



PETRÓLEOS DEL PERÚ -  
PETROPERÚ S.A.

Unaudited Condensed  
Interim Financial Statements

**As of and for the nine-month period ended September 30, 2017**

**(including Independent Auditors' Review Report)**



**KPMG en Perú**  
Torre KPMG. Av. Javier Prado Oeste 203  
San Isidro. Lima 27, Perú

Teléfono 51 (1) 611 3000  
Fax 51 (1) 421 6943  
Internet [www.kpmg.com/pe](http://www.kpmg.com/pe)

*(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 September 30, 2017, the condensed interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine-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 September 30, 2017, and its financial performance and its cash flows for the nine month period then ended in accordance with IAS 34 "Interim Financial Reporting".



**Other Matter**

Our review was performed for the purpose of expressing a conclusion on the condensed interim financial statements as of September 30, 2017 taken as a whole. Note 27 includes the condensed statement of cash flows for the three-month period ended September 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

October 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 nine-month period ended September 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 September 30, 2017 and December 31, 2016

<i>In thousands of soles</i>	<i>Note</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	2,586,200	248,656
Trade accounts receivable		990,562	894,175
Other accounts receivable	6	2,126,662	698,179
Inventories		2,365,460	2,001,567
Prepaid expenses		19,271	14,814
<b>Total current assets</b>		<b>8,088,155</b>	<b>3,857,391</b>
<b>Non-current assets</b>			
Other accounts receivable	6	626,279	848,359
Financial investments		14,633	19,294
Property, plant and equipment	7	10,544,419	9,254,453
Intangible assets		48,527	54,402
<b>Total non-current assets</b>		<b>11,233,858</b>	<b>10,176,508</b>
<b>Total assets</b>		<b>19,322,013</b>	<b>14,033,899</b>

  

<i>In thousands of soles</i>	<i>Note</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Other financial liabilities	8	4,207,891	5,751,693
Trade accounts payable	9	2,295,046	2,427,912
Other accounts payable	10	416,137	598,238
Provisions and other liabilities	11	179,649	388,979
<b>Total current liabilities</b>		<b>7,098,723</b>	<b>9,166,822</b>
<b>Non-current liabilities</b>			
Other financial liabilities	8	6,517,757	836,383
Provisions and other liabilities	11	14,840	18,989
Income tax liability	12	268,516	262,198
<b>Total non-current liabilities</b>		<b>6,801,113</b>	<b>1,117,570</b>
<b>Total liabilities</b>		<b>13,899,836</b>	<b>10,284,392</b>
<b>Equity</b>			
	13		
Issued capital		3,927,713	2,465,048
Additional capital		-	370,411
Other capital reserves		72,144	54,395
Accumulated other comprehensive loss		(6,597)	(1,251)
Retained earnings		1,428,917	860,904
<b>Total equity</b>		<b>5,422,177</b>	<b>3,749,507</b>
<b>Total liabilities and equity</b>		<b>19,322,013</b>	<b>14,033,899</b>

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 nine-month period ended September 30, 2017 and 2016

<i>In thousands of soles</i>	<i>Note</i>	<b>For the three-month period ended September 30</b>		<b>For the nine-month period ended September 30</b>	
		<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Income from ordinary activities	14	3,371,694	2,900,205	9,454,119	7,982,360
Other operating income		62,509	58,384	180,761	188,441
<b>Total gross income</b>		<b>3,434,203</b>	<b>2,958,589</b>	<b>9,634,880</b>	<b>8,170,801</b>
Cost of sales	15	(2,799,973)	(2,531,740)	(8,333,795)	(6,686,912)
<b>Gross profit</b>		<b>634,230</b>	<b>426,849</b>	<b>1,301,085</b>	<b>1,483,889</b>
Selling and distribution expenses	16	(123,137)	(108,675)	(335,017)	(318,821)
Administrative expenses	17	(128,079)	(110,502)	(363,656)	(404,660)
Other income	19	15,007	33,361	184,630	89,738
Other expenses	19	(13,178)	(226,547)	(17,555)	(248,624)
<b>Total operating expenses</b>		<b>(249,387)</b>	<b>(412,363)</b>	<b>(531,598)</b>	<b>(882,367)</b>
<b>Operating profit</b>		<b>384,843</b>	<b>14,486</b>	<b>769,487</b>	<b>601,522</b>
Finance income		5,748	2,861	10,799	7,297
Finance costs	20	(50,338)	(27,659)	(122,954)	(58,728)
Exchange difference, net		(14,128)	(65,456)	132,243	17,617
<b>Profit (loss) before income tax</b>		<b>326,125</b>	<b>(75,768)</b>	<b>789,575</b>	<b>567,708</b>
Income tax	21	(56,867)	22,742	(167,559)	(169,486)
<b>Profit (loss) for the period</b>		<b>269,258</b>	<b>(53,026)</b>	<b>622,016</b>	<b>398,222</b>
Total other comprehensive loss		(2,239)	(1,670)	(5,346)	(10,648)
<b>Total comprehensive income (loss)</b>		<b>267,019</b>	<b>(54,696)</b>	<b>616,670</b>	<b>387,574</b>
<b>Basic and diluted earnings (losses) per share in soles</b>	23	<b>0.069</b>	<b>(0.022)</b>	<b>0.158</b>	<b>0.162</b>

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 Changes in Equity

For the nine-month period ended September 30, 2017 and 2016

<i>In thousands of soles</i>	<b>Number of shares</b>	<b>Issued capital</b>	<b>Additional capital</b>	<b>Other capital reserves</b>	<b>Other equity reserves</b>	<b>Accumulated results</b>	<b>Total equity</b>
<b>Balances as of January 1, 2016</b>	<b>1,949,968,400</b>	<b>1,949,969</b>	<b>62,679</b>	<b>4,128</b>	-	<b>1,186,080</b>	<b>3,202,856</b>
Profit for the period	-	-	-	-	-	398,222	398,222
Other comprehensive loss	-	-	-	-	(10,648)	-	(10,648)
<b>Total comprehensive income</b>	-	-	-	-	<b>(10,648)</b>	<b>398,222</b>	<b>387,574</b>
<b>Transactions with owners of the Company</b>							
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)	-	-	-	-
<b>Total transactions with stockholders</b>	<b>515,079,535</b>	<b>515,079</b>	<b>307,732</b>	<b>50,267</b>	-	<b>(502,667)</b>	<b>370,411</b>
<b>Balances as of September 30, 2016</b>	<b>2,465,047,935</b>	<b>2,465,048</b>	<b>370,411</b>	<b>54,395</b>	<b>(10,648)</b>	<b>1,081,635</b>	<b>3,960,841</b>
<b>Balances as of January 1, 2017</b>	<b>2,465,047,935</b>	<b>2,465,048</b>	<b>370,411</b>	<b>54,395</b>	<b>(1,251)</b>	<b>860,904</b>	<b>3,749,507</b>
Profit for the period	-	-	-	-	-	622,016	622,016
Other comprehensive loss	-	-	-	-	(5,346)	-	(5,346)
<b>Total comprehensive income</b>	-	-	-	-	<b>(5,346)</b>	<b>622,016</b>	<b>616,670</b>
<b>Transactions with owners of the Company</b>							
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	1,462,665,000	1,462,665	(1,462,665)	-	-	-	-
<b>Total transactions with stockholders</b>	<b>1,462,665,000</b>	<b>1,462,665</b>	<b>(370,411)</b>	<b>17,749</b>	-	<b>(54,003)</b>	<b>1,056,000</b>
<b>Balances as of September 30, 2017</b>	<b>3,927,712,935</b>	<b>3,927,713</b>	-	<b>72,144</b>	<b>(6,597)</b>	<b>1,428,917</b>	<b>5,422,177</b>

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.**

Unaudited Condensed Statement of Cash Flows

For the nine-month period ended September 30, 2017 and 2016

<i>In thousands of soles</i>	<i>Note</i>	<b>09.30.2017</b>	<b>09.30.2016</b>
Operating activities:			
Net cash from operating activities		827,547	1,136,182
Interest paid		(122,954)	(58,728)
Cash tax payments		(916,338)	(565,568)
Time deposits		(898,425)	-
<b>Net cash (used in) provided by operating activities</b>		<b>(1,110,170)</b>	<b>511,886</b>
Investing activities:			
Acquisition of property, plant, and equipment	7	(2,068,389)	(2,634,877)
Purchase of intangible assets		(80)	(2,392)
<b>Net cash used in investing activities</b>		<b>(2,068,469)</b>	<b>(2,637,269)</b>
Financing activities:			
Proceeds from short-term loans		9,597,720	6,561,663
Amortization of short-term loans		(11,756,612)	(4,013,928)
Issuance of bonds	8	6,535,635	-
Contributions from Public Treasury	13	1,056,000	-
<b>Net cash provided by financing activities</b>		<b>5,432,743</b>	<b>2,547,735</b>
Net increase in cash and cash equivalents, before the effect of exchange rate fluctuations			
		2,254,104	422,352
Effect of exchange rate fluctuations on cash and cash equivalents			
		(280,257)	49,244
Effects of exchange rate fluctuation on other accounts			
		363,697	(163,114)
Cash and cash equivalents at the beginning of period	5	248,656	64,971
<b>Cash and cash equivalents at the end of period</b>		<b>2,586,200</b>	<b>373,453</b>
<b>Non-cash flow generating transactions</b>			
Derivative financial instruments		(5,346)	(10,648)
Work-in-progress to pay		95,005	-
Transfer of retirement pension, net of deferred income tax		-	370,411

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Unaudited Condensed Statement of Cash Flows

For the nine-month period ended September 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>	<b>09.30.2017</b>	<b>09.30.2016</b>
<b>Cash flows from operating activities</b>			
Profit for the period		622,016	398,222
Adjustments to reconcile net profit for the period to net cash from operating activities:			
Bad debt expense		6,275	700
Inventory write-downs		135	-
Retirement pension		116	98
Fringe benefits		21,233	23,106
(Recovery) provision for labor, civil claims and other		(24,058)	22,228
Provision for environmental improvement		10,237	971
Depreciation	7	110,448	96,665
Amortization		5,973	6,063
Disposal of fixed		-	21,534
Deferred income tax liability	12	6,318	(39,376)
Derivative financial instruments		(5,346)	(10,648)
Effect on the adjustment of unrealizable exchange difference		(322,610)	9,777
		<b>430,737</b>	<b>529,340</b>
Changes in:			
Trade accounts receivable		(102,662)	78,052
Other accounts receivable		189,229	(140,261)
Inventories		(364,028)	(326,622)
Prepaid expenses		(4,457)	(1,258)
Trade accounts payable		535,131	698,400
Other accounts payable		(895,577)	(325,559)
Provision for retirement pension		(118)	(206)
Time deposits		(898,425)	-
<b>Net cash (used in) provided by operating activities</b>		<b>(1,110,170)</b>	<b>511,886</b>

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 nine-month period ended September 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 nine months period ended September 30, 2017 have been approved by the General Management of the Company on October 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 September 30, 2017 and December 31, 2016 are summarized as follows:

<i>In thousands of</i>	09.30.2017			12.31.2016		
	US\$	EUR	JPY	US\$	EUR	JPY
<b>Assets:</b>						
Cash and cash equivalents	754,845	-	-	33,646	-	-
Trade accounts receivable, net	42,123	-	-	19,327	-	-
Other accounts receivable, net	293,627	-	-	12,699	-	-
	<b>1,090,595</b>	-	-	<b>65,672</b>	-	-
<b>Liabilities:</b>						
Other financial liabilities	(2,760,741)	-	-	(1,022,554)	-	-
Trade accounts payable	(683,509)	(3,025)	-	(640,153)	(42,141)	(477,292)
Other accounts payable	(1,750)	-	-	(5,202)	-	-
Provisions and other liabilities	(22,687)	-	-	(25,829)	-	-
	<b>(3,468,687)</b>	<b>(3,025)</b>	-	<b>(1,693,738)</b>	<b>(42,141)</b>	<b>(477,292)</b>
<b>Net exposure</b>	<b>(2,378,092)</b>	<b>(3,025)</b>	-	<b>(1,628,066)</b>	<b>(42,141)</b>	<b>(477,292)</b>

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	
	09.30.2017	12.31.2016
US\$	3.267	3.360
EUR	4.062	3.601
JPY	0.030	0.031

The Company for the nine-month period ended September 30, 2017, recognized an exchange net gain for S/ 132,243 thousand (net gain for difference of S/ 17,617 thousand as of September 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 September 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
<b>September 30, 2017</b>			
US\$	10%	(123,523)	123,523
EUR	10%	(1,229)	1,229
JPY	10%	-	-
<b>December 31, 2016</b>			
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 September 30, 2017, the Company has fully canceled the syndicated loan based on a variable rate (LIBOR plus 1.75% for the first two years, subsequently LIBOR plus 2.00%) to finance part of the Talara Refinery Modernization Project - PMRT.

As of September 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 September 30, 2017 and December 31, 2016 is as follows:

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>12.31.2016</b>
<b>Fixed rate instruments</b>		
Other financial liabilities (note 8)	10,741,891	5,191,693
<b>Variable rate instruments</b>		
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 September 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 September 30, 2017, the Company maintains revolving credit lines granted by local and foreign banks up to US\$ 2,406,218 thousand, of which US\$ 1,088,363 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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**Petróleos del Perú – PETROPERÚ S.A.**

Notes to the Unaudited Condensed Interim Financial Statements, continued

<i>In thousands of soles</i>	<b>Carrying amount</b>	<b>Contractual cash flow</b>	<b>Less than one year</b>	<b>More than 1 year</b>	<b>More than 2 years</b>
<b>September 30, 2017</b>					
Other financial liabilities	10,725,648	17,013,465	2,977,617	338,951	13,696,897
Trade accounts payable	2,295,046	2,295,046	2,295,046	-	-
Other accounts payable (*)	160,695	160,695	160,695	-	-
Provisions and other liabilities	194,489	194,489	179,649	14,791	49
	<b>13,375,878</b>	<b>19,663,695</b>	<b>5,613,007</b>	<b>353,742</b>	<b>13,696,946</b>
<b>December 31, 2016</b>					
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
	<b>9,526,092</b>	<b>9,706,246</b>	<b>8,821,593</b>	<b>590,468</b>	<b>294,185</b>

(\*) 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 September 30, 2017, the leverage indices were as follows:

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>12.31.2016</b>
Other financial liabilities	10,725,648	6,588,076
Trade accounts payable	2,295,046	2,427,912
Other accounts payable	416,137	598,238
Provisions and other liabilities	194,489	407,968
Less: cash and cash equivalents	(2,586,200)	(248,656)
<b>Net debt</b>	<b>11,045,120</b>	<b>9,773,538</b>
<b>Total equity</b>	<b>5,422,177</b>	<b>3,749,507</b>
<b>Leverage ratio</b>	<b>2.04</b>	<b>2.61</b>

The decrease in the leverage ratio as of September 30, 2017 is mainly arises from the increase in equity with the contribution of S/ 1,056 million by the Government and the cash balance of US\$ 931 million held by the placement of bonds for US\$ 2,000 million.

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**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>							
September 30, 2017							
<b>Financial assets not measured at fair value:</b>							
Cash and cash equivalents	-	2,586,200	-	2,586,200	-	-	-
Trade accounts receivable	-	990,562	-	990,562	-	-	-
Other accounts receivable	-	1,535,298	-	1,535,298	-	-	-
	-	<b>5,112,060</b>	-	<b>5,112,060</b>	-	-	-
<b>Financial assets not measured at fair value:</b>							
Other accounts receivable	3,854	-	-	3,854	-	3,854	3,854
	<b>3,854</b>	-	-	<b>3,854</b>	-	<b>3,854</b>	<b>3,854</b>
<b>Financial liabilities not measured at fair value:</b>							
Other financial liabilities	-	-	(4,207,891)	(4,207,891)	-	-	-
Trade accounts payable	-	-	(2,295,046)	(2,295,046)	-	-	-
Other accounts payable (*)	-	-	(140,868)	(140,868)	-	-	-
Provisions and other liabilities	-	-	(194,489)	(194,489)	-	-	-
	-	-	<b>(6,838,294)</b>	<b>(6,838,294)</b>	-	-	-
<b>Financial liabilities measured at fair value:</b>							
Other accounts payable (*)	(19,827)	-	-	(19,827)	-	(19,827)	(19,827)
Other financial liabilities	-	-	(6,517,757)	(6,517,757)	(6,794,511)	-	(6,794,511)
	<b>(19,827)</b>	-	<b>(6,517,757)</b>	<b>(6,537,584)</b>	<b>(6,794,511)</b>	<b>(19,827)</b>	<b>(6,814,338)</b>

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	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						
<b>Financial assets not measured at fair value:</b>						
Cash and cash equivalents	-	248,656	-	248,656	-	-
Trade accounts receivable	-	894,175	-	894,175	-	-
Other accounts receivable	-	827,398	-	827,398	-	-
	-	<b>1,970,229</b>	-	<b>1,970,229</b>	-	-
<b>Financial assets measured at fair value:</b>						
Other accounts receivable	237	-	-	237	237	237
	<b>237</b>	-	-	<b>237</b>	<b>237</b>	<b>237</b>
<b>Financial liabilities not measured at fair value:</b>						
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)	-	-
	-	-	<b>(9,526,092)</b>	<b>(9,526,092)</b>	-	-

(\*) 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 September 30, 2017, this item comprises thirty-eight 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\$		Type of derivative financial instruments	Agreed exchange rate	Fair value September 30, 2017	Cash flows to be settled			Fair value December 31, 2016	Cash flows to be settled		
		Maturity				Total	Less than 1 year	More than 1 year		Total	Less than 1 year	More than 1 year
Citibank	10,091	02/01/2017	(a)	3.3489	-	-	-	-	112	112	112	-
Banco Continental	20,608	21/07/2017	(a)	3.4470	-	-	-	-	125	125	125	-
Banco de Crédito	20,000	09/10/2017	(a)	3.3076	(835)	(835)	(835)	-	-	-	-	-
Scotiabank	18,259	09/10/2017	(a)	3.3065	(738)	(738)	(738)	-	-	-	-	-
Scotiabank	19,553	12/10/2017	(a)	3.3123	(897)	(897)	(897)	-	-	-	-	-
Banco Continental	22,123	13/10/2017	(a)	3.2715	62	62	62	-	-	-	-	-
Scotiabank	16,698	16/10/2017	(a)	3.3095	(712)	(712)	(712)	-	-	-	-	-
Scotiabank	20,000	27/10/2017	(a)	3.2939	(517)	(517)	(517)	-	-	-	-	-
Banco de Crédito	20,930	27/10/2017	(a)	3.2939	(551)	(551)	(551)	-	-	-	-	-
Santander	20,363	06/11/2017	(a)	3.2773	(157)	(157)	(157)	-	-	-	-	-
Santander	10,000	10/11/2017	(a)	3.2920	(217)	(217)	(217)	-	-	-	-	-
Banco de Crédito	10,874	10/11/2017	(a)	3.2915	(240)	(240)	(240)	-	-	-	-	-
Scotiabank	15,000	10/11/2017	(a)	3.2920	(333)	(333)	(333)	-	-	-	-	-
Scotiabank	18,614	17/11/2017	(a)	3.2390	585	585	585	-	-	-	-	-
Banco de Crédito	16,251	24/11/2017	(a)	3.2888	(277)	(277)	(277)	-	-	-	-	-
Santander	18,826	15/12/2017	(a)	3.2750	14	14	14	-	-	-	-	-
Scotiabank	14,107	27/12/2017	(a)	3.2430	462	462	462	-	-	-	-	-
Banco Continental	16,790	05/01/2018	(a)	3.2419	667	667	667	-	-	-	-	-
Scotiabank	24,611	19/10/2017	(b)	3.3129	(1,125)	(1,125)	(1,125)	-	-	-	-	-
Banco de Crédito	24,000	23/10/2017	(b)	3.3060	(931)	(931)	(931)	-	-	-	-	-
Banco de Crédito	24,500	25/10/2017	(b)	3.2965	(713)	(713)	(713)	-	-	-	-	-
Banco de Crédito	24,387	27/10/2017	(b)	3.2915	(584)	(584)	(584)	-	-	-	-	-
Banco de Crédito	24,000	17/11/2017	(b)	3.3160	(1,089)	(1,089)	(1,089)	-	-	-	-	-
Scotiabank	38,861	20/11/2017	(b)	3.3040	(1,274)	(1,274)	(1,274)	-	-	-	-	-
Banco de Crédito	24,290	22/11/2017	(b)	3.3050	(815)	(815)	(815)	-	-	-	-	-

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In thousands of soles	Original amount in thousands of US\$	Maturity	Type of derivative financial instruments	Agreed exchange rate	Fair value September 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 Continental	20,000	24/11/2017	(b)	3.2375	854	854	854	-	-	-	-	-	-
Banco de Crédito	24,419	30/11/2017	(b)	3.3060	(810)	(810)	(810)	-	-	-	-	-	-
Banco Continental	20,000	19/12/2017	(b)	3.2819	46	46	46	-	-	-	-	-	-
Scotiabank	24,000	20/12/2017	(b)	3.3310	(1,332)	(1,332)	(1,332)	-	-	-	-	-	-
Banco de Crédito	24,633	21/12/2017	(b)	3.3240	(1,177)	(1,177)	(1,177)	-	-	-	-	-	-
Scotiabank	25,000	22/12/2017	(b)	3.3135	(946)	(946)	(946)	-	-	-	-	-	-
Citibank	20,000	18/01/2018	(b)	3.2699	68	68	68	-	-	-	-	-	-
Scotiabank	25,000	19/01/2018	(b)	3.3220	(1,017)	(1,017)	(1,017)	-	-	-	-	-	-
Santander	20,000	23/01/2018	(b)	3.2764	107	107	107	-	-	-	-	-	-
Scotiabank	20,000	24/01/2018	(b)	3.3192	(735)	(735)	(735)	-	-	-	-	-	-
Banco Continental	20,000	15/02/2018	(b)	3.2875	116	116	116	-	-	-	-	-	-
Scotiabank	25,000	19/02/2018	(b)	3.3310	(1,100)	(1,100)	(1,100)	-	-	-	-	-	-
Banco Continental	25,000	21/02/2018	(b)	3.2787	386	386	386	-	-	-	-	-	-
Scotiabank	25,000	22/02/2018	(b)	3.2671	487	487	487	-	-	-	-	-	-
Scotiabank	17,314	23/02/2018	(b)	3.3283	(705)	(705)	(705)	-	-	-	-	-	-
					<b>(15,973)</b>	<b>(15,973)</b>	<b>(15,973)</b>	-	<b>237</b>	<b>237</b>	<b>237</b>	<b>112</b>	
<b>Less, current portion</b>					-	<b>(15,973)</b>	-	-	-	<b>237</b>	-	-	
<b>Non-current portion</b>					-	-	-	-	-	-	-	-	

(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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#### 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:

<b>Segment reporting</b>	<b>Operations</b>
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>	<b>Refining and commercialization (*)</b>	<b>Oil pipeline operations</b>	<b>Leased and private units</b>	<b>Total</b>
As of September 30, 2017	18,154,114	511,800	656,099	19,322,013
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>	<b>Refining and commercialization (*)</b>	<b>Oil pipeline operations</b>	<b>Leased and private units</b>	<b>Total</b>
September 30, 2017				
Income from ordinary activities	9,454,119	-	-	9,454,119
Other operating income	61,423	9,936	109,402	180,761
<b>Total gross income</b>	<b>9,515,542</b>	<b>9,936</b>	<b>109,402</b>	<b>9,634,880</b>
September 30, 2016				
Income from ordinary activities	5,082,155	-	-	5,082,155
Other operating income	38,472	16,109	75,475	130,056
<b>Total gross income</b>	<b>5,120,627</b>	<b>16,109</b>	<b>75,475</b>	<b>5,212,211</b>

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**iii. Profit (loss) before income tax**

<i>In thousands of soles</i>	<b>Refining and commercialization (*)</b>	<b>Oil pipeline operations</b>	<b>Leased and private units</b>	<b>Total</b>
September 30, 2017	863,473	(158,782)	84,884	789,575
September 30, 2016	851,418	(354,433)	70,723	567,708

Information related to each reportable segment is set out below.

<i>In thousands of soles</i>	<b>Refining and commercialization (*)</b>	<b>Oil pipeline operations</b>	<b>Leased and private units</b>	<b>Total</b>
As of September 30, 2017				
External revenue	9,515,542	9,936	109,402	9,634,880
Inter-segment revenue	9,170	-	-	9,170
<b>Segment revenue</b>	<b>9,524,712</b>	<b>9,936</b>	<b>109,402</b>	<b>9,644,050</b>
Interest income	10,529	158	112	10,799
Interest expenses	(113,361)	(9,470)	(123)	(122,954)
Depreciation and amortization	(83,642)	(11,088)	(21,691)	(116,421)
Other income	176,609	8,021	-	184,630
Other expenses	(296)	(16,074)	(1,185)	(17,555)
<b>Segment assets</b>	<b>18,154,114</b>	<b>511,800</b>	<b>656,099</b>	<b>19,322,013</b>
<b>Additions to non-current assets</b>				
Property, plant and equipment	889,865	37,009	34,579	961,453
<b>Segment liabilities</b>	<b>13,644,790</b>	<b>226,048</b>	<b>28,998</b>	<b>13,899,836</b>
As of September 30, 2016				
External revenue	8,042,286	16,164	112,351	8,170,801
Inter-segment revenue	-	9,005	-	9,005
<b>Segment revenue</b>	<b>8,042,286</b>	<b>25,169</b>	<b>112,351</b>	<b>8,179,806</b>
Interest income	7,157	140	-	7,297
Interest expenses	(54,829)	(3,899)	-	(58,728)
Depreciation and amortization	(67,024)	(14,569)	(21,135)	(102,728)
Other income	83,818	5,920	-	89,738
Other expenses	(1,083)	(226,485)	(21,056)	(248,624)
<b>Segment assets</b>	<b>10,826,681</b>	<b>738,691</b>	<b>592,290</b>	<b>12,157,662</b>
<b>Additions to non-current assets</b>				
Property, plant and equipment	1,929,728	11,410	7,530	1,948,668
<b>Segment liabilities</b>	<b>7,973,423</b>	<b>163,127</b>	<b>5,576</b>	<b>8,142,126</b>

**C. Geographic revenue information**

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

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>09.30.2016</b>
Peru	8,522,716	7,369,901
Other countries	931,403	612,459
	<b>9,454,119</b>	<b>7,982,360</b>

**D. Major customer**

Revenues from one customer of the production and commercialization segment represented approximately S/ 2,002,256 thousand for the nine-month period ended September 30, 2017 (S/ 2,207,267 thousand for the nine-month period ended September 30, 2016).

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**5. Cash and Cash Equivalents**

This caption comprises the following:

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>12.31.2016</b>
Liquidity funds (a)	2,270,565	-
Checking accounts (b)	315,523	248,540
Cash fund	112	116
	<b>2,586,200</b>	<b>248,656</b>

- (a) As of September 30, 2017, liquidity funds are short-term instruments with variable returns between 1.26% and 1.29%.
- (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>	<b>09.30.2017</b>	<b>12.31.2016</b>
A+	212,335	117,249
A	103,088	97,399
A-	100	33,892
<b>Total</b>	<b>315,523</b>	<b>248,540</b>

**6. Other Accounts Receivable**

This caption comprises the following:

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>12.31.2016</b>
Time deposits (a)	904,475	-
Sales tax credit	690,846	481,443
Sales tax credit - long term (b)	455,843	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	26,961	-
Price stabilization fund - Ministry of Energy and Mines (e)	78,102	81,675
Loans to personnel	14,979	16,879
Advances to suppliers	25,160	25,581
Claims to third parties	8,456	9,938
Derivatives financial instruments	3,854	237
Doubtful accounts	114,204	111,750
Various	17,696	25,222
	<b>2,867,145</b>	<b>1,658,288</b>
Less, estimate for doubtful accounts (f)	(114,204)	(111,750)
	<b>2,752,941</b>	<b>1,546,538</b>
<b>Current portion</b>	<b>2,126,662</b>	<b>698,179</b>
<b>Non-current portion (b), (c) and (d)</b>	<b>626,279</b>	<b>848,359</b>

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**(a) Time deposits**

As of September 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.

**(c) Claims to Peruvian Tax Authorities -SUNAT**

As of September 30, 2017, they mainly correspond to claims for S/ 404 million related to objections for Turbo A-1 fuel detailed below:

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>12.31.2016</b>
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)	29,197	30,669
	<b>404,171</b>	<b>575,652</b>

- (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. On October 5, 2017, a hearing was held on the file. 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. On September 27, 2017, a hearing was held on the file, which is pending resolution by the Supreme Court. The Company expects to recover the claim in the short term.

**Petróleos del Perú – PETROPERÚ S.A.**

Notes to the Unaudited Condensed Interim Financial Statements, continued

- (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 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. On September 27, 2017, a hearing was heard on the file, which is pending resolution by the Supreme Court. 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 September 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.



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As of September 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.

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

Movement in this balances is as follows:

	<b>For the nine-month period ended</b>	
<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>30.09.2016</b>
Opening balance	139,701	52,624
Price compensation (revenues)	69,917	158,678
Price contribution (expense)	(73,491)	(18,596)
<b>Net (debited) credited to revenues</b>	<b>(3,574)</b>	<b>140,082</b>
Collection of compensation and/or contribution payments	1	16,885
<b>Final balance</b>	<b>136,128</b>	<b>209,591</b>

The amount receivable from the General Hydrocarbons Agency - DGH as of September 30, 2017, is S/ 136,128 thousand. This amount includes the proceeding regarding constitutional guarantees recorded in 'claims' for S/ 58,026 thousand, and the amount receivable of S/ 72,102 thousand.

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Notes to the Unaudited Condensed Interim Financial Statements, continued

**7. Property, Plant and Equipment**

Cost and corresponding accumulated depreciation activity of premises, plant and equipment as of September 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
<b>Cost:</b>											
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	-	6,808	19,857	4,433	454	471	-	-	2,580,150	22,704	2,634,877
Disposals	(21,056)	(2,500)	(5)	(64)	(1)	-	(21)	-	-	-	(23,647)
Transfers	-	-	(670)	(510)	(35)	(713)	1,928	-	-	-	-
<b>Balance as of September 30, 2016</b>	<b>702,693</b>	<b>410,900</b>	<b>2,276,630</b>	<b>71,952</b>	<b>13,087</b>	<b>123,647</b>	<b>46,001</b>	<b>411</b>	<b>6,134,893</b>	<b>51,526</b>	<b>9,831,740</b>
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	38,669	70,639	1,769	986	8,572	-	-	1,221,874	56,457	1,401,604
Disposals	(1,184)	(4)	(10,086)	(510)	(9)	(129)	(5,746)	-	-	-	(17,668)
Transfers	-	-	(3,419)	(307)	(23)	(2,571)	6,320	-	-	-	-
<b>Balance as of September 30, 2017</b>	<b>700,151</b>	<b>497,192</b>	<b>2,289,975</b>	<b>75,603</b>	<b>15,107</b>	<b>139,435</b>	<b>46,754</b>	<b>411</b>	<b>8,293,017</b>	<b>108,719</b>	<b>12,166,364</b>
<b>Accumulated depreciation:</b>											
Balances as of January 1, 2016	-	262,924	951,794	51,615	11,022	73,337	44,094	-	-	-	1,394,786
Additions	-	10,549	76,841	3,431	533	5,266	44	-	-	-	96,664
Disposals	-	(2,025)	(5)	(60)	(1)	-	(21)	-	-	-	(2,112)
Transfers	-	-	(642)	(509)	(34)	(699)	1,884	-	-	-	-
<b>Balance as of September 30, 2016</b>	<b>-</b>	<b>271,448</b>	<b>1,027,988</b>	<b>54,477</b>	<b>11,520</b>	<b>77,904</b>	<b>46,001</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,489,338</b>
Balance as of January 1, 2017	-	275,561	1,057,016	57,059	11,856	80,303	46,180	-	-	-	1,527,975
Additions	-	12,150	85,598	4,334	749	6,047	1,570	-	-	-	110,448
Disposals	-	(4)	(10,226)	(378)	-	(124)	(5,746)	-	-	-	(16,478)
Transfers and adjustments	-	-	(1,890)	(307)	(23)	(2,530)	4,750	-	-	-	-
<b>Balance as of September 30, 2017</b>	<b>-</b>	<b>287,707</b>	<b>1,130,498</b>	<b>60,708</b>	<b>12,582</b>	<b>83,696</b>	<b>46,754</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,621,945</b>
<b>Net cost:</b>											
<b>As of September 30, 2017</b>	<b>700,151</b>	<b>209,485</b>	<b>1,159,477</b>	<b>14,895</b>	<b>2,525</b>	<b>55,739</b>	<b>-</b>	<b>411</b>	<b>8,293,017</b>	<b>108,719</b>	<b>10,544,419</b>
<b>As of September 30, 2016</b>	<b>702,693</b>	<b>139,452</b>	<b>1,248,642</b>	<b>17,475</b>	<b>1,567</b>	<b>45,743</b>	<b>-</b>	<b>411</b>	<b>6,134,893</b>	<b>51,526</b>	<b>8,342,402</b>

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Notes to the Unaudited Condensed Interim Financial Statements, continued

**A. Main additions to work-in-progress**

During the nine-month period ended September 30, 2017, they mainly correspond to the Engineering Procurement Construction - EPC of the PMRT amounting to S/ 906 million (S/ 2,391 million during the nine-month period ended September 30, 2016).

In addition, borrowing cost capitalized during nine-month period ended September 30, 2017 related to the PRMT amounted to S/ 165,764 thousand (S/ 103,422 thousand during the nine-month period ended September 30, 2016).

**B. Depreciation**

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

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>09.30.2016</b>
Cost of sales	72,091	61,061
Selling and distribution expenses	15,384	6,428
Administrative expenses	22,973	29,175
	<b>110,448</b>	<b>96,664</b>

As of September 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>	<b>09.30.2017</b>	<b>12.31.2016</b>
<b>Current liabilities</b>		
Unsecured bank loans	4,207,891	5,191,693
Syndicated loan (a)	-	560,000
	<b>4,207,891</b>	<b>5,751,693</b>
<b>Non-current liabilities:</b>		
Syndicated loan (a)	-	836,383
Corporate bonds (b)	6,517,757	-
	<b>6,517,757</b>	<b>836,383</b>

- (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 September 2017, the Company paid the outstanding principal amounting to US\$ 333.3 million.

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Notes to the Unaudited Condensed Interim Financial Statements, continued

- (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:
- 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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**Petróleos del Perú – PETROPERÚ S.A.**

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	September 30, 2017		December 31, 2016	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loans	Dollars	1.64 – 3.11%	2017	-	-	2,035,780	2,035,780
Unsecured bank loans	Soles	4.80 – 6.50%	2017	-	-	3,155,913	3,155,913
Syndicated loan	Dollars	LIBOR 3M+MGN	2019	-	-	1,400,000	1,396,383
Unsecured bank loans	Dollars	0.96% - 2.29%	2017	1,411,128	1,411,128	-	-
Unsecured bank loans	Soles	3.20% - 4.80%	2017	505,000	505,000	-	-
Unsecured bank loans	Dollars	1.21% - 0.80%	2018	1,211,763	1,211,763	-	-
Unsecured bank loans	Soles	2.50% - 3.50%	2018	1,080,000	1,080,000	-	-
Corporate bonds	Dollars	4.750%	2032	3,267,000	3,258,917	-	-
Corporate bonds	Dollars	5.625%	2047	3,267,000	3,258,840	-	-
<b>Total interest-bearing liabilities</b>				<b>10,741,891</b>	<b>10,725,648</b>	<b>6,591,693</b>	<b>6,588,076</b>

**Petróleos del Perú – PETROPERÚ S.A.**

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>	<b>09.30.2017</b>	<b>12.31.2016</b>
Working capital	3,116,713	2,292,123
PMRT	7,608,935	4,295,953
	<b>10,725,648</b>	<b>6,588,076</b>

**9. Trade Accounts Payable**

This caption comprises the following:

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>12.31.2016</b>
National suppliers of crude and refined products	229,209	292,306
Foreign suppliers of crude and refined products	1,826,316	1,189,608
Suppliers of goods and services	189,860	890,137
Shipping companies, terminal operators and sales plants	49,661	55,861
	<b>2,295,046</b>	<b>2,427,912</b>

As of September 30, 2017, the crude leading national supplier is Savia Perú S.A. with a balance of S/ 73.4 million (S/ 75.8 million as of December 31, 2016) and the leading foreign supplier is Koch Refining International Pte. Ltd. for S/ 1,051.4 million.

**10. Other Accounts Payable**

This caption comprises the following:

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>12.31.2016</b>
Remunerations (a)	73,443	100,510
Interest (b)	116,610	72,676
Taxes (c)	50,997	247,431
Advances from customers	70,272	38,810
Workers' profit sharing (d)	60,730	109,351
Derivatives financial instruments	19,827	-
Various (e)	24,258	29,460
	<b>416,137</b>	<b>598,238</b>

- (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.
- (e) As of September 30, 2017, it mainly includes deposits received as guarantee for S/ 15,574 thousand (2016: S/ 19,063 thousand).

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Notes to the Unaudited Condensed Interim Financial Statements, continued

For the nine-month period ended September 30, 2017, the Company determined a worker's profit sharing of S/ 60,730 thousand (S/ 82,882 thousand as of September 30, 2016), which was charged against the results of the results of the period in the following categories:

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>09.30.2016</b>
Cost of sales	23,747	32,784
Selling and distribution expenses	10,657	14,764
Administrative expenses	26,326	35,334
	<b>60,730</b>	<b>82,882</b>

**11. Provisions and Other Liabilities**

This caption comprises the following:

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>12.31.2016</b>
Current		
Provision for environmental improvement (c)	119,690	303,092
Provision for civil claims (b)	48,990	75,726
Provision for labor claims	8,341	7,533
Provision for the plugging of wells	1,928	1,928
Accrued pension plans obligations	174	174
Other	526	526
	<b>179,649</b>	<b>388,979</b>
Non-current		
Provision for environmental improvement	14,614	18,761
Accrued pension plans obligations	226	228
	<b>14,840</b>	<b>18,989</b>

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**Petróleos del Perú – PETROPERÚ S.A.**

Notes to the Unaudited Condensed Interim Financial Statements, continued

Movement of provisions and other liabilities during the periods:

<i>In thousands of soles</i>	<b>Accrued retirement pension</b>	<b>Provision for improvements to environment</b>	<b>Provision for labor claims</b>	<b>Provision for civil claims</b>	<b>Provision for plugging of wells</b>	<b>Other</b>	<b>Total</b>
<b>Balance as of January 1, 2016</b>	<b>514,895</b>	<b>99,268</b>	<b>34,134</b>	<b>48,857</b>	<b>1,928</b>	<b>5,398</b>	<b>704,480</b>
Charges for the period	98	971	3,744	18,484	-	-	23,297
Payments	(204)	(3,554)	(4,366)	(535)	-	-	(8,659)
Recovery	(514,460)	-	(26,263)	(14,041)	-	(4,872)	(559,636)
Disposals and transfers to ONP	-	-	-	-	-	-	-
Exchange difference	-	(315)	-	28	-	-	(287)
<b>Balance as of September 30, 2016</b>	<b>329</b>	<b>96,370</b>	<b>7,249</b>	<b>52,793</b>	<b>1,928</b>	<b>526</b>	<b>159,195</b>
<b>Balance as of January 1, 2017</b>	<b>402</b>	<b>321,853</b>	<b>7,533</b>	<b>75,726</b>	<b>1,928</b>	<b>526</b>	<b>407,968</b>
Charges for the period	116	10,237	2,417	7	-	-	12,777
Payments	(118)	(195,398)	(1,524)	(216)	-	-	(197,256)
Recovery	-	-	(85)	(26,169)	-	-	(26,254)
Exchange difference	-	(2,388)	-	(358)	-	-	(2,746)
<b>Balance as of September 30, 2017</b>	<b>400</b>	<b>134,304</b>	<b>8,341</b>	<b>48,990</b>	<b>1,928</b>	<b>526</b>	<b>194,489</b>

**A. Provision for environmental improvement**

During 2017, the Company performed remediation and environmental improvements mainly in the Oil Pipeline Operations. The Company disbursed S/ 187 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 September 30, 2017, the Company reversed its provision for S/ 49 million to cover liabilities from civil, administrative and environmental contingencies. From this amount, S/ 34 million correspond to contingencies for administrative proceedings with the Agency for Environmental Assessment and Inspection -OEFA- and S/ 13 million for administrative proceedings with OSINERGMIN.



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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 September 30, 2017 and September 30, 2016 is as follows:

<i>In thousands of soles</i>	<b>Balances as of 01.01.2016</b>	<b>Debit (credit) to equity</b>	<b>Debit (credit) to profit and loss</b>	<b>Balances as of 09.30.2016</b>	<b>Balances as of 12.31.2016</b>	<b>Charge (credit) to profit and loss</b>	<b>Balances as of 09.30.2017</b>
<b>Deferred assets:</b>							
Provision for retirement pension (a)	144,171	(144,048)	(29)	94	120	(1)	119
Provision for environmental remediation	27,091		(812)	26,279	94,947	(55,327)	39,620
Claims to insurance	-	-	61,151	61,151	-	-	-
Other provisions	22,833	-	(7,826)	15,007	26,479	(4,110)	22,369
Depreciation rate differences	17,660	-	2,301	19,961	18,382	45,588	63,970
Impairment of property, plant and equipment.	5,370	-	-	5,370	42,949	-	42,949
	<b>217,125</b>	<b>(144,048)</b>	<b>54,784</b>	<b>127,862</b>	<b>182,877</b>	<b>(13,850)</b>	<b>169,027</b>
<b>Deferred liabilities:</b>							
Cost attributable to fixed assets	(380,666)	-	11,481	(369,185)	(428,556)	7,532	(421,024)
Capitalized interest - PMRT financing	(16,519)	-	(26,889)	(43,408)	(16,519)	-	(16,519)
	<b>(397,185)</b>	<b>-</b>	<b>(15,408)</b>	<b>(412,593)</b>	<b>(445,075)</b>	<b>7,532</b>	<b>(437,543)</b>
<b>Deferred liabilities, net</b>	<b>(180,060)</b>	<b>(144,048)</b>	<b>39,376</b>	<b>(284,731)</b>	<b>(262,198)</b>	<b>(6,318)</b>	<b>(268,516)</b>

- (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.

**Petróleos del Perú – PETROPERÚ S.A.**

Notes to the Unaudited Condensed Interim Financial Statements, continued

**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.

As of September 30, 2017, the authorized, subscribed, and paid-in capital stock is represented by 3,927,713,295 common shares with a par value of one sol each, increasing the capital stock from S/ 3,521,047,935 to S/ 3,927,713,295.

This capital increase for S/ 406,665 thousand, was approved by the General Stockholders' Meeting held on April 18, 2017, and was duly registered in the Lima's Legal Entities Registry on August 3, 2017 (Record 11014754, Entry B00021). Therefore, new Certificates of Shares were issued on September 12, 2017.

**14. Income from Ordinary Activities**

This caption comprises the following:

<i>In thousands of soles</i>	For the three-month period ended September 30		For the nine-month period ended September 30	
	2017	2016	2017	2016
Local sales	2,958,766	2,635,235	8,526,290	7,229,819
Price stabilization fund for oil-derived fuels	35,678	28,089	(3,574)	140,082
	2,994,444	2,734,489	8,522,716	7,369,901
Foreign sales	377,250	238,861	931,403	612,459
	<b>3,371,694</b>	<b>2,900,205</b>	<b>9,454,119</b>	<b>7,982,360</b>

For the nine-month period ended September 30, sales are broken down as follows:

<i>In thousands of soles</i>	For the three-month period ended September 30		For the nine-month period ended September 30	
	2017	2016	2017	2016
Local sales				
GLP	171,509	180,632	488,001	538,236
Turbo	86,995	71,607	241,610	197,415
Gasoline	792,549	680,365	2,296,044	1,951,964
Diesel - various	1,804,040	1,616,159	5,038,456	4,350,432
Industrial oil	90,482	69,208	337,695	182,344
Asphaltenes	37,828	34,698	85,023	112,900
Solvents	11,041	10,665	35,887	34,701
Others	-	-	-	1,909
<b>Total local sales</b>	<b>2,994,444</b>	<b>2,663,324</b>	<b>8,522,716</b>	<b>7,369,901</b>
Foreign sales				
Virgin naphtha	66,011	88,185	179,884	174,722
Turbo	28,320	13,690	75,708	71,740
Diesel - various	127,882	27,933	275,540	-
Industrial oil	134,197	66,640	347,533	63,933
Gasoline	-	-	11,637	258,160
Loreto crude exp.	16,777	-	16,778	35,515
Asphaltenes	4,063	4,918	11,123	-
Reduced crude oil	-	35,515	13,200	8,389
<b>Total foreign sales</b>	<b>377,250</b>	<b>236,881</b>	<b>931,403</b>	<b>612,459</b>
	<b>3,371,694</b>	<b>2,900,205</b>	<b>9,454,119</b>	<b>7,982,360</b>

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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>	<b>For the three-month period ended September 30</b>		<b>For the nine-month period ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Opening balance of inventories	1,525,067	1,380,335	1,597,280	1,306,398
Acquisition of crude oil, refined products and supplies	2,670,244	2,529,793	7,774,945	6,373,342
Consumption of supplies and operations	(12,599)	(13,701)	(43,180)	(35,364)
Production operating expenses (a)	226,809	195,109	614,298	602,332
Final balance of inventories	(1,609,548)	(1,559,796)	(1,609,548)	(1,559,796)
	<b>2,799,973</b>	<b>2,531,740</b>	<b>8,333,795</b>	<b>6,686,912</b>

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

<i>In thousands of soles</i>	<b>For the three-month period ended September 30</b>		<b>For the nine-month period ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Personnel expenses (note 18)	41,542	44,805	122,282	126,954
Workers' profit sharing (note 10 and 18)	13,697	4,594	23,747	32,784
Materials and supplies	21,180	20,425	64,638	57,214
Third-party services (*)	117,015	96,515	310,002	302,867
Insurance	5,471	5,424	15,836	16,268
Various charges for operations	867	350	1,330	1,011
Depreciation (note 7)	26,502	20,169	72,091	61,061
Amortization	87	10	108	31
Others	448	2,817	4,264	4,142
	<b>226,809</b>	<b>195,109</b>	<b>614,298</b>	<b>602,332</b>

(\*)including the following:

<i>In thousands of soles</i>	<b>For the three-month period ended September 30</b>		<b>For the nine-month period ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Freights and land transportation expenses	38,351	28,491	97,599	78,409
Freights and maritime transportation expenses	20,383	20,191	54,946	66,848
Freights and other freight expenses	12,977	10,285	39,542	47,651
Maintenance and repair services	18,389	10,424	42,791	28,208
Utilities	16,339	20,523	50,060	60,215
Industrial protection and safety	2,349	2,310	7,992	7,704
Food and storage	3,251	3,253	7,884	10,894
Other third-party services	4,976	1,038	9,188	2,938
	<b>117,015</b>	<b>96,515</b>	<b>310,002</b>	<b>302,867</b>

**Petróleos del Perú – PETROPERÚ S.A.**

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>	<b>For the three-month period ended September 30</b>		<b>For the nine-month period ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Personnel charges (note 18)	19,280	19,482	56,172	56,349
Workers' profit sharing (note 10 and 18)	6,147	2,069	10,657	14,764
Materials and supplies	2,466	2,017	6,408	6,383
Various charges for operations	1,054	203	1,690	771
Insurance	865	917	2,577	2,733
Third-party services (a)	72,879	66,689	197,523	190,445
Doubtful accounts	373	394	440	617
Depreciation (note 7)	5,299	2,331	15,384	6,428
Amortization	-	1	-	1
Taxes	14,774	14,572	44,166	40,330
	<b>123,137</b>	<b>108,675</b>	<b>335,017</b>	<b>318,821</b>

(a) It includes the following:

<i>In thousands of soles</i>	<b>For the three-month period ended September 30</b>		<b>For the nine-month period ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Storing products	17,045	17,479	50,505	51,933
Delivering products	25,651	25,245	72,605	75,488
Advertising	3,996	2,189	4,678	4,4432
Maintenance and repair services	2,348	2,100	5,471	5,087
Freights and other freight expenses	17,995	14,517	46,531	36,846
Industrial protection and safety	1,190	954	3,839	3,524
Other third-party services	4,110	3,953	12,712	12,519
Travel and transfer expenses	544	252	1,182	616
	<b>72,879</b>	<b>66,689</b>	<b>197,523</b>	<b>190,445</b>

**17. Administrative Expenses**

This caption comprises the following:

<i>In thousands of soles</i>	<b>For the three-month period ended September 30</b>		<b>For the nine-month period ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Personnel charges (note 18(a))	62,986	57,530	180,772	166,447
Workers' profit sharing (notes 10 and 18)	15,185	4,951	26,326	35,334
Materials and supplies	828	992	3,011	2,759
Third-party services (b)	29,735	27,874	81,127	84,041
Insurance	488	534	1,462	1,607
Various charges for operations	4,337	3,548	23,255	69,226
Doubtful accounts	485	83	5,836	83
Depreciation (note 7)	7,669	9,670	22,973	29,175
Amortization	1,958	2,022	5,889	6,032
Taxes	4,408	3,298	13,005	9,956
	<b>128,079</b>	<b>110,502</b>	<b>363,656</b>	<b>404,660</b>

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- (a) Includes compensation to the Board of Directos (per diem) of S/ 159 thousand as of September 30, 2017 (S/ 192 thousand as of September 30, 2016) and management compensation totaling S/ 11,649 thousand as of September 30, 2017 (S/ 11,978 thousand as of September 30, 2016).
- (b) It includes the following:

<i>In thousands of soles</i>	<b>For the three-month period ended September 30</b>		<b>For the nine-month period ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
IBM outsourcing services	6,147	7,500	17,618	20,693
Maintenance and repair services	5,462	4,491	13,751	13,187
Industrial protection and safety	4,493	4,707	13,885	12,582
Temporary services	1,340	1,244	3,383	3,526
Advisory, appraisal and audits	3,787	1,201	9,632	7,529
Advertising	2,047	1,487	4,818	3,137
Bank expenses	973	989	2,618	3,659
Other third-party services	3,442	4,643	10,331	14,562
Freights and other freights	530	376	1,573	1,519
Travel and transfer expenses	1,514	1,236	3,518	3,647
	<b>29,735</b>	<b>27,874</b>	<b>81,127</b>	<b>84,041</b>

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**Petróleos del Perú – PETROPERÚ S.A.**

Notes to the Unaudited Condensed Interim Financial Statements, continued

**18. Personnel Charges**

This caption comprises the following:

<i>In thousands of soles</i>	<b>For the three-month period ended September 30</b>		<b>For the nine-month period ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Wages and salaries	46,799	43,296	137,305	131,243
Social contributions	18,056	18,177	56,053	55,675
Legal bonuses	13,187	13,564	32,937	33,046
Compensation for time of services	6,902	8,385	20,111	20,161
Workers' profit sharing	35,029	11,614	60,730	82,882
Vacations	3,819	3,584	11,246	10,605
Bonuses	27,513	26,598	76,701	75,401
Transportation	926	949	2,863	2,803
Food	2,958	3,097	8,897	9,057
Overtime	1,134	1,618	3,683	3,364
Others	2,514	2,549	9,430	8,396
	<b>158,837</b>	<b>133,431</b>	<b>419,956</b>	<b>432,632</b>

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>	<b>For the three-month period ended September 30</b>		<b>For the nine-month period ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Cost of sales (note 15)	55,239	49,399	146,029	159,738
Selling expenses and distribution (note 16)	25,427	21,551	66,829	71,113
Administrative expenses (note 17)	78,171	62,481	207,098	201,781
	<b>158,837</b>	<b>133,431</b>	<b>419,956</b>	<b>432,632</b>

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**19. Other Income and Expenses**

Other operating income and expenses comprise:

<i>In thousands of soles</i>	<b>For the three-month period ended September 30</b>		<b>For the nine-month period ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Other income</b>				
Interest, devolution SUNAT (a)	-	-	101,816	-
Reversal of provision - Ventanilla	-	-	23,967	-
Recovery of provisions	433	1,210	5,713	1,971
Claims and/or compensations (insurances/non-compliance)	4,092	4,352	10,624	14,423
Maritime operations services	2,551	2,272	7,789	7,112
Others	7,931	25,527	34,721	66,232
	<b>15,007</b>	<b>33,361</b>	<b>184,630</b>	<b>89,738</b>
<b>Other expenses</b>				
Provision for claims - OLE	(13,000)	(226,485)	(15,983)	(226,485)
Derecognition of land and plant	(132)	(3)	(1,321)	(21,534)
Write-downs of obsolete materials	-	-	(135)	-
IGV tax credit not used for sales exempt sales in the Amazon	-	39	-	(507)
Provision for retirement pension	(46)	(98)	(116)	(98)
	<b>(13,178)</b>	<b>(226,547)</b>	<b>(17,555)</b>	<b>(248,624)</b>

- (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>	<b>For the three-month period ended September 30</b>		<b>For the nine-month period ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Interest on loans	(23,555)	(12,911)	(82,921)	(38,980)
Loss for financing instruments	(26,783)	(14,748)	(39,724)	(18,769)
Others	-	-	(309)	(979)
	<b>(50,338)</b>	<b>(27,659)</b>	<b>(122,954)</b>	<b>(58,728)</b>

**Petróleos del Perú – PETROPERÚ S.A.**

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## 21. Tax Matters

### **Income tax determination**

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

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>09.30.2016</b>
Current	161,241	208,862
Deferred	6,318	(39,376)
<b>Income tax expense</b>	<b>167,559</b>	<b>169,486</b>

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

<i>In thousands of soles</i>	<b>09.30.2017</b>		<b>09.30.2016</b>	
<b>Loss before income tax</b>	<b>789,575</b>	<b>100.0%</b>	<b>567,708</b>	<b>100.0%</b>
Income tax (theoretical)	232,925	29.50	158,958	28.0%
Non-deductible permanent expenses	(71,684)	(9.08)	49,904	8.79%
Others	6,318	0.80	(39,376)	(6.94)
<b>Current and deferred tax registered as per effective rate</b>	<b>167,559</b>	<b>21.22%</b>	<b>169,486</b>	<b>29.85%</b>

### **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. Until year 2010 were reviewed by the Tax Authorities. Income tax for 2011 is open for review.

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 September 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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As of September 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 September 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.

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Notes to the Unaudited Condensed Interim Financial Statements, continued

**22. Contingency**

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

<i>In thousands of soles</i>	<b>09.30.2017</b>	<b>12.31.2016</b>
Labor proceedings (a)	25,379	27,734
Civil proceedings (b)	131,202	64,838
Tax and custom proceedings (c)	122,839	150,649
	<b>279,420</b>	<b>243,221</b>

As of September 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/ 21 million, pension fund proceedings for S/ 1 million and other labor proceedings of the Pipeline Operating Unit for S/ 3 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 September 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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- (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:

<b>Disciplinary Procedure</b>	<b>Beginning date</b>	<b>Maximum fine</b>	<b>Maximum fine in thousands of soles</b>
405-2016-OS-GFHL/AT	11/02/2016	44,900 UIT	181,845
423-2016-OS-GFHL/AT	19/02/2016	37,000 UIT	149,850
520-2016-OS/DSHL	01/03/2016	2,600 UIT	10,530
524-2016-OS/DSHL	03/03/2016	37.64 UIT	152
196-2016-OEFA/DFSAI/SDI	08/03/2016	69,000 UIT	279,450
600-2016-OS/DSHL	30/03/2016	4,250 UIT	17,213
628-2016-OS/DSHL	06/04/2016	6,700 UIT	27,135
665-2016-OS/DSHL	29/04/2016	49,950 UIT	202,298
1030-2016-OS/DSHL	17/05/2016	10,136 UIT	41,051

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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 nine-month period ended September 30, 2017 and 2016 is as follows:

	<b>Gain in thousands of soles (numerator)</b>	<b>In thousands of shares (denominator)</b>	<b>Gain in soles per share</b>
<b>September 30, 2017:</b>			
Basic and diluted earnings per share	622,016	3,927,713	0.158
<b>September 30, 2016:</b>			
Basic and diluted earnings per share	398,222	2,465,048	0.162

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 September 30, 2017, the Company maintains letters of guarantee issued by local financial institutions in favor of third parties for S/ 83.9 million and for US\$ 3.3 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**

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

	<b>For the three-month period ended September 30</b>	
<i>In thousands of soles</i>	<b>2017</b>	<b>2016</b>
Operating activities:		
Cash generated from operating activities	928,365	(486,654)
Interest paid	(50,338)	(27,660)
Income tax paid	(232,427)	(235,474)
Time deposits	78,075	-
<b>Net cash (used in) provided by operating activities</b>	<b>723,675</b>	<b>(749,788)</b>
Investing activities:		
Acquisition of property, plant and equipment	(627,993)	(686,209)
Acquisition of intangible assets	(54)	(520)
<b>Net cash used in investing activities</b>	<b>(628,047)</b>	<b>(686,729)</b>
Financing activities:		
Proceeds from short-term loans	1,867,094	3,603,558
Amortization of short-term loans	(3,246,241)	(1,991,846)
<b>Net cash (used in) provided by financing activities</b>	<b>(1,379,147)</b>	<b>1,611,712</b>
Net increase in cash and cash equivalents before effect of exchange rate fluctuations	(1,283,519)	175,195
Effect of exchange rate fluctuations on cash and cash equivalents	(49,619)	80,266
Effects of exchange rate fluctuation on other accounts	21,746	(246,712)
Cash and cash equivalents at the beginning of period	3,897,592	364,704
<b>Cash and cash equivalents at the end of period</b>	<b>2,586,200</b>	<b>373,453</b>
<b>Non-cash flow generating transactions</b>		
Derivative financial instruments	(5,346)	(10,648)
Work-in-progress to pay	95,005	-
Transfer to retirement pension, net of deferred income tax	-	370,411