

PETROPERU¹ Announces Fourth Quarter 2018 Earnings Results - 4Q18

Lima, Peru, February 15, 2019: Petróleos del Perú - PETROPERU S.A. ("PETROPERU S.A." or "the Company") (OTC: PETRPE) announced financial and operating results for the fourth quarter ("4Q18") and twelve months ("2018") period ended December 31, 2018. For a comprehensive analysis please refer to the Intermediate Financial Statements 4Q18² available on the Superintendencia Mercado de Valores del Perú website - SMV (www.smv.gob.pe).

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HIGHLIGHTS

- During 4Q18, Total Revenue increased by 19.0% compared to 4Q17, due to the increase in domestic and foreign sales YoY³. Domestic and Export revenue increased by 18.2% and 21.0% YoY, respectively, mainly due to average pricing were higher than in 4Q17.
- Total Sales Volume reached 157.3 KBPD⁴ in 4Q18, from 147.3 KBPD in 4Q17 (+6.8% YoY), 87.0% of sales (137.1 KBPD) were concentrated in the domestic market.
- Gross Profit decreased from US\$ 163.9 million in 4Q17 to US\$ 11.3 million in 4Q18 (-93.1% YoY), as a result of the increase in Cost of Sales in 4Q18 compared to 4Q17 (+38.6%), mainly due to the devaluation of inventories.
- Operating Profit decreased (-108.6% YoY) from US\$ 57.2 million in 4Q17 to US\$ -4.9 million in 4Q18, impacted by the lower Gross Profit, which outweighed benefits from higher Other Income.
- Net Profit in 4Q18 was US\$ -42.1 million compared to US\$ 33.7 million in 4Q17 (-225% YoY), due to the same reasons mentioned in the previous bullet.
- Adjusted EBITDA⁵ decreased to US\$ -38.6 million (-136.9% YoY), due to the aforementioned challenges at the Gross Profit level. Adjusted EBITDA Margin decreased from 9.5% in 4Q17 to -2.9% in 4Q18.
- The cash balance was US\$ 529 million at the end of 4Q18 vs US\$ 138 million at the end of 3Q18. Cash Flow from Financing Activities of US\$ 1,086 million had the greatest impact, partly offset by the Cash Flow from Investing Activities with a deficit of US\$ 879 million. Cash Flow from Operations was positive during the quarter, US\$ 184 million.

¹ Petróleos del Perú-PETROPERU S.A. (hereinafter "PETROPERU" or "the Company").

² Intermediate Financial Statements for the Fourth Quarter 2018. Unless otherwise noted, all financial figures are presented in US\$, and references to "Dollars" or "US\$". Our Quarterly Financial Statements have been prepared in according with International Financial Reporting Standards (IFRS), as issued by the IASB (International Accounting Standards Board).

³ Year-over-year (YoY): Compare financial results with those of the same period in the previous year.

⁴ KBPD: Thousands of Barrels Per Day

⁵ EBITDA is defined as Net Income plus Income Tax plus Workers' Profit Sharing minus Finance Income plus Finance Cost plus Amortization & Depreciation. Adjusted EBITDA is defined as EBITDA minus net other income & expenses, and net exchange differences.

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- The PMRT⁶ progress as of 4Q18 was 71.15%. The measurement of this progress will be reviewed once the approval of the overall project schedule is completed, which includes the EPC contract schedule for the Auxiliary Units and Complementary Works, as well as the modification of the EPC contract schedule with Técnicas Reunidas (TR), currently under negotiation.
- In 4Q18, the Net Refining Margin reached US\$ 2.79/Bbl vs. US\$ 5.66/Bbl in 4Q17, due to the fact that the Catalytic Cracking Unit (UCC) of the Talara Refinery entered into operation after the scheduled shutdown for 42 days of maintenance. The Net Refining Margin was reversed from the US\$ -3.26 in 3Q18.
- PETROPERU S.A. continues to lead the national fuel market with a 48% share in the January - November 2018 period.
- Regarding the ONP, there has been a lower volume pumped, mainly due to the stoppage of pumping at the North Branch Pipeline (ORN). As for its modernization, the first phase of the project has a progress of 95%. In conjunction, some priority works are being carried out to allow its normal, safe and reliable operation.
- Regarding hydrocarbon exploration and production activities, in December 2018, in Block 64, the Citizen Participation Plan for the Development Project EIA of the Central Situche Reservoir was completed. SENACE⁷ approval of the EIA is estimated to be granted in March 2019. Regarding Block 192, it has been in Force Majeure since December 5, 2018, due to the contingency occurred on November 27, 2018 at km 193 of the ORN.
- During 4Q18, activities related to social and environmental matters have been continued, re-affirming PETROPERU's interest and commitment in ESG⁸, based on its Social Management Policy that promotes solid relationships and mutual respect with our stakeholders.
- In relation to environmental matters, the Company continued the execution of cleaning and remediation works of the areas affected by the oil spills occurred in the ONP, with a systematic process of environmental monitoring, focused on monitoring and evolution of the rehabilitation of soils, surface waters and aquatic sediments, as well as of the flora and fauna of the remediated areas.

1. ANALYSIS

1.1. MACROECONOMIC ENVIRONMENT

According to different economic and business sources, it is estimated that, at the end of 2018, the Gross Domestic Product (GDP), on average, would be 4%, driven by fishing activity, mainly, by anchovy shipment arrivals and primary manufacturing. In addition, there was a strong expansion in construction due to the increase in demand for cement for infrastructure and real estate works, as well as the increase in public investment, which grew the strongest during 4Q18. According to the Inflation Report to December 2018, the projection of Peruvian GDP growth is above the average GDP growth of Latin America and the Caribbean.

In relation to annual inflation, it closed at year-end 2018 at 2.48% according to what is indicated by the National Institute of Statistics and Information Technology (INEI), which remains within the 1-3% target range of the Central Reserve Bank of Peru (BCRP). This result was mainly due to the increase in the prices of food and beverages (1.95%), leisure and education (3.63%), transport and communications (2.43%) and rent of housing, fuel and electricity (1.76%).

⁶ Talara Refinery Modernization Project: which consists of the built of a new refinery with the highest technological standards and competitive of the region. The new refinery will completely modify the current production scheme of the Talara Refinery, through the incorporation of new refining processes, auxiliary services and related facilities.

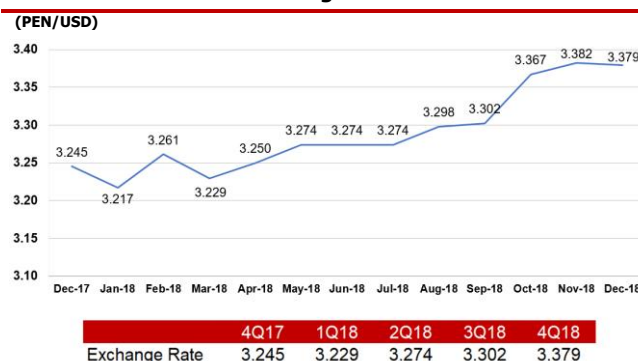
⁷ National Institute of Environmental Certification – Servicio Nacional de Certificación Ambiental. In charge of reviewing and approving the EIA of public, private or mixed capital investment projects.

⁸ Environmental, Social and Governance.

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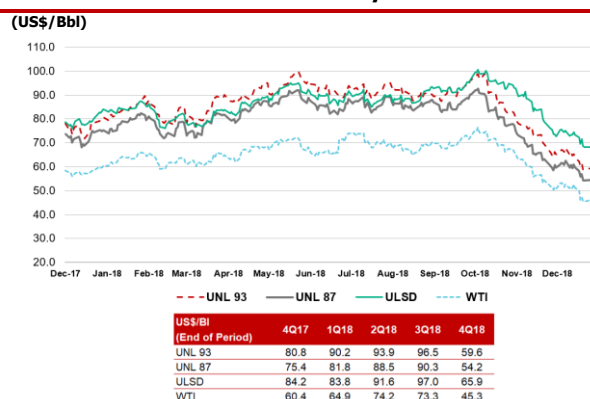


Exchange Rate



Source: SBS

WTI & Other International By-Product Prices



Source: Platt

Notes: The UNL87 USGC Regular Gasoline equals a 92-octane gasoline, and the Premium Gasoline UNL 93 USGC is equivalent to a 98-octane gasoline.

Regarding the exchange rate, between October and December 2018, it maintained an increasing trend closing 4Q18 at S/ 3.379 vs S/ 3.302 reported at the end of 3Q18. This growth is explained by high state of tension related to the trade war between the United States and China, causing an accumulated depreciation of the local currency of 3.5% at the end of 2018.

The oil price during 4Q18 showed a decreasing trend associated with the oil sales done by investors due to their fear of a global glut considering that the oil production of the United States, Russia and Saudi Arabia reached historical record levels in November, as well as other OPEC countries that registered an increase in oil production such as Libya and Venezuela, and finally the agreement of Iraq with Kurdistan to restart exports for 200 KBPD. Also, the United States eased sanctions on Iran by excluding 8 of the main importers of Iranian oil.

The oil price per barrel closed 2018 with the biggest decrease in the price of crude oil since 2015 in the face of growing concern about the global surplus. In 2018, WTI fell by almost 25%, while Brent fell by 19.5%. The increasing extraction of shale oil in the USA has helped it to become the largest oil producer in the world, over Saudi Arabia and Russia.

There exists a direct relationship of WTI with the other international markers; all of them, on average, reduced by 40% compared to their values during 3Q18, which can affect the inventory value of an oil company.

Fuel prices of the local market are determined considering the international prices of these fuels (Import Parity Prices calculated by PETROPERU S.A.). Prices are expressed in Soles at the current exchange rates. Note that between 85-90% of the ex-plant price (before taxes and margins of wholesale petrol stations) corresponds to international market prices. The Import Parity Pricing structure consists of the USGC value (Platt Price Values Plus Quality Adjustments) plus freight, insurance, import costs (inspections, port fees, financial costs, vessels overdue), performance, distribution costs, margin of profit and OSINERGMIN⁹ tariffs.

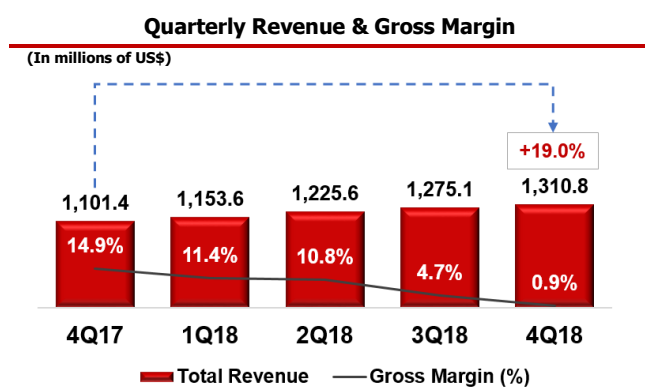
⁹ OSINERGMIN: Peru's Supervisory Body of Energy and Mining Investment.

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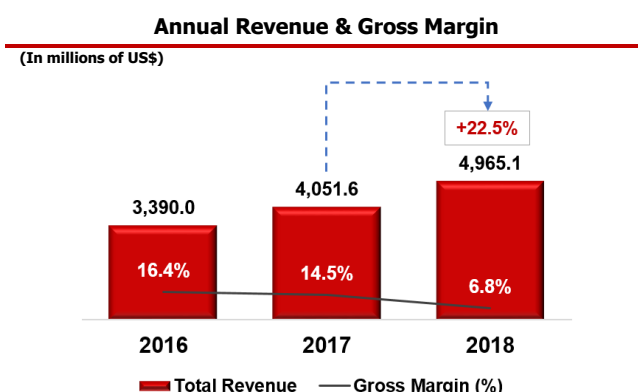


1.2. FINANCIAL RESULTS

1.2.1. INCOME STATEMENT



	4Q17	1Q18	2Q18	3Q18	4Q18
Total Sales (US\$ million)	1,084.5	1,132.6	1,207.8	1,258.2	1,285.4
Volume (MMbbl)	13.6	13.4	13.7	14.0	14.5
Price US\$ (Sales/bbl)	80.0	84.7	88.1	90.0	88.8



	2016	2017	2018
Total Sales (US\$ million)	3,317.7	3,979.3	4,884.0
Volume (MMbbl)	53.2	53.0	55.5
Price US\$ (Sales/bbl)	62.4	75.1	88.0

Note: For the calculation of the Unit Prices in US\$, Total Sales do not include Other Income.

Total Revenue reached US\$ 1,310.8 million in 4Q18, an increase of 19.0% YoY. This variation is due to the increase in the volume sold locally in relation to that sold in 4Q17 and the increase in the average realized sales price by 11%.

Local sales increased by 18.2% from US\$ 976.4 million in 4Q17 to US\$ 1,154.5 million in 4Q18. Exports also increased 21.0% YoY, from US\$ 108.2 million to US\$ 130.9 million. The exported products the Company has are as follows: Diesel 2¹⁰, Virgin Naphtha, No 6 Fuel Oil, among others. Sales Revenue (excluding Other Income) increased by 18.5% compared to 4Q17.

Gross Margin decreased from 14.9% in 4Q17 to 0.9% in 4Q18, considering the increase in COGS¹¹ of 38.6% YoY, due to the decrease of margins obtained in the commercialization and refining of highest value products, such as Diesel ULSD¹² and Gasolines/Gasohols. In addition to the lower realization of inventories and the increase in exported volume mix (traded at lower prices than the domestic market), the lower refining margin is the consequence of the sharp fall in 4Q18 of the prices of crude oil and products in the international market, impacting the spreads of Gasoline and Diesel. The margins of gasoline are the lowest of the last 8 years due to the combination of oversupply of the market and low demand due to the seasonality of the main consumers (USA and Europe). It is estimated that the margin will be increased with the start-up of the new Talara Refinery.

¹⁰ Diesel 2: Diesel HS (High Sulfur) without Biodiesel

¹¹ Cost of Goods Sold

¹² Diesel ULSD: Ultra Low Sulphur Diesel or "Diesel B5-S50 (ULSD)".

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Analysis of the Product Portfolio:

SALES (In Millions of US\$)				
SALES	4Q17	4Q18	YoY	Weight on Total Sales
LOCAL SALES				
LPG ^{(1) (2)}	56.7	38.7	-31.8%	3.0%
Gasolines/Gasohols ⁽¹⁾	252.1	286.0	13.4%	22.2%
Turbo A-1	26.8	28.4	6.0%	2.2%
Diesel B5 ^{(1) (2)}	557.6	642.4	15.2%	50.0%
Industrial Oil ^{(1) (2)}	13.6	26.4	94.6%	2.1%
Bunkers (Marine Residual - IFO + Marine Diesel N°2) ⁽¹⁾	17.3	29.0	67.3%	2.3%
Asphalt Liquid / Asphalt Solid ⁽¹⁾	17.5	17.3	-0.9%	1.3%
Others ^{(1) (3)}	34.8	86.3	148.3%	6.7%
Total Local Sales	976.4	1,154.5	18.2%	89.8%
EXPORTS				
Virgin Naphtha	35.8	24.4	-31.6%	1.9%
N°6 Fuel Oil, Reduced Crude, Industrial Oil 500	45.5	47.5	4.3%	3.7%
Diesel 2	16.0	44.3	176.7%	3.4%
Others ⁽⁴⁾	10.9	14.7	34.6%	1.1%
Total Exports	108.2	130.9	21.0%	10.2%
Total Local Sales & Exports	1,084.5	1,285.4	18.5%	
Other Operational Income		25.4		
TOTAL REVENUE		1,310.8		

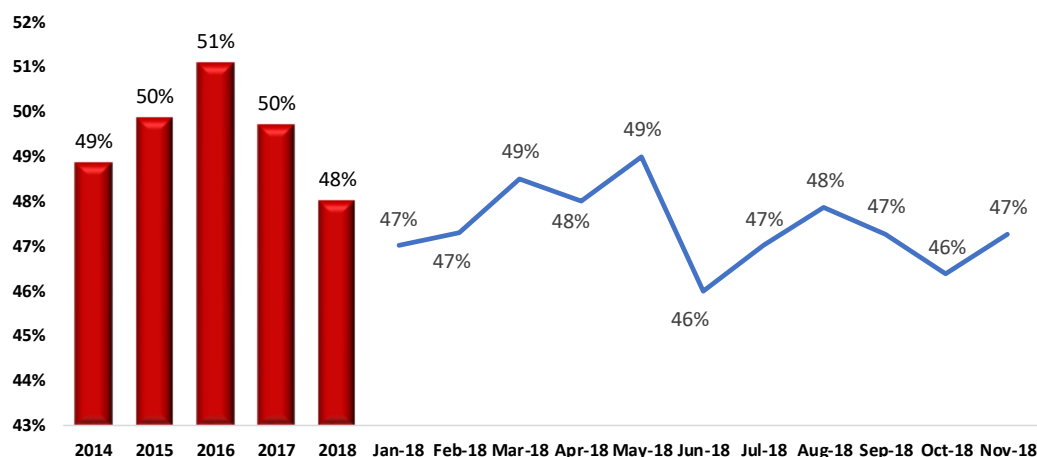
⁽¹⁾ Discount Included

⁽²⁾ FEPC Included

⁽³⁾ Cutting material, Solvents, Gasoline Aviation and Naphthenic Acid.

⁽⁴⁾ Turbo A-1, Gasolines, Asphalts, IFO's and Naphthenic Acid.

PETROPERU S.A. Market Share Evolution



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Income Breakdown

(In millions of US\$)

	LTM 4Q18	% Participation
LOCAL REVENUE		
LPG ^{(1) (2)}	188.6	
Gasolines/Gasohols ⁽¹⁾	1,103.7	
Turbo A-1	122.5	
Diesel B5 ^{(1) (2)}	2,456.7	
Industrial Oil ^{(1) (2)}	94.0	
Bunkers (Marine Residual - IFO + Marine Diesel N°2) ⁽¹⁾	71.4	
Asphalt Liquid / Asphalt Solid ⁽¹⁾	58.8	
Others ^{(1) (3)}	273.6	
Total Local Revenue	4,369.3	
EXPORTS		
Virgin Naphtha	98.9	
N°6 Fuel Oil, Reduced Crude, Industrial Oil 500	235.6	
Diesel 2	125.8	
Others ⁽⁴⁾	54.5	
Total Exports	514.7	
TOTAL REVENUE	4,884.0	
		4 Products 79.3%
		Diesel B5 ^{(1) (2)} 50.3%
		Gasolines/Gasohols ⁽¹⁾ 22.6%
		LPG ^{(1) (2)} 3.9%
		Turbo A-1 2.5%
		2 Products 72.9%
		Diesel B5 ^{(1) (2)} 50.3%
		Gasolines/Gasohols ⁽¹⁾ 22.6%
		Local Revenue 89.5%
		Exports 10.5%

⁽¹⁾ Discount Included

⁽²⁾ FEPC Included

⁽³⁾ Cutting material, Solvents, Gasoline Aviation and Naphthenic Acid.

⁽⁴⁾ Turbo A-1, Gasolines, Asphalts, IFO's and Naphthenic Acid.

PETROPERU S.A. maintains leadership in the national fuel market with a 48% share in the January - November 2018 period, in spite of aggressive competition, which offered greater discounts and lower prices, and operational restrictions (maintenance of dock 7) of LPG sales. In Gasoline and Diesel, which are the most important products, PETROPERU S.A. held 66% and 59% market share, respectively, maintaining market leadership in both.

The relevant competitive factors facing the Company are: price war in the market, mainly in Diesel, LPG and gasolines, maintenance of dock 7 until May 2019 and rupture of the IFO (Intermediate Fuel Oil) pipeline in Callao port (both under the operation of APM Terminals).

During 4Q18, PETROPERU S.A. had Sales Revenue of US\$ 1,285.4 million, 18.5% higher than in 4Q17, with 90% of sales concentrated in the domestic market.

PETROPERU S.A. maintains a network of 659 affiliated service stations as of December 2018, which are distributed across the country over 24 regions. Its products have the highest quality standards according to customer opinion and the quality certificates granted as a result of compliance with national and international standards.

LOCAL MARKET

Domestic Sales Revenue reached US\$ 1,154 million, increasing 18.2% YoY or US\$ 178 million.

Regarding the internal market, important aspects that affect the commercial management of the Company have occurred, such as:

- Long-term contracts were renewed and signed with 2 key clients.
- The Tender of LATAM was attained for the supply of Turbo A-1 during 2019 in Lima/Callao and province airports, continuing, in this way, with the supply already provided.
- In November 2018, the second fishing campaign was initiated with a progress of 92% to December 31, 2018, which meant a total increase of 12.2 KBPD between Diesel and Fuel Oil for the Company.
- The Retail average sales level in 2018 was 1.07 KBPD higher than in 2017 (+3%).
- A six-month supply agreement was signed with SOLGAS.
- The "Kio" and "El Alamo" petrol stations installed "Express Isles", to provide a new service for their clients with focus on faster and differentiated attention.

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- Discount levels from aggressive competition higher than usual.
- Lower sales of aviation fuel, mainly due to the suspension of LC Busre (approximately 0.60 KBPD of consumption) by the Directorate of Civil Aviation (DGAC) of the Ministry of Transport to LC Busre.

EXTERNAL MARKET

Exports Sales Revenue of US\$ 131 million represented 10.2% of Total Sales Revenue in 4Q18. The Company sold volume of 20.2 KBPD, 0.5% higher compared to the same period of 2017 (20.0 KBPD), mainly explained by the higher exports of Industrial Oils and Diesel 2. Despite lower increase in exports volume, revenue from exports increased (+21%) in relation to 4Q17. This was due in large part to the higher fuel prices and the higher sales of diesel 2 which contributed more to the revenue from sales abroad (US\$ 44.3 MM vs US\$ 16MM compared to 4Q17).

SUPPLY CHAIN

Regarding the Company's Supply Chain, the maintenance of Dock 7 continues under the responsibility of APM Terminals¹³; also, due to time constraints, the maintenance of Dock 5 was rejected (both located in the Port of Callao). On the other hand, maintenance works are being carried out in our submarine terminal of Conchán Refinery, and the submarine terminal and liquid loading dock of the Talara Refinery.

During 4Q18, port closures persisted due to adverse weather conditions, totaling 1,023 port days closed from January to December 2018 (+21% YoY) versus 808 days reported in 2017. This generated operating cost increases for product loading and unloading as well as for land transportation in order to meet customer demand in time, without penalties.

As of December 2018, despite the Dock 7 major maintenance, port closures and storage capacity limitations, our clients were normally attended 97.4% of the time in our plants and terminals nationwide.

In 4Q18, the investments for the construction of new Plants and Terminals were as follows: i) Terminal Ilo: has 52.3% construction progress. There still exists a delay on the EPC contractor side; meetings have been established with the contractor to readjust the schedule and comply with the work delivery on time; ii) Pasco Supply Plant - Ninacaca: has 36.3% construction progress. The greater deadlines in contracting the procurement and construction services, as well as the supervision, originated the rescheduling of project disbursements; iii) Puerto Maldonado Supply Plant: has 22.0% progress. The concept of the EPC has been optimized by the Detailed Engineering work, which was re-analyzed and approved on December 2018, and the Company is currently in the process of selecting the contractor who will be in charge of the procurement and construction service.

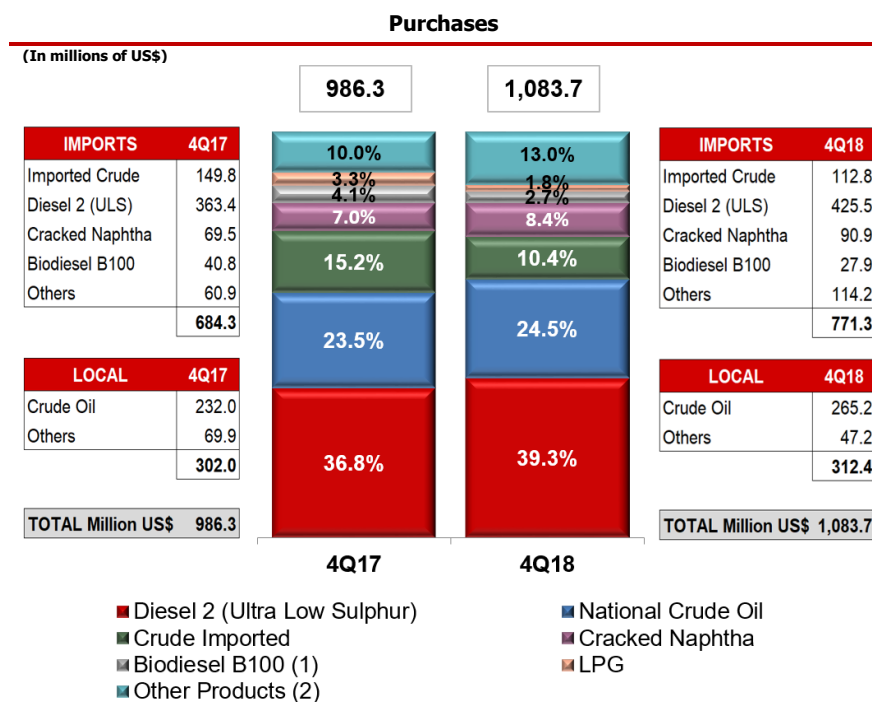
PETROPERU S.A. continues with its Safe Transport Plan aimed at achieving zero accidents, through: the follow-up of the transport units; the awareness program for the land transportation companies (700 units outsourced that provide us with land transportation service in the different supply routes to our Plants); and the "safety stops" carried out (with the outsourced companies) twice a month for 15 to 30 minutes to reinforce critical points to their drivers.

¹³ Operator of the North Docks - Port of Callao. In 2011, they were awarded the concession of the North Terminal Multi-Purpose – Port of Callao.

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PURCHASES



⁽¹⁾ Inputs for formulation of Diesel B5

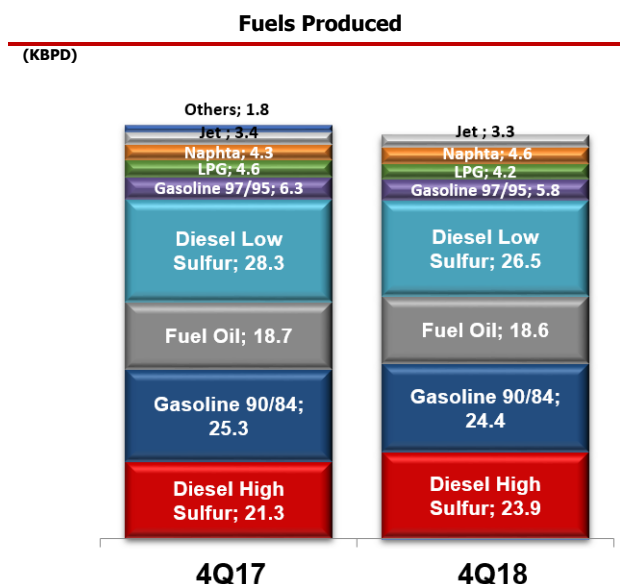
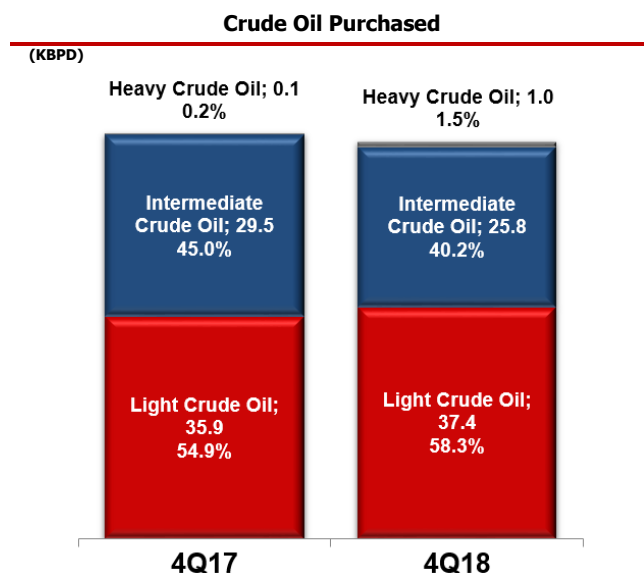
⁽²⁾ Includes: HOGBS, Gasoline Aviation, Alcohol Fuel, Natural Gas Condensate and Turbo A1

The crude oil processed in our refineries is either local or imported. Local crude oil comes mainly from the Talara area and is purchased considering an average oil prices basket. Crude oil (from the Northwestern region of Peru) during 4Q18 represented 24.5% of total purchases.

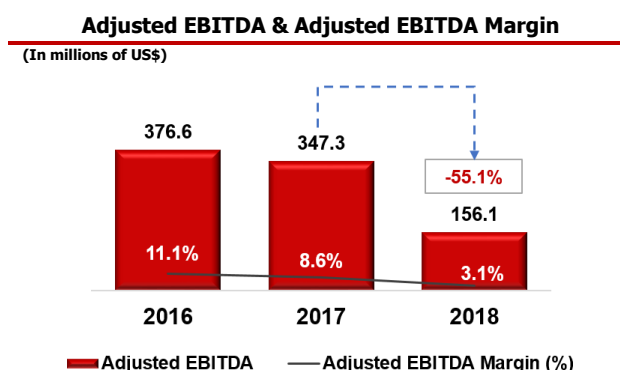
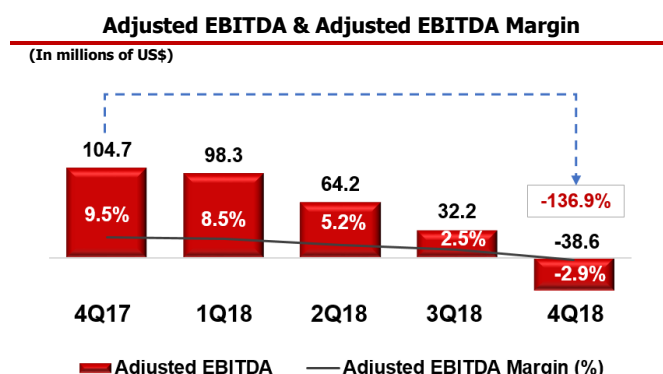
In 4Q18, oil imports as a percent of total purchases in our refineries decreased to 10.4% (from 15.2% in 4Q17). This decrease reflects the oil loads reduction during the production process to reduce Diesel HS¹⁴, given the new environmental regulations regarding to the commercialization in the local market of the Diesel ULSD.

¹⁴ Diesel HS: High Sulphur Diesel or "Diesel B5 (HS)"

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EBITDA



PETROPERU S.A. generated US\$ -38.6 million Adjusted EBITDA in 4Q18, compared to US\$ 104.7 million in 4Q17. This decline is due to the reduction in the Operating Margin explained by the lower inventories value following the fall in international crude oil and fuel prices, as well as the margin reduction on products of high value, such as ULSD Diesel and Gasolines/Gasohols.

COGS represented 99% of the Company's revenue, which underlines the importance of having sound management of commodity purchases; however, there are exogenous factors that are out of the Company's control.

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Operating expenses per business unit are as follows:

OPEX: Operative Expenses

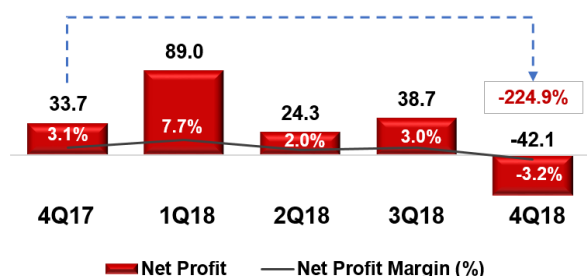
(In thousands of US\$)		
Business Unit	Executed on 2017 ⁽¹⁾	Executed as of December 2018
Refining	236,461	240,504
Transportation through ONP	38,310	73,792
Distribution & Comercialization	159,340	170,729
Others	100,042	93,347
Total	534,154	578,372

(1) The reversal due to impairment of assets of the Nor Peruano Pipeline ascending to US\$ 31,790 million was recorded.

The Refining business unit, reported the highest operating expenses among all the business units (44% of total OPEX in 2017 and 42% in 2018). The refineries at Talara, Conchán and Iquitos are currently in operation. The business unit with the second highest operating expenses is Distribution & Commercialization, which encompasses Supply Plants and Storage Tanks throughout the country and; finally followed by the ONP business unit, whose operating expenses have increased since 2017 due to the reinforcement works carried out on the riparian protection of the ONP.

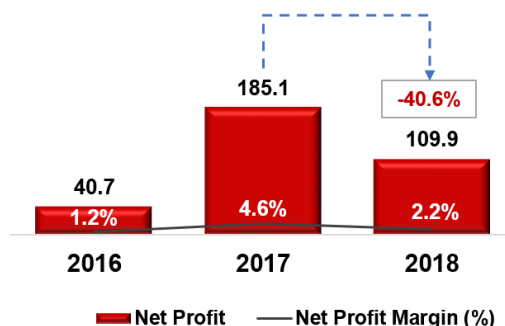
Net Profit & Net Profit Margin

(In millions of US\$)



Net Profit & Net Profit Margin

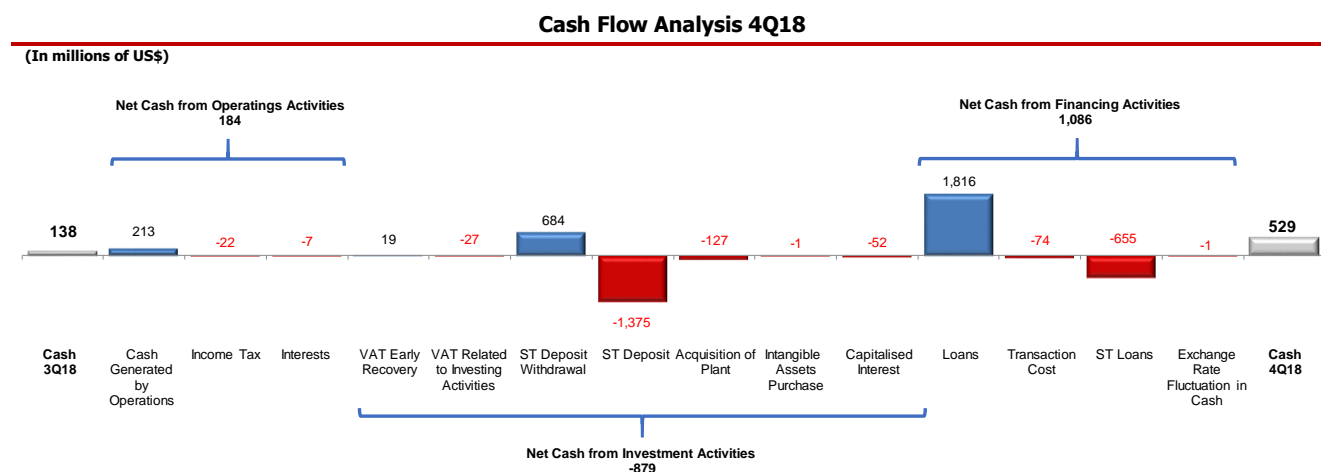
(In millions of US\$)



Other Income increased mainly due to: 1) the interest received for the tax return made by SUNAT (US\$ 14 million), 2) reversal of the provision of the fine filed by OEFA for oil spills in Cuninico, due to the change of rating from probable to remote (US\$ 15 million), and 3) reversal of the provision of arbitration proceedings with respect to environmental remediation contingencies due to non-provenance (US\$ 5 million).

Net Profit in 4Q18 was US\$ -42.1 million compared to US\$ 33.7 million in 4Q17, because of the increase in COGS that went from US\$ 937.5 in 4Q17 to US\$ 1,299.4 in 4Q18 (+38.6%) which led to the aforementioned decrease of the Gross Margin and consequent abrupt fall in the Operating Margin, among the main factors due to the devaluation of inventories caused by the reduction in the crude oil and products prices during 4Q18.

1.2.2. CASH FLOW STATEMENT



PETROPERU S.A. reported Cash Flow of US\$ 529 million during 4Q18, compared to US\$ 666 million in 4Q17. The Cash Flow was supported by a better Cash Flow from Operating Activities and a surplus in the Cash Flow from Financing Activities.

Cash Flow from Operating Activities in 4Q18 reached US\$ 184 million from US\$ 98 million in 4Q17, mainly due to a greater level of Net Sales and the concept of "anticipated payment of exports balance". In this regard, it is important to emphasize that for the first semester of 2019, approximately US\$ 30 million will be invested monthly for the concept of the VAT Balance in favor of the exporter corresponding to exports from May 2015 to November 2018. In addition, in the month of November 2018 US\$ 14 million of funds corresponding to the charges to the SUNAT of interest for the return of taxes related to the inactive sales of Turbo A1 fuel came in.

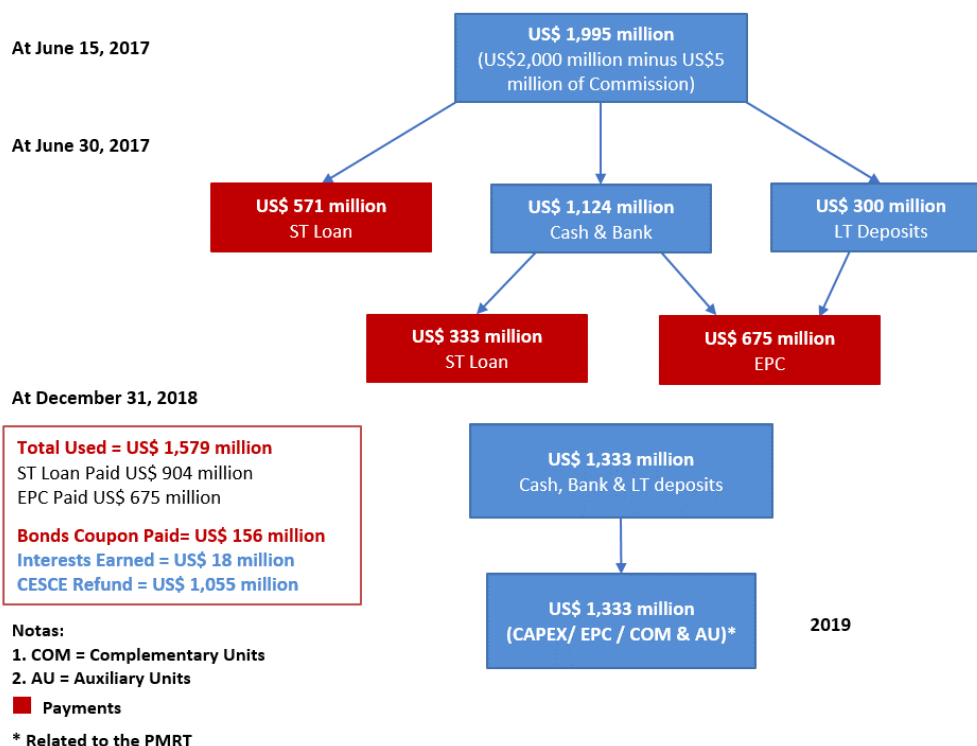
Cash Flow from Financing Activities was US\$ 1,086 million in 4Q18 vs. US\$ 8 million in 4Q17 mainly due to the long-term syndicated loan with CESCE's guarantee in the amount of US\$ 1,175 million (November 2018), net of the CESCE's guarantee insurance premium of US\$ 62 million.

Funds from credit with CESCE's guarantee were used for CAPEX (the cash balance was increased, so it was decided to capitalize such funds through deposits) which is why Cash Flow from Investing Activities reached US\$ -876 million in 4Q18 compared to US\$ -190 million in 4Q17. In addition, these funds were used to reimburse the financing sources used to pay PMRT bills corresponding to the EPC with Técnicas Reunidas, funds that came from bonds, own resources and contributions. The reimbursement of the bonds was for a total of US\$ 1,055 million distributed in US\$ 334 million corresponding to short-term financing and US\$ 721 million for payments to the EPC.

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The bond proceeds were used as follows:



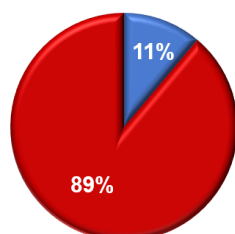
Note: In relation to outstanding balances, which are regularly reported to the Central Reserve Bank and the Ministry of Economy and Finance, these notes were placed with investment banks, local and international financial institutions. The US\$ 675 million of the EPC payment are net of the tax refund.

1.2.3. BALANCE SHEET

Working Capital in 4Q18 was US\$ 672.7 million compared to US\$ 52.9 million in 4Q17, mainly due to the increase in Other Accounts Receivable of US\$ 794 million related to the increase in ST Deposits from the funds received from the syndicated loan with CESCE's guarantee, which was disbursement in November 2018 for US\$ 1,236.7 million of which the CESCE premium was paid for US\$ 61.9 million. In addition, these funds were used to reimburse the financing sources used to pay PMRT bills corresponding to the EPC with Técnicas Reunidas, funds that came from bonds, own resources and contributions.

Foreign Exchange Debt Composition

4Q18 (In millions of US\$)

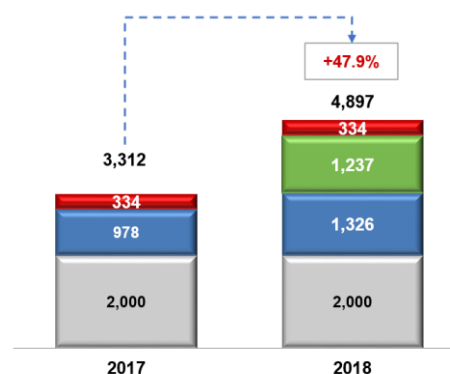


■ S/ ■ US\$

	Million S/	Million US\$
ST PMRT	-	334
Working Capital	546	780
Syndicated Loan (LTD)	-	1,237
Bonds	-	2,000
TOTAL	546	4,351

Debt Outstanding

(In millions of US\$)



■ Bonds ■ Working Capital ■ Syndicated Loan (LTD) ■ ST PMRT

Earnings Release



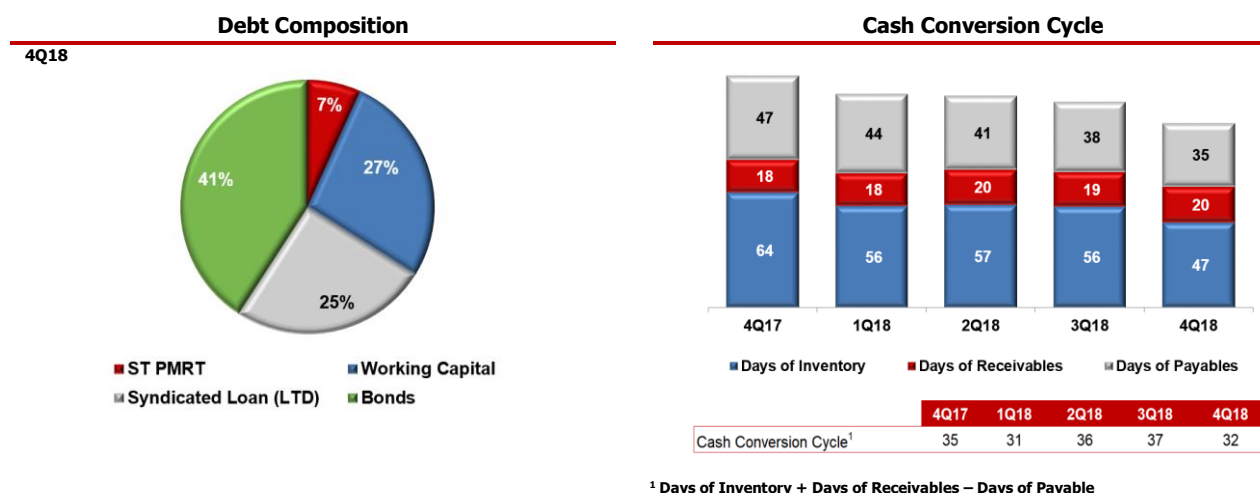
As of 4Q18, Total Debt is split into 89% US\$ and 11% Soles. The average debt duration for the 15-year bond is 10.19 years, and for the 30-year bond is 14.53 years. It is important to mention that the contract of the bonds issued does not contemplate the obligation to comply with covenants beyond the delivery of financial information. These bonds do not have specific guarantees.

In relation to short-term financing, these increased by US\$ 354 million compared to 4Q17, this includes US\$ 334 million of the short-term loan for the PMRT taken to settle the balance of the US\$ 500 million syndicated loan received in 2014.

At the end of 4Q18, PETROPERU S.A. maintained its revolving credit lines granted by local and foreign banks for up to US\$ 2.9 billion, of which US\$ 1.2 billion are still available. This is sufficient to cover the Company's Working Capital needs.

Total debt outstanding is comprised as follows: 41% Bonds, 27% Working Capital, 7% Short-Term loans for PMRT and 25% of Syndicated Loan with CESCE's guarantee. It is important to mention that for financing carried out with local banks in national and foreign currency, financing costs have been achieved below the corporate financial cost (LIMABOR) and in some cases even below the Sovereign Rate.

As of December 31: 2018, cost per capitalized loans related to PMRT reached US\$ 102 million (versus US\$ 75 million in 2017).



The Cash Conversion Cycle (CCC) at 4Q18 reached 32 days, 3 days less than 4Q17 (35), mainly due to the decrease in the inventory turnover by 17 days, stemming from the higher volume of sales in proportion to purchases. Additionally, the rotation of accounts payable also contributed to the reduction of the CCC due to the fact that it decreased by 12 days.

1.2.4. FINANCIAL INDICATORS

Ratios

	2017	2018	4Q17	3Q18	4Q18	YoY	QoQ
EBITDA / Interest	10.0	4.2	9.2	3.9	-1.7	-118.0%	-141.9%
Debt / Assets	55.6%	65.7%	55.6%	59.6%	65.7%	-	-
EBITDA / Assets	5.8%	2.1%	5.8%	3.1%	2.1%	-	-
Debt / EBITDA	9.5	30.9	9.5	19.3	30.9	224.7%	60.4%
Current Rate	1.02	1.29	1.02	0.87	1.29	25.8%	47.5%

The EBITDA/Interest ratio decreased 118.0% in 4Q18 compared to 4Q17, due to the fall in EBITDA in 4Q18 as a result of the reduction in Operating Margin explained by the lower inventories value of in the face of a sharp fall in international crude oil and fuel prices.

On the other hand, Total Debt of US\$ 4.8 billion represents more than half of Total Assets (65.7%) in 4Q18, due, mainly, to the disbursement of the loan agreement with CESCE's guarantee for US\$ 1,236.7 million entirely destined for the financing of the PMRT. Regarding EBITDA on Assets, this was 2.1%, lower than 4Q17.

As of 4Q18, the Company shows a Debt/EBITDA Ratio of 30.9x, higher than the 9.5x it showed in 4Q17. It is important to bear in mind that the greater part of the liabilities is composed of long-term debt destined to the PMRT, maturing in 10; 15 and 30 years for the syndicated loan with CESCE's guarantee and corporate bonds, respectively. Once the PMRT comes into operation, this ratio would return to the historical average approximately in the next 11 years and then be reduced, due to the increase in cash flow generation capacity and the increase in expected margins.

Finally, at the end of 4Q18, the Liquidity Ratio improved to 1.29x, mainly, due to the increase in current assets, as a result of the balance of financing with CESCE's guarantee, of which the largest proportion was registered in ST Deposits as part of the Other Accounts Receivable.

1.3. OPERATING RESULTS

PETROPERU S.A. focuses on three business lines: 1) Refining and commercialization, which represented 98% of Total Gross Revenue during 4Q18, 2) Leasing and privatization of certain units, which represented 0.5% of Total Gross Revenue during 4Q18, and 3) the Nor Peruano Oil Pipeline, which represented 1.5% of Total Gross Revenue during 4Q18.

Additionally, PETROPERU S.A. participates as a non-operating partner in the exploration and exploitation activities of hydrocarbons in Block 64; and in relation to Block 192, Perupetro S.A. will initiate negotiations with PETROPERU S.A. to define the terms and conditions of the Licensing Contract to explore and exploit this Block.

1.3.1. PMRT

As of 4Q18, the progress of the PMRT was 71.15%. The measurement of this progress will be reviewed once the approval of the overall project schedule is completed, which includes the EPC contract schedule for the Auxiliary Units and Complementary Works, as well as the modification of the EPC contract schedule with Técnicas Reunidas (TR), currently under negotiation.

Engineering, Procurement and Construction (EPC) Contract for the Process Units

To date, EPC Contract activities have a progress of 89%.

Detail Engineering: Work progress reached 100%; however, pending that the Auxiliary Unit EPC Contractor finalizes the detailed engineering of the interconnections, which has been required by TR.

Procurement: Work progress reached 99.81%. Pending studies of HSE (Health, Safety and Environment) to be carried out by the contractor.

Construction: Work progress reached 83.98%. There is a delay with the assembly of pipes and equipment, modification of tanks and interconnections; as well as, with pre-commissioning activities. There are not enough resources, on the contractor side, for the construction and pre-commissioning activities.

Auxiliary Units and Complementary Works

To date, the EPC Contract activities in charge of Consortium COBRA-SCL UA & TC have reached a progress of 7.81%.

Engineering: Progress of 38.22%,

Procurement: Progress of 8.73%

Construction: Progress of 1.67%

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There are some delays, which have led to sending several letters to the Consortium requiring a progress recovery plan. Likewise, we have been holding follow-up management meetings with the contractor to take the necessary actions to reverse such a deviation.

Financing

Regarding the syndicated loan with CESCE's guarantee, on November 28, 2018, the disbursement of the financing was received for US\$ 1.175 billion (net of the CESCE's guarantee insurance premium for US\$ 62 million) at an annual interest rate of 3.961% and a payment period of 10 years, which will start six (6) months after the completion of the Project. With this disbursement, approximately 85% of the external funding required for the financing of the project has been reached, and financing needs have been met until the first quarter of 2020. During 2019, different alternatives will be evaluated to cover the 100% of the external financing required.

Local Labor Recruitment

As of December 26, 2018, the workforce totaled 3,394. Local unskilled local labor had a participation of 86%, exceeding the minimum established by the EIA (70%), while qualified local labor had a participation of 39%.

PETROPERU S.A. continues with its communication, citizen participation and local development support projects in order to increase employment opportunities for skilled people in Talara.

1.3.2. REFINING

For 4Q18, the Net Refining Margin reached to US\$ 2.79/Bbl in 4Q18 vs. US\$ 5.66/Bbl in 4Q17, due to the fact that the Catalytic Cracking Unit (UCC) of the Talara Refinery entered into operation after the scheduled shutdown that put it out of service for 42 days, the Net Refining Margin was reversed with respect to 3Q18 (US \$ -3.26).

The YoY difference related to the Refining Margin is due to the enactment of Supreme Decree (DS) No. 025-2017-EM which continues to cause the generation of greater surpluses of Diesel HS, thereby affecting the operation of the Talara and Conchán refineries since they do not count upon the ability to produce Diesel ULSD, which implies that the sulfur content in:

Operating Data

Gasoline/Gasohols of high octane (95, 97 and 98 octane) that is marketed and used nationally, should not be greater than 50 ppm.

	2017	2018	4Q17	3Q18	4Q18	YoY	QoQ
Refining Capacity (in KBPD) ⁽¹⁾	94.5	94.5	94.5	94.5	94.5	-	-
Refinery Utilization (in KBPD) ⁽²⁾	69.4	67.4	73.7	65.2	69.2	-6.2%	6.1%
Refined Products (in KBPD) ⁽³⁾	104.7	110.4	114.1	111.0	111.0	-2.7%	0.1%
Refining Margin (US\$/bbl) ⁽⁴⁾	5.76	0.27	5.66	-3.26	2.79	-50.7%	185.5%
Blending Margin (US\$/bbl) ⁽⁵⁾	11.89	7.08	11.53	2.18	8.89	-22.9%	307.2%
Net Total Margin (US\$/bbl) ⁽⁶⁾	7.28	2.28	6.09	-0.71	4.58	-24.8%	747.5%
Capacity Utilization Rate ⁽⁷⁾	73.4%	71.3%	78.0%	69.0%	73.2%	-	-
Volume Sales (in KBPD)	145.2	152.1	147.3	151.9	157.3	6.7%	3.5%

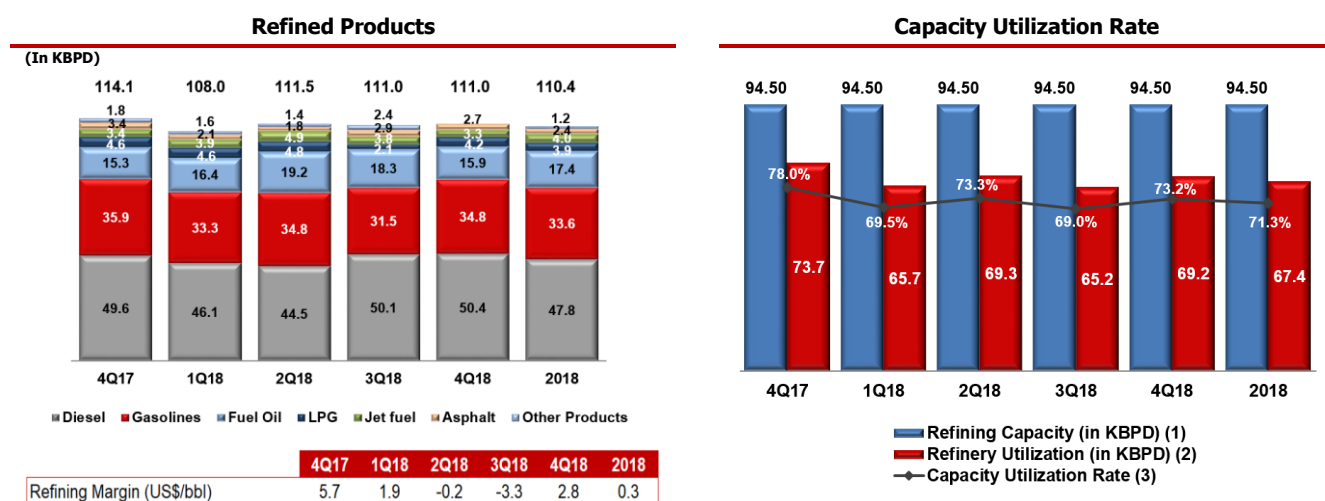
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Notes:

- (1) Maximum amount of crude that can be introduced into the first step of refining process, referred to as atmospheric distillation.
- (2) Total amount of crude, asphalts residue and diesel reprocess introduced into the first step of the refining process, referred to as atmospheric distillation.
- (3) Total amount of refined products produced by one complete cycle of the refining process.
- (4) Means the differential between the price of crude oil purchased for our refining operations and the price of our refined products extracted from such crude. Operating costs of refineries are discounted.
- (5) Differential between the price of the purchased inputs for the mixing operations carried out in the refineries and the price of the formulated products (Gasolines 97/95 and Diesel B5 S50). The operating costs of the blending activities carried out at the Talara and Conchán Refineries are discounted.
- (6) It is the average margin obtained from the refining and blending activities carried out by the Company's refineries.
- (7) Defined crude refinery utilization (in thousands of average barrels per day for the period) divided by atmospheric distillation refining capacity.

Production was lower compared to the same period of the previous year (111 vs. 114.1 KBPD), mainly due to lower volume produced of Gasolines, LPG, Jet Fuel and Asphalts.



- (1) Maximum amount of crude that can be introduced into the first step of the refining process, referred to as atmospheric distillation.
- (2) Total amount of crude, asphalts residue and diesel reprocess introduced into the first step of the refining process, referred to as atmospheric distillation.
- (3) Defined as crude refinery utilization (in thousands of average barrels per day for the period) divided by atmospheric distillation refining capacity.

1.3.3. NOR PERUANO OIL PIPELINE (ONP)

The pumped crude oil volumes during December 2018 (and accumulated until this date) are the following:

SECTION	PUMPED VOLUME IN DECEMBER (MB)	PUMPED VOLUME AT DECEMBER (MB)
SECTION I	146.5	1,546.7
SECTION II	0.0	4,247.7
ORN	0.0	2,595.8

There was a lower volume pumped into the ONP, mainly due to the stoppage of the ORN pumping for the following reasons:

- From May 25, 2018 to August 29, 2018 (97 days) due to failure at Km. 12: extraordinary rise of the Pastaza River.
- From November 27th to date (35 days), due to an incident at Km. 193: cutting of the pipeline by third parties.

At December 2018, the following volumes have been loaded at the Bayóvar Terminal:

- 2,805.8 MMbl of Loreto crude oil from Pacific and Perupetro S.A.
- 1,338.2 MMbl of Loreto crude oil from PETROPERU S.A.
- 974.0 MMbl of Primary Residual and crude oil for the coast refineries from PETROPERU S.A.
- 262.3 MMbl of Piraña crude from PERENCO.

The incident of km. 12 (May 25, 2018), caused by a flood of the Pastaza River, has been completely resolved. The status of the other two (2) incidents that occurred in the First Quarter of 2018 in Section I, due to cuts by third-parties, are shown in the following table. During the fourth quarter of 2018, another pipeline cut occurred at km 193 of the ORN. This was an attack on the facilities by a group of community members (CCNN Mayuriaga) who showed their dissatisfaction with the results of their last municipal elections (District of Morona, near our facilities). In addition to the pipeline cut, these people blocked access to the facilities, preventing repairs and remediation of the damage. The current situation these incidents is shown below:

DATE	LOCATION	SITUATION	% PROGRESS At DECEMBER
Feb 27, 2018	Km 20+204 – Section I	Pending the final disposal of hazardous solid waste. Expecting OEFA monitoring results.	62.1
March 11, 2018	Km 87+887 – Section I	Cleaning and remediation work completed. Expecting OEFA monitoring results.	98.5
Nov 27, 2018	Km 193 – Northern Branch	Mayuriaga authorities and inhabitants, still block access to repair pipe and initiate remediation.	0.00

In relation to the state of the contingencies occurred in previous years, we have the following:

DATE	LOCATION	SITUATION	% PROGRESS At DECEMBER
Feb 03, 2016	Km 206+035 – Northern Branch	Pending OEFA 's acceptance for cleaning and remediation works.	100.0
Nov 07, 2017	Km 221+046 – Northern Branch	It continues the cleaning, remediation and removal of hazardous solid waste.	91.7

It is also important to mention the incident which occurred on December 5, 2018, at Pumping Station number 5, located at km 252 of the ORN near the community of Chapis. The inhabitants of this community blocked all access to the facilities of this station, alleging that the Peruvian government had not fulfilled its commitments for several months. On December 18, 2018, this community allowed access after several days of dialogue between the leaders of this community and a group of government representatives composed of members of the Prime Minister Office (PCM), the Ministry of Energy and Mines and PETROPERU S.A.

Regarding the first phase (Diagnosis of the entire Transport System and Conceptual Engineering) of the "ONP modernization project", there is a progress of 95%. On December 18 and 19, 2018, TECHINT presented the benchmarking and conceptual engineering reports of the modernization, and the integrated extensions to the ONP. On December 26, 2018, TECHINT delivered the final reports required as part of the service. These reports were presented to PETROPERU S.A. on December 27 and 28, 2018. The contractor must respond to any observations by November 11, 2019. It is worth mentioning that the second phase includes the FEED (Front End Engineering Design) and the Third Phase the EPC (Detail Engineering, Procurement and Construction).

In conjunction to this service, some activities have been carried out for the safe and reliable operation of the transport system; among them we have:

- Installation of Pressure Transmitters in Section I and in the ORN: Progress of 66.4%.
- Acquisition and installation of blocking valves in the ONP and ORN: Progress of 20.5%.
- Improvement to the SCADA Supervision and Control System: Progress of 18.5%.
- Improvement to the Cathodic Protection System: Progress of 5.2%.

1.3.4. EXPLORATION AND PRODUCTION

Block 64

As of December 2018, the Citizen Participation Plan of the EIA for the Development Project for the Central Situche Reservoir has been completed, having in parallel the Public Hearings within the native communities of Brasilia and Katira. The SENACE¹⁵ approval of the EIA is estimated to be granted in March 2019. With respect to the preliminary engineering works of the production facilities, conceptual engineering was completed and basic engineering studies were initiated. In this line, the revamping of the Base Camp Sargento Puño (CBSP) and the acquisition of the flexible pipe for early production have been scheduled as they are the most important activities.

Regarding exploratory drilling, the Company that will perform the Environmental Impact Study (EIA) was hired. It is estimated that the First Information Workshop will be held in the first quarter of 2019. From March to October of 2018, informative meetings about the exploratory program were held in the native communities of Panintza, Katira, Brasilia, Inca Roca and Yakuntish. On the other hand, the Ministry of Production and SERNAP¹⁶ permits process is still on.

Block 192

The Block has been in Force Majeure since December 12, 2018, due to the incident occurred on November 27, 2018, at km 193 of the ORN (incident explained in the previous section – Nor Peruano Oil Pipeline). To date, there is still no access to the area to repair the pipeline and remediate the leak. This situation has generated the stoppage of the block's production.

Between November and December of 2018, the process of "Citizen Participation Event" was carried out with the native communities of Corrientes, Pastaza and Tigre; the Prior Consultation process has not been yet carried out. According to Perupetro S.A., the direct negotiation for the License Contract, will take place during the last stage of the Technical Debate (technical meetings with the Federations) and the beginning of the Prior Consultation process. To date, two (2) meetings of the four (4) scheduled have taken place. It is estimated that direct negotiation could begin in 1Q19.

On October 19, 2018, PETROPERU S.A. made its first entry to the facilities of the block under the framework of the non-binding Memorandum of Understanding between Frontera Energy and PETROPERU S.A. to obtain access to the block to collect operational information.

Regarding the financial advisory service to elaborate the PETROPERU's participation modality to develop Block 192 Licensing Agreement, on October 3, 2018, the Letter of Mandate was subscribed with Bank of America Merrill Lynch (BofAML), which will be in charge of this service.

1.3.5. LEASED & PRIVATIZED UNITS

This segment corresponds to other income originated by Operation Contracts of the oil terminals and leasing of certain facilities to third parties. Income reported from this segment is classified under Other Operating Income, and reached US\$ 12.2 million regarding to the total of US\$ 25.4 million in 4Q18.

This item considers the development of studies to generate value of the assets of PETROPERU.

¹⁵ National Institute of Environmental Certification – Servicio Nacional de Certificación Ambiental. In charge of reviewing and approving the EIA of public, private or mixed capital investment projects

¹⁶ National Institute of Protected Areas - Servicio Nacional de Áreas Protegidas. It is responsible for safeguarding the country's protected areas.

2. ENVIRONMENTAL, SOCIAL AND GOVERNANCE ANALYSIS

2.1. ENVIRONMENTAL & SOCIAL MATTERS

During 4Q18, activities related to social and environmental matters have been carried out, re-affirming PETROPERU's interest and commitment in ESG, based on its Social Management Policy that promotes solid relationships and mutual respect with our stakeholders.

Within the framework of our "Educating for Tomorrow" action line, the "Quality Schools" project was developed, aimed at improving the quality of educational services for the benefit of primary state school students. The Project will last 3 years and is in charge of the Peruvian University "Cayetano Heredia".

As part of the year-end activities (specifically for Christmas time), seeking to strengthen ties with our stakeholders and in order to provide a space of joy and fun for children, PETROPERU S.A. developed the program "Waking Up Smiles", consisting of a children's shows and delivery of Christmas packages, benefiting approximately 14,800 children.

In the Nor Peruano Oil Pipeline (ONP), in order to combat the high rates of anemia in Morona district (Loreto), PETROPERU S.A. has implemented the "Poultry Productive Project", for the installation of family production modules with laying hens, benefiting 810 families. In line with this Project, in coordination with the Directorate of Agrarian Health (SENASA), training in raising and feeding birds is being carried out. During 2019, the Project will complete the delivery of materials, deliver the birds and continue with the strengthening of local capacities. Likewise, with the objective of contributing to the productive talent of 60 women artisans, who also exhibited and sold their products at PETROPERU's main office in Lima, PETROPERU carried out the Patternmaking, Cutting and Dressmaking Workshop.

In addition, reaffirming our interest in the education sector, PETROPERU is working on the construction of a classroom, hygienic services and the preparation of thirty unipersonal desks in favor of the Local Educational Management Unit of Bagua and for the benefit of 150 schoolchildren of a school from the native Cuzumatac community (Amazonas).

In Talara, Piura, with the objective of promoting the narrowing of economic gaps between men and women and as part of the "Women in Action" program, PETROPERU trained 200 women in various jobs, through the National Training Service in Industrial Work (SENATI), and provides capital and materials for seven (7) companies.

In addition, PETROPERU held the II Literary Essay Contest for educational institutions of Talara, in order to promote culture and art, which included the participation of 7 educational institutions.

Likewise, in the Conchán refinery, PETROPERU promoted arts and music for more than 100 children and young people of Villa El Salvador through theater workshops, community circus and school bands as part of the program "Cultural Strengthening".

PETROPERU, in agreement with the Municipality of Lima, implemented a technical training program in various job activities for 320 residents of the 19 human settlements close to the Operation, as well as for other inhabitants of Villa El Salvador and Lurín; who participated in the fair held at PETROPERU's main office in Lima.

The Voluntary Social and Environmental Monitoring Committee carried out the cleanup of San Pedro beach, in Lurin district, with the participation of more than 80 volunteers, as part of the Participatory Social and Environmental Monitoring Program.

In Iquitos, seeking to improve the quality of life of young people from neighboring towns, PETROPERU developed the "Scholarship Program" in partnership with SENATI, providing technical studies to 18 young people in welding of metal constructions, giving them the opportunity to access jobs that generate income to their communities.

Likewise, in the search for the empowerment and development of Iquitos women, PETROPERU promoted training workshops in handicrafts with vegetable fiber from Chambira, benefiting 30 women artisans in Independencia town, and using vegetable fiber from Aguaje, benefiting 20 residents in Santa Clara town. The artisan women from Independencia and Santa Clara participated in participated in the fair held at PETROPERU's main office in Lima to exhibit and sell their products.

In Pucallpa, in cooperation with the General Fire Department of Pucallpa, PETROPERU carried out the communication program to the population regarding the risks inherent in the Sales Plant activities.

Finally, in coordination with the social responsibility department of our client Compañía Minera Volcano, PETROPERU carried out the Screening and Control of Anemia Campaign for children under five (5) years old and expectant mothers in the community of Suitucancha (Junín), benefiting more than 100 people. Likewise, the training in road safety was given to 90 students of primary level from Suitucancha school.

It is important to highlight that PETROPERU has among its main 2019 objectives to implement social impact projects through the mechanism of "Works for Taxes" program, starting with water and sanitation projects in Amazon localities that are in our area of influence, by which PETROPERU strengthens its relations with the Ministry of Housing, Construction and Sanitation.

In relation to environmental matters, the Company is awaiting the approval, by the General Directorate of Environmental Energy Affairs of the MINEM, of the reports of identification of potentially contaminated sites that exceed the Environmental Quality Standards (ECA) throughout all our Operations, in order to continue with the following stages of the process framed in compliance with the ECA. To date, the approval of six (6) of the 38 files submitted have been received.

PETROPERU continued the execution of cleaning and remediation works of the areas affected by the oil spills occurred in the ONP during 2017 and 2018, originated mainly by acts of third parties. During 4Q2018, an attack occurred at km 193 of ORN, pending repair activities and environmental remediation due to social conflicts.

Likewise, the Company continues with the process of ongoing dialogue and understanding with the communities of Andoas, as well as it has launched a systematic process of environmental monitoring, focused on monitoring and evolution of the rehabilitation of soils, surface waters and aquatic sediments, as well as of the flora and fauna of the remediated areas.

2.2. CORPORATE GOVERNANCE

During 4Q18, the following actions and achievements in Corporate Governance (CG) have been made:

1. The Board Committees have been meeting regularly and according to the Company's needs. Thus, in 4Q18, the Corporate Governance Good Practices Committee held one (1) session, the Administration Committee held two (2) sessions and the Audit and Control Committee two (2) sessions also.
2. On November 19, 2018, the Board approved the Company's Board, Directors, Board Committees Evaluation Policy. This policy establishes the parameters to be considered in the evaluation of the Board performance as a collegiate body; likewise, the evaluation of the work carried out by the Board Committees and individually as members of these Committees. It also includes the individual evaluation of the Directors according to the internal regulations.
3. On December 21, 2018, the Board also approved the amendment of the Board Committees Regulations. These documents regulate, by means of norms and precepts, the activities that each Committee member is obliged to know and comply with.
4. In relation to the Integrity System, the following activities have been carried out:
 - In November 2018, the "Corruption Crimes Prevention System" design was successfully completed by the company EY, pursuant to the Law No. 30424 and the legislative Decree No. 1352. As a result of this work, in December 2018 the Board appointed the Compliance Officer of the money laundering and terrorism financing prevention system as the one in charge of preventing corruption in PETROPERU.
 - In November 2018, all Company's workers were asked to renew their commitment to the ethical principles and guidelines of the Company, through the "Commitment to Adherence to the Integrity System" by which workers commit to comply with the Integrity Code and its related standards.

- In December 2018, a contest called "I live with Integrity" was held at the corporate level, by which the workers participated by answering questions about our Integrity System. Ten workers were the winners and were recognized by the General Management and the Board Presidency as the representatives of the Integrity System.
- The Integrity Committee, body in charge of dealing with complaints on ethics or conflicts of interest, held 24 meetings in order to attend to all complaints (78) during 2018.

5. In relation to Information Transparency, the activities developed were as follows:

- In October 2018, the Board approved the procedure to deal with information requests made by the public to the Company, pursuant to the Law of Transparency and Access to Public Information.
- In 2018, the Company attended to 409 information requests pursuant the Law of Transparency and Access to Public Information, providing personalized attention to each citizen and/or company, strengthening our image as a transparent company focused on service of the citizen, in the framework of the State modernization.

2.3. ORGANIZATIONAL MATTERS

The Company continues managing its personnel based on its competences and the new profile necessary for its modernization, performing actions such as performance management, strengthening of organizational culture and work environment, and review of its organizational structure.

In relation to performance management, the Board has approved the guidelines for staff performance evaluation during the year 2018, evaluation that will be conducted in the first quarter of 2019. It continues with the evaluation of the Functional Objectives for each Area.

Regarding the Company's work environment, the study reported in 3Q18, has allowed an assessment of the situational status of the organizational culture that prevails in the Company and identifying opportunities for improvement, considering that personnel is being significantly improved.

As part of the 2019 Trade Union Negotiation, negotiations have already begun.

The implementation of talent attraction and retention strategies continues.

In Talara, specifically with the PMRT, the Company has been working with the new organizational design, the recruitment and incorporation of new personnel, the training of this new and existing personnel, as well as the strengthening of the organizational culture. It is planned to incorporate several jobs, of which some are already covered, giving priority to people from the area in order to strengthen the relationship with Talara community.

Earnings Release



3. Financial Summary

3.1. Income Statement

In Millions of US\$	2017	2018	4Q17	3Q18	4Q18	YoY ⁽¹⁾	QoQ ⁽²⁾
Domestic Sales	3,586	4,369	976	1,114	1,154	18.2%	3.6%
Exports	394	515	108	144	131	21.0%	-9.2%
Other Revenue	72	81	17	17	25	50.6%	50.5%
Total Revenue	4,052	4,965	1,101	1,275	1,311	19.0%	2.8%
COGS	-3,462	-4,629	-938	-1,215	-1,299	38.6%	6.9%
COGS (% of Revenue)	85.5%	93.2%	-85.1%	-95.3%	-99.1%	-	-
Gross Profit	589	336	164	60	11	-93.1%	-81.1%
Gross Margin (%)	14.5%	6.8%	14.9%	4.7%	0.9%	-	-
SG&A	-291	-132	-107	-18	-16	-84.8%	-10.4%
SG&A (% of Revenue)	7.2%	2.7%	9.7%	1.4%	1.2%	-	-
Operating Profit	299	204	57	42	-5	-108.6%	-111.8%
Operating Margin (%)	7.4%	4.1%	5.2%	3.3%	-0.4%	-	-
Net Profit	185	110	34	39	-42	-225.0%	-208.7%
Net Profit Margin (%)	4.6%	2.2%	3.1%	3.0%	-3.2%	-	-
Adj. EBITDA	347	156	105	32	-39	-136.9%	-219.9%
Adj. EBITDA Margin (%)	8.6%	3.1%	9.5%	2.5%	-2.9%	-	-

(1) Year-over-year (YoY): Compare financial results with those of the same period in the previous year.

(2) Quarter-on-quarter (QoQ): Compare financial results with those of the same period in the previous quarter.

3.2. Cash Flow Statement

In Millions of US\$	2017	2018	4Q17	3Q18	4Q18	YoY	QoQ
Initial Balance	74	666	742	141	138	-81.4%	-1.7%
Operating Cash Flow	165	-139	97	-135	184	88.7%	236.7%
Capital Expenditures	-1,229	-1,497	-190	-21	-879	-363.4%	-3993.7%
Cash Flow from Financing	1,653	1,501	8	155	1,086	13463.8%	600.8%
Final Balance	666	529	666	138	529	-20.6%	282.3%

Final Balance is affected by the exchange rate fluctuation on cash.

3.3. Balance Sheet

In Millions of US\$	2017	2018	4Q17	3Q18	4Q18	YoY	QoQ
Current Assets	2,319	3,015	2,319	2,142	3,015	30.0%	40.8%
Non-Current Assets	3,620	4,317	3,620	4,153	4,317	19.3%	3.9%
Total Assets	5,939	7,332	5,939	6,295	7,332	23.5%	16.5%
Short Term Debt	1,319	1,673	1,319	1,764	1,673	26.8%	-5.2%
Long Term Debt	1,985	3,148	1,985	1,985	3,148	58.6%	58.5%
Total Debt	3,304	4,821	3,304	3,750	4,821	45.9%	28.6%
Other Liabilities	1,017	784	1,017	775	784	-22.9%	1.1%
Total Liabilities	4,321	5,605	4,321	4,525	5,605	29.7%	23.9%
Stockholders' Equity	1,618	1,728	1,618	1,770	1,728	6.8%	-2.4%
Total Capitalization (Debt + Equity)	5,939	7,332	5,939	6,295	7,332	23.5%	16.5%
Total Current Liabilities	2,266	2,343	2,266	2,455	2,343	3.4%	-4.6%
Working Capital	53	673	53	-313	673	1171.1%	114.7%
Debt / EBITDA	10	31	32	116	-125	-495.4%	-207.2%