six months) with some history of default in the past.

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>US\$000</u>	<u>US\$000</u>
Trade receivables (Note 8)		
Counterparties without external credit rating		
A	171	206
B	33,428	43,881
C	<u>259,578</u>	<u>222,037</u>
	<u>293,177</u>	<u>266,124</u>

Other receivables (Note 9)

Counterparties without external credit rating (excludes time deposits, tax credit, advances, payments on account, other taxes and impaired accounts)

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>US\$000</u>	<u>US\$000</u>
A	130	144
B	20,706	29,126
C	<u>194,307</u>	<u>215,973</u>
	<u>215,143</u>	<u>245,243</u>

The total balance of trade receivables and receivables from related parties is in compliance with contract terms and conditions; none of them have been re-negotiated.

7 CASH AND CASH EQUIVALENTS

This item comprises:

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>US\$000</u>	<u>US\$000</u>
Liquidity funds (a)	496,000	-
Checking accounts (b)	170,107	73,970
Fixed funds	34	35
	<u>666,141</u>	<u>74,005</u>

(a) At December 31, 2017 liquidity funds are short term instruments in foreign institutions with variable returns between 1.37% and 1.66% and are immediately available without a defined maturity date, which will be used in PMRT investment activities in the subsequent months.

(b) 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%.

8 TRADE RECEIVABLES

This item comprises:

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>US\$000</u>	<u>US\$000</u>
Wholesalers	203,314	188,382
Fuel traders	20,273	18,504
Mining industry	24,914	12,289
Armed Forces and National Police Force	19,776	12,918
Aviation business	7,007	4,289
Construction industry	5,895	1,011
Oil companies	5,681	7,715
Maritime businesses	3,149	1,287
Transport industry	1,364	2,161
Manufacturing industry	579	433
External market	341	9,420
Electric power industry	300	3,509
Fishing industry	-	3,823
Other customers	584	383
Doubtful accounts	4,996	6,063
	<u>298,173</u>	<u>272,187</u>
Less - doubtful account estimate	(4,996)	(6,063)
	<u>293,177</u>	<u>266,124</u>

The balances of trade receivables are invoices in soles and U.S. dollars mainly originated by sales of refined products. For the Armed Forces and National Police Force, receivables fall due after 45 days; for wholesalers and other customers, from 7 to 45 days. Following internal policies, receivables are mostly secured by a letter of guarantee and other instruments of the Peruvian financial system in accordance with the credit policy approved by the Board of Directors.

Receivables from oil companies are mainly related to hydrocarbon transport services along sections I and II of the North Peruvian oil pipeline in accordance with the contracts entered into between the Company and PLUSPETROL and for operations of terminals with the companies Consorcios Terminales and Terminales Perú.

The aging detail of trade receivables is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Impaired</u> US\$000	<u>Non-impaired</u> US\$000	<u>Impaired</u> US\$000	<u>Non-impaired</u> US\$000
Current	-	269,152	-	252,242
From 1 to 90 days	-	21,056	-	9,393
From 91 to 360 days	-	1,614	-	3,601
Over one year	<u>4,996</u>	<u>1,355</u>	<u>6,063</u>	<u>888</u>
	<u>4,996</u>	<u>293,177</u>	<u>6,063</u>	<u>266,124</u>

The movement in the provision for doubtful accounts is as follows:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Opening balance	6,063	6,297
Additions	126	199
Exchange difference	234	118
Recoveries	(1,427)	(285)
Write-offs	<u>-</u>	<u>(266)</u>
	<u>4,996</u>	<u>6,063</u>

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

Trade receivables that have reached maturity but are not impaired are related to independent customers maintaining letters of guarantee and/or whose debt is reconciled and is expected to be collected in the short term.

The provision for impairment of trade receivables is included in selling and administrative expenses in the statement of comprehensive income (Note 22 - 23). The amounts charged to results are generally written off when there are no expectations of cash recovery.

9 OTHER RECEIVABLES

This item comprise:

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
	US\$000	US\$000
Price Stability Fund - Ministry of Energy and Mines (Note 1-c) (a)	50,126	24,308
Price Stability Fund Claims - Ministry of Energy and Mines (Note 1-c) (b)	17,882	17,270
Claims against tax authorities - SUNAT (c.1)	96,430	-
Claims against tax authorities - SUNAT (c.2)	27,777	171,083
Tax credit - VAT (d)	259,822	143,287
Tax credit - VAT, long-term (e)	163,310	58,036
Fixed time deposits (f)	276,240	-
Third-party claims	-	2,958
Long-term third parties claims (h)	815	-
Loans to personnel	5,364	5,023
Advances granted to suppliers	6,622	7,613
Payments for return of association investment with GeoPark	9,819	17,025
Other long-term taxes (i)	5,384	6,100
Others	6,930	7,576
Doubtful accounts (g)	<u>36,483</u>	<u>33,259</u>
	<u>963,004</u>	<u>493,538</u>
Less - Doubtful accounts estimate	<u>(36,483)</u>	<u>(33,259)</u>
	<u>926,521</u>	<u>460,279</u>
Current portion (a), (c.1), (d), (f)	<u>711,353</u>	<u>207,791</u>
Non-current portion (b), (c.2), (e), (h) y (i)	<u>215,168</u>	<u>252,488</u>

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

At December 31, 2017 and 2016 the total amount receivable from the General Hydrocarbons Agency (DGH) amounted to US\$68,008 thousand and US\$41,578 thousand, respectively, generated from compensations and contributions transactions (Note 2.24-b); at December 31, 2017 this includes a legal recourse ("Demanda de Amparo") recorded in a Claims account for US\$17,882 thousand and the amount receivable of US\$50,126 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 November 7, 2017, the Civil Court ordered that the matter be seen on January 10, 2018, which was completed; the pronouncement of the second lower court has yet to be released.

Management considers that, based on the reports of its external legal counsel, once the court proceedings are completed, the outcome will be favorable to the Company and it will enable it to recover the whole account receivable recorded.

The movement of the total balance of the item Price Stabilization Fund is explained as follows:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Opening balance	41,578	15,419
Price compensation	47,406	67,126
Price contribution	(22,515)	(6,048)
Net (charged) credited to revenue from ordinary activities (Note 19)	24,891	61,078
Exchange difference	1,539	(56)
Collection of compensation and/or contribution payments	-	(34,863)
Closing balance (a) + (b)	<u>68,008</u>	<u>41,578</u>

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

This item comprises:

	<u>2017</u> US\$000	<u>2016</u> US\$000
File No.02529-2010-2-1801-JR-CA-14(i) (c.1)	36,984	35,718
File No.6002-2010-0-1801-JR-CA-17 (ii) (c.1)	-	50,598
File No.07873-2012-0-1801-JR-CA-13 (iii) (c.1)	59,446	57,411
File No.00114-2012-1801-JR-CA-07 (iv) (c.2)	18,316	17,688
File No.03490-2012-0-1801-JR-CA-08 (v) (c.2)	810	782
File 17806-2012 (vi) (c.2)	8,450	8,690
ISC tax penalty and Income Tax 2002 (c.2)	201	196
	<u>124,207</u>	<u>171,083</u>

- (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. The Company and its legal counsel consider that the claim will have a favorable outcome in the short term.
- (ii) On June 6, 2017 SUNAT issued Resolutions No. 012-180-0013877/SUNAT, No. 012-180-0013878/SUNAT, No. 012-180-0013879/SUNAT and N° 012-180-0013880/SUNAT 012, for the amounts of S/119,887 thousand (US\$36,674 thousand), S/ 31,791 thousand (US\$9,725 thousand), S/90,366 thousand (US\$27,643 thousand) and S/19,245 thousand (US\$5,887 thousand), respectively relating to the returns of the File No. 6002-2011-0-1801-JR-CA-17 involving the inapplicability of the Excise Tax (ISC) on the aviation fuel (Turbo A-1) sales for fiscal years 2003 and 2006. Refunds obtained included interest for S/101,816 thousand, equivalent to US\$31,146 thousand, recorded in the statement of comprehensive income (Note 25).

- (iii) 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 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; Management and legal counsel have high expectations of obtaining a refund in the short term. The amount is equivalent to US\$59,446 thousand at the closing exchange rate.
- (iv) In July and August 2013, the Company paid a total S/59,434 thousand of VAT (IGV) and excise tax (ISC) for fiscal 2005. By means of Resolution No. 29 dated December 17, 2015, issued by the Superior Court of Lima ("Sexta Sala Especializada en lo Contencioso-Administrativo de la Corte Superior de Justicia de Lima"), Resolution No. 15 dated December 19, 2014 was revoked; that resolution stated that the action filed by the Company against the Tax Tribunal Resolution No. 15320-3-2011 was groundless and confirmed the tax assessments on the inapplicability of the ISC on Turbo A-1 fuel sales for fiscal 2005. On November 30, 2017, the file was acknowledged and seen; the Supreme Court's decision is still pending; the Company and its legal counsel have high expectations of obtaining a favorable outcome. This amount is equivalent to US\$18,316 thousand at the closing exchange rate.
- (v) In February 2013, the Company paid a total of S/2,627 thousand on the tax assessments relating to allegedly unpaid Excise Tax (ISC) for fiscal 2002. By means of a Supreme Court decision dated September 22, 2017, the appeal actions submitted by Peruvian tax authorities were found groundless; notice was served to the Company on December 15, 2017 ("Casación No. 17984-2015"). Management and legal counsel have high expectations of obtaining a refund in the short term from the tax authorities. The expected refund is equivalent to US\$810 thousand at the closing exchange rate.
- (vi) In November 2012, the Company paid a total S/29,197 thousand in respect of a number of tax determination and tax penalty resolutions involving allegedly unpaid excise tax (ISC) and VAT (IGV) for fiscal 2007. At December 31, 2017, this action remains to be resolved by Courtroom 4 of the Peruvian Tax Tribunal, under File No. 17806-2012. The Company and its legal counsel have high expectations of obtaining a favorable outcome. The expected refund is equivalent to US\$8,450 thousand at the closing exchange rate.

Management expects that, considering the favorable pronouncement obtained by the Company regarding F 6002-2011-0-1801-JR-CA-17 (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.

Therefore, the Company and its legal counsel consider that the outcome of the claim processes involving the Turbo A-1 that remain to be decided by the Supreme Court will be favorable based on the above-mentioned precedents, which are indicative of the soundness of the unconstitutional nature of the tax levied on sales of the Turbo A-1 fuel.

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

Corresponds to the Value Added Tax credit (IGV in Perú) of operations for S/526,126 thousand (equivalent to US\$162,133 thousand), Value Added Tax of the PMRT for an amount of S/297,288 thousand (equivalent to US\$91,614 thousand), Excise Tax (ISC in Perú) for S/19,711 thousand (equivalent to US\$6,074 thousand), which will be recovered in the short term.

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

Corresponds to the Value Added Tax credit (IGV in Perú) paid for the acquisition of goods and services mainly related to the Talara Refinery Modernization Project amounting to S/297,288 thousand (equivalent to US\$91,614 thousand) and the VAT for operations amounting to S/232,653 thousand (equivalent to US\$71,696 thousand). This credit balance of tax credit has no expiry date.

(f) Fixed time deposits -

At December 31, 2017 the Company maintains fixed 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. At May 2018, the Company maintains these deposits.

(g) Doubtful accounts -

This item reflects claims submitted to municipalities involving property taxes and municipal taxes; the probability of a favorable outcome is low. The movement of the provision for doubtful accounts is as follows:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Opening balance	33,259	33,040
Additions	3,218	624
Exchange difference	627	219
Recoveries	(573)	(597)
Write-offs	(48)	(27)
Closing balance	<u>36,483</u>	<u>33,259</u>

The aging detail of other receivables is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Impaired</u> US\$000	<u>Not impaired</u> US\$000	<u>Impaired</u> US\$000	<u>Not impaired</u> US\$000
Within the periods	-	300,032	-	22,342
From 0 to 90 days	-	17,449	-	18,433
From 91 to 360 days	-	16,516	-	5,581
Over one year	<u>36,483</u>	<u>14,182</u>	<u>33,259</u>	<u>7,576</u>
	<u>36,483</u>	<u>348,179</u>	<u>33,259</u>	<u>59,932</u>

10 INVENTORIES

This item comprises:

	<u>At December 31,</u>	
	<u>2017</u> US\$000	<u>2016</u> US\$000
Crude oil	118,317	92,602
Refined products:		
In-process	219,701	162,784
Finished	203,432	162,350
Acquired refined products	<u>63,844</u>	<u>57,645</u>
In-transit inventories	22,314	102,099
Supplies	<u>17,518</u>	<u>19,731</u>
	645,126	597,211
Less - Provision for impairment of supplies	<u>(1,515)</u>	<u>(1,507)</u>
	<u>643,611</u>	<u>595,704</u>

In 2017, the cost of inventories recognized as expenses and included in the cost of sales amounted to US\$3,241,227 thousand (US\$2,545,980 thousand in 2016) that equals the cost of sales less operating manufacturing costs (Nota 21).

At December 31, 2017 the crude oil price had a rising trend, with a closing price of US\$60.42 per barrel (US\$53.72 per barrel at December 31, 2016). The average price during December 2017 was US\$57.94 per barrel (US\$52.03 per barrel in December 2016).

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

	<u>2017</u> <u>US\$000</u>	<u>2016</u> <u>US\$000</u>
Opening balance	(1,507)	(1,585)
Impairment of supplies	(8)	-
Reversals	-	103
Exchange difference	-	(25)
Closing balance	<u>(1,515)</u>	<u>(1,507)</u>

This provision was recognized as a result of analyzing the net realizable value of inventories, taking into account the expectations of obtaining net cash flows from sales or consumption and considering their physical condition. At December 31, 2017 and 2016 Management considers that the amount of the provision adequately reflects the risk of impairment of all its inventories.

11 PROPERTY, PLANT AND EQUIPMENT

This item comprises:

	Land US\$000	Buildings and others constructions US\$000	Machinery and equipment US\$000	Vehicles US\$000	Furniture and fixtures US\$000	Other and computer equipment US\$000	Equipment not in use US\$000	in-transit units US\$000	Work in progress US\$000	Additional investments US\$000	Total US\$000
At January 1, 2016:											
Cost	202,863	118,479	653,908	19,278	3,383	36,082	12,920	120	1,015,956	8,445	1,971,415
Accumulated depreciation	-	(76,421)	(244,545)	(14,457)	(2,901)	(21,250)	(12,820)	-	-	-	(372,495)
Accumulated impairment	-	-	(5,148)	-	-	-	-	-	-	-	(6,148)
Net cost	<u>202,863</u>	<u>42,058</u>	<u>303,214</u>	<u>4,822</u>	<u>482</u>	<u>14,812</u>	<u>120</u>	<u>120</u>	<u>1,015,956</u>	<u>8,445</u>	<u>1,592,772</u>
Year 2016											
Opening balance of net book cost	202,863	42,058	303,214	4,822	482	14,812	120	120	1,015,956	8,445	1,592,772
Additions	-	-	-	-	-	-	-	-	1,115,199	12,678	1,127,877
Impairment	-	-	(43,331)	-	-	-	-	-	-	-	(43,331)
Reversal of impairment	-	-	6,148	-	-	-	-	-	-	-	6,148
Disposals	(11,962)	1,266	(35,647)	(1,959)	(10)	977	754	(45,099)	(5,663)	(10,732)	(10,732)
Transfers	674	10,392	1,793	13	5	4	-	-	-	-	1,374
Reclassifications	145	275	(1,793)	(2,112)	(315)	(2,661)	(20)	(852)	9	(41,217)	(41,217)
Depreciation for the year	-	(5,689)	(30,420)	(20)	(4)	(4)	(754)	-	-	-	(822)
Depreciation of disposals	-	783	(7)	208	22	217	-	-	-	-	1,374
Transfer depreciation	-	-	307	208	22	217	-	-	-	-	822
Effect of translation	5,887	-	(1,353)	319	104	2,507	-	2	15,138	133	31,568
Closing balance of net book cost	<u>198,607</u>	<u>54,170</u>	<u>274,718</u>	<u>5,229</u>	<u>687</u>	<u>15,852</u>	<u>122</u>	<u>122</u>	<u>2,100,342</u>	<u>15,554</u>	<u>2,665,281</u>
At December 31, 2016											
Cost	198,607	135,497	692,715	21,270	3,871	39,650	13,674	122	2,100,342	15,554	3,121,502
Accumulated depreciation	-	(81,327)	(274,666)	(16,341)	(3,184)	(23,698)	(13,674)	-	-	-	(412,890)
Accumulated impairment	-	-	(43,331)	-	-	-	-	-	-	-	(43,331)
Net cost	<u>198,607</u>	<u>54,170</u>	<u>274,718</u>	<u>5,229</u>	<u>687</u>	<u>15,852</u>	<u>122</u>	<u>122</u>	<u>2,100,342</u>	<u>15,554</u>	<u>2,665,281</u>
Year 2017											
Opening balance of net book cost	198,607	54,170	274,718	5,229	687	15,852	122	122	2,100,342	15,554	2,665,281
Additions	-	534	4,788	-	-	1,551	-	-	609,112	22,195	638,120
Disposals	(549)	(1)	(4,709)	(152)	(38)	(38)	(1,710)	-	-	-	(7,199)
Transfers	858	47,043	54,048	2,690	338	7,429	1,903	-	(108,532)	(5,778)	31,790
Reclassifications	(2)	-	(121)	3	-	16	-	-	(23)	-	(128)
Reversal of impairment	-	-	(31,780)	(1,853)	(307)	(2,949)	(466)	-	-	-	(31,790)
Depreciation for the year	-	(5,959)	(30,306)	(108)	(10)	37	(1,710)	-	-	-	(41,852)
Depreciation of disposals	-	1	3,505	104	-	753	(1,436)	-	-	-	5,357
Transfer depreciation	-	4	558	108	12	22,650	-	-	-	-	3,291,469
Closing balance of net book cost	<u>198,914</u>	<u>95,792</u>	<u>334,272</u>	<u>6,119</u>	<u>730</u>	<u>22,650</u>	<u>122</u>	<u>122</u>	<u>2,600,699</u>	<u>31,911</u>	<u>3,291,469</u>
At December 31, 2017											
Cost	198,914	183,073	646,722	29,111	4,209	48,507	13,867	122	2,600,699	31,911	3,752,335
Accumulated depreciation	-	(87,281)	(300,909)	(22,992)	(3,479)	(25,857)	(13,867)	-	-	-	(449,385)
Accumulated impairment	-	-	(11,541)	-	-	-	-	-	-	-	(11,541)
Net cost	<u>198,914</u>	<u>95,792</u>	<u>334,272</u>	<u>6,119</u>	<u>730</u>	<u>22,650</u>	<u>122</u>	<u>122</u>	<u>2,600,699</u>	<u>31,911</u>	<u>3,291,469</u>

(i) Major projects -

a) Talara Refinery Modernization Project - PMRT -

Its objective is the technological development involving building new manufacturing facilities, modernizing and extending current facilities to:

- i) Manufacture Diesel and Gasoline with less than 50 ppm (part per million) of sulphur.
- ii) Enlarge the production capacity of the refinery from 65 to 95 thousand bpd (barrels per day)
- iii) Process heavy and more economic crudes to be used in manufacturing light fuels of higher commercial value.

The status of the Project at December 31, 2017 is described as follows:

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

- Overall physical progress of PMRT: 66.57% Actual vs. 77.88% 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, 48% has been executed at December 31, 2017.

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

- Progress of engineering totaled 99.93% Actual vs. 98.90% Scheduled.
- Procurement of equipment totaled 97.47% Actual vs. 99.84% Scheduled.
- Procurement of construction totaled 71.47% Actual vs. 79.12% Scheduled.

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

- On October 3, 2017 the first consultation responses were carried out.
- On October 16, 2017 the second visit was made by the pre-qualified entities to the Talara Refinery.
- On October 27, 2017 the second round of consultations was presented by the prequalified bidders.
- On November 7, 2017 the second round of consultations was resolved.
- On December 12, 2017 the submission of proposals was completed
- On December 18, 2017 results were released; the proposal presented by Consorcio Cobra-SLC UA&TC, comprising entities Cobra and Sonohydro, was the best proposal presented
- On December 29, 2017 the award to Consorcio Cobra-SLC UA&TC was announced.

- Regarding Project financing:

On June 12, 2017 the placement of bonds for an amount 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.
- 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: the approval of the loan facility and external authorizations are currently in progress. The loan deal and drawdown are expected during the first half of 2018.
- International bond placement of up to US\$1,000,000 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.
- At December 31, 2017 the number of workers increased to 5,290 jobs; of which, 4,734 are qualified labor, with a total local share of 32%, and 556 are non-qualified labor, with a local share of 83%, which exceeds the minimum local share set in the EIA (70%).
- Operations are expected to begin in 2021.

b) Project to set up and operate the New Ilo Terminal -

This project consists of the construction, installation and startup of a new Supply Terminal in Ilo for receiving, storing and shipping of fuel (Diesel, Gasoline and Gasohol) to meet demand in the surrounding area.

At December 31, 2017, the status of this Project is described as follows:

- The estimated investment in this Project is estimated to be US\$48.1 million, of which, 6% has been implemented at December 31, 2017
- The engineering, procurement and construction(EPC) service is provided by an entity called Felguera and supervision has been assigned to "Consorcio Supervisor Ilo".
- Progress of detailed Engineering and Procurement is reported to be 63% and 33%, respectively. Construction materials are being supplied for civil construction works.
- On May 19, 2017 the Ilo Municipality granted the respective construction license.
- On October 9, 2017, the National Port Authority ("Autoridad Portuaria Nacional") granted the respective port construction authorization to the Project.
- On November 28, 2017 the first construction block , the ceremonial placement of the cornerstone was carried out and preliminary activities were begun, including earth removal, setting up provisional offices and work progress signpost placement. Also, training courses were given in health, safety, and environment (HSE) to the operating personnel.
- In December 2017 the bidding process for the electric power supply service was declared null and void. The contracting file is currently being reviewed before starting a new contracting process.

(ii) Concession of port terminals

The purpose of the Terminal Operation Contract is to contract operators to operate, under their sole responsibility, cost and risk, North, Central and South Terminals; additionally, for the effective period of the concession agreement, making investments as committed as well as additional investments. Terminal operation consists of receiving, storing and shipping hydrocarbons, including maintenance and compliance with the work safety and environmental technical standards.

Maintenance of concession assets is contained in the respective operation agreements, by which, at the termination of those agreements, the concession assets must be returned to grantor in the same conditions in which they were originally provided, except for regular wear and tear from use.

During 2014 a public tender was organized to select Operators for the North, Central and South Terminals; awards for the North and Central Terminals were granted to the companies Graña y Montero Petrolera S.A. and Oiltanking Perú S.A.C (hereinafter, Terminales del Perú); the relevant operating contracts were signed for an effective period of 20 years. The tender for the South Terminal was declared deserted.

Bearing in mind the results of the Public Tender to select the Operator for the South Terminals, an addendum to the South Terminals Operation Contract was signed with Consorcio Terminales on September 5, 2014 in order to extend the effective period of the contract for the period from August 2, 2014 to August 1, 2015 and setting forth the conditions for a time extension necessary to call a new tender. On July 31, 2015 an additional addendum was signed to extend the South Terminals Operation Contract for the period from August 2, 2015 to August 1, 2017. The conditions negotiated in this document include an amount to be paid by the operator to the contractor of US\$1 million (recognized as other income in the statement of comprehensive income for 2015) for time extension; as well as implementing additional investments for an approximate amount of US\$25,000 thousand under the Additional Investment Program.

On June 28, 2017, an additional addendum was signed to extend the South Terminal Operation Contract for the period from August 2, 2017 to August 1, 2018. The conditions agreed under this addendum include a payment to be made by the Operator to the Contractor of US\$625 thousand for this time extension; also included are additional investments amounting to approximately US\$10,000 thousand under the Additional Investment Program.

At December 31, 2017, the South Terminal Operation Contract signed with Consorcio Terminales is effective until August 1, 2018; also, the Operations Contracts for the North and Central Terminals signed with Terminales del Perú continue to be effective until October 31, 2034 (North Terminals) and September 1, 2034 (Central Terminals).

At December 31, 2017 the net carrying amounts of the terminal concession assets totaled US\$80,446 thousand (US\$73,210 thousand at December 31, 2016).

(iii) Insurance -

The assets and operations of PETROPERÚ S.A. are covered with an integral insurance policy against damages to property, loss of profits, sabotage and terrorism for up to US\$650,000 thousand and with declared values of US\$6,703,000 thousand. The insurance policy includes third party liability coverage for up to US\$100,000 thousand.

Supply and re-supply operations of aviation products are also covered with an insurance policy against aviation third party liability of US\$500,000 thousand.

(iv) Depreciation -

The annual depreciation charge to profit or loss on property, plant and equipment is allocated to the following cost centers:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Cost of sales (Note 21)	29,343	28,793
Selling and distribution expenses (Note 22)	7,291	8,159
Administrative expenses (Note 23)	5,218	4,265
	<u>41,852</u>	<u>41,217</u>

At December 31, 2017 and 2016 the Company has not pledged any item of fixed assets to secure borrowings obtained.

The gross cost of totally depreciated assets still in use at December 31, 2017 was US\$91,009 thousand (US\$88,223 thousand at December 31, 2016).

(v) Major expenditures related to work in progress -

During 2017 additions of work in progress mostly relate to the PMRT's EPC contract amounting to US\$426,656 thousand, equivalent to S/1,380,000 thousand (US\$1,007,143 thousand equivalent to S/3,384,000 thousand in 2016).

Additionally, borrowing costs that were capitalized over the twelve-month period ended December 31, 2017, related to PMRT, amounted to US\$74,663 thousand, equivalent to S/242,314 thousand (US\$44,715 thousand, equivalent to S/150,243 thousand in 2016).

(vi) Asset retirement -

At December 31, 2017 the balance of asset retirement mainly includes the cost of the distillery unit inspection ("XII Inspección General de la Unidad de Destilación en Refinería Talara") for US\$2,886 thousand, equivalent to S/9,595 thousand, the cost of Major Maintenance in the Iquitos Refinery for US\$1,556 thousand, equivalent to S/5,228 thousand and the cost of land in Callao Terminal of US\$548 thousand, equivalent to S/1,184 thousand, assigned to the Regional Government of Callao and authorized by Board Decision No. 014-2014-PP.

(vii) Impairment of assets -

a) Cash-generating units (CGUs) -

At December 31, 2017 the Company has performed the impairment test of the CGUs: (i) Production and trading and (ii) Oil Pipeline operations ("Operaciones Oleoducto").

The impairment test was performed by comparing the recoverable amount of the CGUs against the carrying amount of the assets of those CGUs. The CGU is the smallest group of identifiable assets capable of generating cash flows for the Company. Management has determined the recoverable amount of the CGUs using their value in use. Key assumptions used in determining the value in use were as follows:

Production and trading -

- Operating cash flows from refineries Talara, Iquitos and Conchán. Cash flow projections comprise all the cash flows that are expected to be obtained in the ordinary course of business. All relevant assets have been allocated to the respective CGU.
- These refineries have created significant synergies between them, by which in-process products are transferred between them when there is no active market for those products so that higher revenue is obtained and significant savings are achieved.
- A 10-year projection horizon and perpetuity. The perpetuity cash flow projection considers no growth rate in the long term. As per projections, considerer that the Primary Distillation Unit, the Vacuum Distillation Unit and the Catalytic Cracking Unit of Talara refinery work until year 2021, Management considers it appropriate to use a projection period of 10 years since it has the support information for these purposes.
- Projections do not include cash inflows or outflows from financing activities.
- Pre-tax discount rate affected by the risks associated with a specific CGU and market assessments of the time value of money.
- The forecast costs and expenses are based on expense budgets prepared by Management.
- Forecast selling prices: Management estimates the selling prices of oil by-products at import parity prices of PETROPERÚ S.A., based on the movement of prices of WTI crude oil and spreads of by-products in time, considering inputs obtained from a specialized international source prices, the consulting entity PIRA Energy Group.
- Forecast crude product volume purchases: Refinery loads are estimated by the Management of Refinery and Pipelines ("Gerencia Refinación y Ductos") using the mathematical model of Refining.

- Forecast of costs of acquisition: Management has prepared, based on projections released by PIRA Energy Group, a forecast of costs of acquisition of crude and products, based on the movement of prices of WTI crude oil and spreads of by-products in time.

Oil Pipeline operations -

- Operating cash flows from the service of transportation and custody of crude from the Northern jungle in Perú.
- Forecast crude volumes: Based on crude production volume projections released by Perupetro S.A., Management has prepared forecast of crude volumes expected to be carried through the Oil Pipeline (Oleoducto Nor Peruano).
- Forecast transportation rate: Management estimates the transportation rate based on the carried volume, route of transportation, and the current rate Schedule as set forth under Supreme Decree No. 025-94-EM.
- Operating cash flows from the service of crude unloading and use
- Operating cash flows from exports of Piraña Gran Tierra crudes in 2018.
- Operating cash flows from sales in 2024 of crude held in the oil pipeline.
- Cash flows from the crude transportation services rendered to the Production and trading CGU.
- All relevant assets have been allocated to the respective CGU.
- A 10-year projection horizon and perpetuity. The perpetuity cash flows projection considers no growth rate in the long term. Management considers it appropriate to use a projection of 10 years since it has the support information for these purpose.
- Projections do not include cash inflows or outflows from financing activities.
- Pre-tax discount rate affected by the risks associated with a specific CGU and market assessments of the time value of money.
- Projected costs and expenses are based on the expense budgets prepared by Management.

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

	<u>Production and trading</u>	<u>Oil Pipeline operations</u>
Annual growth rate (%)	5%	10%
Budgeted gross margin (%)	15%	42%
Prices (\$)	97	10
Discount rate (%)	9.45%	9.32%

The annual growth rate corresponds to annual growth rate compound income during the period 2017 - 2027. The average growth rates used are consistent with the actual performance of the CGU and with Management's forecasts. Growth in the projections of Production and trading is constant for the following 10 years but no significant growth is forecasted subsequently. For Oil Pipeline operations ("Operaciones Oleoductos") revenue growth is mainly generated in the first 4 years according to the forecasts prepared by Perupetro S.A.

The budgeted gross margin is the average gross margin for 10-year projections.

Prices are the average included in projections. Management determines the budgeted prices based on past performance, current trends in the industry, established rates and market development expectations.

Risk-adjusted rates are pre- and post-tax and reflect the risks associated with the relevant business.

At December 31, 2016, the Company tested its assets for impairment and obtained the following results: i) reversal of the impairment loss on the assets of the Production and trading CGU of US\$6,148 thousand and ii) impairment of assets of the Oil Pipeline CGU of US\$43,331 thousand, mainly resulting from the activity shutdown as a result of the losses that occurred in 2016 and the environmental remediation expenses that were incurred as a result of those loss events.

At December 31, 2017 the Company tested its assets for impairment and based on the results obtained the impairment loss on the Oil Pipeline CGU assets of US\$31,790 thousand was reversed. Provisions for impairment and reversals of impairment of property, plant and equipment were recognized in cost of sales (Note 21).

Sensitivity analysis -

Management performs a sensitivity analysis to determine the effect of eventual changes in the assumptions used in the valuation model. The discount rate used by the Company was 9.45% for the Production and trading CGU and 9.32% for the Oil Pipeline CGU (Operaciones Oleoducto).

If the discount rate on the Oil Pipeline CGU had been higher by 1%, the Company would have not reversed impairment by US\$27,361 thousand and no impairment would have recognized.

If the discount rate on Production and trading CGU had been higher by 1%, it would not give rise to impairment in the carrying amount.

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

<u>Key assumption</u>	<u>Variation</u>	<u>Impairment</u> US\$000
<u>Production and trading:</u>		
Budgeted annual growth	-5%	-
Prices	-5%	-
Budgeted gross margin	-5%	-
Production	-5%	-
<u>Oil Pipeline operations (Oleoducto):</u>		
Budgeted annual growth	-5%	18,965
Prices	-5%	13,015
Budgeted gross margin	-5%	-

b) Talara Refinery Modernization Project (PMRT, the Spanish acronym) -

At December 31, 2017 the Company tested the PMRT, hereinafter the Project for impairment.

The impairment test was performed by comparing the recoverable amount of this Project against the carrying amount of the Project assets. Management has determined the recoverable amount by estimating their fair value less cost of disposal. Key assumptions used in determining the fair value are as follows:

- Operational cash flows from the Project activities. Cash flow projections comprise all cash flows that are expected to be generated in the normal course of the Project.
- The forecast cash flows consider an investment to be made to complete construction of PMRT
- 27-year including construction period projection horizon and a perpetuity. The perpetuity cash flow projections consider no growth rate in the long term. If a 5-year horizon and a perpetuity had been used, there would have been no significant difference in the recoverable amount.
- Projections do not include cash inflows or outflows from financing activities.
- Post-tax discount rate affected by specific risk of the industry and market and a risk premium since this is under construction.
- Projections considered in valuation were operating cash flows from purchases, refinery and sales of crude by-products.
- Fixed and variable costs were defined under the EPC contracts.
- Forecast selling prices: Management estimates the selling prices of oil by-products at import parity prices of PETROPERU S.A., based on the movement of prices of WTI crude oil and spreads of by-products in time, considering inputs obtained from a specialized international prices source IHS Consulting Services.

- Selling prices used in valuation are prices at the plant site.
- Forecast crude product volume purchases: Refinery loads are estimated by the Management of Refinery and Pipelines ("Gerencia Refinación y Ductos") using the mathematical model of Refining.
- Forecast of costs of acquisition: Management has prepared, based on projections released by IHS Consulting Services (PIRA Energy Group in 2017) a forecast of costs of acquisition of crude and products, based on the movement of prices of WTI crude oil and spreads of by-products in time.
- Inputs used to determine the fair value correspond to Level 3 of the fair value measurement hierarchy described in Note 3.3.

Key assumptions used in determining the fair value less costs of sales are as follows:

Annual growth rate (%)	3%
Budgeted gross margin (%)	13%
Prices (\$)	121
Discount rates (%)	7.38%

The annual growth rate corresponds to annual growth rate compound of income during the period 2021 - 2015.

The budgeted gross margin is the average gross margin for operating 25-year projections.

Prices are the average included in projections. Management determines the budgeted prices based on past performance, current trends in the industry, established rates and market development expectations.

Risk-adjusted rates are post-tax and reflect the risks associated with the relevant business

Sensitivity analysis -

Management performs a sensitivity analysis to determine the effect of changes in the assumptions used in the valuation model. The post-tax discount rate used by the Company was 7.38% in determining the recoverable amount. When changing the discount rate to 8.82%, the recoverable amounts would be equal to the carrying amounts.

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

<u>Key assumption</u>	<u>Variation</u>	<u>Impairment</u> US\$000
Budgeted annual growth	-5%	-
Prices per year	-5%	-
Budgeted annual growth	-5%	-
Production	-5%	-

12 INVESTMENT PROPERTY

	<u>Land</u> US\$000	<u>Buildings and other constructions</u> US\$000	<u>Total</u> US\$000
At January 1, 2016			
Cost	9,194	115,557	124,751
Accumulated depreciation	-	(36,174)	(36,174)
Net carrying amount	<u>9,194</u>	<u>79,383</u>	<u>88,577</u>
Year 2016			
Opening carrying amount	9,194	79,383	88,577
Additions	145	2,090	2,235
Depreciation for the year	-	(6,254)	(6,254)
Currency exchange effect	-	301	301
Closing carrying amount	<u>9,339</u>	<u>75,520</u>	<u>84,859</u>
At December 31, 2016			
Cost	9,339	117,948	127,287
Accumulated depreciation	-	(42,428)	(42,428)
Net carrying amount	<u>9,339</u>	<u>75,520</u>	<u>84,859</u>
Year 2017			
Opening balance carrying amount	9,339	75,520	84,859
Additions	2	15	17
Disposals	-	(57)	(57)
Depreciation for the year	-	(5,389)	(5,389)
Closing carrying amount	<u>9,341</u>	<u>70,089</u>	<u>79,430</u>
At December 31, 2016			
Cost	9,341	117,906	127,247
Accumulated depreciation	-	(47,817)	(47,817)
Net carrying amount	<u>9,341</u>	<u>70,089</u>	<u>79,430</u>

- (a) The Company signed a lease contract of the assets of Block Z-2B with SAVIA PERÚ S.A. (ex PETRO-TECH PERUANA S.A.) for a period of 10 years, which expired on November 15, 2013. The lease contract continues to be effective under the provisions of article 1700 of the Peruvian Civil Code, by which, if at the contract termination date the lessee continues using the leased asset, it should not be understood as a tacit renewal, but the continuation of the lease under the same terms and conditions, until lessor requests the return of the asset, which can occur at any time. By virtue of this lease, SAVIA PERU S.A. pays the Company US\$10,000 thousand annually; this amount will remain unchanged until the contract termination date. At December 31, 2017 the Company is in the process of negotiating the lease contract of the assets of Block Z-2B to be signed with SAVIA PERU S.A.
- (b) PETROPERU S.A signed in March 2014 a lease contract of the assets the Pucallpa Refinery and Sales plant with Maple Gas Corporation del Perú S.R.L, for a period of 10 years. By virtue of this lease, MAPLE S.R.L pays the Company US\$361 thousand on a quarterly basis.

The fair value of investment properties at December 31, 2017 is US\$206,611 thousand (US\$221,119 thousand at December 31, 2016). Fair value measurement has been classified as Level 3 as explained in Note 3.3.

The annual depreciation charge on investment properties was allocated to the cost of sales (Note 23).

13 OTHER FINANCIAL LIABILITIES

This item comprises:

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>US\$000</u>	<u>US\$000</u>
Current liabilities		
Bank loans without guarantee	1,311,971	1,545,146
Syndicated loans (i)	-	166,667
Accrued interest	<u>7,229</u>	<u>21,630</u>
	<u>1,319,200</u>	<u>1,733,443</u>
Non-current liabilities		
Syndicated loans (i)	-	248,923
Corporate bonds (ii)	<u>1,985,124</u>	<u>-</u>
	<u>1,985,124</u>	<u>248,923</u>

- i) On June 4, 2014 the Company signed a syndicated loan agreement for US\$500,000 thousand, the administrative agent being Mizuho Bank Ltd. The funds were used to finance a first section corresponding to the EPC Phase of the PMRT. The term of the syndicated loan was 5 years, considering that: i) the amortization is made in 12 equal quarterly installments with effect from September 2016 and ii) interest is paid quarterly from September 2014 based on the interest rate (Libor 3M) and a spread, according to the agreement signed with the banks.

In June 2017 the Company prepaid the outstanding principal of US\$333,300 thousand.

As part of the agreement signed, the Company was obliged to comply with financial commitments (covenants); said commitments were measured quarterly and are the following:

- EBIT/Financial expenses should not be less than 2.5 times
 - Consolidated net equity should not be less than US\$800,000 thousand
- ii) 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. Transaction expenses totaled US\$7,371 thousand, net of the liability.
 - 2047 Notes, a principal of US\$1,000,000 thousand with coupons paid semi-annually at a fixed rate of 5.625% per year with maturity of 30 years. Coupons are due from December 2017 and repayment of principal will take place on the bond maturity date. Transaction expenses totaled US\$7,505 thousand, thousand, net of the liability.

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

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

a) Debt repayment terms and timetable

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

	Original currency	Nominal interest rate	Maturity	December 31, 2017		December 31, 2016	
				Nominal value	Carrying amount	Nominal value	Carrying amount
				US\$000	US\$000	US\$000	US\$000
Bank loans without guarantee	Dollars	1.64%-3.11%	2017	-	-	605,886	605,886
Bank loans without guarantee	Soles	4.80%-6.50%	2017	-	-	939,260	939,260
Syndicated loan	Dollars	LIBOR3M+MGN	2019	-	-	416,667	415,590
Bank loans without guarantee	Dollars	2.4-2.95%	2018	654,858	654,858	-	-
Bank loans without guarantee	Soles	0.80%-2.20%	2018	657,113	657,113	-	-
Corporate bonds	Dollars	4.75%	2032	1,000,000	992,629	-	-
Corporate bonds	Dollars	5.63%	2047	1,000,000	992,495	-	-
Accrued interest				-	7,229	-	21,630
Total interest-bearing liabilities				<u>3,311,971</u>	<u>3,304,324</u>	<u>1,961,813</u>	<u>1,982,366</u>

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

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

The Company allocated or will allocate the funds obtained by financing, as follows:

	2017 US\$000	2016 US\$000
Working capital	977,971	682,179
PMRT	<u>2,319,124</u>	<u>1,278,557</u>
	<u>3,297,095</u>	<u>1,960,736</u>

(*) Does not include accrued interest payable

c) Movement of financial liabilities

The movement of these balances was as follows:

	Bank loans US\$000	Syndicated loans US\$000	Corporate bonds US\$000	Total US\$000
Balance at January 1, 2016	671,872	500,531	-	1,172,403
New loans	2,479,814	-	-	2,479,814
Amortizations	(1,602,580)	(83,333)	-	(1,685,913)
Accrued interest	49,544	12,573	-	62,117
Interest paid	(33,836)	(12,219)	-	(46,055)
Balance at December 31, 2016	<u>1,564,814</u>	<u>417,552</u>	<u>-</u>	<u>1,982,366</u>
Balance at January 1, 2017	1,564,814	417,552	-	1,982,366
New loans	3,968,753	-	2,000,000	5,968,753
Transactional costs	-	-	(14,876)	(14,876)
Amortizations	(4,200,853)	(416,667)	-	(4,617,520)
Accrued interest	45,132)	5,777	55,295	106,204
Interest paid	(62,066)	(6,662)	(51,875)	(120,603)
Balance at December 31, 2017	<u>1,315,780</u>	<u>-</u>	<u>1,998,544</u>	<u>3,304,324</u>

d) Fair value estimation

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

	<u>Carrying amount</u>		<u>Fair value</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	US\$	US\$	US\$	US\$
Unsecured loans	1,311,971	1,545,147	1,311,971	1,545,146
Bonds	1,985,124	-	2,002,970	-
Syndicated loan	-	415,589	-	416,667
	<u>3,297,095</u>	<u>1,960,736</u>	<u>3,314,941</u>	<u>1,961,813</u>

At December 31, 2017 and 2016 the information used to determine the fair value of the bonds corresponds to level 1 and of other borrowings to level 2 of the fair value hierarchy described in Note 3.3. There were no transfers between the levels during the year. This item does not include accrued interest.

14 TRADE PAYABLES

This item comprises:

	<u>2017</u>	<u>2016</u>
	US\$000	US\$000
National suppliers of crude and refined products	103,018	86,996
Foreign suppliers of crude and refined products	536,177	354,050
Suppliers of goods and services	117,933	264,922
Shipping companies and terminal operators and sales plants	15,119	16,625
	<u>772,247</u>	<u>722,593</u>

At December 31, 2017, the main local supplier of crude is Savia Perú S.A. with a balance of US\$27,668 thousand (US\$23,300 thousand at December 31, 2016). The main international supplier is Exxon Mobil Sales and Supply LLC. to which US\$210,630 thousand is owed.

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 PAYABLES

This item comprises:

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
	US\$000	US\$000
Taxes (a)	34,480	73,640
Workers' profit sharing (b)	30,848	32,545
Remunerations	21,393	29,914
Advances from customers (c)	14,979	11,551
Financial instruments payable	3,802	29
Guarantee deposits (d)	4,405	6,096
Others	5,282	2,642
	<u>115,189</u>	<u>156,417</u>

(a) Taxes payable at December 31, 2017 mainly include net income tax payable and ITAN (temporary tax on net assets) for US\$15,991 thousand (US\$35,608 thousand in 2016).

- (b) Workers' profit sharing is equivalent to 10% of taxable income, as determined according to current income tax legislation. This profit sharing is a deductible expense for income tax calculation purposes, provided that it is paid before the annual income tax returns are filed.

In 2017, the Company determined profit sharing for US\$30,891 thousand (US\$32,545 thousand in 2016) recorded with a charge to the results of the year under the following items:

	<u>2017</u> <u>US\$000</u>	<u>2016</u> <u>US\$000</u>
Cost of sales (Note 21)	12,659	12,726
Selling and distribution expenses (Note 22)	5,432	5,711
Administrative expenses (Note 23)	<u>12,757</u>	<u>14,108</u>
	<u>30,848</u>	<u>32,545</u>

- (c) Advances received from local and foreign customers mainly comprise the amounts received for US\$4,448 thousand and US\$10,531 thousand respectively, to secure the supply of fuel that is pending delivery.
- (d) Comprising security deposits received by third parties to transport fuel to cover possible loss occurrences. If no such event occurs, the security deposit is returned at the end of the contract.

16 OTHER PROVISIONS

This item comprises:

	<u>At December 31,</u>	
	<u>2017</u> <u>US\$000</u>	<u>2016</u> <u>US\$000</u>
Current -		
Provision for environmental improvements (b)	38,454	90,206
Provision for civil lawsuit (c)	17,809	22,537
Provision for labor-related court actions	2,547	2,242
Provision for plugging of wells (b)	594	574
Provision for retirement pensions (a)	45	52
Other provisions	<u>162</u>	<u>157</u>
	<u>59,611</u>	<u>115,768</u>
Non-current -		
Provision for environmental improvements (b)	14,396	5,584
Provision for retirement pensions (a)	<u>65</u>	<u>68</u>
	<u>14,461</u>	<u>5,652</u>
	<u>74,072</u>	<u>121,420</u>

The movement of other provisions is as follows:

	Provision for retirement pensions US\$'000	Provision for environmental improvements US\$'000	Provision for labor-related court actions US\$'000	Provision for civil lawsuits US\$'000	Provision for plugging of wells US\$'000	Other provisions US\$'000	Total US\$'000
Balances at January 1, 2016	150,863	29,085	10,001	14,315	555	1,581	206,410
Provision for the year	67	68,983	2,367	13,367	-	-	85,784
Update	-	(867)	-	-	-	-	(867)
Payments	(77)	(2,408)	(1,468)	(941)	-	-	(4,894)
Reversal of unused provisions	-	-	(7,818)	(4,112)	-	(1,429)	(13,359)
Assignments and transfers to Government-run pension plan (ONP in Part) (c)	(150,735)	-	-	-	-	-	(150,735)
Exchange difference	2	(3)	(840)	(92)	9	5	(919)
Balances at December 31, 2016	120	95,790	2,242	22,537	574	157	121,420
Provision for the year	32	33,706	657	5,384	-	-	39,979
Update	-	1,247	-	-	-	-	1,247
Payments	(46)	(80,114)	(603)	(113)	-	-	(80,876)
Reversal of unused provisions	-	-	(27)	(10,474)	-	-	(10,501)
Exchange difference	4	2,221	78	475	20	5	2,803
Balances at December 31, 2017	110	52,850	2,547	17,809	594	162	74,072

a) Provision for pension plans -

Law No. 30372 "Ley del Presupuesto del Sector Público para el Año Fiscal 2016", sixty-fourth article of the final supplementary provisions states that from the effective date of the Law, the government-run pension plan office ("Oficina de Normalización Previsional - ONP") will be responsible for managing and paying pensions under Decree Law No.20530 and complementary standards and amendments, concerning pensioners of PETROPERU S.A., including the contingencies that may arise from management and payment. In paying out pension plans, the ONP will take as reference the amount of pensions credited for the last month before the effective date of this Law. Also, pursuant to Supreme Decree countersigned by the Ministry of Economy and Finance, complementary standards will be issued as they are deemed necessary for a more adequate application of this regulation.

From January 2016 the Company recorded the transfer of the provision for retirement pensions to the ONP, as additional capital of US\$150,735 thousand, and considering the following:

Law No.30372 "Ley de Presupuesto del Sector Público para el año fiscal 2016" was prepared by the Ministry of Economy and Finance and approved by the Peruvian Government. The Peruvian Government approved the transfer of the pension liabilities from PETROPERU S.A. to the ONP in order to contribute to the financial capacity of the Company that is acting as a single shareholder rather than as the Government. The Peruvian Government does not require compliance of any specific requirement by PETROPERU S.A. in respect of the exploitation activities for the Company to be eligible for this benefit, since this benefit was specifically established for the Company. This Law that results in the transfer of obligations with third parties to the ONP, given that was enacted by the Peruvian Government, which is the shareholder of the Company, being a direct benefit, qualifies as a transaction with the shareholder; this was reflected as an increase in equity in additional capital.

In accordance with the provisions of IAS 19 - Employee Benefits, at December 31, 2017 the Company maintained a defined benefit plan which obliges it to provide the benefits agreed in Decree Law No.20530 and its supplementary provisions. These benefits correspond exclusively to ex – employees (in respect of termination, disability, widowhood and orphanhood) who acquired the right to a pension upon completing 15 years of actual and remunerated service in the case of men and 12.5 years in the case of women (Article 4 of Section I of Decree Law No.20530). The financing of these obligations was covered from own resources.

At December 31, 2017 and 2016 the amount of the provision corresponds to the present value of the future payments to be made by the Company in favor of its pensioners and it is updated annually on the basis of an actuarial calculation performed by an independent actuary following the projected credit method, which is validated by the National Pension Office - ONP (the Spanish acronym).

b) Provision for environmental remediation and plugging wells costs -

The Peruvian Government promotes the conservation of the environment and responsible use of natural resources in hydrocarbon activities in accordance with the Political Constitution of Perú, Law No. 26221, Organic Law of Hydrocarbons, Law No. 26821, Organic Law for the Sustainable Use of Natural Resources, Law No. 27446, Law of the National System of Evaluation of the Environmental Impact; Law No. 28245, Framework Law for Environmental Management, Law No. 28611, General Law of the Environment and Law No. 29134, Law Regulating the Environmental Liabilities of the Hydrocarbons Sub-Sector, among others.

The Ministry of Energy and Mines, by means of Supreme Decree No.039-2014-EM, published on November 12, 2014, approved the new Rules for the Environmental protection of Hydrocarbon Activities, which set forth the standards and regulations for the national territory, the Environmental Management of the activities of exploration, exploitation, refining, processing, transport, trade, warehousing and distribution of hydrocarbons, over their life cycle, as a way to prevent, control, mitigate and remediate the adverse environmental impact of such activities.

Also, within the framework of Legislative Decree No. 674, "Ley de Promoción de la Inversión Privada en las Empresas del Estado", the Company assumed contractual obligations of environmental remediation of its privatized units, guaranteed by the Peruvian Government. Therefore, as per the applicable laws and regulations, the signed contracts and management policies, at December 31, 2017, PETROPERÚ S.A. continues to implement environmental remediation activities in its own operating units and privatized units.

Own operating units consist of: Operaciones Talara, Operaciones Oleoducto, Refinería Conchán, Refinería Selva, Planta de Ventas Aeropuerto and Block 64.

Privatized units consist of: Refinería La Pampilla, Planta de Lubricantes, Block X, Block 8, Terminales y Plantas de Ventas, and Planta de Generación Eléctrica y Gas Natural.

Of a total 230 of projects of which the environmental management programs ("Programas de Adecuación y Manejo Ambiental - PAMA") were implemented and met by the Company from 1995 to adapt its operations to the first regulations to protect the environment - "Reglamento para la Protección Ambiental en las Actividades de Hidrocarburos" (D.S. No.046-93-EM).

The respective supplementary environmental program (PAC) for the Talara Refinery is pending approval by a governmental agency: "Dirección General de Asuntos Ambientales y Energéticos - DGAAE").

In compliance with these provisions, the Company has made provisions for the remediation of negative environment impacts caused in its privatized units and in its own operating units.

With respect to the privatized units (La Pampilla Refinery, Lubricant Plant, Block X, Block 8, Terminales, Selling Plants, Planta de Generación Eléctrica y Gas Natural), the estimates made were based on the environmental studies ruled favorable by the general hydrocarbons agency (Dirección General de Hidrocarburos - DGH) or the general environmental office (Dirección General de Asuntos Ambientales Energéticos - DGAAE). The provision is updated annually depending on the costs of the work completed or in progress and the estimates of work remaining to be implemented corresponding to the Environmental Remediation Agreements.

With respect to its own operating units (Talara operations, Oil Pipeline operations, Refinería Conchán, Refinería Selva, Planta de Ventas Aeropuerto and Block 64), estimates were made on the basis of the Company's ISO 14001 Environmental Management System and available data of the costs of the privatized units; this information is also updated on an annual basis considering its own operational needs, the cost of work performed, actually performed or in the process of implementation, of market prices and estimates of work remaining to be completed based on information sourced from the own operating units.

With respect to its own operating units, there are new environmental obligations in place, specifically involving compliance of certain standards: "Normas de los Estándares de Calidad Ambiental para Suelo - ECA Suelo (D.S. No.002-2013-MINAM, D.S. No.002-2014-MINAM, R.M. No.085-2014-MINAM, R.M. No. 034-2015-MINAM and D.S. No.013-2015-MINAM) that will require other expenses to be incurred by the Company to conduct a number of different technical studies as required under said new regulations. In addition, expenses have been estimated to be incurred over 2018 of S/5,258 thousand (equivalent to US\$1,620 thousand) by the Company in conducting start-up assessments of environmental quality standards- soil (ECA Suelo), involving exploratory sampling and identifying polluted soil through a "Service of identification of possibly polluted places (identifying sampling) that are over the environmental quality standards for soil in the operations of PETROPERÚ"; all these expected expenses have been included in the provision for the Operational Environmental Remediation Program for Talara, Conchán, Oleoducto, Selva and "Gerencias Comercial y Exploración y Explotación for US\$430 thousand (equivalent to S/1,395 thousand), US\$215 thousand (equivalent to S/698 thousand), US\$263 thousand (equivalent to S/853 thousand), US\$175 thousand (equivalent to S/567 thousand), US\$209 thousand (equivalent to S/677 thousand) and US\$329 thousand (equivalent to S/1,068 thousand), respectively.

This tender for this service: "Service of identification of possibly polluted places (identifying sampling) that are over the environmental quality standards for soil in the operations of PETROPERU", was awarded through a second bidding call on May 2, 2016, the winner being Consorcio TEMA/LITOCLEAN with US\$2,610 thousand (equivalent to S/8,468 thousand). At December 31, 2017, Consorcio TEMA has submitted 38 Reports identifying possibly polluted sites (IISC). On the other hand, considering the importance of the events that occurred in 2014 (oil spills in km 41+833 and km 20+190), the approval was obtained, through GCAS, for an additional 10,4% over the contractual amount so as to assess those events and verify current conditions.

The above-mentioned reports (38 IISC and 02 contingency assessments) have been approved by PETROPERÚ and presented in final draft to the governmental agency "Dirección General de Asuntos Ambientales Energéticos" of the MINEM, by means of Letters No. SAMB-JAAM-585-2017, SAMB-JAAM-661-2017, SAMB-JEDA-837-2017, SAMB-JEDA-856-2017, SAMB-JEDA-869-2017, SAMB-JEDA-906-2017, SAMB-JEDA-936-2017 y SAMB-JEDA-951-2017.

The total amount executed for "Service of identification of possibly polluted places (identifying sampling) that are over the environmental quality standards for soil in the operations of PETROPERU", totaled S/9,352 thousand (after IGV) (equivalent to US\$2,882 thousand), representing 99.94% of the contractual amount adjudicated. With regard to the 0.06% reduction in the unimplemented amount; this resulted from lower consumption than budgeted for field work implementation as part of the service rendering, based on the approved monthly valuations and the sign-off of those responsible for managing the contract.

During 2017 the Company reported 6 significant oil spills (13 in 2016) mainly resulting from undue acts by third-parties against the Northern Perú Oil Pipeline ("Oleoducto Norperuano"); these acts resulted in the total stoppage of oil pumping from the Peruvian jungle to the coast

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

At December 31, 2017 the provision for environmental remediation related to the above-mentioned oil spills in the "Oleoducto Norperuano" totals US\$29,359 thousand (US\$71,075 thousand at December 31, 2016).

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

Year 2017

	Balances at January 1 US\$000	Payments US\$000	Provision and update US\$000	Balances at December 31 US\$000
Block 8	3,473	(574)	(301)	2,598
Block X	5,260	(1)	(418)	4,841
Pampilla	10	(2)	(18)	(8)
Lubricants	127	-	(10)	117
Northern terminals	274	-	(11)	263
Southern terminals	218	(1)	(13)	204
Mid-country terminals	1,879	(1)	(143)	1,735
Natural Gas Electric system	19	-	-	19
Total privatized units	<u>11,260</u>	<u>(578)</u>	<u>(912)</u>	<u>9,769</u>
Operations in Talara	9,046	(1,140)	(281)	7,625
Operations in Conchán	1,094	(143)	(32)	919
Operations in Oil Pipeline	71,075	(77,967)	36,251	29,359
Operations in Iquitos Refinery	1,569	(120)	(47)	1,402
Commercial operations	729	(116)	(11)	602
Management Exploration and Exploitation	<u>1,020</u>	<u>(49)</u>	<u>(15)</u>	<u>956</u>
Total own units	<u>84,533</u>	<u>(79,535)</u>	<u>35,865</u>	<u>40,863</u>
Total	95,793	(80,114)	34,953	50,632
Exchange difference	(3)			2,218
Total	<u>95,790</u>			<u>52,850</u>

	<u>Balances at January 1</u> US\$000	<u>Payments</u> US\$000	<u>Provision and update</u> US\$000	<u>Balances at December 31</u> US\$000
Year 2016				
Block B	3,880	(200)	(207)	3,473
Block X	5,531	(1)	(270)	5,260
Pampilla	205	(186)	(9)	10
Lubricants	133	-	(6)	127
Northern terminals	274	-	-	274
Southern terminals	225	(1)	(6)	218
Mid-country terminals	1,972	(1)	(92)	1,879
Natural Gas Electric system	19	-	-	19
Total privatized units	<u>12,239</u>	<u>(389)</u>	<u>(590)</u>	<u>11,260</u>
Operations in Talara	9,861	(641)	(174)	9,046
Operations in Conchán	1,288	(172)	(22)	1,094
Operations in Oil Pipeline	1,812	(686)	69,949	71,075
Operations in Iquitos Refinery	1,969	(370)	(30)	1,569
Commercial operations	821	(85)	(7)	729
Management Exploration and Exploitation	1,095	(65)	(10)	1,020
Total own units	<u>16,846</u>	<u>(2,019)</u>	<u>69,706</u>	<u>84,533</u>
Total	<u>29,085</u>	<u>(2,408)</u>	<u>69,116</u>	<u>95,793</u>
Exchange difference				(3)
Total				<u>95,790</u>

Cash outflows required in the environmental remediation activities conducted by PETROPERU S.A. in the privatized units are recorded with a charge to profit or loss. As stated in Article 6 of Law No. 28840, "Ley de Fortalecimiento y Modernización de PETROPERU S.A.", the government treasury agency "Dirección General del Tesoro Público" shall transfer PETROPERU S.A. the total resources needed to cover the expenses to be incurred in environmental remediation activities of the respective privatized units.

The mandate under Article 6 of Law No. 28840 by which the Peruvian Government shall compensate the Company for the environmental remediation work to be performed in its privatized units was re-confirmed by another piece of legislation ("Vigésima Sexta Disposición Complementaria Final de la Ley No. 30114, Ley de Presupuesto del Sector Público") for fiscal 2014, which authorizes the Ministry of Energy and Mines to transfer financial resources to the Company so that it can complete environmental remediation activities in the privatized units that belonged to it. At December 31, 2017 a total of S/34,000 thousand (equivalent to US\$11,000 thousand) remained to be transferred for future expenditures, which was recognized by the MINEM in 2014.

Continuing with the procedures begun in 2006, PETROPERU S.A. presented to the Ministry of Energy and Mines invoices and similar documentation supporting the expenses incurred in environmental remediation for the period from January 2007 to October 2014. Based on this process, a total S/4,116 thousand (equivalent to US\$1,377 thousand) was credited by the Ministry of Energy and Mines to the Company's accounts on December 31, 2014).

The Company has sent communications to MINEM requesting financial remittances intended for environmental remediation, which resulted in contributions of S/62,600 thousand (equivalent to US\$20,900 thousand) during 2015; these resources covered the total expenses incurred by the Company at December 31, 2017 in environmental remediation of its privatized units. Management considers that the amounts of those provisions are sufficient to cover the environmental remediation liabilities which the Company has to fulfill.

Article No.3 of Supreme Decree No.002-2006-EM, the supplementary environmental plan (*"Disposiciones para la presentación del Plan Ambiental Complementario - PAC"*) enacted on January 5, 2006 establishes that the energy and mining regulator (*Organismo Supervisor de la Inversión en Energía y Minas - OSINERGMIN*) (competence transferred to the "Organismo de Evaluación y Fiscalización Ambiental - OEFA" under Board Resolution No. 001-2011-OEFA/CD dated March 2, 2011) will communicate to the Company the list of activities not complied in the respective PAMA requirements so as to coordinate with the *Dirección General de Asuntos Ambientales Energéticos* of the Ministry of Energy and Mines, the PAC execution schedule over a period not exceeding four (4) years.

The Supplementary Environmental Plan (*PAC*) for Operations in Talara is currently undergoing the approval process with *DGAAE*; once approval is obtained, of the term of execution will be four (4) years and it will become a medium-term project.

c) Provision for civil claims -

At December 31, 2017 the Company has estimated a provision of US\$17,809 thousand equivalent to S/57,791 thousand (US\$15,405 thousand, equivalent to S/51,760 thousand at December 31, 2016), 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" (US\$10,039 thousand, equivalent to S/33,730 thousand at December 31, 2016); (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" (US\$3,979 thousand, equivalent to S/13,370 thousand at December 31, 2016) 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.

17 DEFERRED INCOME TAX

The movement on the deferred income tax for the years ended December 31, 2017 and 2016 is as follows:

	Balances at January 1, 2015 US\$000	Credit (charge) to equity (a) US\$000	Credit (charge) to profit or loss US\$000	Balances at December 31, 2016 US\$000	Credit (charge) to profit and loss US\$000	Balances at December 31, 2017 US\$000
Deferred assets:						
Provision for retirement pension (a)	42,908	(42,872)	(1)	35	(3)	32
Provision for environmental remediation	8,063	-	20,195	28,258	(12,667)	15,591
Other provisions	6,796	-	1,085	7,881	(2,337)	5,544
Provision for impairment of fixed assets	1,598	-	11,184	12,782	(9,287)	3,495
Unpaid labor liabilities	-	-	-	-	3,784	3,784
	<u>59,365</u>	<u>(42,872)</u>	<u>32,464</u>	<u>48,955</u>	<u>(20,510)</u>	<u>28,446</u>
Deferred liabilities:						
Attributed cost	(108,037)	-	(14,038)	(122,075)	12,549	(109,526)
Translation effect of non-monetary items	-	-	-	-	25,773	25,773
Interest on PMRT financing	(4,916)	-	-	(4,916)	4,916	-
	<u>(112,953)</u>	<u>-</u>	<u>(14,038)</u>	<u>(126,991)</u>	<u>43,238</u>	<u>(83,753)</u>
Net deferred liabilities	<u>(53,588)</u>	<u>(42,872)</u>	<u>18,425</u>	<u>(78,035)</u>	<u>22,728</u>	<u>(55,307)</u>

(a) Deferred income tax assets were recognized with a credit to equity (additional capital), since the accounting treatment of the underlying transaction (assignments and transfers of retirement pension liabilities to ONP) was recorded in that category.

18 EQUITY

a) Share capital -

At December 31, 2017 the authorized, subscribed and paid-in share capital comprises 3,927,713,295 common shares, at S/1 par value each.

The share capital structure of the Company is as follows:

<u>Class</u>	<u>Number of shares</u>	<u>%</u>
A	3,142,170,636	80
B	<u>785,542,659</u>	<u>20</u>
	<u>3,927,713,295</u>	<u>100</u>

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

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

The movements of the share capital in 2017 and 2016 were as follows:

At the General Shareholders' Meeting held on March 31, 2016, an increase in capital of S/515,080 thousand (equivalent to US\$155,801 thousand) was approved; the relevant share certificates were issued in July 2016. The increase in share capital was made through an additional capital contribution.

At the General Shareholders' Meeting held on January 14, 2017, an increase in capital of S/1,056,000 thousand (equivalent to US\$316,357 thousand) was approved, contributed in cash in 2017 which was transferred from additional capital. Also, at the General Shareholders' Meeting held on April 18, 2017 a capital increase by S/406,665 thousand (equivalent to US\$121,393 thousand) was approved; this increase in share capital was made through an additional capital contribution. On August 7, 2017 registration with the Lima Public Records was reported.

b) Additional capital -

In 2016 an increase in additional capital by S/370,411 thousand (equivalent to US\$114,183 thousand) was made through the transfer of the provision for retirement pension, net of the resulting deferred income tax, to the government-run pension plan ("Oficina de Normalización Previsional (ONP) (D.L. No. 20530), pursuant to Law No. 30372 - "Ley de Presupuesto del Sector Público para el Año Fiscal 2016", by which PETROPERU S.A. was released from management and payment of retirement pensions as per Decree Law No. 20530. (Note 16-a).

The General Shareholders' Meeting held on March 31, 2016 approved an increase in additional capital of S/452,400 thousand (equivalent to US\$135,937 thousand) as a result of the capitalization of distributable profits reported for 2015.

During 2017 a cash contribution of S/1,056,000 thousand (equivalent to US\$316,357 thousand) was made by the Ministry of Energy and Mines in accordance with the provisions of Legislative Decree No 1292 "Legislative Decree that declares the adequate operation of the Oleoducto Norperuano of public need and national interest and sets forth the reorganization and improvement of the corporate governance of PETROPERÚ S.A." This contribution increased the additional capital.

At the General Shareholders' Meeting held on April 18, 2017, an increase in additional capital by S/36,254 thousand (equivalent to US\$11,152 thousand) was approved, as a result of the capitalization of distributable profits reported for 2016.

c) Legal reserve -

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

In the context of this regulation, the legal reserve recorded at December 31, 2017 totaled S/72,144 thousand (equivalent to US\$21,650 thousand); the legal reserve constituted in 2017 totaled S/17,749 thousand (equivalent to US\$5,461 thousand); which corresponds to 10% of the distributable profits for 2016. At December 31, 2016 the legal reserve was S/54,395 thousand (equivalent to US\$16,189 thousand); the legal reserve constituted in 2017 totaled S/50,267 thousand (equivalent to US\$15,104 thousand); which corresponds to 10% of the distributable net profits for 2015.

d) Retained earnings -

The General Shareholders' Meeting approved the dividends policy, which states that: "The distributable profits and after the deduction of workers' profit sharing, the Legal taxes and legal reserve that may be applicable, will be destined to the investment projects for the modernization or expansion of the activities of the Company, in compliance with its approved annual and five-year objectives, in conformity with the provisions of Article 4 of Law No.28840- Law for the Strengthening and Modernization of the Company PETROPERU S.A.", which is concordant with Article Twenty Nine subsection F) of the current Corporate by-laws.

19 REVENUE FROM ORDINARY ACTIVITIES

This item comprises:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Local sales	3,560,656	2,991,442
Fuel by-product price stabilization fund *	<u>24,892</u>	<u>61,078</u>
	3,585,548	3,052,520
Foreign sales	<u>393,744</u>	<u>265,218</u>
	<u>3,979,292</u>	<u>3,317,738</u>

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

In 2017 and 2016, sales are broken down as follows:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Local sales		
LPG	206,284	213,120
Turbo	101,571	82,433
Gas	961,031	802,750
Diesel - others	2,091,494	1,810,499
Industrial oil	165,021	85,732
Asphalt	45,450	44,212
Solvent	14,697	13,206
Others	-	568
Total local sales	<u>3,585,548</u>	<u>3,052,520</u>
Carried forward:	<u>3,585,548</u>	<u>3,052,520</u>

	<u>2017</u> <u>US\$000</u>	<u>2016</u> <u>US\$000</u>
Brought forward:	<u>3,585,548</u>	<u>3,052,520</u>
Foreign sales:		
Virgin Naphtha	90,865	74,327
Turbo	31,611	25,928
Diesel - others	100,637	34,134
Industrial oils	152,279	112,223
Gas	3,563	-
Loreto Exp. Crude	5,181	-
Asphalt	5,569	4,197
Primary residual/crude	<u>4,039</u>	<u>14,409</u>
Total foreign sales	<u>393,744</u>	<u>265,218</u>
	<u>3,979,292</u>	<u>3,317,738</u>

20 OTHER OPERATING INCOME

This item comprises:

	<u>2017</u> <u>US\$000</u>	<u>2016</u> <u>US\$000</u>
Terminal operating fees (a)	34,778	33,335
Recoverable freight (b)	15,011	15,172
Savia Perú S.A. lease (Note 12)	10,000	10,000
Leases (c)	6,850	6,837
Crude transport via oil pipeline (d)	3,032	4,683
PNP supply operations	1,331	1,078
Revenue from cost of use of hydrocarbons	267	94
Other service revenue	<u>1,013</u>	<u>1,037</u>
	<u>72,282</u>	<u>72,236</u>

- (a) Comprises revenue from operating agreements of the terminals of PETROPERU S.A. signed with Consorcio Terminales regarding the terminals and southern plant of Perú and with Terminales del Perú for the terminals and northern and central plants.
- (b) Comprising revenue from billing of transportation expenses incurred by customers. The Company considers a handling margin when billing this type of expenses.
- (c) PETROPERÚ S.A. as a private-law government-owned entity has signed agreements with private sector entities to lease a number of floors in its headquarters building, refinery exploitation machinery and equipment as well as productive facilities such as the refinery and sales plant in Pucallpa.
- (d) Comprising the revenue obtained from the transport of crude through the oil pipeline (Oleoducto Nor Peruano). At the reporting date, Section I ("Tramo I") is shutdown.

21 COST OF SALES

This item comprises:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Opening inventory of goods	475,381	382,771
Purchase of crude oil, refined products and supplies	3,371,140	2,638,590
Operating expenses of production (a)	221,100	288,776
Final inventory of goods	(605,294)	(475,381)
	<u>3,462,327</u>	<u>2,834,756</u>

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

	<u>2017</u> US\$000	<u>2016</u> US\$000
Third-party services (*)	134,364	133,028
Depreciation (Note 11)	34,732	35,047
Other materials and production supplies	7,385	8,395
Personnel charges	55,345	54,030
Workers' profit sharing (Note 15-b)	12,659	12,726
Insurance	6,363	6,516
Other management charges	584	531
Amortization	42	14
(Reversal) provision for impairment of assets (Note 11)	(31,790)	37,183
Others	1,416	1,306
	<u>221,100</u>	<u>288,776</u>

(*) Includes the following:

Ground transport freight and expenses	42,164	31,946
Maritime transport freight and expenses	21,755	27,342
Other freight, freight and expenses	17,465	20,357
Maintenance and repair services	21,195	14,402
Energy and water	20,922	24,212
Industrial protection and safety	3,568	3,107
Food and lodging	3,226	3,113
Other third-party services	4,069	8,549
	<u>134,364</u>	<u>133,028</u>

22 SELLING AND DISTRIBUTION EXPENSES

This item comprises:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Third-party services (a)	83,900	80,826
Personnel charges	25,983	23,481
Taxes (b)	18,076	16,656
Depreciation (Note 11)	7,291	8,159
Workers' profit sharing (Note 15-b)	5,432	5,711
Materials and supplies	2,566	2,483
Insurance	1,000	1,084
Other management charges	577	354
Provision for doubtful accounts	147	768
	<u>144,972</u>	<u>139,522</u>

(a) Includes the following:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Products dispatch	30,166	29,452
Warehousing of products	21,099	20,467
Other freight, freight and expenses	17,553	17,131
Other third-party services	5,682	5,202
Advertising	4,329	4,644
Maintenance and repair services	2,877	2,228
Industrial protection and safety	1,702	1,384
Travel and transfer expenses	512	318
	<u>83,900</u>	<u>80,826</u>

(b) The item of taxes mainly reflects the aliquots payable to OSINERGMIN for a total US\$13,960 thousand (US\$12,509 thousand in 2016) as well as contributions to OEFA for a total US\$3,737 thousand (US\$3,986 thousand in 2016).

23 ADMINISTRATIVE EXPENSES

This item comprises:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Personnel charges	83,258	72,986
Third-party services (a)	38,803	34,681
Other management charges	18,702	31,596
Workers' profit sharing (Note 15-a)	12,757	14,108
Taxes	12,674	3,717
Depreciation (Note 11)	5,218	4,265
Doubtful accounts	3,197	55
Amortization	2,358	2,856
Materials and supplies	1,426	1,081
Insurance	591	637
	<u>178,984</u>	<u>165,982</u>

(a) Includes the following:

	<u>2017</u> US\$000	<u>2016</u> US\$000
IBM outsourcing services	8,534	9,178
Maintenance and repair services	6,712	5,316
Industrial protection and safety	7,017	4,859
Temporary services	1,707	1,515
Advisory, appraisal and audits	4,700	4,123
Advertising	2,427	1,587
Bank expenses	1,090	1,334
Other third-party services	4,432	4,458
Freight and other freight	712	616
Travel and transfer expenses	1,472	1,695
	<u>38,803</u>	<u>34,681</u>

24 PERSONNEL CHARGES

This item comprises:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Wages and salaries	60,529	54,252
Social contributions	23,555	22,222
Statutory bonuses	13,486	11,678
Employees' severance indemnities	8,908	7,848
Workers' profit sharing	30,848	32,545
Vacations	4,225	4,205
Bonuses	43,590	40,959
Transportation	1,163	1,141
Feeding	3,635	3,707
Overtime	1,460	1,206
Others	4,035	3,279
	<u>195,434</u>	<u>183,042</u>

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

	<u>2017</u> US\$000	<u>2016</u> US\$000
Cost of sales (Note 21)	68,004	66,756
Selling expenses and distribution (Note 22)	31,415	29,192
Administrative expenses (Note 23)	96,015	87,094
	<u>195,434</u>	<u>183,042</u>

25 OTHER INCOME AND EXPENSES

Other income and expenses comprises:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Other income		
Interest - SUNAT refund (a)	31,146	-
Recovery of provision for civil claim	10,474	4,112
Capitalization of committed investments	6,437	-
Claims and/or indemnities (insurance/ non-compliance)	4,001	5,417
Maritime operations services	3,501	2,852
Doubtful trade accounts provision recovery	1,427	285
Labor provision recovery	27	7,818
Recovery of provisions for supplies	-	103
Others	11,799	12,491
	<u>68,812</u>	<u>33,078</u>
Other expenses		
Provision for losses in oil pipeline (Note 16-b)	(33,706)	(69,983)
Impairment of inventories	-	(2,042)
Impairment of supplies	(8)	-
Oil spill losses (b)	-	(94,904)
VAT fiscal credits not used in tax-exempt sales in the Amazon region	-	(148)
Written-off assets - property, plant and equipment	(1,802)	(9,910)
Provision for retirement pension	(32)	(67)
	<u>(35,548)</u>	<u>(177,054)</u>

- (a) On June 6, 2017 la SUNAT issued Resolutions ordering a refund in connection with Case File No. 6002-2011-0-1801-JR-CA-17. Refunds obtained included interest for a total US\$31,146 thousand.
- (b) Comprising the expenses incurred by the Company in cleaning activities, environmental monitoring, recovery and collection of materials, among others, related to losses in oil pipeline "Oleoducto Nor Peruano" in 2016. The Company expects to recover these expenses with the insurance indemnities.

26 FINANCE INCOME AND COST

Finance income and costs comprises:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Interest on bank deposits	1,707	1,127
Interest on receivables	1,212	691
Gains from derivative financial instruments	<u>476</u>	<u>5,027</u>
	<u>3,395</u>	<u>6,845</u>
Interest on working capital loans	(31,541)	(17,402)
Loss on financial instruments	(20,210)	(5,799)
Others	<u>93</u>	<u>117</u>
	<u>(51,844)</u>	<u>(23,318)</u>

27 TAX SITUATION

a) Tax rates -

In accordance with current legislation, the Company is individually subject to applicable taxes. Management considers that it has determined taxable income in accordance with the Peruvian income tax general regime, by adding to and deducting from the results shown in the financial statements, those items that are considered as taxable and non-taxable, respectively. The applicable Income tax rate for fiscal years 2017 and 2016 is 29.5 and 28%, respectively.

By means of Legislative Decree No.1261, enacted on December 10, 2016, amendments to Income Tax Law have been made, which are applicable from fiscal year 2017 onwards.

Among these amendments, should be noted the increase in the corporate income tax rate (on the Peruvian third-category income tax) to 29.5% from 2017 onwards. Tax on dividends and other forms of profit distribution, agreed on by legal entities to non-domiciled individuals and legal entities is to be reduced to 5%, for distributions agreed on or made available in cash or in kind during fiscal year 2017 onwards. The distribution of retained earnings until December 31, 2014, will continue to be subject to a rate of 4.1% and 6.8% in 2015 and 2016, even when the distribution is made in subsequent years.

It should be noted that under current Peruvian laws, non-domiciled parties are only subject to income tax on their Peruvian-source income. In general, income obtained by non-domiciled parties that provide services in Perú will be subject to a 30% income tax rate on gross income; this is as long as no double taxation agreement (CDI) is applicable. In respect of technical assistance services or digital services rendered by non-domiciled parties to legally resident taxpayers; the place where the services are rendered will not be relevant; in all cases, will be subject to income tax of 15% and 30%, respectively on a gross basis. The income tax rate on technical assistance services is 15% as long as the qualifying requirements under the Peruvian income tax law are met.

b) Income determination -

The Company, in calculating its taxable income for the years ended December 31, 2017 and 2016, has determined current income tax for US\$85,813 thousand, respectively.

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

	<u>2017</u> <u>US\$000</u>	<u>2016</u> <u>US\$000</u>
Current	85,687	82,013
Deferred	(22,728)	(18,425)
	<u>62,959</u>	<u>63,588</u>

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

	<u>2017</u>		<u>2016</u>	
	<u>US\$000</u>	%	<u>US\$000</u>	%
Pre-tax profit	248,063	100.00	104,274	100.00
Theoretical income tax 29.5% / 28%	73,179	29.50	29,197	28.00
Permanent non-deductible expenses	18,563	7.13	16,809	16.12
Permanent non-taxable income	(9,256)	(3.73)	-	-
Effect of change in income tax rate	-	-	17,582	16.86
Effect of exchange difference on tax fixed assets	(25,773)	(10.39)	-	-
Effect of higher current tax resulting from exchange difference	16,182	6.52	-	-
Others	(9,936)	(4.00)	-	-
Current and deferred income tax	<u>62,959</u>	<u>25.38</u>	<u>63,588</u>	<u>60.98</u>

Permanent non-deductible expenses for 2016 are mainly related to penalties and administrative and tax fines paid.

c) Temporary Tax on Net Assets -

The Company is subject to the Temporary Tax on Net Assets (ITAN, from its Spanish acronym). The taxable base is the prior period adjusted net asset value less depreciation, amortization admitted by the Income Tax Law, as shown in the respective standard (Law 28424 and its Regulation). The ITAN rate is 0.4% for 2017 and 2016 applied to the amount of net assets that exceed S/1,000,000. It may be paid in cash or in nine consecutive monthly installments. The amount paid may be used as a credit against payments of the general income tax regime for taxable periods from March to December of the fiscal period for which the tax was paid until maturity date of each of the payments on account and against the regularization of income tax payments for the related fiscal year.

The Peruvian tax authorities have the right to review and, if necessary, amend the income tax determined by the Company in the last four years from January 1 of the year following the date of filing of the corresponding tax return (years subject to examination). Years 2014 to 2017 are subject to examination. Since discrepancies may arise over the interpretation of the tax laws applicable to the Company by tax authorities, it is not possible at present to anticipate whether any additional liabilities will arise as a result of eventual tax examinations. Any additional tax, penalties and interest, if arising, will be recognized in the results of the period when such differences of opinion with the Tax Authority are resolved. Management considers that no significant liabilities will arise as a result of these eventual tax examinations.

Under current legislation, for purposes of determining Income Tax and VAT (IGV in Perú), transfer prices agreed between related parties and/or tax havens must have documentation and information supporting the valuation methods and criteria applied in their determination. Tax Authorities are authorized to request this information from the taxpayer. Based on an analysis of the Company's business, Management and its legal advisers consider that no significant contingencies will arise as a result of this legislation for the Company at December 31, 2017.

d) Tax on financial transactions -

For fiscal 2017 and 2016, the rate of the Tax on Financial Transactions was set at 0.005% and is applicable to bank debits and credits or cash movements through the formal financial system, unless the transaction is exempt. This tax is accounted for as tax expenses within administrative expenses.

e) Tax Regime of Value Added Tax -

By means of Legislative Decree No. 1347, published on January 7, 2017 the VAT (IGV in Perú) rate was reduced by one percentage point, effective July 1, 2017, as long as the VAT annual fiscal collection target is accomplished at May 31, 2017 net of internal refunds of 7.2% of GDP. This means that as long as said condition is met, the VAT rate (including the Wholesale Price Index) will be reduced from 18 to 17%.

The VAT rate (including Wholesale Price Index) currently in force is 18%.

The Company opted to take advantage of the VAT early recovery regime ("Régimen de Recuperación Anticipada del Impuesto General a las Ventas - IGV") by which it will be able to obtain a refund of the VAT levied on imports and local purchases of new goods or inputs, as well as construction services and contracts, carried out in the pre-operating phase to be used in implementing the PMRT project. On October 21, 2016 PETROPERU S.A. filed with PROINVERSION an application for early recovery of VAT (IGV). As part of the paperwork, the application was sent by PROINVERSION to the Ministry of Energy and Mines (MEM) and the Ministry of Economy and Finance (MEF). In this respect, Technical Report No. 0125-2017-MEM-DGH-DPTC-DNH was issued, by which the Ministry of Energy and Mines approved the investment schedule presented by PETROPERU S.A. for a total of US\$2,958,000 thousand.

Said report was sent to MEF on December 29, 2017, which shall issue a report on the listing of goods, services and construction contracts relating to the PMRT project. The report was also sent to PROINVERSION so that, after its evaluation, it will prepare a draft investment contract to be signed with PETROPERU S.A.

If the PETROPERU S.A. application is approved, the MEF will have to issue a favorable report addressed to the MEM for the latter to issue the respective Ministerial Resolution after PETROPERU S.A. signs the investment agreement with PROINVERSION and the MEM to be eligible for early recovery of VAT ("Régimen de Recuperación Anticipada del IGV").

f) Examination by the tax authorities -

As a result of the income tax review by the tax authorities for fiscal 2011, the Company paid a total of S/9,540 thousand (equivalent to US\$2,940 thousand) in respect of unpaid taxes, interest and tax penalties. However, given the difference between the tax loss determined by SUNAT and the tax loss filed by the Company for fiscal 2008, under Resolution No. 0150140009896 dated July 27, 2011, SUNAT issued a Tax Determination Resolution No. 012-003-0090872, dated December 11, 2017 amounting to S/8,653 thousand (equivalent to US\$2,667 thousand). An appeal against said resolution will be presented by the Corporate and Legal Management ("Gerencia Corporativa Legal, Sub Gerencia Tributaria, Cumplimiento Regulatorio y ambiental").

With respect to fiscal 2007 the Company has filed an appeal against SUNAT for an estimated total of S/56,060 thousand (equivalent to US\$17,276 thousand) comprising VAT (IGV), excise tax and income tax. For fiscal 2008 the Company has also filed an appeal for an estimated total S/9,846 thousand (equivalent to US\$3,034 thousand) comprising income tax and VAT.

At December 31, 2017 PETROPERU S.A. has the following tax examinations:

- FISE collection, from January to December 2014 and 2015, by OSINERGMIN.
- Contribution to Regulator (aliquot), from January to December 2014, by OSINERGMIN.
- Income Tax, from January to December 2011, by SUNAT.

28 CONTINGENCIES

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

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>US\$000</u>	<u>US\$000</u>
Labor-related (a)	6,628	8,254
Civil (b)	40,839	19,297
Tax and customs claims (c)	<u>61,817</u>	<u>44,836</u>
	<u>109,284</u>	<u>72,387</u>

- (a) Labor-related lawsuits are principally actions involving claims for social benefits for a total S/18,000 thousand (equivalent to US\$6,000 thousand), retirement related claims for a total S/1,000 thousand (equivalent to US\$308 thousand) and other labor-related actions involving the Oil Pipeline operating Unit for a total S/3,000 thousand (equivalent to US\$924 thousand).
- (b) This balance mainly consists of: i) an arbitration process brought by Pluspetrol Norte S.A. (International) for US\$20,000 thousand relating to the Company's alleged failure to reimburse expenses incurred in remediation work in Block 8, in connection with the Contractual Position Assignment Agreement; ii) a civil court action brought by the Regional Government of Lambayeque for US\$7,000 thousand; iii) arbitration process brought by RELAPASA for a total US\$5,000 thousand; iv) arbitration process brought by INTTCORP for US\$2,000 thousand; and v) civil court action brought by an entity called COVISE for S/10,000 thousand (equivalent to US\$3,081 thousand).
- (c) At December 31, 2017 this item mainly includes administrative process followed against the Tax Tribunal and the Tax Authorities for S/118,700 thousand (equivalent to US\$36,579 thousand) related to income tax examinations for the years between 2005 and 2008. Management and its legal advisers consider that no significant liabilities will arise for the Company.

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

29 BASIC AND DILUTED EARNINGS PER SHARE

The calculation at December 31, 2017 and 2016 of earnings per basic and diluted share shows the same value as there are no shares with dilutive effect is as follows:

	<u>Profit</u>	<u>Weighted</u>	<u>Earnings</u>
	<u>US\$000</u>	<u>average</u>	<u>per share</u>
		<u>number of</u>	
		<u>shares used</u>	
2017:			
Basic and diluted earnings per share	185,104	3,415,046	0.054
2016:			
Basic and diluted earnings per share	40,686	2,183,584	0.019

30 GUARANTEES AND COMMITMENTS

Guarantees and performance bonds -

At December 31, 2017 the Company has given performance bonds backed by local financial institutions to suppliers for a total S/74,500 thousand (equivalent to US\$22,958 thousand) and US\$3,300 thousand.

Guarantees related to borrowings are disclosed in Note 13.

At December 31, 2017 and 2016 the Company maintains no long-term operating lease commitments.

31 RELATED PARTIES

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

32 SUBSEQUENT EVENTS

- On January 16, 2018, Ministerial Resolution No. 017-2018-EF-52 was published in the official gazette "El Peruano", by which PETROPERU S.A. is authorized to contract external borrowing without the guarantee of the Peruvian Government. On January 30, 2018, under Board Agreement No.007-2018-PP the decision was made to approve the CESCE Facility Agreement and other loan documentation, with the selected Foreign Banks (Banco Bilbao Vizcaya Argentaria S.A., BNP Paribas Fortis - S.A./NV, Citibank - N.A. - London Branch, Deutsche Bank - S.A.E., HSBC Securities USA INC., JP Morgan Chase Bank - National Association - London Branch and Banco Santander S.A.) for up to US\$1,300,000 thousand with the guarantee of Compañía Española de Crédito a la Exportación - CESCE, within the PMRT financing framework, subject to the condition precedent for its effectiveness to ensure the financing rate until the Peruvian Comptroller's Office issues the respective Preliminary Report. Loan drawdowns are expected in the first half year of 2018.
- On January 30, 2018, PETROPERU S.A. and Consorcio Cobra-SCL UA&TC, comprising entities called Empresas Cobra Instalaciones y Servicios S.A. and Sinohydro Corporation Limited, signed the Engineering, Procurement and Construction (EPC) Agreement for the Auxiliary Units and Supplementary Works for the PMRT, the performance term of which is until 2020.
- On February 26, 2018 Standard & Poor's Global Ratings reported that it maintains its "BBB-" rating of the long-term corporate credits of PETROPERU S.A. It also maintains the stand-alone credit profile (SACP) of the Company as "B+".