



PETRÓLEOS DEL PERÚ – PETROPERÚ S.A.

Unaudited Condensed
Interim Financial Statements

**As of and for the six-month period ended June 30, 2017
(including Independent Auditors' Review Report)**



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(Translation of Financial Statements originally issued in Spanish)

INDEPENDENT AUDITORS' REPORT TO THE REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

The Stockholder and Board of Directors Petróleos del Perú – PETROPERÚ S.A.

We have reviewed the accompanying condensed interim statement of financial position of Petróleos del Perú - PETROPERÚ S.A. (hereinafter "the Company") as at June 30, 2017, the condensed interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory information included in notes 1 to 26 accompanying the condensed interim financial statements.

Management's Responsibility for the Condensed Interim Financial Statements

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in conformity with International Accounting Standards 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not present fairly, in all material respects, the financial position of the Company as at June 30, 2017, and its financial performance and its cash flows for the six month period then ended in accordance with IAS 34 "Interim Financial Reporting".

Other Matter

The Company is evaluating the impact of its financing activities performed during the second quarter ended June 30, 2017, in its functional currency, in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

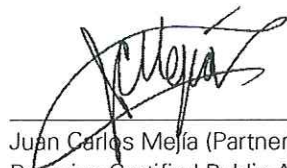
Our review was performed for the purpose of expressing a conclusion on the condensed interim financial statements as of June 30, 2017 taken as a whole. Note 27 includes the condensed statement of cash flows for the three-month period ended June 30, 2017, which are only presented as complementary information. This statement was prepared by, and is the responsibility of the Company's management, and is not required by IAS 34 *Interim Financial Reporting*.

Lima, Peru

July 31, 2017

Countersigned by:

Caipo y Asociados



Juan Carlos Mejía (Partner)
Peruvian Certified Public Accountant
Registration number 01-25635

PETRÓLEOS DEL PERÚ – PETROPERÚ S.A.

Unaudited Condensed Interim Financial Statements

As at and for the six-month period ended June 30, 2017

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S/ = Sol

US\$ = U.S. dollars

EUR = Euro

JPY = Japanese yen

(Translation of Financial Statements originally issued in Spanish)

Petróleos del Perú – PETROPERÚ S.A.

Unaudited Condensed Statement of Financial Position

As of June 30, 2017 and December 31, 2016

<i>In thousands of soles</i>	<i>Note</i>	June 30, 2017	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents	5	3,897,592	248,656
Trade accounts receivable		862,806	894,175
Other accounts receivable	6	2,227,958	698,179
Inventories		1,977,740	2,001,567
Prepaid expenses		2,762	14,814
Total current assets		8,968,858	3,857,391
Non-current assets			
Other accounts receivable	6	452,116	848,359
Financial investments		14,632	19,294
Property, plant and equipment	7	10,143,893	9,254,453
Intangible assets		50,416	54,402
Total non-current assets		10,661,057	10,176,508
Total assets		19,629,915	14,033,899

<i>In thousands of soles</i>	<i>Note</i>	June 30, 2017	December 31, 2016
Liabilities			
Current liabilities			
Other financial liabilities	8	5,688,216	5,751,693
Trade accounts payable	9	1,460,811	2,427,912
Other accounts payable	10	298,246	598,238
Provisions and other liabilities	11	214,416	388,979
Total current liabilities		7,661,689	9,166,822
Non-current liabilities			
Other financial liabilities	8	6,493,635	836,383
Provisions and other liabilities	11	14,782	18,989
Income tax liability	12	304,651	262,198
Total non-current liabilities		6,813,068	1,117,570
Total liabilities		14,474,757	10,284,392
Equity			
	13		
Issued capital		3,521,048	2,465,048
Additional capital		406,665	370,411
Other capital reserves		72,144	54,395
Accumulated other comprehensive loss		(4,358)	(1,251)
Retained earnings		1,159,659	860,904
Total equity		5,155,158	3,749,507
Total liabilities and equity		19,629,915	14,033,899

The accompanying notes on pages 6 to 41 are an integral part of these unaudited condensed interim financial statements.

(Translation of Financial Statements originally issued in Spanish)

Petróleos del Perú – PETROPERÚ S.A.

Unaudited Condensed Statement of Profit or Loss and Other Comprehensive Loss
For the six-month period ended June 30, 2017 and 2016

<i>In thousands of soles</i>	Note	For the three-month period ended June 30		For the six-month period ended June 30	
		2017	2016	2017	2016
Revenue	14	3,014,137	2,617,695	6,082,424	5,082,155
Other operating income		67,050	65,660	118,252	130,056
Total gross income		3,081,187	2,683,355	6,200,676	5,212,211
Cost of sales	15	(2,793,688)	(2,049,684)	(5,533,822)	(4,155,171)
Gross profit		287,499	633,671	666,854	1,057,040
Selling and distribution expenses	16	(107,377)	(109,664)	(211,881)	(210,146)
Administrative expenses	17	(125,966)	(180,091)	(235,576)	(294,158)
Other income	19	147,570	41,927	169,622	56,377
Other expenses	19	(4,206)	(705)	(4,376)	(22,077)
Total operating expenses		(89,979)	(248,533)	(282,211)	(470,004)
Operating profit		197,520	385,138	384,643	587,036
Finance income		3,312	1,952	5,051	3,283
Finance costs	20	(39,373)	(15,520)	(72,616)	(29,917)
Exchange difference, net		(5,259)	26,759	146,371	83,073
Profit before income tax		156,200	398,329	463,449	643,475
Income tax	21	(14,964)	(123,068)	(110,691)	(192,228)
Profit for the period		141,236	275,261	352,758	451,247
Total other comprehensive loss		(633)	(6,255)	(3,107)	(8,978)
Total comprehensive income		140,603	269,006	349,651	442,269
Basic and diluted earnings per share in soles	23	0.040	0.112	0.100	0.183

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Petróleos del Perú – PETROPERÚ S.A.

Unaudited Condensed Statement of Changes in Equity
For the six-month period ended June 30, 2017 and 2016

<i>In thousands of soles</i>	Number of shares	Issued capital	Additional capital	Other capital reserves	Other equity reserves	Accumulated results	Total equity
Balances as of January 1, 2016	1,949,968,400	1,949,969	62,679	4,128	-	1,186,080	3,202,856
Profit for the period	-	-	-	-	-	451,247	451,247
Other comprehensive loss	-	-	-	-	(8,978)	-	(8,978)
Total comprehensive income	-	-	-	-	(8,978)	451,247	442,269
Transactions with owners of the Company							
Transfer to legal reserve	-	-	-	50,267	-	(50,267)	-
Contributions from public treasury	-	-	370,411	-	-	-	370,411
Transfer to additional capital	-	-	452,400	-	-	(452,400)	-
Transfer to issued capital	515,079,535	515,079	(515,079)	-	-	-	-
Total transactions with stockholders	515,079,535	515,079	307,732	50,267	-	(502,667)	370,411
Balances as of June 30, 2016	2,465,047,935	2,465,048	370,411	54,395	(8,978)	1,134,660	4,015,536
Balances as of January 1, 2017	2,465,047,935	2,465,048	370,411	54,395	(1,251)	860,904	3,749,507
Profit for the period	-	-	-	-	-	352,758	352,758
Other comprehensive loss	-	-	-	-	(3,107)	-	(3,107)
Total comprehensive income	-	-	-	-	(3,107)	352,758	349,651
Transactions with owners of the Company							
Contributions from public treasury	-	-	1,056,000	-	-	-	1,056,000
Transfer to legal reserve	-	-	-	17,749	-	(17,749)	-
Transfer to additional capital	-	-	36,254	-	-	(36,254)	-
Transfer to issued capital	1,056,000,000	1,056,000	(1,056,000)	-	-	-	-
Total transactions with stockholders	1,056,000,000	1,056,000	36,254	17,749	-	(54,003)	1,056,000
Balances as of June 30, 2017	3,521,047,935	3,521,048	406,665	72,144	(4,358)	1,159,659	5,155,158

The accompanying notes on pages 6 to 41 are an integral part of these unaudited condensed interim financial statements.

(Translation of Financial Statements originally issued in Spanish)

Petróleos del Perú – PETROPERÚ S.A.

Unaudited Condensed Statement of Cash Flows

For the six-month period ended June 30, 2017 and 2016

<i>In thousands of soles</i>	<i>Note</i>	June 30, 2017	June 30, 2016
Operating activities:			
Net cash from operating activities		(100,818)	1,622,836
Interest paid		(72,616)	(31,068)
Cash tax payments		(683,911)	(330,094)
Time deposits		(976,500)	-
Net cash (used in) provided by operating activities		(1,833,845)	1,261,674
Investing activities:			
Acquisition of property, plant, and equipment	8	(1,440,396)	(1,948,668)
Purchase of intangible assets		(26)	(1,872)
Net cash used in investing activities		(1,440,422)	(1,950,540)
Financing activities:			
Proceeds from short-term loans		7,730,626	2,958,105
Amortization of short-term loans		(8,510,371)	(2,022,082)
Issuance of bonds	8	6,535,635	-
Contributions from Public Treasury	13	1,056,000	-
Net cash provided by financing activities		6,811,890	936,023
Net increase in cash and cash equivalents, before the effect of exchange rate fluctuations		3,537,623	247,157
Effect of exchange rate fluctuations on cash and cash equivalents		(230,638)	(31,022)
Effects of exchange rate fluctuation on other accounts		341,951	83,598
Cash and cash equivalents at the beginning of period	5	248,656	64,971
Cash and cash equivalents at the end of period		3,897,592	364,704
Non-cash flow generating transactions			
Derivative financial instruments		(3,107)	-
Work-in-progress to pay		283,001	-
Transfer of retirement pension, net of deferred income tax		-	370,411

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Unaudited Condensed Statement of Cash Flows

For the six-month period ended June 30, 2017 and 2016

Adjustments to reconcile net profit to net cash (used in) provided by operating activities:

<i>In thousands of soles</i>	<i>Note</i>	June 30, 2017	June 30, 2016
Cash flows from operating activities			
Profit for the period		352,758	451,247
Adjustments to reconcile net profit for the period to net cash from operating activities:			
Bad debt expense		5,417	223
Inventory write-downs		135	-
Retirement pension		70	-
Fringe benefits		14,040	14,107
(Recovery) provision for labor, civil claims and other		(22,053)	7,463
(Recovery) provision for environmental improvement		(2,763)	971
Depreciation	7	70,954	64,493
Amortization		3,952	4,032
Disposal of fixed		-	21,531
Deferred income tax liability	12	42,453	12,633
Derivative financial instruments		(3,107)	(8,978)
Effect on the adjustment of unrealizable exchange difference		(277,045)	98,890
		184,811	666,612
Changes in:			
Trade accounts receivable		25,952	67,017
Other accounts receivable		225,812	(224,402)
Inventories		23,692	(250,367)
Prepaid expenses		12,052	14,515
Trade accounts payable		(487,099)	1,104,627
Other accounts payable		(842,490)	(116,169)
Provision for retirement pension		(75)	(159)
Time deposits		(976,500)	-
Net cash (used in) provided by operating activities		(1,833,845)	1,261,674

The accompanying notes on pages 6 to 41 are an integral part of these unaudited condensed interim financial statements.

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Petróleos del Perú – PETROPERÚ S.A.

Notes to the Unaudited Condensed Interim Financial Statements

As at and for the six-month period ended June 30, 2017

1. Identification and Economic Activity

A. Identification

Petróleos del Perú – PETROPERÚ S.A. (hereinafter PETROPERÚ S.A. or the Company) is a company domiciled in Peru. PETROPERÚ S.A.'s main office is located at Av. Enrique Canaval y Moreyra N° 150, San Isidro, Lima, Peru.

2. Basis for the Preparation of Condensed Interim Financial Statements

These condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with PETROPERÚ S.A.'s last annual financial statements as at and for the year ended December 31, 2016 (hereinafter the last annual financial statements). They do not include all of the information required for a complete set of International Financial Reporting Standards (IFRS) financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the financial position and performance since the last annual financial statements.

These condensed interim financial statements as at and for the six months period ended June 30, 2017 have been approved by the General Management of the Company on July 31, 2017.

A. Use of estimates and judgments

The preparation of these condensed interim financial statements requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period where estimates have been reviewed and in any future periods affected.

Information about significant judgments in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended December 31, 2016.

3. Financial Risk Management

Management has overall responsibility for the establishment and oversight of the Company's risk management structure. Finance Corporate Management is in charge of risk management. Management identifies, evaluates, and manages the financial risks.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management systems and policies are reviewed regularly to reflect changes in market conditions and in the Company's activities.

The Company, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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Petróleos del Perú – PETROPERÚ S.A.

Notes to the Unaudited Condensed Interim Financial Statements, continued

The Company has exposure to the following risks related to its use of financial instruments:

A. Currency risk

The Company's activities expose it to exchange rate fluctuation risk concerning the U.S. dollar, which mainly arise from its business activities. The Company has decided manages this risk and uses derivative financial instruments to mitigate it (note 3.I).

Balance in foreign currency as of June 30, 2017 and December 31, 2016 are summarized as follows:

<i>In thousands of</i>	06.30.2017			12.31.2016		
	US\$	EUR	JPY	US\$	EUR	JPY
Assets:						
Cash and cash equivalents	1,138,443	-	-	33,646	-	-
Trade accounts receivable, net	22,556	-	-	19,327	-	-
Other accounts receivable, net	318,778	-	-	12,699	-	-
	1,479,777	-	-	65,672	-	-
Liabilities:						
Other financial liabilities	(3,317,330)	-	-	(1,022,554)	-	-
Trade accounts payable	(411,166)	(7,231)	-	(640,153)	(42,141)	(477,292)
Other accounts payable	(5,885)	-	-	(5,202)	-	-
Provisions and other liabilities	(23,803)	-	-	(25,829)	-	-
	(3,758,184)	(7,231)	-	(1,693,738)	(42,141)	(477,292)
Net exposure	(2,278,407)	(7,231)	-	(1,628,066)	(42,141)	(477,292)

The Company's monetary assets and liabilities stated in U.S. dollars have been translated in to functional currency using the supply and demand exchange rates published by the Banking, Insurance and Pension Plan Agency (SBS). The following exchange rates were applied for each type of currency:

	Exchange rate ruling at period-end closing	
	06.30.2017	12.31.2016
US\$	3.255	3.360
EUR	3.726	3.601
JPY	0.031	0.031

The Company for the six-month period ended June 30, 2017, recognized an exchange net gain for S/ 146,371 thousand (net gain for difference of S/ 83,073 thousand as of June 30, 2016), which are shown in the exchange difference, in the statement of profit or loss and other comprehensive loss.

Sensitivity analysis

A reasonably possible strengthening (weakening) of the sol, US\$, EUR and JPY against all other currency as of June 30, 2017 and December 31, 2016 would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates remain constant, and ignores any impact of forecast sales and purchases.

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Notes to the Unaudited Condensed Interim Financial Statements, continued

<i>In thousands of soles</i>	Movement from	Effects on profit or loss before tax	
		Strengthening	Weakening
June 30, 2017			
US\$	10%	(741,621)	741,621
EUR	10%	(2,694)	2,694
JPY	10%	-	-
December 31, 2016			
US\$	10%	(547,030)	547,030
EUR	10%	(15,175)	15,175
JPY	10%	(1,480)	1,480

B. Interest rate risk

The Company does not have significant interest-bearing assets, its income and operating cash flows are substantially independent from changes in the market interest rates.

The Company's interest rate risk arises from its long-term debts. Variable debt rates exposes the Company to the cash flow interest rate risk. Fixed-rate debts expose the Company to interest rate risk on fair value of liabilities. The Company's policy is to maintain all its loans in financial instruments accruing fixed rates. The Company's management considers that the risk of the fair value of interest rates is not significant because interest rates applied to its financing contracts do not differ significantly from market interest rates which are available to the Company for similar financial instruments.

As of June 30, 2017, the Company has recorded bullet bonds issued at a fixed rate to finance part of the Talara Refinery Modernization Project - PMRT. The interest will be paid semiannually as from December 2017 at rates of 4.750% and 5.625% with maturity in the years 2032 and 2047, respectively.

Exposure to interest rate risk

The interest rate of the financial instruments as of June 30, 2017 and December 31, 2016 is as follows:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Fixed rate instruments		
Other financial liabilities (note 8)	12,198,216	5,191,693
Variable rate instruments		
Other financial liabilities (note 8)	-	1,400,000

Fair value sensitivity analysis for variable rate instruments

A change in interest rates at the date of the condensed statement of financial position would not have increased (decreased) the profit or loss for the period because interest are capitalized as part of the cost of fixed assets.

C. Commodities risk (commodities)

Selling prices are exposed to commercial risks resulting from the volatility of international prices. Prices billed by the Company are modified following the variations of international prices.

Petróleos del Perú – PETROPERÚ S.A.

Notes to the Unaudited Condensed Interim Financial Statements, continued

As explained in note 1.C of the last annual financial statements, local market prices are determined considering international prices of crude oil and by-products. Prices are stated in soles at current exchange rates, considering the legal standards that were issued on prior years according to the system established by the Fuel Price Stabilization Fund for which the Peruvian Government can make compensations or receive contributions to stabilize prices for end consumers. This mechanism mitigates the effect of changes in prices of some products that are not passed on to the end consumer. Note 6.E shows the net balance of compensations and contributions made by the Peruvian Government as of June 30, 2017.

The Company seeks to enter into Agreements with crude oil suppliers and manufacturers in the country that consider minimizing price risk exposure on a long term basis through prices agreements related to reference basket of crude oil or price formula that consider expectations of international market margins. Likewise, when purchasing crude oil and imported products, the best quotations are obtained on the basis of international public tenders.

D. Credit risks

Credit risk concentration mostly relates to wholesale clients which are renowned and leading companies nationwide. Management has established policies aimed at assuring that the sale of goods is made to wholesale clients with appropriate credit background. These policies comprise, among other aspects, approval of credit lines for each client, continuous follow-up and monitoring procedures of the payment history. Concerning contracts signed with Government entities (Armed Forces and Peruvian Police), the Company provides a 45-day term for payment. The Company does not expect significant losses arising from the credit risk of their counterparties.

E. Liquidity risk

Prudent management of liquidity risk implies maintaining sufficient cash and the possibility to have financing available through an adequate number of credit sources; thus, maintaining reasonable cash levels and available credit lines.

As of June 30, 2017, the Company maintains revolving credit lines granted by local and foreign banks up to US\$ 2,456,444 thousand, of which US\$ 638,026 thousand are available at that date, sufficient amount to cover its purchase operations in the national territory and in foreign markets and other obligations related to working capital. These lines of credit do not require maintenance costs or require collateral.

Management administers liquidity risks ensuring to have enough credit lines and settling its capital work with cash flows of operating activities.

The following are remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements:

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Notes to the Unaudited Condensed Interim Financial Statements, continued

<i>In thousands of soles</i>	Carrying amount	Contractual cash flow	Less than one year	More than 1 year	More than 2 years
June 30, 2017					
Other financial liabilities	12,181,851	20,106,066	6,121,772	337,707	13,646,587
Trade accounts payable	1,460,811	1,460,811	1,460,811	-	-
Other accounts payable (*)	90,528	90,528	90,528	-	-
Provisions and other liabilities	229,198	229,198	214,416	14,733	49
	13,962,388	21,886,603	7,887,527	352,440	13,646,636
December 31, 2016					
Other financial liabilities	6,588,076	6,768,230	5,902,566	581,798	283,866
Trade accounts payable	2,427,912	2,427,912	2,427,912	-	-
Other accounts payable (*)	102,136	102,136	102,136	-	-
Provisions and other liabilities	407,968	407,968	388,979	8,670	10,319
	9,526,092	9,706,246	8,821,593	590,468	294,185

(*) Other accounts payable exclude tax liabilities, advances and labor liabilities.

F. Capital risk management

The Company's objectives in the administration of capital are to safeguard the Company's ability to continue as going concern in order to generate returns to its stockholders, benefits to stakeholders, and keep an optimal capital structure to reduce capital cost.

The Company monitors its capital based on the leverage ratio. This ratio is determined by dividing net debt by the total stockholders' equity. The net debt corresponds to the total indebtedness less cash and cash equivalents. Total capital corresponds to equity as shown in condensed statement of financial position.

The PETROPERÚ S.A.'s degree of investment was provided by the following risk rating agencies: Standard & Poor's (BBB- for long-term debt) and Fitch Ratings (BBB + for long-term debt in foreign currency) and AA - local rating provided by Apoyo & Asociados.

As of June 30, 2017, the leverage indices were as follows:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Other financial liabilities	12,181,851	6,588,076
Trade accounts payable	1,460,811	2,427,912
Other accounts payable	298,245	598,238
Provisions and other liabilities	229,198	407,968
Less: cash and cash equivalents	(3,897,592)	(248,656)
Net debt	10,272,513	9,773,538
Total equity	5,155,158	3,749,507
Leverage ratio	1.99	2.61

The decrease in the gearing ratio as of June 30, 2017 is mainly arises from the increase in equity, despite the higher increase of other financial liabilities.

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Notes to the Unaudited Condensed Interim Financial Statements, continued

G. Accounting classification and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including levels in a fair value hierarchy.

	Carrying amount			Total	Fair value		
	Designated at fair value	Loans and accounts receivable	Others Financial liabilities		Level 1	Level 2	Total
<i>In thousands of soles</i>							
June 30, 2017							
Financial assets not measured at fair value:							
Cash and cash equivalents	-	3,897,592	-	3,897,592	-	-	-
Trade accounts receivable	-	862,806	-	862,806	-	-	-
Other accounts receivable	-	1,593,611	-	1,593,611	-	-	-
	-	6,354,009	-	6,354,009	-	-	-
Financial assets not measured at fair value:							
Other accounts receivable	171	-	-	171	-	171	171
	171	-	-	171	-	171	171
Financial liabilities not measured at fair value:							
Other financial liabilities	-	-	(5,688,216)	(5,688,216)	-	-	-
Trade accounts payable	-	-	(1,460,811)	(1,460,811)	-	-	-
Other accounts payable (*)	-	-	(88,064)	(88,064)	-	-	-
Provisions and other liabilities	-	-	(229,198)	(229,198)	-	-	-
	-	-	(7,466,289)	(7,466,289)	-	-	-
Financial liabilities measured at fair value:							
Other accounts payable (*)	(12,614)	-	-	(12,614)	-	(12,614)	(12,614)
Other financial liabilities	-	-	(6,493,635)	(6,493,635)	(6,458,942)	-	(6,458,942)
	(12,614)	-	(6,493,635)	(6,506,249)	(6,458,942)	(12,614)	(6,471,556)

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Notes to the Unaudited Condensed Interim Financial Statements, continued

	Carrying amount			Fair value		
	Designated at fair value	Loans and accounts receivable	Others financial liabilities	Total	Level 2	Total
<i>In thousands of soles</i>						
December 31, 2016						
Financial assets not measured at fair value:						
Cash and cash equivalents	-	248,656	-	248,656	-	-
Trade accounts receivable	-	894,175	-	894,175	-	-
Other accounts receivable	-	827,398	-	827,398	-	-
	-	1,970,229	-	1,970,229	-	-
Financial assets measured at fair value:						
Other accounts receivable	237	-	-	237	237	237
	237	-	-	237	237	237
Financial liabilities not measured at fair value:						
Other financial liabilities	-	-	(6,588,076)	(6,588,076)	-	-
Trade accounts payable	-	-	(2,427,912)	(2,427,912)	-	-
Other accounts payable (*)	-	-	(102,136)	(102,136)	-	-
Provisions and other liabilities	-	-	(407,968)	(407,968)	-	-
	-	-	(9,526,092)	(9,526,092)	-	-

(*) Excluding taxes, advances received and granted and all the labor liabilities.

The Company has not disclosed the fair values of financial instruments that have current maturity, because the carrying amount is an approximation of fair value.

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H. Measurement of fair value

i. Valuation techniques and significant unobservable inputs

The following table shows the valuations techniques used in the determination of fair values of financial instruments - Level 2 as well as the significant unobservable inputs used.

Financial instruments measured at fair value:

Type	Valuation technique	Significant unobservable variables	Interrelationship between significant unobservable variables and fair value measurement
<i>Forward</i> exchange rate	Standard valuation technique that uses the agreed exchange rate compared to the exchange rate in force at the settlement date, discounted at the measurement date	None	None

Financial liabilities not measured at fair value

Type	Valuation technique	Non-observable significant variables
Other financial liabilities	Discounted cash flows with market interest rates	None

The fair value of current loans equals their carrying amounts; the impact of the discount is not significant. The fair values of other long-term financial liabilities are based on discounted cash flows using market rates.

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I. Assets for derivative instruments

As of June 30, 2017, this item comprises thirty-five forward exchange contracts with various financial institutions, recorded at fair value. As of December 31, 2016, the item comprises two forward exchange contracts.

Detail as follows:

<i>In thousands of soles</i>	Original amount in thousands of US\$	Maturity	Type of derivative financial instruments	Agreed exchange rate	Fair value June 30, 2017	Cash flows to be settled			Fair value December 31, 2016	Cash flows to be settled		
						Total	Less than 1 year	More than 1 year		Total	Less than 1 year	More than 1 year
Citibank	10,091	1/2/2017	(a)	3.3489	-	-	-	-	112	112	112	-
Interbank	10,107	7/7/2017	(a)	3.2789	(238)	(238)	(238)	-	-	-	-	-
Interbank	20,798	7/14/2017	(a)	3.2819	(492)	(492)	(492)	-	-	-	-	-
Interbank	21,000	7/14/2017	(a)	3.2823	(506)	(506)	(506)	-	-	-	-	-
Banco Continental	20,608	7/21/2017	(a)	3.4470	(4,172)	(4,172)	(4,172)	-	125	125	125	-
Citibank	13,506	7/25/2017	(a)	3.2825	(334)	(334)	(334)	-	-	-	-	-
Banco de Crédito:	16,478	8/4/2017	(a)	3.2905	(402)	(402)	(402)	-	-	-	-	-
Scotiabank	25,284	8/11/2017	(a)	3.2826	(279)	(279)	(279)	-	-	-	-	-
Scotiabank	20,129	8/23/2017	(a)	3.2980	(456)	(456)	(456)	-	-	-	-	-
Banco de Crédito	26,299	8/25/2017	(a)	3.2870	(342)	(342)	(342)	-	-	-	-	-
Scotiabank	20,000	9/1/2017	(a)	3.2945	(333)	(333)	(333)	-	-	-	-	-
Banco de Crédito	15,161	9/1/2017	(a)	3.2961	(272)	(272)	(272)	-	-	-	-	-
Scotiabank	25,162	9/19/2017	(a)	3.2955	(312)	(312)	(312)	-	-	-	-	-
Banco de Crédito	24,626	9/19/2017	(b)	3.2990	(411)	(411)	(411)	-	-	-	-	-
Banco de Crédito	24,500	9/27/2017	(b)	3.2830	37	37	37	-	-	-	-	-
Banco de Crédito	24,400	9/29/2017	(b)	3.2880	(69)	(69)	(69)	-	-	-	-	-
Banco de Crédito	20,000	10/9/2017	(a)	3.3076	(384)	(384)	(384)	-	-	-	-	-
Scotiabank	18,259	10/9/2017	(a)	3.3065	(317)	(317)	(317)	-	-	-	-	-
Scotiabank	19,553	10/12/2017	(a)	3.3123	(433)	(433)	(433)	-	-	-	-	-
Scotiabank	16,698	10/16/2017	(a)	3.3095	(302)	(302)	(302)	-	-	-	-	-
Scotiabank	24,611	10/19/2017	(b)	3.3129	(505)	(505)	(505)	-	-	-	-	-
Banco de Crédito	24,000	10/23/2017	(b)	3.3060	(328)	(328)	(328)	-	-	-	-	-

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<i>In thousands of soles</i>	Original amount in thousands of US\$	Maturity	Type of derivative financial instruments	Agreed exchange rate	Fair value June 30, 2017	Cash flows to be settled			Fair value December 31, 2016	Cash flows to be settled		
						Total	Less than 1 year	More than 1 year		Total	Less than 1 year	More than 1 year
Banco de Crédito	24,500	10/25/2017	(b)	3.2965	(93)	(93)	(93)	-	-	-	-	-
Banco de Crédito	24,387	10/27/2017	(b)	3.2915	41	41	41	-	-	-	-	-
Banco de Crédito	24,000	11/17/2017	(b)	3.3160	(389)	(389)	(389)	-	-	-	-	-
Scotiabank	38,861	11/20/2017	(b)	3.3040	(86)	(86)	(86)	-	-	-	-	-
Banco de Crédito	24,290	11/22/2017	(b)	3.3050	(97)	(97)	(97)	-	-	-	-	-
Banco de Crédito	24,419	11/30/2017	(b)	3.3060	(66)	(66)	(66)	-	-	-	-	-
Scotiabank	24,000	12/20/2017	(b)	3.3310	(489)	(489)	(489)	-	-	-	-	-
Banco de Crédito	24,633	12/21/2017	(b)	3.3240	(358)	(358)	(358)	-	-	-	-	-
Scotiabank	25,000	12/22/2017	(b)	3.3135	(69)	(69)	(69)	-	-	-	-	-
Scotiabank	25,000	1/19/2018	(b)	3.3220	(43)	(43)	(43)	-	-	-	-	-
Scotiabank	20,000	1/24/2018	(b)	3.3192	55	55	55	-	-	-	-	-
Scotiabank	25,000	2/19/2018	(b)	3.3310	(37)	(37)	(37)	-	-	-	-	-
Scotiabank	17,314	2/23/2018	(b)	3.3283	38	38	38	-	-	-	-	-
					(12,443)	(12,443)	(12,443)	-	237	237	237	112
Less, current portion					-	(12,443)	-	-	-	237	-	-
Non-current portion					-	-	-	-	-	-	-	-

- (a) Derivative financial instruments for hedging cash flows.
- (b) Derivative financial instrument at fair value.

On the settlement date of each contract, the Company pays for or collects from current derivative financial instruments, the difference between the agreed exchange rate and the market exchange rate applicable on that date. The flows effectively received or paid by the Company are recognized as gain or loss for the period. The measurement of derivative financial instruments for hedging cash flows and derivative financial instruments at fair value are recognized by the Company affecting the equity and profit or loss for the period, respectively.

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Notes to the Unaudited Condensed Interim Financial Statements, continued

4. Segment Reporting

A. Bases for segmentation

The Company has the following three strategic divisions, which are its reportable segments. These segments offer different products and services, and are managed separately because they require different marketing strategies.

The following summary describes the operations of each reportable segment:

Segment reporting	Operations
Refining and Commercialization	Refining and commercialization of oil-derivative products.
Oil Pipeline Operations	Transfer service and custody of crudes from the northern rain forest area of the country.
Leased and Private Units	Assets originating cash inflows derived from leases.

The General Management of the Company reviews the internal management reports for each segment at last monthly.

There are varying levels of transactions between the Refining and Commercialization and Oil Pipeline Operations segments. These transactions include transfers of oil or some products and transportation services, respectively.

B. Information about reportable segments

i. Assets

<i>In thousands of soles</i>	Refining and commercialization (*)	Oil pipeline operations	Leased and private units	Total
As of June 30, 2017	18,313,820	690,408	625,687	19,629,915
As of December 31, 2016	12,839,857	652,584	541,458	14,033,899

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

ii. External revenues

<i>In thousands of soles</i>	Refining and commercialization (*)	Oil pipeline operations	Leased and private units	Total
June 30, 2017				
Income from ordinary activities	6,082,424	-	-	6,082,424
Other operating income	43,115	3,645	71,942	118,252
Total gross income	6,125,539	3,645	71,492	6,200,676
June 30, 2016				
Income from ordinary activities	5,082,155	-	-	5,082,155
Other operating income	38,472	16,109	75,475	130,056
Total gross income	5,120,627	16,109	75,475	5,212,211

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iii. Profit (loss) before income tax

<i>In thousands of soles</i>	Refining and Commercialization (*)	Oil pipeline operations	Leased and private units	Total
June 30, 2017	514,001	(105,403)	54,851	463,449
June 30, 2016	692,530	(89,396)	40,341	643,475

Information related to each reportable segment is set out below.

<i>In thousands of soles</i>	Refining and Commercialization (*)	Oil pipeline operations	Leased and private units	Total
As of June 30, 2017				
External revenue	6,125,539	3,645	71,492	6,200,676
Inter-segment revenue	9,170	-	-	9,170
Segment revenue	6,135,109	3,645	71,492	6,209,846
Interest income	4,920	131	-	5,051
Interest expenses	(65,684)	(6,840)	(92)	(72,616)
Depreciation and amortization	(50,248)	(10,172)	(14,486)	(74,906)
Segment assets	18,313,820	690,408	625,687	16,929,915
Additions to non-current assets				
Property, plant and equipment	889,865	37,009	34,579	961,453
Segment liabilities	14,179,030	254,530	41,197	14,474,757
As of June 30, 2016				
External revenue	5,120,627	16,109	75,475	5,212,211
Inter-segment revenue	-	9,005	-	9,005
Segment revenue	5,120,627	25,114	75,475	5,221,216
Interest income	3,144	121	18	3,283
Interest expenses	(27,343)	(2,674)	-	(29,917)
Depreciation and amortization	(44,696)	(9,750)	(14,079)	(68,525)
Segment assets	10,826,681	738,691	592,290	12,157,662
Additions to non-current assets				
Property, plant and equipment	1,929,728	11,410	7,530	1,948,668
Segment liabilities	7,973,423	163,127	5,576	8,142,126

C. Geographic revenue information

Revenues per geographical area are determined according to the client's location:

<i>In thousands of soles</i>	06.30.2017	06.30.2016
Peru	5,528,271	4,706,577
Other countries	554,153	375,578
	6,082,424	5,082,155

D. Major customer

Revenues from one customer of the Refining and Commercialization segment represented approximately S/ 1,722,199 thousand for the six-month period ended June 30, 2017 (S/ 1,338,741 thousand for the six-month period ended June 30, 2016).

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5. Cash and Cash Equivalents

This caption comprises the following:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Liquidity funds (a)	2,115,750	-
Checking accounts (b)	1,781,737	248,540
Cash fund	105	116
	3,897,592	248,656

(a) As of June 30, 2017, liquidity funds are short-term instruments with variable returns between 1.1365% and 1.4967%.

(b) The Company holds cash deposited in financial institutions in checking accounts in local and foreign currency. The funds of these accounts have free withdrawal option and accrue preferred interest rates.

According to the information provided by Apoyo & Asociados Internacionales S.A.C., the quality of the financial institutions in which the Company deposits its cash is classified as follows:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
A+	663,174	117,249
A	1,118,366	97,399
A-	197	33,892
Total	1,781,737	248,540

6. Other Accounts Receivable

This caption comprises the following:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Time deposits (a)	976,500	-
Sales tax credit	735,079	481,443
Sales tax credit - long term (b)	281,680	195,000
Claims before Peruvian tax - (c)	312,914	-
Claims before Peruvian tax, long term (c)	112,410	595,333
Claims for Price Stabilization Fund - Ministry of Energy and Mines (d)	58,026	58,026
Accounts receivable association – GeoPark	43,219	57,204
Payment on account of income tax, credit balance	42,532	-
Price stabilization fund - Ministry of Energy and Mines (e)	42,419	81,675
Loans to personnel	16,028	16,879
Advances to suppliers	11,073	25,581
Claims to third parties	8,591	9,938
Doubtful accounts	113,876	111,750
Various	39,603	25,459
	2,793,950	1,658,288
Less, estimate for doubtful accounts (f)	(113,876)	(111,750)
	2,680,074	1,546,538
Current portion	2,227,958	698,179
Non-current portion (b), (c) and (d)	452,116	848,359

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(a) Time deposits

As of June 30, 2017, the Company holds time deposits with original maturities that do not exceed 90 days, but it expects to extend such term. Notes receivable earn interest at market rates.

(b) Sales tax credit - long term

It corresponds to the balance in favor of such tax, paid for the acquisition of goods and services related mainly to the Talara Refinery Modernization Project. The Company expects to recover most of this amount in the short term.

(c) Claims to Peruvian Tax Authorities -SUNAT

As of June 30, 2017, they mainly correspond to claims for S/ 405 million related to objections for Turbo A-1 fuel detailed below:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
File 02529-2011-2-1801-JR-CA-14 (i)	120,012	120,012
File 6002-2011-0-1801-JR-CA-17 (ii)	-	170,009
File 07873-2012-0-1801-JR-CA-13 (iii)	192,902	192,902
File 00114-2012-1801-JR-CA-07 (iv)	59,433	59,433
File 03490-2012-0-1801-JR-CA-08 (v)	2,627	2,627
File 17806-2012 (vi)	30,669	30,669
	405,643	575,652

- (i) In April 2011, Tax Authorities conducted a preventive seizure of S/ 120 million on the grounds of taxes allegedly unpaid (excise tax) by the Company on the import of A-1Turbo fuel in 2003. On May 31, 2017, the Company was notified of the Tax Report 626-2017-MP-FN-FSCA, by which the Public Prosecutor declared groundless the appeal filed by the Tax Authorities. The Company expects to recover the claim in the short term.
- (ii) SUNAT's resolutions 012-180-0013877/SUNAT, 012-180-0013878/SUNAT, 012-180-0013879/SUNAT and 012-180-0013880/SUNAT 012, dated June 6, 2017, presented the amounts of S/ 119,887,255, S/ 31,791,387, S/ 90,365,836 and S/ 19,244,652, respectively, corresponding to the claim return recorded under the File 6002-2011-0-1801-JR-CA-17. The returns included interest of S/ 101.8 million, recorded in the condensed statement of profit or loss and other comprehensive income.
- (iii) In February 2013, the Company paid S/ 180.7 million for excise tax and penalties for year 2004; in July 2013, it paid S/ 12.1 million corresponding to the excise tax of October 2004, for related resolutions for collections issued by SUNAT. On June 02, 2017, the Company was notified of the Tax Report 641-2017-MP-FN-FSTCA, by which the Public Prosecutor declared groundless the appeal filed by the Tax Authorities. The Company expects to recover the claim in the short term.
- (iv) In July and August 2013, the Company paid a total amount of S/ 59.4 million for sales tax and excise tax for year 2005. By means of Resolution 29, dated December 17, 2015, issued by the Sixth Court for Administrative Disputes of the Superior Court of Justice of Lima, revoked Resolution 15, dated December 19, 2014, which declared groundless the claim filed by the Company against Tax Court Resolution 15320-3-2011 and confirming the objections

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concerning excise tax exemption for the sale of A-1 Turbo aircraft fuel in 2005. On March 24, 2017, the Company submitted a document jointly with CAS 13587-2015, which declares groundless the appeal filed by the MEF's attorney and the SUNAT's attorney. Currently, the issuance of the Tax Report is pending. Subsequently, the proceeding will be resolved in the Supreme Court.

- (v) In February 2013, the Company paid the amount of S/ 2.6 million for the objections made in relation to alleged omitted payments of the excise tax for year 2002. By means of Resolution 31, dated August 27, 2015, issued by the Sixth Court for Administrative Disputes of the Superior Court of Justice of Lima, revoked Resolution 19, dated September 29, 2014, which declared groundless the claim filed by the Company against Tax Court Resolution 21910-4-2011 and confirming the objections concerning excise tax exemption for the sale of A-1 Turbo aircraft fuel in 2002. On March 24, 2017, the Company submitted a document jointly with CAS 13587-2015, which declares groundless the appeal filed by the MEF's attorney and the SUNAT's attorney. Currently, the issuance of the Tax Report is pending. Subsequently, the proceeding will be resolved in the Supreme Court.
- (vi) In November 2012, the Company paid the amount of S/ 29, 2 million concerning various tax Assessment and Fine Resolutions issued for alleged omitted payments of excise tax and sales tax for year 2007. As of June 30, 2017, the proceeding is pending resolution in the room 4 of the Tax Court, assigned with File 17806-2012.

Management considers that taking into account the favorable result to the Company in File 6002-11 (court proceeding described in b), a similar criterion would be established when the remaining files concerning excise tax exemption for the sale of Turbo A-1 aircraft fuel are solved.

In conclusion, the Company believes that pending outcomes by Supreme Court of Justice concerning proceedings for Turbo A-1 will be favorable, since the company has the aforementioned antecedent, the same one that has confirmed our sound fundamentals regarding the unconstitutionality of the regulation that created the tax levied on the sale of Turbo A-1 fuel.

(d) Claims to the oil-fuel price stabilization fund of the Ministry of Energy and Mines

The Company has filed a Constitutional Appeal with the second constitutional court in Lima amounting to S/ 58,026 thousand related to the application of this Directorial Resolution.

On March 25, 2014, PETROPERÚ S.A. received notification of the judgment of the lower court declaring the claim groundless. On May 12, 2014, the Legal Department appealed such judgment. To date, its evaluation by the corresponding Civil Court of the Lima Superior Court is pending. The Court issued Resolution 9, dated November 25, 2014, notified on January 6, 2015, referring again the case to a higher court with the charges of the respective notifications.

As of June 30, 2017, this proceeding is still pending at the second constitutional court in Lima. The sentence issuance is pending.

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

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(e) Oil fuel price stabilization Fund - Ministry of Energy and Mines

Movement in this balances is as follows:

<i>In thousands of soles</i>	For the six-month period ended	
	06.30.2017	06.30.2016
Opening balance	139,701	52,624
Price compensation (revenues)	25,344	124,797
Price contribution (expense)	(64,596)	(12,804)
Net (debited) credited to revenues	(39,252)	111,993
Collection of compensation and/or contribution payments	(4)	16,889
Final balance	100,445	181,506

The amount receivable from the General Hydrocarbons Agency - DGH as of June 30, 2017, is S/ 100,445 thousand. This amount includes the proceeding regarding constitutional guarantees recorded in 'claims' for S/ 58,026 thousand, and the amount receivable of S/ 42,419 thousand.

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7. Property, Plant and Equipment

Cost and corresponding accumulated depreciation activity of premises, plant and equipment as of June 30, 2017 and 2016 is the following:

<i>In thousands of soles</i>	Land	Buildings and other constructions	Plant and equipment	Vehicles	Furniture and fixture	Various equipment and IT equipment	Equipment not in use	Units in transit	Work-in-progress	Additional investments	Total
Cost:											
Balance as of January 1, 2016	723,749	406,592	2,257,448	68,093	12,669	123,889	44,094	411	3,554,743	28,822	7,220,510
Additions	-	1,771	14,926	2,889	454	284	-	-	1,920,974	7,370	1,948,668
Disposals	(21,056)	(2,499)	-	-	(1)	-	-	-	-	-	(23,556)
Transfers	-	-	(22)	(510)	(9)	(360)	901	-	-	-	-
Balance as of June 30, 2016	702,693	405,864	2,272,352	70,472	13,113	123,813	44,995	411	5,475,717	36,192	9,145,622
Balance as of January 1, 2017	698,697	458,527	2,232,841	74,651	14,153	133,563	46,180	411	7,071,143	52,262	10,782,428
Additions	2,638	2,251	28,928	1,769	804	601	-	-	890,070	34,392	961,453
Disposals	(1,185)	(4)	(10,086)	-	(9)	(126)	(11)	-	-	-	(11,421)
Transfers	-	-	(1,042)	(20)	(23)	(1,134)	2,219	-	-	-	-
Balance as of June 30, 2017	700,150	460,774	2,250,641	76,400	14,925	132,904	48,388	411	7,961,213	86,654	11,732,460
Accumulated depreciation:											
Balances as of January 1, 2016	-	262,924	951,794	51,615	11,022	73,337	44,094	-	-	-	1,394,786
Additions	-	6,851	51,397	2,291	368	3,572	14	-	-	-	64,493
Disposals	-	(2,024)	-	-	(1)	-	-	-	-	-	(2,025)
Transfers	-	-	(22)	(509)	(9)	(347)	887	-	-	-	-
Balance as of June 30, 2016	-	267,751	1,003,169	53,397	11,380	76,562	44,995	-	-	-	1,457,254
Balance as of January 1, 2017	-	275,561	1,057,016	57,059	11,856	80,303	46,180	-	-	-	1,527,975
Additions	-	7,611	56,465	2,437	475	3,922	44	-	-	-	70,954
Disposals	-	(4)	(10,086)	-	-	(123)	(11)	-	-	-	(10,224)
Transfers and adjustments	-	-	(1,169)	(20)	(23)	(1,101)	2,175	-	-	-	(138)
Balance as of June 30, 2017	-	283,168	1,102,226	59,476	12,308	83,001	48,388	-	-	-	1,588,567
Net cost:											
As of June 30, 2017	700,150	177,606	1,148,415	16,924	2,617	49,903	-	411	7,961,213	86,654	10,143,893
As of June 30, 2016	702,693	138,113	1,269,183	17,075	1,733	47,251	-	411	5,475,717	36,192	7,688,368

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Notes to the Unaudited Condensed Interim Financial Statements, continued

A. Main additions to work-in-progress

During the six-month period ended June 30, 2017, they mainly correspond to the Engineering Procurement Construction - EPC of the PMRT amounting to S/ 702 million (S/ 1,838 million during the six-month period ended June 30, 2016).

In addition, borrowing cost capitalized during six-month period ended June 30, 2017 related to the PRMT amounted to S/ 86,696 thousand (S/ 59,024 thousand during the six-month period ended June 30, 2016).

B. Depreciation

The depreciation expense was distributed between the following centers of costs:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Cost of sales	45,565	40,892
Selling and distribution expenses	10,086	4,096
Administrative expenses	15,303	19,505
	70,954	64,493

As of June 30, 2017, the Company has not granted any component of its fixed assets in guarantee of loans.

8. Other Financial Liabilities

This caption comprises the following:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Current liabilities		
Unsecured bank loans	5,688,216	5,191,693
Syndicated loan (a)	-	560,000
	5,688,216	5,751,693
Non-current liabilities:		
Syndicated loan (a)	-	836,383
Corporate bonds (b)	6,493,635	-
	6,493,635	836,383

- (a) On June 4, 2014, the Company entered into a syndicated loan agreement for US\$ 500 million, whose administrative agent is Mizuho Bank Ltd, intended to finance a first tranche corresponding to the EPC phase of PMRT. The term of the syndicated loan was 5 years, considering that: i) The amortization is made in 12 equal quarterly installments from September 2016, and ii) interest is quarterly paid from September 2014 based on the interest rate (Libor 3M) and a spread, according to the agreement entered into with the banks.

As part of the contract signed, the Company shall comply with financial commitments, which are measured quarterly. At the end of June 2017, the Company paid the outstanding principal amounting to US\$ 333.3 million.

- (b) On June 12, 2017, the Company issued bonds in the international market for US\$ 2,000,000 thousand, under the terms of Rule 144A and Regulation S, which are "Safe-harbors" to the US Securities Act- 1933 and US Securities Exchange Act -1934, allowing foreign issuers to offer, place and/or resell securities, without their recording in the SEC. The bonds issued are detailed below:

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- 2032 Notes, the principal amounting to US\$ 1,000,000 thousand, which will be paid through semiannual coupons at an annual fixed rate of 4.750% during a term of 15 years. Coupons are paid from December 2017 and the principal will be paid on the maturity date of the bonds.
- 2047 Notes, the principal amounting to US\$ 1,000,000 thousand, which will be paid through semiannual coupons at an annual fixed rate of 5.625% during a term of 30 years. Coupons are paid from December 2017 and the principal will be paid on the maturity date of the bonds.

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Notes to the Unaudited Condensed Interim Financial Statements, continued

A. Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

<i>In thousands of soles</i>	Original currency	Nominal interest rate	Maturity	June 30, 2017		December 31, 2016	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loans	Dollars	1.64 – 3.11%	2017	835,746	835,746	2,035,780	2,035,780
Unsecured bank loans	Soles	4.80 – 6.50%	2017	121,353	121,353	3,155,913	3,155,913
Syndicated loan	Dollars	LIBOR 3M+MGN	2019	-	-	1,400,000	1,396,383
Unsecured bank loans	Dollars	0.80%	2018	1,087,170	1,087,170	-	-
Unsecured bank loans	Soles	3.85 – 6.50%	2017	606,585	606,585	-	-
Unsecured bank loans	Dollars	0.75 – 2.99%	2017	2,381,253	2,381,253	-	-
Unsecured bank loans	Soles	5.90%	2018	656,109	656,109	-	-
Corporate bonds	Dollars	4.750%	2032	3,255,000	3,246,818	-	-
Corporate bonds	Dollars	5.625%	2047	3,255,000	3,246,818	-	-
Total interest-bearing liabilities				12,198,216	12,181,851	6,591,693	6,588,076

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Notes to the Unaudited Condensed Interim Financial Statements, continued

B. Classification of loans per type of use

The Company allocated the funds obtained by financing as follows:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Working capital	3,643,947	2,292,123
PMRT	8,537,904	4,295,953
	12,181,851	6,588,076

9. Trade Accounts Payable

This caption comprises the following:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
National suppliers of crude and refined products	196,749	292,306
Foreign suppliers of crude and refined products	834,760	1,189,608
Suppliers of goods and services	367,027	890,137
Shipping companies, terminal operators and sales plants	62,275	55,861
	1,460,811	2,427,912

As of June 30, 2017, the crude leading national supplier is Savia Perú S.A. with a balance of S/ 63.0 million (S/ 75.8 million as of December 31, 2016) and the leading foreign supplier is Koch Refining International Pte. Ltd. for S/ 497.3 million.

10. Other Accounts Payable

This caption comprises the following:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Remunerations (a)	68,514	100,510
Interest (b)	58,668	72,676
Taxes (c)	56,431	247,431
Advances from customers	46,921	38,810
Workers' profit sharing (d)	25,701	109,351
Derivative financial instruments payable	12,614	-
Various	29,396	29,460
	298,245	598,238

- (a) The decrease mainly corresponds to the payment of collective negotiations during 2017, recorded in the statement of comprehensive income as of December 31, 2016.
- (b) They correspond to accrued interest payable on loans and corporate bonds.
- (c) The decrease mainly corresponds to the payment of income tax for the year 2016 and excise tax, for S/ 120 million and S/ 70 million, respectively.
- (d) In conformity with current legislation, the Company's workers are entitled to a profit sharing plan to be computed at 10% of net gain. This profit sharing is considered as a deductible expense for income tax calculation purposes as long as it is paid before the income tax return filing.

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For the six-month period ended June 30, 2017, the Company determined a worker's profit sharing of S/ 25,701 thousand (S/ 71,268 thousand as of June 30, 2016), which was charged against the results of the results of the period in the following categories:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Cost of sales	10,050	28,190
Selling and distribution expenses	4,510	12,695
Administrative expenses	11,141	30,383
	25,701	71,268

11. Provisions and Other Liabilities

This caption comprises the following:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Current		
Provision for environmental improvement (c)	154,021	303,092
Provision for civil claims (b)	49,296	75,726
Provision for labor claims	8,471	7,533
Provision for the plugging of wells	1,928	1,928
Accrued pension plans obligations	174	174
Other	526	526
	214,416	388,979
Non-current		
Provision for environmental improvement	14,559	18,761
Accrued pension plans obligations	223	228
	14,782	18,989

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Notes to the Unaudited Condensed Interim Financial Statements, continued

Movement of provisions and other liabilities during the periods:

<i>In thousands of soles</i>	Accrued retirement pension	Provision for improvements to environment	Provision for labor claims	Provision for civil claims	Provision for plugging of of wells	Other	Total
Balance as of January 1, 2016	514,895	99,268	34,134	48,857	1,928	5,398	704,480
Charges for the period	-	971	1,936	18,484	-	-	21,391
Payments	(159)	(1,062)	(304)	(220)	-	-	(1,745)
Recovery	-	-	(25,849)	(1,401)	-	(4,872)	(32,122)
Disposals and transfers to ONP	(514,460)	-	-	-	-	-	(514,460)
Exchange difference	-	(3,510)	-	(110)	-	-	(3,620)
Balance as of June 30, 2016	276	95,667	9,917	65,610	1,928	526	173,924
Balance as of January 1, 2017	402	321,853	7,533	75,726	1,928	526	407,968
Charges/recoveries for the period	70	(2,763)	1,915	-	-	-	(778)
Payments	(75)	(147,859)	(956)	(216)	-	-	(149,106)
Recovery2	-	-	(21)	(25,849)	-	-	(25,870)
Exchange difference	-	(2,651)	-	(365)	-	-	(3,016)
Balance as of June 30, 2017	397	168,580	8,471	49,296	1,928	526	229,198

A. Provision for environmental improvement

During 2017, the Company performed remediation and environmental improvements mainly in the Oil Pipeline Operations. The Company disbursed S/ 144 million for cleaning, remediation, oil recovery, soil monitoring and other services related to crude oil spills occurred in 2016.

B. Provision for civil claims

As of June 30, 2017, the Company reversed its provision for S/ 24 million related to the Municipality of Ventanilla.

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Notes to the Unaudited Condensed Interim Financial Statements, continued

12. Income Tax Liabilities

The movement of the deferred tax liabilities for the periods ended June 30, 2017 and June 30, 2016 is as follows:

<i>In thousands of soles</i>	Balances as of 01.01.2016	Debit (credit) to equity	Debit (credit) to profit and loss	Balances as of 06.30.2016	Balances as of 12.31.2016	Charge (credit) to profit and loss	Balances as of 06.30.2017
Deferred assets:							
Provision for retirement pension (a)	144,171	(144,048)	(45)	78	120	(2)	118
Provision for environmental remediation	27,091	-	(1,008)	26,083	94,947	(45,216)	49,731
Other provisions	22,833	-	(7,162)	15,671	26,479	(3,744)	22,735
Depreciation rate differences	17,660	-	1,824	19,484	18,382	763	19,145
Impairment of property, plant and equipment.	5,370	-	-	5,370	42,949	-	42,949
	217,125	(144,048)	(6,391)	66,686	182,877	(48,198)	134,679
Deferred liabilities:							
Cost attributable to fixed assets	(380,666)	-	9,104	(371,562)	(428,556)	5,745	(422,811)
Capitalized interest - PMRT financing	(16,519)	-	(15,346)	(31,865)	(16,519)	-	(16,519)
	(397,185)	-	(6,242)	(403,427)	(445,075)	5,475	(439,330)
Deferred liabilities, net	(180,060)	(144,048)	(12,633)	(336,741)	(262,198)	(42,453)	(304,651)

- (a) The disposals of deferred tax gains were made with a credit to equity (additional capital), because the accounting treatment of the underlying transaction (disposals and transfer of retirement pension liabilities to the ONP) is registered in that category.

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13. Equity

By means of Supreme Decree 005-2017-EF, a supplementary loan was approved to finance the capital increase to PETROPERÚ S.A. for up to S/ 1,056,000 thousand, under article 8 of Law 29970, in accordance with Legislative Decree 1292. Under Ministerial Resolution 028-2017-MEM/D, dated January 17, 2017, the financial resources of the Ministry of Energy and Mines were transferred to PETROPERÚ S.A., which were recorded in Public Registry on January 27, 2017.

At the General Stockholders' Meeting, held on April 18, 2017, an agreement was approved to capitalize accumulated results for S/ 406,665 thousand. The recording in Public Registry is still pending.

14. Income from Ordinary Activities

This caption comprises the following:

<i>In thousands of soles</i>	For the three-month period ended		For the six-month period ended	
	June 30		June 30	
	2017	2016	2017	2016
Local sales	2,807,539	2,349,957	5,567,523	4,594,584
Price stabilization fund for oil-derived fuels	(50,315)	109,063	(39,252)	111,993
	2,757,224	2,459,020	5,528,271	4,706,577
Foreign sales	256,913	158,675	554,153	375,578
	3,014,137	2,617,695	6,082,424	5,082,155

For the six-month period ended June 30, sales are broken down as follows:

<i>In thousands of soles</i>	For the three-month period ended		For the six-month period ended	
	June 30		June 30	
	2017	2016	2017	2016
Local sales				
GLP	147,589	189,942	316,491	357,604
Turbo	79,328	66,263	154,616	125,809
Gasoline	745,005	646,140	1,503,496	1,271,599
Diesel - various	1,638,661	1,444,045	3,234,416	2,734,273
Industrial oil	111,689	65,485	247,212	113,135
Asphaltenes	22,862	34,627	47,194	78,202
Solvents	12,090	10,609	24,846	24,046
Others	-	1,909	-	1,909
Total local sales	2,757,224	2,459,020	5,528,271	4,706,577
Foreign sales				
Virgin naphtha	30,046	32,329	113,874	86,537
Turbo	28,905	30,872	47,388	58,050
Diesel - various	71,234	13,424	147,658	36,000
Industrial oil	121,012	79,529	213,336	191,520
Gasoline	2,966	-	11,637	-
Asphaltenes	2,750	2,521	7,060	3,471
Reduced crude oil	-	-	13,200	-
Total foreign sales	256,913	158,675	554,153	375,578
	3,014,137	2,617,695	6,082,424	5,082,155

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Notes to the Unaudited Condensed Interim Financial Statements, continued

15. Cost of Sales

This caption comprises the following:

<i>In thousands of soles</i>	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
Opening balance of inventories	1,617,172	1,164,067	1,597,280	1,306,398
Acquisition of crude oil, refined products and supplies	2,522,905	2,070,621	5,104,701	3,843,548
Consumption of supplies and operations	(15,437)	(10,318)	(30,581)	(21,663)
Production operating expenses (a)	194,115	205,649	387,489	407,223
Final balance of inventories	(1,525,067)	(1,380,335)	(1,525,067)	(1,380,335)
	2,793,688	2,049,684	5,533,822	4,155,171

(a) Production operating expenses are broken down as follows:

<i>In thousands of soles</i>	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
Personnel expenses (note 18)	39,169	40,426	80,740	82,148
Workers' profit sharing (note 10 and 18)	(386)	17,898	10,050	28,190
Materials and supplies	21,370	16,973	43,459	36,789
Third-party services (*)	103,129	103,771	192,987	206,353
Insurance	5,196	5,423	10,366	10,844
Various charges for operations	413	330	463	661
Depreciation (note 7)	22,689	20,511	45,565	40,892
Amortization	10	10	20	20
Others	2,525	307	3,839	1,326
	194,115	205,649	387,489	407,223

(*)including the following:

<i>In thousands of soles</i>	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
Freights and land transportation expenses	30,067	25,333	59,248	49,918
Freights and maritime transportation expenses	17,144	23,364	34,563	46,657
Freights and other freight expenses	15,085	20,240	26,565	37,366
Maintenance and repair services	15,888	7,596	24,402	17,785
Utilities	16,648	19,655	33,721	39,692
Industrial protection and safety	3,340	2,288	5,643	5,394
Food and storage	2,916	4,286	4,633	7,641
Other third-party services	2,041	1,009	4,212	1,900
	103,129	103,771	192,987	206,353

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Notes to the Unaudited Condensed Interim Financial Statements, continued

16. Selling and Distribution Expenses

This caption comprises the following:

<i>In thousands of soles</i>	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
Personnel charges (note 18)	18,565	18,333	36,893	36,867
Workers' profit sharing (note 10 and 18)	(173)	8,060	4,510	12,695
Materials and supplies	1510	2,787	3,942	4,367
Various charges for operations	429	438	636	569
Insurance	870	907	1,712	1,815
Third-party services (a)	67,009	63,828	124,644	123,756
Doubtful accounts	56	223	66	223
Depreciation (note 7)	5,010	2,056	10,086	4,096
Taxes	14,101	13,032	29,392	25,758
	107,377	109,664	211,881	210,146

(a) It includes the following:

<i>In thousands of soles</i>	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
Storing products	16,839	17,853	33,459	34,454
Delivering products	24,590	23,823	46,954	50,242
Advertising	1,195	1,362	683	2,244
Maintenance and repair services	1,660	1,744	3,123	2,987
Freights and other freight expenses	15,345	12,893	28,535	22,329
Industrial protection and safety	2,090	1,800	2,649	2,570
Other third-party services	4,866	4,116	8,603	8,566
Travel and transfer expenses	424	237	638	364
	67,009	63,828	124,644	123,756

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Notes to the Unaudited Condensed Interim Financial Statements, continued

17. Administrative Expenses

This caption comprises the following:

<i>In thousands of soles</i>	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
Personnel charges (note 18(a))	62,122	55,744	117,786	108,917
Workers' profit sharing (notes 10 and 18)	(427)	19,290	11,141	30,383
Materials and supplies	1,235	811	2,183	1,767
Third-party services (b)	28,600	30,627	51,392	56,167
Insurance	487	534	974	1,072
Various charges for operations	14,056	58,826	18,912	65,679
Doubtful accounts	5,351	223	5,351	223
Depreciation (note 7)	7,684	9,766	15,303	19,505
Amortization	1,935	2,015	3,932	4,010
Taxes	4923	2,478	8,596	6,658
	125,966	180,091	235,576	294,158

(a) Includes compensation to the Board of Directos (per diem) of S/ 105 thousand as of June 30, 2017 (S/ 144 thousand as of June 30, 2016) and management compensation totaling S/ 7,059 thousand as of June 30, 2017 (S/ 8,580 thousand as of June 30, 2016).

(b) It includes the following:

<i>In thousands of soles</i>	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
IBM outsourcing services	7,105	7,589	11,471	13,192
Maintenance and repair services	5,054	4,202	8,289	8,696
Industrial protection and safety	5,286	3,920	9,392	7,876
Temporary services	1,049	1,251	2,043	2,283
Advisory, appraisal and audits	2,535	3,220	5,845	6,328
Advertising	1,238	941	2,771	1,650
Bank expenses	817	1,873	1,646	2,670
Other third-party services	3,982	5,598	6,889	9,306
Freights and other freights	547	553	1,042	1,143
Travel and transfer expenses	990	1,184	2,004	2,411
	28,600	30,627	51,392	56,167

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Notes to the Unaudited Condensed Interim Financial Statements, continued

18. Personnel Charges

This caption comprises the following:

<i>In thousands of soles</i>	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
Wages and salaries	46,841	45,319	90,505	87,947
Social contributions	20,407	19,498	37,997	37,497
Legal bonuses	10,106	9,825	19,751	19,482
Compensation for time of services	5,621	4,615	13,209	11,776
Workers' profit sharing	(986)	45,248	25,701	71,268
Vacations	3,645	3,524	7,427	7,021
Bonuses	24,720	24,302	49,188	48,803
Transportation	965	957	1,937	1,853
Food	2,990	3,043	5,939	5,960
Overtime	1,099	756	2,549	1,746
Others	3,462	2,664	6,917	5,847
	118,870	159,751	261,120	299,200

Personnel charges and workers' profit sharing expenses are charged to profit or loss of the period in the following items:

<i>In thousands of soles</i>	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
Cost of sales (note 15)	38,783	58,324	90,790	110,338
Selling expenses and distribution (note 16)	18,392	26,393	41,403	49,562
Administrative expenses (note 17)	61,695	75,034	128,927	139,300
	118,870	159,751	261,120	299,200

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Notes to the Unaudited Condensed Interim Financial Statements, continued

19. Other Income and Expenses

Other operating income and expenses comprise:

<i>In thousands of soles</i>	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
Other income				
Interest, devolution SUNAT (a)	101,816	-	101,816	-
Reversal of provision - Ventanilla	23,967	-	23,967	-
Recovery of provisions	4,782	531	5,280	762
Claims and/or compensations (insurances/non-compliance)	3,001	3,653	6,531	10,071
Maritime operations services	2,647	2,286	5,238	4,839
Others	11,357	35,457	26,790	40,705
	147,570	41,927	169,622	56,377
Other expenses				
Provision for claims - OLE	(2,983)	-	(2,983)	-
Derecognition of land and plant	(1,188)	(475)	(1,188)	(21,531)
Write-downs of obsolete materials	-	-	(135)	-
IGV tax credit not used for sales exempt sales in the Amazon	-	(230)	-	(546)
Provision for retirement pension	(35)	-	(70)	-
	(4,206)	(705)	(4,376)	(22,077)

- (a) On June 6, 2017, SUNAT issued a resolution related to the claim return recorded under the File 6002-2011-0-1801-JR-CA-17. The returns included interest of S/ 101.8 million.

20. Finance Costs

Finance costs comprise:

<i>In thousands of soles</i>	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
Interest on loans	(31,223)	(10,521)	(59,366)	(26,069)
Loss for financing instruments	(8,150)	(4,021)	(12,941)	(2,870)
Others	-	(978)	(309)	(978)
	(39,373)	(15,520)	(72,616)	(29,917)

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Notes to the Unaudited Condensed Interim Financial Statements, continued

21. Tax Matters

Income tax determination

- A. The Company computed its taxable base for the six months period ended at June 30, 2017 and 2016, and determined the following current and deferred taxes:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Current	68,238	65,570
Deferred	42,453	3,590
Income tax expense	110,691	69,160

The reconciliation of the effective income tax rate to the tax rate is as follows:

<i>In thousands of soles</i>	06.30.2017		12.31.2016	
Loss before income tax	463,449	100.0%	643,475	100.0%
Income tax (theoretical)	136,717	29.5%	180,173	28.0%
Non-deductible permanent expenses	(68,479)	(14.8%)	(578)	(0.09%)
Others	42,453	9.16%	12,633	1.96%
Current and deferred tax registered as per effective rate	110,691	23.88%	192,228	29.01%

Tax assessment by tax authorities

- B. The tax authorities are entitled to audit and, if applicable, to modify the income tax calculated by the Company within the four years following the year of the tax return filing. The Company's income and sales tax returns for years 2012 through 2016 are open to review by tax authorities. Until year 2010 were reviewed by the Tax Authorities. Income tax for 2011 is open for review by the Peruvian Tax Authorities.

Due to the possibility of various interpretations of the current legal regulations by the tax authorities, it is not possible to determine, to date, whether a future tax audit will result or not in liabilities for the Company; therefore, any major tax or surcharges that might arise from eventual tax audits would be applied to profit or loss of the period in which it is determined. However, it is the opinion of the Company's management and its legal advisors that, any possible additional settlement of taxes would not be significant for the interim financial statements as of June 30, 2017.

As a result of the assessment of the 2010 income tax, PETROPERÚ S.A. paid the amount of S/ 9.6 million for taxes, interest and fines on May 30, 2016.

Fiscal period 2007 is in the appeal process before SUNAT for an estimated amount of S/ 54.8 million corresponding to the general sales tax, excise tax and income tax. Income tax for fiscal year 2008 has been appealed for approximately S/ 9.0 million.

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Notes to the Unaudited Condensed Interim Financial Statements, continued

As of June 30, 2017, PETROPERÚ S.A. is under the following tax assessments:

- FISE collection, from January to December, 2014 and 2015, by OSINERGMIN.
- Contribution for Regulation (rate), period January to December 2014, by OSINERGMIN.
- Income Tax, January to December 2011, by SUNAT.

By means of SUNAT's resolutions 012-180-001380/SUNAT, 012-180-001379/SUNAT, 012-180-001378/SUNAT and 012-180-001377/SUNAT, tax authorities approved the return of S/ 261.3 million. The amount received corresponds to amounts paid unduly and interest for S/ 159.5 million and S/ 101.8 million, respectively. The return corresponds to the proceeding related to Turbo A-1 of the years 2003 and 2006.

According to Judiciary's resolution 29, the Company recognized S/ 10.5 million as expenses in June 2017, for income tax and fines of 2003.

Tax Regime of Sales Tax

- C. On October 21, 2016, PETROPERÚ S.A., presented to PROINVERSIÓN a request for making use of the Anticipated Sales Tax Recovery System. As part of the process, the file was forwarded by PROINVERSIÓN to the Ministry of Energy and Mines (MEM) and to the Ministry of Economy and Finance (MEF). In this regard, Legal Technical Report 101-2016-MEM-DGH-DPTC-DNH was issued, whereby the Ministry of Energy and Mines approves the investment schedule presented by PETROPERÚ S.A. for more than 99% of the requested amount (US\$ 1,710 million).

The report was sent to the MEM on December 21, 2016; the MEM shall issue a report on the list of goods, services and construction contracts of the PMRT. Likewise, it was forwarded to PROINVERSIÓN so that after corresponding evaluation prepares the project of the investment contract to be signed with PETROPERÚ S.A.

By means of Letter GCFI-SCTB-0207-2017 dated April 7, 2017, the Company submitted to the MEM an updated schedule of the investment amounts on the PMRT (US\$ 2,957 million). Subsequently, the increase of investment and the economic feasibility of the project was supported.

Currently, the Company is awaiting the issuance of approval reports from the MEM and MEF to be sent to PROINVERSIÓN, who must send a Draft Contract and Investment Schedule in order to obtain PETROPERÚ S.A.'s approval and subsequently the signing of such document.

Petróleos del Perú – PETROPERÚ S.A.

Notes to the Unaudited Condensed Interim Financial Statements, continued

22. Contingency

As of June 30, 2017, the Company maintains labor, civil, tax and customs proceedings, which are currently pending resolution:

<i>In thousands of soles</i>	06.30.2017	12.31.2016
Labor proceedings (a)	25,498	27,734
Civil proceedings (b)	130,777	64,838
Tax and custom proceedings (c)	122,206	150,649
	278,481	243,221

As of June 30, 2017, the Company has labor, civil, tax and customs proceedings, which are pending resolution.

- (a) Labor proceedings which are mainly related to fringe benefits for S/ 23 million, pension fund proceedings for S/ 1 million and other labor proceedings of the Pipeline Operating Unit for S/ 5 million.
- (b) This item mainly includes: i) Arbitration Process filed by Pluspetrol Norte S.A. (International) for US\$ 20 million, ii) civil claim filed by the Regional Government of Lambayeque for US\$ 7 million, ii) Arbitration Process filed by RELAPASA for US\$ 5 million, and iii) civil claim filed by COVISE for S/ 10 million.
- (c) As of June 30, 2017, this item mainly includes administrative proceedings before the Tax Court and SUNAT by S/ 117.4 million relating to the review of the income tax for the years 2005 through 2008. The Company's management and legal advisors consider that no significant liabilities will arise from such claims.

OSINERGMIN

- (d) In the exercise of its powers, OSINERGMIN has been conducting preliminary proceedings of research, investigation or inspection, in order to determine whether circumstances exist to justify the initiation of disciplinary proceedings; in this context

Regarding the contingencies occurred in KM 440 and KM 206, some administrative sanctioning proceedings have been filed, which are still in process.

Likewise, an administrative sanctioning proceeding has been initiated in relation to the alleged non-compliance with the mandate that restrict the use of Tranche I of the Nor-Peruano pipeline. The court of OSINERGMIN has confirmed the imposing fine which will be challenged through Contentious Administrative Action.

OEFA

- (e) In relation to the environmental contingencies occurred at KM 440, KM 206, KM 213, Cuninico (KM 41), KM 54 and KM 55, OEFA, within the framework of its powers, issued five preventive measures and orders of a particular nature, which have been complied with within the time limits granted by the competent authority.

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Notes to the Unaudited Condensed Interim Financial Statements, continued

- (f) In relation to KM 440 and KM 206, there are three administrative sanctioning procedures, which are detailed below:
- i. Initiated for the alleged non-compliance with the Preventive Measure which ordered the effective, immediate and integral maintenance of those sections of the pipeline that have not suffered a severe or significant deterioration, the replacement of the pipeline with respect to those sections that have suffered severe or significant deterioration, and the preparation of a project to update the Environmental Management Instrument (PAMA) to MINEM. This procedure concluded with the issuance of a resolution declaring the administrative responsibility of PETROPERÚ S.A. and ordered Corrective Measure, which was fulfilled, but that, in the opinion of OEFA, it has not been fulfilled and therefore has reinitiated the procedure, reason why the resolution has been filed.
- ii. Initiated for the alleged non-compliance with the Preventive Measure which ordered the presentation of a schedule in two working days, cleaning and rehabilitation activities within 40 working days, cleaning and rehabilitation report within 20 working days and final report on the actions executed within 3 months; this procedure is still in process. However, the aforementioned measure has been challenged before court, through a Contentious Administrative Action.
- iii. Initiated in relation to environmental contingencies of KM 440 and KM 206; these proceedings are still in process.
- (g) Regarding the Sanctioning Administrative Procedure filed by Cuninico, it culminated with the resolution declaring the administrative responsibility and ordering as a corrective measure to: a) demonstrate compliance with the schedule of environmental remediation activities within a period of six months; and b) establish communication channels with the communities in the area of direct and indirect influence regarding the spill and the remediation activities carried out by PETROPERÚ. After OEFA's monitoring visit and after evaluating the presented information, OEFA has resolved to declare non-compliance with the first corrective measure and part of the second corrective measure, thus imposing fines and restarting the administrative sanctioning procedure; decision that has been appealed and confirmed by the Court; for this reason they have been challenged through Contentious Administrative Action.
- (h) In relation to the environmental contingency occurred in KM 213, OEFA has imposed an Environmental fine for alleged damage to flora, fauna and potential damage to human life or health, which has been annulled because the procedure is not subject to the current legal framework.

The Company has been notified by OEFA and OSINERGMIN, which have initiated sanctioning administrative proceedings for alleged noncompliance with the regulations of the hydrocarbons sector, being the following:

Disciplinary Procedure	Beginning date	Maximum fine	Maximum fine in thousands of soles
405-2016-OS-GFHL	2/11/2016	44,900 UIT	181,845
423-2016-OS-GFHL	2/19/2016	37,000 UIT	149,850
520-2016-OS/DSHL	3/1/2016	2,600 UIT	10,530
524-2016-OS/DSHL	3/3/2016	54,750 UIT	221,738
196-2016-OEFA/DFSAI/SDI	3/8/2016	69,000 UIT	279,450
600-2016-OS/DSHL	3/30/2016	4,250 UIT	17,213
628-2016-OS/DSHL	4/6/2016	6,700 UIT	27,135
665-2016-OS/DSHL	4/29/2016	49,950 UIT	202,298
1030-2016-OS/DSHL	5/17/2016	10,136 UIT	41,051

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Notes to the Unaudited Condensed Interim Financial Statements, continued

PETROPERÚ S.A. has presented the corresponding defense within the period granted by each notice. Based on legal advice, the management expects to support the defense with the elements and technical support.

PLUSPETROL

Pluspetrol Norte S.A. filed an arbitration proceeding against the Company for failure to comply with the reimbursements of expenses related to the remediation works in Block 8, arising from the Contract for Transfer of Contractual Position. The proceeding is being examined and analyzed for the preparation of the response brief.

23. Basic and Diluted Earnings per Share

The calculation of basic and diluted earnings per share for the six-month period ended June 30, 2017 and 2016 is as follows:

	Gain in thousands of soles (numerator)	In thousands of shares (denominator)	Gain in soles per share
June 30, 2017:			
Basic and diluted earnings per share	352,758	3,521,048	0.100
June 30, 2016:			
Basic and diluted earnings per share	451,247	2,465,048	0.183

The shares issued by capitalization of profits are considered as if they had always been issued, because they do not represent a capital contribution other than that underlying the shares that gave rise to them or new resource contributions for the Company.

24. Commitments

As of June 30, 2017, the Company maintains letters of guarantee issued by local financial institutions in favor of third parties for S/ 82.5 million and for US\$ 2.9 million.

25. Related parties

The Peruvian Government is owner of shares of the Company's capital, and it's represented by each member of the General Stockholders' Meeting. The Ministry of Energy and Mines and the Ministry of Economy and Finance are representatives of the Peruvian State in the General meeting of shareholders. The transactions between the Company and the Peruvian Government, Ministry of Energy and Mines and Ministry of Economy are considered transaction with stockholders.

26. Subsequent Events

On July 11, 2017, the Company activated the Contingency Plan due to the presence of crude oil in the flotation channel at KM 58+070 of Tranche I of the Nor-Peruano pipeline, generated by a cut of 15 centimeters in the pipeline made by third parties.

Between July 1, 2017 and until the issuance date of this report (July 31, 2017), there have not been any material events that may require adjustments or disclosure to the Unaudited condensed interim financial statements as of June 30, 2017.

(Translation of Financial Statements originally issued in Spanish)

Petróleos del Perú – PETROPERÚ S.A.

Notes to the Unaudited Condensed Interim Financial Statements, continued

27. Complementary Information

Condensed statement of cash flows for the convenience of certain users

	For the three-month period ended June 30	
<i>In thousands of soles</i>	2017	2016
Operating activities:		
Cash generated from operating activities	(261,152)	631,049
Interest paid	(39,374)	(15,520)
Income tax paid	(334,292)	(154,739)
Time deposits	(976,500)	-
Net cash (used in) provided by operating activities	(1,611,318)	460,790
Investing activities:		
Acquisition of property, plant and equipment	(572,172)	(1,115,280)
Acquisition of intangible assets	(12)	(1,829)
Net cash used in investing activities	(572,184)	(1,117,109)
Financing activities:		
Proceeds from short-term loans	3,785,088	1,800,061
Amortization of short-term loans	(4,564,911)	(1,094,381)
Issuance of bonds	6,535,635	-
Net cash provided by financing activities	5,755,812	705,680
Net increase in cash and cash equivalents before effect of exchange rate fluctuations	3,572,310	49,361
Effect of exchange rate fluctuations on cash and cash equivalents	(87,008)	(24,824)
Effects of exchange rate fluctuation on other accounts	35,115	46,350
Cash and cash equivalents at the beginning of period	377,175	293,817
Cash and cash equivalents at the end of period	3,897,592	364,704
Non-cash flow generating transactions		
Derivative financial instruments	(3,107)	-
Work-in-progress to pay	283,001	-
Transfer to retirement pension, net of deferred income tax	-	370,411