



(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM FINANCIAL STATEMENTS
AT MARCH 31, 2019 (UNAUDITED), DECEMBER 31, 2018 AND
MARCH 31, 2018 (UNAUDITED AND NOT REVIEWED)

(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

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S/ = Peruvian sol
US\$ = United States dollar
EUR = Euro



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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

April 30, 2019

We have reviewed the accompanying condensed interim financial statements of **Petróleos del Perú - PETROPERÚ S.A.** at March 31, 2019, which comprise the condensed interim statements of comprehensive income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 29. Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" issued by the International Accounting Standards Board. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements do not present fairly, in all material respects, the financial position of **Petróleos del Perú - PETROPERÚ S.A.** at March 31, 2019, its financial performance and cash flows for the three-month period then ended, in accordance with International Accounting Standard 34 - "Interim Financial Reporting" issued by the International Accounting Standards Board.

Gavoglio Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.
Av. Santo Toribio 143, Piso 7, San Isidro, Lima, Perú, T: +51 (1) 211 6500 F: +51 (1) 211 6550
www.pwc.pe

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April 30, 2019
Petróleos del Perú - PETROPERÚ S.A.

Other matter

The comparative information for the statement of financial position is based on the audited financial statements as at December 31, 2018. The comparative information for the statement of comprehensive income, changes in equity and cash flows, and the explanatory notes, for the three-month period ended March 31, 2018 has not been audited or reviewed.

CAVEGHIO Aparicio y Asociados

Countersigned by

A handwritten signature in black ink, appearing to read 'Hernán Aparicio P.', written over a horizontal line.

(partner)

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

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PETROLÉOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

ASSETS	Note	At March 31,		At December 31,		LIABILITIES AND EQUITY	Note	At March 31,		At December 31,	
		2019	US\$000	2018	US\$000			2019	US\$000	2018	US\$000
			(Unaudited)						(Unaudited)		
Current assets											
Cash and cash equivalents	9	189,172		528,700		Other financial liabilities	14	1,250,913		1,673,112	
Trade receivables	10	359,053		438,698		Trade payables	15	533,323		529,801	
Other receivables	11	1,194,359		1,455,757		Other payables		82,891		105,092	
Inventories	12	639,370		590,537		Other provisions	16	43,885		34,662	
Prepaid expenses		4,145		431		Total current liabilities		1,911,012		2,342,667	
Assets held for sale		1,963		1,963							
Total current assets		2,388,062		3,016,086		Non-current liabilities					
Non-current assets						Other financial liabilities	14	3,147,641		3,147,610	
Other receivables	11	321,235		241,751		Other provisions	16	7,139		7,067	
Property, plant and equipment	13	4,139,185		3,978,456		Deferred income tax liabilities		88,212		109,349	
Investment properties		72,812		74,156		Total non-current liabilities		3,242,992		3,264,026	
Intangible assets		33,870		33,554		Total liabilities		5,154,004		5,606,693	
Total non-current assets		4,567,102		4,327,917		Equity	17				
						Capital share		1,337,989		1,337,989	
						Additional capital		107,597		-	
						Legal reserve		52,115		40,160	
						Retained earnings		303,459		359,161	
						Total equity		1,801,160		1,737,310	
TOTAL ASSETS		6,955,164		7,344,003		TOTAL LIABILITIES AND EQUITY		6,955,164		7,344,003	

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

(Free translation from the original in Spanish)

PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	For the three-month period ended March 31,	
		2019	2018
		US\$000 (Unaudited)	US\$000 (Unaudited and not reviewed)
Revenue from ordinary activities	18	1,065,917	1,132,598
Other operating profit		15,134	21,038
Total revenue		<u>1,081,051</u>	<u>1,153,636</u>
Cost of sales	19	<u>(935,543)</u>	<u>(1,021,650)</u>
Gross profit		<u>145,508</u>	<u>131,986</u>
Selling and distribution expenses	20	(20,145)	(18,416)
Administrative expenses	21	(40,652)	(39,473)
Other income	23	10,603	46,729
Other expenses	23	(12,440)	(8)
Total operating expenses		<u>(62,634)</u>	<u>(11,168)</u>
Operating profit		82,874	120,818
Financial income		4,064	2,442
Financial expenses		(5,209)	(9,051)
Exchange difference, net		4,190	3,822
Profit before income tax		<u>85,919</u>	<u>118,031</u>
Income tax expense	24	<u>(22,069)</u>	<u>(29,032)</u>
Profit for the period		63,850	88,999
Other comprehensive income that may be reclassified as profit or loss:			
Results from derivatives		-	154
Total comprehensive income		<u>63,850</u>	<u>89,153</u>
Basic and diluted earning per share	26	<u>0.014</u>	<u>0.023</u>

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

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PETROLÉOS DEL PERÚ - PETROPERÚ S.A.

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2019 AND 2018**

	Number of shares	Capital share US\$000	Additional capital US\$000	Legal reserve US\$000	Other equity reserves US\$000	Retained earnings US\$000	Total equity US\$000
Balances at January 1, 2018	3,927,713,295	1,171,395	-	21,650	(154)	424,713	1,617,604
Comprehensive income:							
Profit for the period	-	-	-	-	-	88,999	88,999
Other comprehensive income:							
Results from derivatives	-	-	-	-	154	-	154
Total comprehensive income	-	-	-	-	154	88,999	89,153
Balance at March 31, 2018	<u>3,927,713,295</u>	<u>1,171,395</u>	<u>-</u>	<u>21,650</u>	<u>-</u>	<u>513,712</u>	<u>1,706,757</u>
Balances at January 1, 2019	4,448,416,995	1,337,989	-	40,160	-	359,161	1,737,310
Comprehensive income:							
Profit for the period	-	-	-	-	-	63,850	63,850
Total comprehensive income	-	-	-	-	-	63,850	63,850
Transactions with shareholders:							
Transfer to additional capital and legal reserve	-	-	107,597	11,955	-	(119,552)	-
Total transactions with shareholders	-	-	107,597	11,955	-	(55,702)	-
Balance at March 31, 2019 (unaudited)	<u>4,448,416,995</u>	<u>1,337,989</u>	<u>107,597</u>	<u>52,115</u>	<u>-</u>	<u>303,459</u>	<u>1,801,160</u>

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

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PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	For the three-month period ended March 31,	
		2019	2018
		US\$000 (Unaudited)	US\$000 (Unaudited and not reviewed)
OPERATING ACTIVITIES			
Net cash provided by (applied to) operating activities		205,593	(55,634)
Interest payment		(13,236)	(5,868)
Income tax payment		(22,510)	(15,512)
Net cash provided by (applied to) operating activities		<u>169,847</u>	<u>(77,014)</u>
INVESTING ACTIVITIES			
Value added tax early refund related to investing activities	11	33,215	-
Value added tax related to investing activities		(20,337)	(20,042)
Payment for purchase of property, plant and equipment		(166,061)	(155,896)
Capitalized interest payment		(5,700)	(1,631)
Payment for purchase of intangible assets		(863)	-
Retirement of investment in fixed term deposits		443,000	-
Investment in fixed term deposits		(344,000)	(75,000)
Net cash applied to investing activities		<u>(60,746)</u>	<u>(252,569)</u>
FINANCING ACTIVITIES			
Loans from financial institutions	14	856,331	1,626,239
Payment of loans to financial institutions	14	(1,306,059)	(1,442,839)
Net cash (applied to) provided by financing activities		<u>(449,728)</u>	<u>183,400</u>
Net decrease in cash and cash equivalents		(340,627)	(146,183)
Effect of changes in exchange rate on cash		1,099	633
Cash and cash equivalents at beginning of period		<u>528,700</u>	<u>666,140</u>
Cash and cash equivalents at end of period		<u>189,172</u>	<u>520,590</u>
NON-CASH TRANSACTIONS FROM FINANCING AND INVESTMENT ACTIVITIES			
- Unpaid accrued interest	14	49,749	32,712
- Work in progress payable		74,357	53,492
- Profit capitalization	17	107,597	-

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PETROLÉOS DEL PERÚ - PETROPERÚ S.A.

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	<u>Note</u>	For the three-month period ended March 31,	
		2019	2018
		US\$000 (Unaudited)	US\$000 (Unaudited and not reviewed)
Net profit for the period		63,850	88,999
Adjustments to reconcile the profits for the year to cash from operating activities:			
Provision for retirement pensions	16	3	8
Provision for contingencies	16	515	195
Provision for plugging and environmental remediation	16	12,219	(1,519)
Depreciation		10,868	12,690
Amortization		547	682
Disposal of property, plant and equipment		218	-
Deferred income tax		(21,137)	(24)
Effect on adjustment of non-realizable exchange difference		(1,099)	(634)
		<u>65,984</u>	<u>100,397</u>
Net changes in operating assets and liabilities:			
Trade receivables		79,645	(46,388)
Other receivables		66,170	1,197
Inventories		(48,833)	1,588
Prepaid expenses		(3,715)	1,669
Trade payables		8,895	(210,139)
Other payables		1,701	74,662
Net cash provided by (applied to) operating activities		<u>169,847</u>	<u>(77,014)</u>

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

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PETRÓLEOS DEL PERÚ - PETROPERÚ S.A.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
AT MARCH 31, 2019 (UNAUDITED), DECEMBER 31, 2018 AND MARCH 31, 2018 (UNAUDITED
AND NOT REVIEWED)

1 BACKGROUND AND ECONOMIC ACTIVITY

a) Background -

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

The Company is a government-owned company under private law operating in the hydrocarbons subsector within the Energy and Mining Industry. The Company was organized and incorporated as a stock company, under the provisions of Legislative Decree No.043, *Ley de la Empresa Petróleos del Perú - PETROPERU S.A.*, published on March 4, 1981, as amended, by which the Peruvian Government holds the Company's total share capital. The Company is also subject to the provisions of article 12 of the rules for application of Law No.28840, setting forth that each member of the General Shareholders' Meeting shall represent the number of equity shares of PETROPERÚ S.A. resulting from dividing the total number of shares by the number of members designated to act on behalf of the Peruvian Government.

The Company is registered with the Peruvian company and securities regulator (Superintendencia de Mercados de Valores - SMV).

The legal address of PETROPERU S.A. is at Av. Enrique Canaval y Moreyra No.150, San Isidro, Lima Peru.

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

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

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

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

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

b) Economic activity -

By means of Law No.28244 enacted on June 2, 2004, PETROPERÚ S.A. is authorized to enter into contracts with PERUPETRO S.A. for exploration and exploitation operations as well as petroleum-related services as permitted by law.

As established under the Ley de "Fortalecimiento y Modernización de Petroperú S.A.", the Company has economic, financial and administrative autonomy in accordance with its annual and five-year business objectives approved by the Ministry of Energy and Mines. The agreements and contracts entered into in order to achieve its business purpose are subject to the guidelines established under i) Legislative Decree No.043, as amended; ii) its Bylaws; iii) its internal rules; iv) Board agreements; v) the Standards of the National Control System; and vi) the standards and regulations specific to PETROPERÚ S.A.

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

As part of its core business purpose, the Company carries out activities in accordance with the Peruvian Hydrocarbons Law (*Ley Orgánica de Hidrocarburos*) - Law No.26221. These activities consist of all oil industry phases, such as oil trade, including its by-products, basic petrochemicals and other forms of energy. The Company's activities in the hydrocarbon industry include exploration and exploitation, refinery, trade and transport of oil and by-products, basic and intermediary petrochemical products and other forms of energy.

By means of Law No.29970 - law for the strengthening of the energy supply continuity throughout the Southern Region in Peru ("Ley que afianza la Seguridad Energética y promueve el desarrollo del Polo Petroquímico en el Sur del País") PETROPERÚ S.A. shall take part, individually or jointly, in the petrochemical development described in the above-mentioned law.

Pursuant to Law No.30130 PETROPERÚ S.A. is authorized to sell or issue shares to be placed in the Securities Market. In this process, the Peruvian Government is allowed to incorporate a private stake of up to 49% of its share capital outstanding. In addition, PETROPERÚ S.A. is allowed to carry out investment activities and projects as long as no current or future firm or contingent liabilities are incurred by the Company, do not affect the guarantees for the Talara Refinery Modernization Project (PMRT the Spanish acronym); and no Treasury resources are required; which is not restrictive of those ongoing projects that enable the Company to be operational at the effective date of this law. These restrictions will cease to exist whenever PETROPERÚ S.A. generates sufficient cash flows to be able to secure repayment of the borrowings contracted to invest in implementing the PMRT and a private stake of at least 40% has been incorporated in its outstanding share capital.

By means of Supreme Decree No.031-2016-MEM dated December 1, 2016 approved the assignment of contractual position in the License Agreement for the Hydrocarbons Exploration and Exploitation on Block 64, from PETROPERÚ to GEOPARK PERÚ S.A.C.; the latter now being designated as the Operator of the License Agreement. On December 2, 2016, the relevant public deed of the referred assignment was signed.

Pursuant to Legislative Decree No.1292, issued on December 30, 2016, the safe operation of the Peruvian northern oil pipeline ("ONP") was declared of public need and national interest; in this sense, the Company was ordered to re-organize and enhance its corporate governance, authorizing a period of 720 days for that purpose, to come due on December 30,2018, to prepare a plan to govern, among others: the contracting and amending of agreements/contracts as well as service agreements relating to the Company's business units; the participation of PETROPERÚ S.A. in contracts of hydrocarbon exploration and exploitation; the possibility for the Company to take part in social responsibility actions under the mechanism of work in exchange for taxes; using the capital increase referred to in subsection 8.1, article 8th, Law No 29970 to implement the Talara Refinery Modernization Project and the amendment of article 4 and Complementary Provision to Law No 28840 - "Ley de Fortalecimiento y Modernización de la Empresa de Petróleos del Perú - PETROPERÚ S.A." to implement the Legislative Decree N°1292" approved by the Board of Directors.

Legislative Decree No. 1292 under the above regulation, once the reorganization and modernization mentioned in subsection 3.1, article 3th is completed, PETROPERÚ S.A. will come within the scope of the national fund for financing government-run companies ("Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado - FONAFE). However, on November 28, 2018 Law No. 30873 was enacted to partially supersede the above-mentioned Legislative Decree, removing the mandatory requirement for PETROPERÚ S.A. to be within the scope of FONAFE.

Based on a Board decision No 067-2018-PP, dated August 6, 2018, a Plan for Reorganization and Modernization was approved for implementing Legislative Decree No 1292; the different corporate management offices took part in preparing this plan.

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

c) Regulatory framework governing the Company's selling prices -

In accordance with article 77 of the Organic Hydrocarbon Law, the activities and prices of crude oil and by-products are governed by supply and demand.

The fuel pricing policy of PETROPERÚ S.A approved by the Board establishes that:

- Pricing of liquid and specialty fuels is determined on a supply-and-demand basis in compliance with the provisions of the Peruvian Law of Hydrocarbons ("Ley Orgánica de Hidrocarburos").
- The price listing of liquid and specialty fuels will be approved by the Executive Committee of Prices ("Comité Ejecutivo de Precios") presided by the General Management and conformed by Corporate Finance Management, Supply Chain Management, Refining Management and Commercial Management, or those who fulfill those functions.
- The methodology used in setting the prices of liquid and specialty fuels sold by PETROPERÚ in the local market is implemented on a cost-opportunity basis and is approved by the Executive Committee of Prices ("Comité Ejecutivo de Precios").

- PETROPERÚ's price lists should be competitive in relation with other economic agents - manufacturers and importers - at the Sales Plants nationwide in which sales are conducted, provided that economic benefits are obtained.
- In case international market events or circumstances have a significant impact on fuel prices in the local markets, and this, in turn, have an adverse impact on the Company's economic condition and/or reputation, the Price Executive Committee may decide to progressively transfer those events to customers or ignore those price variances specific to a current economic juncture until the local or international market stabilizes.

Price Stabilization Fund of Petroleum Derived Fuels (hereinafter, Price Stabilization Fund)

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

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

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

At March 31, 2019 the fuel price stabilization fund was applied to the following fuel items: GLP-E, Diesel B5, Diesel B5 S-50 and industrial petroleum 6. This fund representing -1.01% of the Company's total revenue (0.01% of the Company's total revenue at March 31, 2018).

d) Approval of the financial statements -

The financial statements for the three-month period ended March 31, 2019 have been issued with the authorization of General Management on April 30, 2019. The financial statements at December 31, 2018 were approved at the General Shareholders' Meeting dated March 29, 2019.

2 BASIS OF PREPARATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements for the three-month period ended March 31, 2019 have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34) issued by the International Accounting Standards Board (IASB)."

Information on the statement of financial position at December 31, 2018 and its related notes are derived from the audited financial statements at that date.

The condensed interim financial statements unaudited are based on the respective accounting records and are prepared under the historical cost convention, except for derivative financial instruments, which are measured at fair value. The condensed interim financial statements are presented in thousands of United States Dollars, unless otherwise stated. The applied accounting policies are consistent with those applied at 2018 year-end and comparative interim period.

The unaudited condensed interim financial statements do not include all the information and disclosures required for annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the IASB.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in the applicable standards from January 1, 2019 -

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

- IFRS 16, "Leases" -

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

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

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

Accounting by lessors will not significantly change.

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

As a result of the application of the new requirements of IFRS 16, the Company has determined an effect on total liabilities of less than 0.3%, arising from recognizing operating lease liabilities, which under current accounting standards are recognized as operating leases over the term of the contract (see Note 27). Also, the Company expects an increase by lower than 0.3% in its non-current assets resulting from the recognition of the right-of-use asset as required under IFRS 16. However, the recognition of these new asset and liability items result in a decrease lower than 0.5% in retained earnings at that date and lower than 0.2% in operating results.

No material impact is expected from the resulting variance in the respective financial indicator on the Company's compliance with its current contractual commitments (covenants).

For the transition to IFRS 16, the Company has decided to apply modified retrospective approach; however, at March 31, 2019 the Company has not recognized the effects of adopting IFRS because they were immaterial.

As a result of the application of the new requirements of IFRS 16, the Company expects to make certain changes in its current business processes, mainly in the contract management.

3.2 Significant accounting policies -

The significant accounting policies are consistent with those used in the annual financial statements for the year ended December 31, 2018, as described in them, except for the accounting treatment of the income tax for the interim period at the tax rate that is expected to be effective on the estimated future annual taxable profit or loss (see Note 4 and Note 24). The income tax expense is recognized at each

interim period at Management's best estimate of the income tax rate expected to be effective at year-end. Management considers that the accrued income tax amount for the interim period can be adjusted over a subsequent interim period of a same year, whenever the annual income tax rate estimate changes.

4 ESTIMATES AND CRITICAL ACCOUNTING CRITERIA

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

In preparing the condensed interim financial statements, the critical judgements and estimates made by Management in applying its accounting policies and assessing the sensitive information required for estimating uncertainties were the same as those used in the financial statements for the year ended December 31, 2018, except for changes in the estimates that are needed to determine the provision for income tax.

Income tax -

In determining the income tax for the interim periods, Management uses the effective tax rate that would be applicable to the expected annual profit or loss for the interim periods (see Note 3.2 and Note 24), that require Management to exercise judgement in estimating those expected results for tax purposes.

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

If the income tax rate had been +/- 1% other than Management's estimates, the Company would have needed to increase / decrease the income tax expense by US\$221 thousand for the three-month period ended March 31, 2019 (US\$290 thousand for the three-month period ended March 31, 2018).

5 RECLASSIFICATION OF ITEMS -

During the course of 2018, the Company reviewed the presentation of certain items in its financial statements; as a result of this process, certain changes were made in the presentation of income and cash flow.

The condensed interim statements of comprehensive income and cash flows at March 31, 2018 were restated to be consistent with this revised presentation:

	For the three-month period ended <u>March 31, 2018</u> US\$000 (Previously reported)	Reclassification US\$000	For the three-month period ended <u>March 31, 2018</u> US\$000 (Unaudited and not reviewed)
Revenue from ordinary activities	1,132,598	-	1,132,598
Other operating income	21,038	-	21,038
Total revenue	<u>1,153,636</u>	-	<u>1,153,636</u>
Cost of sales (a)	(1,007,660)	(13,990)	(1,021,650)
Gross profit	<u>145,976</u>	(13,990)	<u>131,986</u>
Selling and distribution expenses (a) (b)	(34,251)	15,835	(18,416)
Administrative expenses	(39,473)	-	(39,473)
Other income	46,729	-	46,729
Other expenses	(8)	-	(8)
Operating profit	<u>118,973</u>	<u>1,845</u>	<u>120,818</u>
Financial income	2,442	-	2,442
Financial expenses	(9,051)	-	(9,051)
Exchange difference, net	3,822	-	3,822
Profit before income tax	<u>116,186</u>	<u>1,845</u>	<u>118,031</u>
Income tax	(29,032)	-	(29,032)
Profit for the period	<u>87,154</u>	<u>1,845</u>	<u>88,999</u>

(a) Reclassification of warehouse, shipping and freight expense for US\$13,990 thousand.

(b) Including an adjustment of US\$1,845 thousand resulting from implementing a change in functional currency.

	For the three-month period ended <u>March 31, 2018</u> US\$000 (Previously reported)	Reclassification US\$000	For the three-month period ended <u>March 31, 2018</u> US\$000 (Unaudited and not reviewed)
Operating activities			
- Net cash from operating activities	(24,879)	(30,755)	(55,634)
- Payment of interest	(13,056)	7,188	(5,868)
- Payment of income tax	(109)	(15,403)	(15,512)
Net cash applied to operating activities	<u>(38,044)</u>	<u>(38,970)</u>	<u>(77,014)</u>
Investing activities			
- Value added tax related to investment activities	(20,042)	-	(20,042)
- Payment for purchase of property, plant and equipment	(138,866)	(17,030)	(155,896)
- Capitalized interest payment	(1,631)	-	(1,631)
- Payment for purchase of Intangibles assets	(25)	-	(25)
- Investment in fixed time deposits	(75,000)	-	(75,000)
Net decrease in cash and cash equivalents	(90,183)	(56,000)	(146,183)
Cash and cash equivalents at end of period	<u>576,590</u>	<u>(56,000)</u>	<u>520,590</u>

(a) Reclassification of payment of current obligations to suppliers.

(b) Reclassification of settling interest on borrowings obtained for working capital.

(c) Reclassification of income tax payments.

(d) Reclassification of payment of purchase of fixed assets.

6 FINANCIAL RISK MANAGEMENT

6.1 Financial risk factors -

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

The condensed interim financial statements do not include all the financial risk management information and disclosures that are required in the annual financial statements; they should be read together with the Company's annual financial statements at December 31, 2018, since no changes have occurred in the results of the financial risks assessments performed since last year-end.

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

6.2 Liquidity risk -

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

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

At March 31, 2019, the Company maintains revolving credit lines with local and foreign banks for a total of US\$2,954,000 thousand, of which US\$1,665,373 thousand are available at that date, a sufficient amount to meet its purchase operations in the local territory and in foreign markets and other obligations related to working capital. These credit limits involve no maintenance costs or collateral requirements.

6.3 Capital risk management -

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

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

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

At March 31, 2019 and December 31, 2018 gearing ratios were as follows:

	<u>2019</u> <u>US\$000</u> <u>(Unaudited)</u>	<u>2018</u> <u>US\$000</u>
Other financial liabilities	4,398,554	4,820,722
Less: Cash and cash equivalents and fixed time deposits	(1,129,633)	(1,565,565)
Net debt (A)	3,268,921	3,255,157
Total equity (B)	<u>1,801,160</u>	<u>1,737,310</u>
Total capital (A+B)	<u>5,070,081</u>	<u>4,992,467</u>
Ratio (A/(A+B))	<u>0.64</u>	<u>0.65</u>

Changes in net debt and equity have not given rise to significant changes in the gearing ratio.

7 SEGMENT INFORMATION

a) Description of business segments and core activities -

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

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

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

The following summary describes the operations of each reportable segment:

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

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

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

b) Statement of financial position by segments -

	Production and trading (*) US\$000	Oil Pipeline operations US\$000	Leased and privatized units US\$000	Total US\$000
At March 31, 2019				
(Unaudited)				
Assets:				
Current	2,242,552	140,865	4,645	2,388,062
Non-current	<u>4,128,531</u>	<u>201,726</u>	<u>236,845</u>	<u>4,567,102</u>
	<u>6,371,083</u>	<u>342,591</u>	<u>241,490</u>	<u>6,955,164</u>
Liabilities:				
Current	1,857,136	30,027	23,849	1,911,012
Non-current	<u>3,242,875</u>	<u>117</u>	<u>-</u>	<u>3,242,992</u>
	<u>5,100,011</u>	<u>30,144</u>	<u>23,849</u>	<u>5,154,004</u>
At December 31, 2018				
Assets:				
Current	2,745,057	267,563	3,466	3,016,086
Non-current	<u>3,888,085</u>	<u>200,991</u>	<u>238,841</u>	<u>4,327,917</u>
Total assets	<u>6,633,142</u>	<u>468,554</u>	<u>242,307</u>	<u>7,334,003</u>
Liabilities:				
Current	2,273,861	43,653	25,153	2,342,667
Non-current	<u>3,263,908</u>	<u>118</u>	<u>-</u>	<u>3,264,026</u>
Total liabilities	<u>5,537,769</u>	<u>43,771</u>	<u>25,153</u>	<u>5,606,693</u>

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

c) Statement of comprehensive income by segments -

	Production and trading (*) US\$000	Oil Pipeline operations US\$000	Leased and privatized units US\$000	Total US\$000
For the three-month period ended March 31, 2019 (Unaudited)				
Revenue from ordinary activities	1,065,875	42	-	1,065,917
Other operating profit	<u>3,925</u>	<u>1,276</u>	<u>9,933</u>	<u>15,134</u>
Total revenue	<u>1,069,800</u>	<u>1,318</u>	<u>9,933</u>	<u>1,081,051</u>
Cost of sales	(922,091)	(12,108)	(1,344)	(935,543)
Transfers	<u>(2,537)</u>	<u>2,537</u>	<u>-</u>	<u>-</u>
Gross profit (loss)	<u>145,172</u>	<u>(8,253)</u>	<u>8,589</u>	<u>145,508</u>
Selling and distribution				
Expenses	(18,045)	-	(2,100)	(20,145)
Administrative expenses	(36,357)	(4,295)	-	(40,652)
Other income and expenses	<u>3,055</u>	<u>(4,892)</u>	<u>-</u>	<u>(1,837)</u>
Operating profit (loss)	<u>93,825</u>	<u>(17,440)</u>	<u>6,489</u>	<u>82,874</u>
Financial, net	<u>1,978</u>	<u>(1,066)</u>	<u>1</u>	<u>3,045</u>
Profit before income tax	<u>95,803</u>	<u>(16,374)</u>	<u>6,490</u>	<u>85,919</u>
Income tax	<u>(24,609)</u>	<u>4,206</u>	<u>(1,666)</u>	<u>(22,069)</u>
Profit for the period	<u>71,194</u>	<u>(12,168)</u>	<u>4,824</u>	<u>63,850</u>

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

	<u>Production and trading (*)</u> US\$000	<u>Oil Pipeline operations</u> US\$000	<u>Leased and privatized units</u> US\$000	<u>Total</u> US\$000
For the three-month period ended March 31, 2018 (Unaudited and not reviewed)				
Revenue from ordinary activities	1,120,082	12,516	-	1,132,598
Other operating profit	635	6,180	14,223	21,038
Total revenue	<u>1,120,717</u>	<u>18,696</u>	<u>14,223</u>	<u>1,153,636</u>
Cost of sales	(1,006,631)	(13,671)	(1,348)	(1,021,650)
Transfers	1,169	(1,169)	-	-
Gross profit	<u>115,255</u>	<u>3,856</u>	<u>12,875</u>	<u>131,986</u>
Selling and distribution expenses	(16,895)	(1)	(1,520)	(18,416)
Administrative expenses	(35,985)	(3,488)	-	(39,473)
Other income and expenses	45,544	1,177	-	46,721
Operating profit	<u>107,919</u>	<u>1,544</u>	<u>11,355</u>	<u>120,818</u>
Financial, net	(3,686)	899	-	(2,787)
Profit before income tax	<u>104,233</u>	<u>2,443</u>	<u>11,355</u>	<u>118,031</u>
Income tax	(25,638)	(601)	(2,793)	(29,032)
Profit for the period	<u>78,595</u>	<u>1,842</u>	<u>8,562</u>	<u>88,999</u>

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

d) Revenue by geographical area -

At March 31, 2019 and 2018, revenue by geographical segment is based on the customers' geographical location:

	<u>2019</u> US\$000 (Unaudited)	<u>2018</u> US\$000 (Unaudited and not reviewed)
Peru	953,110	1,018,316
Other countries	460	800
	<u>1,081,051</u>	<u>1,153,636</u>

8 SIGNIFICANT CHANGES IN CURRENT PERIOD

The Company's financial position and performance was most notably affected by the following events and transactions over the three-month period ended March 31, 2019:

- A decrease in the balance of current assets arising from the recovery of the VAT credit balance under the Peruvian anticipated tax recovery regime and an exporter's credit balance of US\$33,215 thousand and US\$90,445 thousand, respectively; these recovered balances were used in settling current obligations.
- An increase in non-current assets as a result of investments in the PMRT shown in the item of property, plant and equipment.
- A decrease in the balance of current liabilities primarily reflecting less bank loans obtained given the above-mentioned availability of cash and cash equivalents.

9 CASH AND CASH EQUIVALENTS

At March 31, 2019 and December 31, 2018 this item comprises:

	<u>2019</u> <u>US\$000</u> (Unaudited)	<u>2018</u> <u>US\$000</u>
Checking accounts (a)	188,093	525,620
Liquidity funds (b)	1,050	3,050
Fixed funds	29	30
	<u>189,172</u>	<u>528,700</u>

(a) The Company maintains cash in checking accounts in local and foreign currency with financial institutions. These funds are freely available earning preferred interest rates between 0.25% and 3.20%.

(b) At March 31, 2019 liquidity funds are short-term instruments in foreign institutions with variable returns between 2.87% and 3.30% (2.29% and 2.45% at December 31, 2018) and are immediately available without a defined maturity date, which will be used in PMRT investment activities in the subsequent months.

10 TRADE RECEIVABLES

At March 31, 2019 and December 31, 2018 this item comprises:

	<u>2019</u> <u>US\$000</u> (Unaudited)	<u>2018</u> <u>US\$000</u>
Wholesalers	202,008	239,987
Fuel Price Stabilization Fund - Ministry of Energy and Mines	64,808	82,472
Mining industry	30,257	32,108
Fuel traders	19,300	19,315
Armed Forces and National Police Force	11,121	11,555
Aviation business	10,138	7,451
Oil companies	5,882	3,687
Construction industry	5,021	5,511
Maritime businesses	4,439	2,429
Transport industry	1,955	2,373
Industrial sector	1,126	926
Other customers	1,066	421
External market	930	26,887
Electric power industry	925	1,063
Fishing industry	77	2,513
Doubtful accounts	5,103	5,019
	<u>364,156</u>	<u>443,717</u>
Less - doubtful account estimate	(5,103)	(5,019)
Total	<u>359,053</u>	<u>438,698</u>

Accounts receivable -

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

Fuel Price Stabilization Fund - Ministry of Energy and Mines -

At March 31, 2019 and December 31, 2018 the total amount receivable from the General Hydrocarbons Agency (DGH) amounted to US\$82,280 thousand and US\$99,645 thousand, respectively, generated from compensations and contributions transactions; at March 31, 2019 this includes a legal recourse ("Demanda de Amparo") recorded in a Claims account for US\$17,472 thousand (US\$17,573 thousand at December 31, 2018), classified as other long-term receivables (Note 11) and the amount receivable of US\$64,808 thousand (US\$82,472 thousand at December 31, 2018).

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

	<u>2019</u> <u>US\$000</u> <u>(Unaudited)</u>	<u>2018</u> <u>US\$000</u>
Opening balance	82,472	50,126
Price compensation	1,147	60,170
Price contribution	(16,031)	(21,405)
Net credited to revenue from ordinary activities (Note 18)	(14,884)	38,765
Contribution generated by import of products	(4,231)	(2,734)
Exchange difference	1,451	(3,685)
Closing balance	<u>64,808</u>	<u>82,472</u>

Expected loss of trade receivables -

To measure the expected credit losses, the Company has classified its customers based on common risk characteristics that reflect the payment capacity of each segment of customers considering the amounts owed. This classification was performed considering the segments that represent specific risks: wholesale, industrial, trade and armed forces segments.

The Company considered appropriate to exclude trade receivable from wholesale and trade segments considering their high liquidity and because no historical losses have been incurred.

The rates of expected credit losses are based on the payment profiles of sales over a 12-month period before March 31, 2019 and December 31, 2018 and the historical credit losses are adjusted to reflect the current and prospective information about macroeconomic factors that affect customers' ability to settle the Company's trade accounts receivable.

Based on that information, the provision for losses at March 31, 2019 (No audited) and December 31, 2018 was determined as follows:

	<u>2019</u>			<u>2018</u>		
	<u>Expected loss rate</u> %	<u>Gross carrying amount</u> US\$000	<u>Expected loss</u> US\$000	<u>Expected loss rate</u> %	<u>Gross carrying amount</u> US\$000	<u>Expected loss</u> US\$000
Current	0.01	291,003	22	0.01	354,397	32
From 1 to 30 days	0.50	539	3	0.48	831	4
From 31 to 60 days	0.95	1,964	19	0.54	373	2
From 61 to 90 days	1.09	137	1	0.68	147	1
From 91 to 120 days	1.30	575	7	-	43	-
From 121 to 150 days	4.02	25	1	-	-	-
From 151 to 180 days	4.18	10	-	-	1	-
From 181 to 210 days	8.12	14	1	1.69	59	1
From 211 to 240 days	15.60	28	4	5.88	17	1
From 241 to 270 days	33.21	12	4	-	-	-
From 271 to 300 days	100.00	11	11	-	-	-
From 301 to 330 days	100.00	14	14	67.31	52	35
From 331 to 360 days	100.00	4	4	92.44	119	110
More than 360 days	100.00	5,012	5,012	92.84	5,206	4,833
Total (*)		<u>299,348</u>	<u>5,103</u>		<u>361,245</u>	<u>5,019</u>

(*) Does not include the Price Stabilization Fund.

At March 31, 2019 and December 31, 2018 the movement in the provision for expected loss of trade receivables is as follows:

	<u>2019</u> <u>US\$000</u> <u>(Unaudited)</u>	<u>2018</u> <u>US\$000</u>
Opening balance	5,019	4,996
Expected loss for the period	-	382
Exchange difference	84	(229)
Recoveries and write-offs	-	(130)
Closing balance	<u>5,103</u>	<u>5,019</u>

Management considers that the estimate for the expect loss recognized in the financial statements and the guarantees obtained are sufficient to cover the eventual risk of recovery of trade receivables at the date of the statement of financial position.

Trade receivables that are past due but not impaired are related to independent customers with which performance bonds and/or de balances owed have been reconciled and are expected to be collected in the short term.

11 OTHER RECEIVABLES

At March 31, 2019 and December 31, 2018, this item comprises:

	<u>2019</u> <u>US\$000</u> <u>(Unaudited)</u>	<u>2018</u> <u>US\$000</u>
Current		
Tax credit - VAT (a)	222,266	385,735
Fixed time deposits (b)	940,461	1,036,865
Advances granted to suppliers	9,297	9,279
Payments for return of association investment with GeoPark	8,930	9,149
Loans to personnel	4,152	4,356
Others	9,253	10,373
Doubtful accounts (f)	<u>35,781</u>	<u>35,495</u>
	1,230,140	1,491,252
Less - Doubtful accounts estimate	<u>(35,781)</u>	<u>(35,495)</u>
	<u>1,194,359</u>	<u>1,455,757</u>
Non-current		
Tax credit - VAT, long-term (c)	286,838	209,563
Price Stability Fund Claims - Ministry of Energy and Mines (Note 1-c) (d)	17,472	17,173
Claims against tax authorities - SUNAT (e)	9,780	9,613
Long-term third parties claims	228	677
Other long-term taxes	<u>6,917</u>	<u>4,725</u>
	<u>321,235</u>	<u>241,751</u>

(a) Tax credit - Value added tax and income tax, short-term -

At March 31, 2019 this balance corresponds to the Value Added Tax credit (IGV in Peru) of operations for US\$129,438 thousand (equivalent to S/429,866 thousand), Value Added Tax of the PMRT for an amount of US\$24,700 thousand (equivalent to S/82,030 thousand), which will be recovered in the short term from operations and under the VAT anticipated recovery regime.

During 2019, SUNAT approved the "VAT" tax refund for US\$33,215 thousand, which was requested by the Company through the anticipated recovery regime ("Régimen de Recuperación Anticipada"), which was actually collected over the first quarter.

(b) Fixed time deposits -

At March 31, 2019 and December 31, 2018, the Company maintains fixed time deposits with maturity less than 90 days in foreign banks. However, Management expects to renew the term of said deposits for a period greater than 90 days.

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

This balance corresponds to the Value Added Tax credit (IGV in Peru) paid on the acquisition of goods and services mainly related to the Talara Refinery Modernization Project amounting to US\$173,003 thousand (equivalent to S/574,540 thousand) and the VAT on transactions amounting to US\$113,835 thousand (equivalent to S/378,046 thousand). This credit balance of tax credit has no expiry date. The Company expects to recover this tax credit through the anticipated recovery regime ("Régimen de Recuperación Anticipada") of VAT in the long-term.

(d) Price Stabilization Fund Claims - Ministry of Energy and Mines -

In April 2010, the General Hydrocarbons Agency (DGH) issued Resolution 075-2010-EM/DG, by which the producers and importers of fuel are required to amend the weekly statements presented since August 2008 and apply, on a retroactive basis, the reference values established in said Resolution. The Company, based on the opinion of Management and legal counsel, has filed an Action seeking constitutional protection with the second constitutional court in Lima, on the grounds that this resolution was unconstitutional. This action was assigned with the File N°21022-2010-0-1801-JR-CI-02.

On November 28, 2018, a Sentence was issued as contained in Resolution No16 by which a constitutional court in Lima ("Segundo Juzgado Especializado Constitucional de Lima") decided the claim was groundless. At March 31, 2019 notice with that sentence remains to be served to PETROPERÚ S.A. for the Company to be able to file an appeal.

Management considers that, based on the reports of its external legal counsel, once the court proceedings are completed, the outcome will be favorable to the Company and it will enable it to recover the whole account receivable recorded that amounts to US\$17,472 thousand at March 31, 2019 (US\$17,173 thousand at December 31, 2018).

(e) Claims to the Peruvian Tax and Customs regulator (Superintendencia Nacional de Aduanas y de Administración Tributaria - SUNAT) -

This item consists of claims against tax assessments involving the Turbo A-1 (fuel intended only for aviation activities) resulting from the provisions of DS 186-2002-EF, which stipulated the sales of Turbo A1 intended for general aviation activities were not subject to Excise Tax (ISC in Peru). In this respect, the Company considers it illegal to restrict the tax to sales conducted by profit-making entities since they were finally directed to aviation entities by virtue of private contracts.

At March 31, 2019 and December 31, 2018, this item comprises:

	<u>2019</u> <u>US\$000</u>	<u>2018</u> <u>US\$000</u>
File No.03490-2012-0-1801-JR-CA-08 (i)	989	972
File No.17806-2012 (ii)	<u>8,792</u>	<u>8,641</u>
	<u>9,780</u>	<u>9,613</u>

- (i) In February 2013, the Company paid a total of US\$777 thousand (S/2,627 thousand) on the tax assessments relating to allegedly unpaid Excise Tax (ISC) for fiscal 2002. By means of resolution ("Resolución de Intendencia") No. 012-180-0017009/SUNAT date July 16, 2018, SUNAT approved the refund of US\$195 thousand (equivalent to S/656 thousand) comprising the excise tax (ISC) of November for 2002, approving a total refund of S/1,199 thousand.

On August 13, 2018, SUNAT issued Resolution 012-180-0017018 stating that the refund of S/2,627 thousand was groundless. Subsequently, a claim against said Resolution was filed with SUNAT and the outcome was adverse for the Company under Resolution 0150140014459 dated October 31, 2018. At March 31, 2019, an Appeal against this last resolution remains to be filed.

- (ii) In November 2012, the Company paid a total US\$8,651 thousand (S/29,197 thousand) in respect of a number of tax determination and tax penalty resolutions involving allegedly unpaid excise tax (ISC) and VAT (IGV) for fiscal 2007. At December 31, 2018, this action remains to be resolved by Courtroom 4 of the Peruvian Tax Tribunal, under File No. 17806-2012. The Company and its legal counsel have high expectations of obtaining a favorable outcome. The expected refund is equivalent to US\$8,792 thousand at the closing exchange rate.

(f) Expected loss on other receivables -

Based on that information, the provision for losses at March 31, 2019 and December 31, 2018 (after the adoption of IFRS 9) was determined as follows:

	2019			2018		
	Expected loss rate %	Gross carrying amount US\$000	Expected loss US\$000	Expected loss rate %	Gross carrying amount US\$000	Expected loss US\$000
Current	1.66	7,698	128	2.15	9,821	10
From 1 to 30 days	21.67	1,947	422	19.75	562	111
From 31 to 60 days	30.18	78	24	28.00	75	21
From 61 to 90 days	60.41	20	12	40.00	45	18
From 91 to 120 days	63.15	57	36	50.00	22	11
From 121 to 150 days	69.11	4	3	50.00	4	17
From 151 to 180 days	71.14	55	39	60.71	28	2
From 181 to 210 days	75.88	28	21	66.67	3	2
From 211 to 240 days	77.77	47	37	81.82	11	19
From 241 to 270 days	90.40	428	387	88.89	9	8
From 271 to 300 days	100.00	18	18	90.48	21	9
From 301 to 330 days	100.00	14	14	-	-	-
From 331 to 360 days	100.00	1	1	100.00	654	654
More than 360 days	100.00	34,639	34,639	100.00	34,613	34,613
Total (*)		<u>45,034</u>	<u>35,781</u>		<u>43,413</u>	<u>35,495</u>

(*) It only includes other receivables.

The expected loss is mainly related to claims submitted to municipalities involving property taxes and municipal taxes; the probability of a favorable outcome is low. At March 31, 2019 and December 31, 2018 the movement of the allowance for the expected credit loss is as follows:

	2019 US\$000 (Unaudited)	2018 US\$000
Opening balance	35,495	36,483
Expected losses	-	553
Exchange difference	286	(723)
Recoveries	-	(620)
Write-offs	-	(198)
Closing balance	<u>35,781</u>	<u>35,495</u>

12 INVENTORIES

At March 31, 2019 and December 31, 2018 this item comprises:

	2019 US\$000 (Unaudited)	2018 US\$000
Crude oil	79,386	54,878
Refined products:		
In-process	223,935	220,811
Finished	239,374	187,464
Acquired refined products	74,835	93,173
In-transit inventories	6,432	18,075
Supplies	<u>16,471</u>	<u>17,199</u>
	640,433	591,600
Less - Provision for impairment of supplies	<u>(1,063)</u>	<u>(1,063)</u>
	<u>639,370</u>	<u>590,537</u>

At March 31, 2019 the cost of inventories recognized as expenses and included in the cost of sales amounted to US\$852,080 thousand (US\$944,858 thousand at March 31, 2018) which are equivalent to cost of sales less operating expenses of production (Note 19).

At March 31, 2019 the crude oil price had a rising trend, with a closing price of US\$60.14 per barrel (US\$64.94 per barrel at March 31, 2018). The average price during March 2019 was US\$58.14 per barrel (US\$62.78 per barrel at March 31, 2018).

At March 31, 2019 and December 31, 2018 the movement of the provision for impairment of supplies is explained as follows:

	<u>2019</u> <u>US\$000</u> (No auditado)	<u>2018</u> <u>US\$000</u>
Opening balance	(1,063)	(1,515)
Impairment of supplies	-	(591)
Recovery	-	1,043
Closing balance	<u>(1,063)</u>	<u>(1,063)</u>

This provision was recognized as a result of analyzing the net realizable value of inventories, taking into account the expectations of obtaining net cash flows from sales or consumption and considering their physical condition. At March 31, 2019 and December 31, 2018 Management considers that the amount of the provision adequately reflects the risk of impairment of all its inventories.

13 PROPERTY, PLANT AND EQUIPMENT

	Land US\$000	Buildings and other constructions US\$000	Machinery and equipment US\$000	Vehicles US\$000	Furniture and fixtures US\$000	Other and computer equipment US\$000	Equipment not in use US\$000	In-transit units US\$000	Work in progress US\$000	Additional investments US\$000	Total US\$000
At December 31, 2018											
Cost	201,276	191,725	696,018	18,459	4,506	56,892	17,462	-	3,253,339	22,255	4,461,932
Accumulated depreciation	-	(93,886)	(326,871)	(13,565)	(3,502)	(27,881)	(17,462)	-	-	-	(483,167)
Accumulated impairment	-	-	(309)	-	-	-	-	-	-	-	(309)
Net cost	<u>201,276</u>	<u>97,839</u>	<u>368,838</u>	<u>4,894</u>	<u>1,004</u>	<u>29,011</u>	<u>-</u>	<u>-</u>	<u>3,253,339</u>	<u>22,255</u>	<u>3,978,456</u>
Year 2019											
(Unaudited)											
Opening balance of net book cost	201,276	97,839	368,838	4,894	1,004	29,011	-	-	3,253,339	22,255	3,978,456
Additions	-	-	-	-	-	-	-	-	169,572	899	170,471
Transfers	-	2,018	1,611	4,093	40	905	-	-	(8,667)	-	-
Disposals	-	-	-	(20)	-	(3)	-	-	-	-	(23)
Reclassifications	-	-	(1,322)	(76)	(5)	(48)	1,451	-	-	-	-
Depreciation for the year	-	(1,279)	(6,801)	(431)	(80)	(933)	-	-	-	-	(9,524)
Depreciation of disposals transferred to equipment not in use	-	-	-	19	-	3	-	-	-	-	22
Reclassifications	-	-	-	-	-	-	(217)	-	-	-	(217)
Closing balance of net book cost	<u>201,276</u>	<u>98,578</u>	<u>363,437</u>	<u>8,548</u>	<u>965</u>	<u>28,983</u>	<u>(1,234)</u>	<u>-</u>	<u>3,414,244</u>	<u>23,154</u>	<u>4,139,185</u>
At March 31, 2019											
Cost	201,276	193,743	696,307	22,456	4,541	57,746	18,913	-	3,414,244	23,154	4,632,380
Accumulated depreciation	-	(95,165)	(332,561)	(13,906)	(3,576)	(28,763)	(18,913)	-	-	-	(492,886)
Accumulated impairment	-	-	(309)	-	-	-	-	-	-	-	(309)
Net cost	<u>201,276</u>	<u>98,578</u>	<u>363,437</u>	<u>8,548</u>	<u>965</u>	<u>28,983</u>	<u>-</u>	<u>-</u>	<u>3,414,244</u>	<u>23,154</u>	<u>4,139,185</u>

Talara Refinery Modernization Project - PMRT -

The status of the Project at March 31, 2019 is described as follows:

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

- Overall progress
 - Overall physical progress of PMRT: 74.56% Real vs 98.88% Scheduled.
 - The baseline of the reported progress was Project completion in June 2019; however, it will be updated once the new Project overall timetable ("Cronograma Integral del Proyecto") is approved; this new timetable will include the Auxiliary Unit and Complementary Work Timetable already approved as well as the new baseline of EPC Contracts with Técnicas Reunidas currently under review.

The table below shows a breakdown of the estimated total cost of project compared to the disbursements incurred:

	<u>March 31, 2019</u>		<u>Total Budget</u>	
	<u>Disbursements</u> US\$000	<u>Progress</u> <u>percentage</u> %	<u>Planned</u> US\$000	<u>Total</u> <u>percentage</u> %
Técnicas Reunidas (TR) -				
Processing unit	2,241,960	83.49%	2,685,400	53.71%
Consorcio Cobra SCL -				
Auxiliary units	130,730	17.08%	765,300	15.30%
Complementary work	108,800	37.44%	290,600	5.81%
Others -				
Supervising	191,670	69.95%	274,000	5.48%
Management	108,210	46.14%	234,500	4.69%
Contingencies	-	-	55,000	1.10%
Interest on financing	266,580	38.36%	695,000	13.90%
	<u>3,047,940</u>		<u>4,999,800</u>	<u>100%</u>

- Progress of EPC Unidades Auxiliares y Trabajos Complementarios - Contract with Consorcio Cobra SCL UA&TC
 - The overall progress of the EPC contract with Consorcio Cobra SCL UA&TC is 13.10% Real.
 - At March 31, 2019 valuations to Cobra SCL were approved for a cumulative total of US\$120,080 thousand.
 - Cobra SCL continues performing detail engineering work and initial construction work.
 - Progress of engineering was 48.15% Real vs 61.43% Scheduled.
 - Progress of Procurement was 14.78% Real vs 24.38% Scheduled.
 - Progress of construction was 4.41% Real vs 12.67% Scheduled.
- Progress of "EPC Unidades de Proceso" - Contract with Técnicas Reunidas (TR)
 - TR continues to implement detail engineering, procurement and construction (EPC) work, with a progress of 90.15%.
 - Progress of engineering totaled 100% Real vs 100% Scheduled.
 - Procurement of equipment totaled 99.82% Real vs 100% Scheduled.
 - Procurement of construction totaled 85.22% Real vs 95.66% Scheduled.

- Management

Financial structure of the PMRT

- International bond placement of up to US\$2,000,000 thousand, placed in June 2017.
- CESCE loan US\$1,300,000 thousand. In January 2018 CESCE loan was signed. In November 2018 a drawdown of US\$1,236,717 thousand was completed.
- International bond placement of up to S\$600,000 thousand expected for 2019.
- Own resources for US\$775 thousand.
- Capital contribution for US\$325 thousand.

PMC (Project Management Consultancy):

- The service of Project monitoring continues to be provided by Consorcio PMC Talara (CPT).

PMO (Project Management Office):

- The service of Project management office continues to be provided by Consorcio Deloitte Talara.
- On March 19, 2019 excavation, cutting and removal work on Cerro El Faro where the following auxiliary units will be set up: ASC (Sulfuric Acid Plant), SGV (Steam Generation System), RCO (Condensate Recovery System) and GE (Power-generating Plant) was completed.

- Social Management and Communications

Local labor plan ("Plan de Mano de Obra Local"):

- At March 31, 2019 the total work force consisted of 3,479 job positions. The share of local unqualified labor was 87%, above the limit set in the EIA (70%), while the share of local qualified labor was 45%.

During 2019, additions of work in progress mostly relate to PMRT's EPC contract, PMC, PMO and Auxiliary services amounting to US\$127,687 thousand equivalent to S/422,864 thousand (US\$390,997 thousand equivalent to S/1,293,436 thousand in 2018) and other additions of other works in progress that individually are less than US\$1,000 thousand, for US\$10,655 thousand (equivalent to S/48,476 thousand).

Additionally, borrowing costs that were capitalized during 2019 related to PMRT, amounted to US\$30,872 thousand, equivalent to S/102,869 thousand (US\$102,204 thousand equivalent to S/335,258 thousand during 2018).

Depreciation -

For the three-month period ended March 31, 2019 and 2018 the annual depreciation charge to profit or loss on property, plant and equipment is allocated to the following cost centers:

	<u>2019</u> <u>US\$000</u> <u>(Unaudited)</u>	<u>2018</u> <u>US\$000</u> <u>(Unaudited and</u> <u>not reviewed)</u>
Cost of sales (Note 19) (*)	7,466	8,720
Selling and distribution expenses (Note 20)	2,256	2,523
Administrative expenses (Note 21)	1,146	1,447
	<u>10,868</u>	<u>12,690</u>

(*) Including the depreciation of investment properties at March 31, 2019 and 2018 for US\$1,344 thousand and US\$1,348 thousand, respectively.

Impairment of assets -

At March 31, 2019 the Company performed an impairment indicators assessment and found not significant indications that its assets were impaired.

At December 31, 2018 the Company performed impairment tests on its cash-generating units Production and Sales and Operations on the Oil Pipeline as well as impairment tests on the PMRT assets under construction; as a result, Management considers that no events have occurred at March 31, 2019 that may affect the results and conclusions obtained in the annual impairment testing.

14 OTHER FINANCIAL LIABILITIES

At March 31, 2019 and December 31, 2018 this item comprises:

	<u>2019</u> <u>US\$000</u> <u>(Unaudited)</u>	<u>2018</u> <u>US\$000</u>
Current liabilities		
Bank loans without guarantee	1,201,164	1,650,893
Accrued interest	<u>49,749</u>	<u>22,219</u>
	<u>1,250,913</u>	<u>1,673,112</u>
Non-current liabilities		
Corporate bonds (i)	1,985,708	1,985,589
CESCE loan (ii)	<u>1,161,933</u>	<u>1,162,021</u>
	<u>3,147,641</u>	<u>3,147,610</u>

i) On June 12, 2017 the Company issued bonds in the international market for a total of US\$2,000,000 thousand under the U.S. Rule 144A and S Regulation, which are exceptions ("Safe-harbors") to the U.S. regulatory framework (US Securities Act - 1933 and US Securities Exchange Act -1934) by which foreign issuers are allowed to offer, place and/or resell securities without the requirement to register those securities with the relevant New York Stock Exchange agency (SEC). The funds received are allocated to the Talara Refinery Modernization Project.

The bonds issued are as follows:

- 2032 Notes, a principal of US\$1,000,000 thousand, with coupons paid semi-annually at a fixed rate of 4.750% per year, with a maturity of 15 years. Coupons are due from December 2017 and repayment of principal fall due on the bond maturity date. Transactional costs totaled US\$6,916 thousand, which are presented net of the liability.
- 2047 Notes, a principal of US\$1,000,000 thousand with coupons paid semi-annually at a fixed rate of 5.625% per year with maturity of 30 years. Coupons are due from December 2017 and repayment of principal will take place on the bond maturity date. Transactional costs totaled US\$7,376 thousand, which are presented net of the liability.

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

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

- ii) On January 31, 2018 a loan agreement was signed with Compañía Española de Seguros de Crédito a la Exportación (CESCE), with Deutsche Bank SAE, acting as administrative agent, for up to US\$1,300,000 thousand. In November 2018 a drawdown of US\$1,236,717 thousand was obtained, which was used to settle other sources of financing used in settling PMRT invoices, relating to the EPC with Técnicas Reunidas. Transactional costs consists of the drawdown commission of US\$61,880 thousand and other structuring costs of US\$15,678 thousand. Interest will be paid on a semi-annual basis starting May 2019 with maturity in 2031 and bearing an annual fixed interest rate of 3.285%.

The remaining drawdown at March 31, 2019 is US\$63,283 thousand, which is expected to occur over the second half of 2019.

The CESCE loan does not have specific contractual guarantees given by the Company or by the Peruvian Government; nevertheless, it is 99% secured by the Government of Spain through the CESCE.

Under the terms of this loan agreement, the Company has to meet the following financial covenants, which are measured on a quarterly basis:

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

At March 31, 2019 the Company complied with the commitments established in the financing agreement.

a) Debt repayment terms and timetable -

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

	Original currency	Nominal interest rate	Maturity	At March 31, 2019		At December 31, 2018	
				Nominal value US\$000 (Unaudited)	Carrying amount US\$000 (Unaudited)	Nominal value US\$000	Carrying amount US\$000
Bank loans without guarantee	Soles	3.6% - 4.09%	2019	156,195	156,195	870,980	870,980
Bank loans without guarantee	Dollars	2.5% - 3.40%	2019	1,044,969	1,044,969	779,913	779,913
CESCE loan	Dollars	3.29%	2031	1,236,717	1,161,933	1,236,717	1,162,021
Corporate bonds	Dollars	4.75%	2032	1,000,000	993,049	1,000,000	992,991
Corporate bonds	Dollars	5.63%	2047	1,000,000	992,659	1,000,000	992,598
Accrued interest				-	49,749	-	22,219
				<u>4,437,881</u>	<u>4,398,554</u>	<u>4,887,410</u>	<u>4,820,722</u>

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

b) Movement of financial liabilities -

The movement of these balances was as follows:

	Bank loans without guarantee US\$000	Corporate bonds US\$000	CESCE loan US\$000	Total US\$000
Balance at January 1, 2019	1,665,988	1,989,009	1,165,725	4,820,722
New loans	856,331	-	-	856,331
Amortizations	(1,306,059)	-	-	(1,306,059)
Amortized cost accrual	-	20	10	30
Accrued interest	10,713	25,652	10,101	46,466
Interest paid	(18,936)	-	-	(18,936)
Balance at March 31, 2019 (Unaudited)	<u>1,208,037</u>	<u>2,014,681</u>	<u>1,175,836</u>	<u>4,398,554</u>

15 TRADE PAYABLES

At March 31, 2019 and December 31, 2018 this item comprises:

	<u>2019</u> <u>US\$000</u> (Unaudited)	<u>2018</u> <u>US\$000</u>
Foreign suppliers of crude and refined products	296,578	278,194
Suppliers of goods and services	116,013	128,275
National suppliers of crude and refined products	90,618	92,180
Shipping companies and terminal operators and sales plants	30,114	31,152
	<u>533,323</u>	<u>529,801</u>

At March 31, 2019 the main local supplier of crude is Savia Perú S.A. with a balance payable of US\$26,726 thousand (US\$25,481 thousand at December 31, 2018). The main international supplier is Exxon Mobil Sales and Supply LLC. to which US\$204,372 thousand is owed (US\$178,847 thousand at December 31, 2018). Major service providers are Consorcio Cobra SCL UA&TC with a balance payable of US\$42,883 thousand (US\$36,392 thousand at December 31, 2018), Consorcio PMC Talara with a balance payable of US\$16,724 thousand (US\$10,647 thousand at December 31, 2018) and Técnicas Reunidas de Talara S.A.C. with a balance payable of US\$11,868 thousand (US\$17,814 thousand at December 31, 2018).

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

16 OTHER PROVISIONS

At March 31, 2019 and December 31, 2018 this item comprises:

	<u>2019</u> <u>US\$000</u> (Unaudited)	<u>2018</u> <u>US\$000</u>
Current -		
Provision for environmental improvements (a)	38,743	29,864
Provision for civil lawsuit (b)	2,666	2,229
Provision for labor-related court actions	1,695	1,801
Provision for plugging of wells	580	570
Provision for retirement pensions	43	42
Other provisions	158	156
	<u>43,885</u>	<u>34,662</u>
Non-current -		
Provision for environmental improvements (a)	7,084	7,011
Provision for retirement pensions	55	56
	<u>7,139</u>	<u>7,067</u>
	<u>51,024</u>	<u>41,729</u>

The movement of other provisions is as follows:

	Provision for environmental improvements US\$000	Provision for civil lawsuits US\$000	Provision for labor-related court actions US\$000	Provision for plugging of wells US\$000	Provision for retirement pensions US\$000	Other provisions US\$000	Total US\$000
Balances at January 1, 2019	36,875	2,229	1,801	570	98	156	41,729
Provision for the period	12,219	410	105	-	3	-	12,737
Update	12	-	-	-	-	-	12
Payments	(3,745)	-	(177)	-	(6)	-	(3,928)
Reversal of unused provisions	-	-	(81)	-	-	-	(81)
Exchange difference	466	27	47	10	3	2	555
Balances at March 31, 2019 (Unaudited)	45,827	2,666	1,695	580	98	158	51,024

a) Provision for environmental remediation and plugging well costs -

During 2019, the Company reported 4 significant oil spills (3 in 2018), which are being investigated together with OSINERGMIN. For those oil spills the Company has recorded a provision of US\$12,168 thousand and disbursements were made of US\$3,389 thousand. At March 31, 2019 the provision for environmental remediation related to the above-mentioned oil spills in the ONP totals US\$25,363 thousand (US\$16,584 thousand at December 31, 2018).

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

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

	Balances at January 1 US\$000	Payments US\$000	Provision and update US\$000	Balances at March 31 US\$000
Year 2019				
Block 8	2,090	-	10	2,100
Block X	4,840	-	21	4,861
Pampilla	5	-	-	5
Lubricants	116	-	-	116
Northern terminals	263	-	-	263
Southern terminals	204	-	1	205
Mid-country terminals	1,625	-	4	1,629
Natural Gas Electric system	20	-	-	20
Total privatized units	9,163	-	36	9,199
Operations in Talara	6,037	(356)	17	5,698
Operations in Conchán	905	-	2	907
Operations in Oleoducto	16,584	(3,389)	12,168	25,363
Operations in Iquitos Refinery	1,391	-	3	1,394
Commercial operations	597	-	2	599
Management Exploration and Exploitation	948	-	3	951
Total own units	26,462	(3,745)	12,195	34,912
Total	35,625	(3,745)	12,231	44,111
Exchange difference	1,250	-	-	1,716
Total	36,875	-	-	45,827

b) Provision for civil claims -

At March 31, 2019 the Company has estimated a provision of US\$2,666 thousand (equivalent to S/8,293 thousand), of which US\$1,911 thousand (equivalent to S/6,348 thousand) corresponds to eleven (11) administrative proceeding contingencies with the energy and mining regulator "Organismo Superior de la Inversión en Energía y Minería - OSINERGMIN".

At December 31, 2018 the Company estimated a provision of US\$2,229 thousand (equivalent to S/7,533 thousand), of which US\$1,476 thousand (equivalent to S/4,885 thousand) correspond to eight (8) administrative proceeding contingencies with the energy and mining regulator "Organismo Superior de la Inversión en Energía y Minería - OSINERGMIN".

17 EQUITY

a) Capital share -

At March 31, 2019 and December 31, 2018 the authorized, subscribed and paid-in share capital comprises 4,448,416,995 common shares at S/1 par value each.

b) Additional capital -

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

c) Legal reserve -

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

The legal reserve recorded at March 31, 2019 totaled US\$52,115 thousand (equivalent to S/174,720 thousand); the legal reserve constituted in 2019 totaled US\$11,955 thousand (equivalent to S/44,720 thousand); which corresponds to 10% of the distributable profits for 2018.

18 REVENUE FROM ORDINARY ACTIVITIES

This item comprises:

	For the three-month period ended March 31,	
	2019 US\$000 (Unaudited)	2018 US\$000 (Unaudited and not reviewed)
Local sales	952,400	983,301
Price Stabilization Fund (*)	(14,884)	13,177
Revenue from ordinary activities	<u>460</u>	<u>800</u>
	937,976	997,278
Foreign sales	<u>127,941</u>	<u>135,320</u>
	<u><u>1,065,917</u></u>	<u><u>1,132,598</u></u>

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

At March 31, 2019 and 2018 sales are broken down as follows:

	For the three-month period ended March 31,	
	2019 US\$000 (Unaudited)	2018 US\$000 (Unaudited and not reviewed)
Local sales:		
Diesel - others	561,120	556,666
Gasoline	253,243	270,271
Industrial oil	53,825	69,437
GLP	26,325	50,219
Turbo	26,035	32,181
Asphalt	11,331	14,325
Solvent	4,154	4,179
Primary Naphtha	1,943	-
Total local sales	<u>937,976</u>	<u>997,278</u>
Foreign sales:		
Industrial oil	44,187	48,958
Diesel - others	54,036	31,751
Virgin Naphtha	14,441	27,884
Turbo	9,508	9,183
Asphalt	1,205	2,232
Loreto Exp. Crude	-	12,440
Naphtha Cracked ADQ. (Exp)	-	2,453
HOGBS (Exp)	-	419
Gasoline	4,564	-
Total foreign sales	<u>127,941</u>	<u>135,320</u>
	<u>1,065,917</u>	<u>1,132,598</u>

19 COST OF SALES

This item comprises:

	For the three-month period ended March 31,	
	2019 US\$000 (Unaudited)	2018 US\$000 (Unaudited and not reviewed)
Opening inventory of goods	556,287	605,294
Purchase of crude oil, refined products	913,323	895,890
Operating expenses of production (a)	83,463	76,792
Closing inventory of goods	(617,530)	(556,326)
	<u>935,543</u>	<u>1,021,650</u>

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

	For the three-month period ended March 31,	
	2019 US\$000 (Unaudited)	2018 US\$000 (Unaudited and not reviewed)
Third-party services (*)	49,809	46,854
Personnel charges (Note 22)	12,985	12,048
Depreciation (Note 13)	7,466	8,720
Workers' profit sharing (Note 22)		6,560
	4,491	
Other materials and production supplies	3,187	2,660
Insurance	2,232	1,541
Other management charges	50	68
Amortization	-	2
Others	1,174	408
	<u>83,463</u>	<u>76,792</u>

(*) Including the following:

	For the three-month period ended March 31,	
	2019 US\$000 (Unaudited)	2018 US\$000 (Unaudited and not reviewed)
Ground transport, freight and expenses	11,751	10,067
Energy and water	5,977	4,784
Maritime transport, freight and expenses	5,926	6,116
Other freight	5,576	2,956
Maintenance and repair services	4,044	4,924
Industrial protection and safety	1,148	1,706
Food and lodging	831	649
Others	14,556	15,652
	<u>49,809</u>	<u>46,854</u>

20 SELLING AND DISTRIBUTION EXPENSES

This item comprises:

	For the three-month period ended March 31,	
	2019 US\$000 (Unaudited)	2018 US\$000 (Unaudited and not reviewed)
Personnel charges (Note 22)	6,159	6,056
Taxes	4,798	4,667
Workers' profit sharing (Note 22)	2,760	1,927
Third-party services (*)	2,627	2,523
Depreciation (Note 13)	2,256	2,276
Materials and supplies	868	743
Insurance	573	201
Other management charges	106	23
	<u>20,145</u>	<u>18,416</u>

(*) Including the following:

	For the three-month period ended March 31,	
	2019	2018
	US\$000	US\$000
	(Unaudited)	(Unaudited and not reviewed)
Other third-party services	669	554
Maintenance and repair services	993	464
Industrial protection and safety	542	1,072
Rentals	229	251
Travel and transfer expenses	94	95
Energy and water	81	73
Other freight, freight and expenses	19	14
	<u>2,627</u>	<u>2,523</u>

21 ADMINISTRATIVE EXPENSES

This item comprises:

	For the three-month period ended March 31,	
	2019	2018
	US\$000	US\$000
	(Unaudited)	(Unaudited and not reviewed)
Personnel charges (Note 22)	19,239	20,790
Workers' profit sharing (Note 22)	6,954	4,526
Third-party services (*)	9,113	8,757
Taxes	1,613	1,395
Depreciation (Note 13)	1,146	1,447
Other management charges	707	1,216
Materials and supplies	695	414
Amortization	547	575
Contingencies	515	195
Insurance	123	158
	<u>40,652</u>	<u>39,473</u>

(*) Including the following:

	For the three-month period ended March 31,	
	2019	2018
	US\$000	US\$000
	(Unaudited)	(Unaudited and not reviewed)
Maintenance and repair services	1,992	1,420
IBM outsourcing services	1,530	1,624
Advisory, appraisal and audits	1,350	864
Other third-party services	1,330	1,155
Industrial protection and safety	1,082	1,356
Travel and transfer expenses	407	464
Freight and other freight	388	616
Bank expenses	363	256
Temporary services	313	442
Advertising	177	349
Medical services	181	211
	<u>9,113</u>	<u>8,757</u>

22 PERSONNEL CHARGES

This item comprises:

	For the three-month period ended March 31,	
	2019 US\$000 (Unaudited)	2018 US\$000 (Unaudited and not reviewed)
Workers' profit sharing	16,274	10,944
Wages and salaries	14,809	14,295
Bonuses	7,518	7,628
Social contributions	6,458	5,616
Statutory bonuses	3,076	3,019
Employees' severance indemnities	2,418	2,387
Vacations	1,148	1,186
Food	947	934
Overtime	509	304
Transportation	304	306
Others	1,196	3,219
	<u>54,657</u>	<u>49,838</u>

Workers' profit sharing expenses was recorded with charges to profit and loss of the period as follows:

	For the three-month period ended March 31,	
	2019 US\$000 (Unaudited)	2018 US\$000 (Unaudited and not reviewed)
Cost of sales (Note 19)	6,560	4,491
Selling expenses and distribution (Note 20)	2,760	1,927
Administrative expenses (Note 21)	6,954	4,526
	<u>16,274</u>	<u>10,944</u>

23 OTHER INCOME AND EXPENSES

Other income and expenses comprises:

	For the three-month period ended March 31,	
	2019 US\$000 (Unaudited)	2018 US\$000 (Unaudited and not reviewed)
Other income		
Claims and/or indemnities (insurance/ non-compliance)	8,489	975
Maritime operations services	785	771
Interest - SUNAT refund (a)	-	42,813
Expected losses	-	12
Recovery of labor-related provisions	-	81
Present value of environmental remediation	-	1,519
Other income	1,248	639
	<u>10,603</u>	<u>46,729</u>

	For the three-month period ended March 31,	
	2019	2018
	US\$000	US\$000
	(Unaudited)	(Unaudited and not reviewed)
Other expenses		
Provision for losses oil pipeline (b)	(12,219)	-
Net cost of disposal	(218)	-
Other expenses	(3)	(8)
	<u>(12,440)</u>	<u>(8)</u>

(a) On February 14, 2018 SUNAT issued two Resolutions ordering a refund in connection with Case File No. 07873-2012-0-1801-JR-CA-13. Refunds obtained included interest for a total US\$42,813 thousand.

(b) Provision for environmental remediation resulting from oil spills around the ONP areas, Km.20+204 Tramo I and Km. 87+887 Tramo I, which were caused by third parties (Note 16-a).

24 INCOME TAX

Income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for fiscal years 2019 and 2018 is 25.70% and 24.60%, respectively.

25 CONTINGENCIES

At March 31, 2019 and December 31, 2018 the Company has the following labor-related court actions, civil lawsuits, tax and customs claims pending resolution, which are considered possible contingencies:

	2019	2018
	US\$000	US\$000
	(Unaudited)	
Civil	143,166	141,219
Tax and customs claims	40,370	39,274
Labor-related	<u>2,236</u>	<u>3,803</u>
	<u>185,772</u>	<u>184,296</u>

The movement of contingencies is detailed as follows:

	Balances at January 1	Additions	Deductions	Balances at March 31
	US\$000	US\$000	US\$000	US\$000
Civil	141,219	1,947	-	143,166
Tax and customs claims	39,274	1,096	-	40,370
Labor-related	<u>3,803</u>	<u>151</u>	<u>(1,718)</u>	<u>2,236</u>
	<u>184,296</u>	<u>3,194</u>	<u>(1,718)</u>	<u>185,772</u>

26 BASIC AND DILUTED EARNINGS PER SHARE

The calculation at March 31, 2019 and 2018 of earnings per basic and diluted share showing the same value as there are no shares with dilutive effect is as follows:

	<u>Profit US\$000</u>	<u>Weighted average number of common shares (thousand)</u>	<u>Earnings per share</u>
At March 31, 2019 (Unaudited)			
Basic and diluted earnings per share	63,850	4,448,416	0.014
At March 31, 2018 (Unaudited and not reviewed)			
Basic and diluted earnings per share	88,999	3,927,713	0.023

27 GUARANTEES AND COMMITMENTS

(a) Guarantees and performance bonds -

At March 31, 2019 the Company has given performance bonds backed by local financial institutions to suppliers for a total US\$32,065 thousand (equivalent to S/106,556 thousand) and US\$34,498 thousand.

Guarantees related to borrowings are disclosed in Note 14.

(b) Commitments -

At March 31, 2019 and December 31, 2018 the contracted investment expense comprising commitments at the date of the statement of financial position is recognized as follows:

	<u>2019 US\$000 (Unaudited)</u>	<u>2018 US\$000</u>
Property, plant and equipment	11,051	23,298

The expense for the periods at March 31, 2019 and December 31, 2018 amounted to US\$635 thousand and US\$26,861 thousand, respectively, and was recorded in selling expenses and cost of sales in the statement of comprehensive income.

Future minimum non-cancellable operating lease payments at March 31, 2019 and December 31, 2018 are as follows:

	<u>2019 US\$000 (Unaudited)</u>	<u>2018 US\$000</u>
Less than 1 year	4,430	17,701
Between 1 year and less than 3 years	3,716	4,594
More than 3 years	946	1,003
Total	<u>9,092</u>	<u>23,298</u>

Beginning in 2019, the Company will adopt IFRS 16 Leasing; however, at March 31, 2019 the Company has not recognized the effects of adopting IFRS because they were immaterial (Note 3.1).

28 RELATED PARTIES

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

29 SUBSEQUENT EVENTS

Between April 1, 2019 and the date of approval for release of these condensed interim financial statements, no significant events have occurred that may require additional disclosures or adjustments other than those already reported.