

# Earnings Release



## Petroperu<sup>1</sup> Earnings Release for Full Year 2017

**Lima, Peru, May 30, 2018:** Petroperú (OTC: PETRPE) announced financial and operating results for the period ended December 31, 2017 ("2017"). For a comprehensive analysis please refer to the Audited Financial Statements 2017<sup>2</sup> available on the webpage of Superintendencia Mercado de Valores del Perú - SMV ([www.smv.gob.pe](http://www.smv.gob.pe)).

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### 1. EXECUTIVE SUMMARY

In 2017, we were able to align the construction processes and, at a great extent, conclude the *Proyecto de Modernizaci n Refiner  de Talara* (PMRT) financing, as well as carry out a successful bond issuance in the international markets. The operation of the Nor Peruano oil pipeline (ONP, Oleoducto Nor Peruano) was reinitiated, carrying out the maintenance tasks that allowed it to operate with adequate risk management. A new organizational structure was designed and implemented based on an administrative reorganization process that included the creation of an Integrity System and the strengthening of Corporate Governance. This was achieved despite having carried forward the serious problems faced by the Company in 2016, based on the financing risks of PMRT, and the temporary cessation of the ONP operation.

It is in this context that we present the Company's financial, operational, commercial and management results, not without mentioning two important aspects that motivated the Company to request to the SMV the exception of the deadline (31.03.2018) to present their audited financial statement and annual report, corresponding to the fiscal year 2017. The first was the appointment of new external financial auditors, carried out by the national Comptroller General Office on 18.12.2017; and the second was the adoption of the US\$ as the functional currency for PETROPER , since the greater weight of PETROPER 's economic environment is influenced by this currency, mainly due to the change in the financing structure, its future flows and obligations as of 01.01.2017.

#### 1.1. FINANCIAL HIGHLIGHTS

- Cash Flow at the end of 2017 balance reached US\$ 666.1 million compared to US\$ 74.0 million at the end of 2016 balance, as a result of the US\$ 2 billion bond issuance raised in 2Q17. Note that during 3Q16, the Company's liquidity position was weak, since while the PMRT execution was progressing, it was mainly financed with short term and trade payables financing.
- Net Profit in 2017 was US\$ 185.1 million compared to US\$ 40.7 million in 2016. Due mainly to the good performance of the company in terms of sales, which in turn resulted in a higher Operating Margin.
- Operating Profit grew from US\$ 105.7 million in 2016 to US\$ 298.6 million in 2017, due mainly to the increase in Sales Income and Other Income from the return of SUNAT interests from the claim made by PETROPER  regarding the case of Turbo A1 fuel import.
- Adjusted EBITDA<sup>3</sup> for 2017, declined from US\$ 376.6 million in 2016 to US\$ 347.3 million YoY. This decline is because the company obtained a Gross Margin in 2017 of 14.5%, less than the registered in 2016 (16.4%); however, the company still maintains a good performance that has been developing in the past three years (average of 13.3%), mainly explained by the realization of inventories at higher YoY prices. The main reasons why EBITDA has not increased is because there has been a greater volume of purchases

<sup>1</sup> Petr leos del Peru-PETROPERU S.A. (hereinafter "PETROPERU" or "the Company").

<sup>2</sup> Financial Statements for 2017 period, ended December 31, 2017. Unless otherwise noted, all financial figures are audited, presented in US\$, and references to "Dollars" or "US\$". Our Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the IASB (International Accounting Standards Board).

<sup>3</sup> 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 plus other net income & expenses, and net money exchange differences.

# Earnings Release



that added to the increase in prices, does not allow generating higher margins, as well as a reversal of a provision for impairment of ONP assets.

- During 2017, income increased by 19.5% compared to 2016, driven mainly by price increases YoY. Domestic income grew by 19.0% YoY, while Exports grew by 48.5% YoY, considering that Domestic Sales have a greater share of the Total Income than Exports.
- Total Volume Sales reached 145.2 KBPD<sup>4</sup> in 2017 from 145.3 KBPD in 2016, 86% of sales (124.9 KBPD) were concentrated in the domestic market. Refined products volume reached 104.7 KBPD in 2017.

## 1.2. OPERATIONAL, COMMERCIAL AND MANAGEMENT HIGHLIGHTS

PMRT showed an overall physical progress of 66.6% vs 77.7% scheduled, due to the lower progress in Construction and Procurement, since there were delays in the modification of tanks, assembly of pipes. In addition, the works of the Auxiliary Units and complementary investments have not yet begun; these are in the process of gathering documentation for their signature.

The execution of the EPC Contract (Engineering, Procurement and Construction) of the Process Units of the PMRT is under Tecnicas Reunidas, which has signed a lump-sum contract with PETROPERÚ S.A. for US\$ 2,730 million and a 5-year term beginning June 5, 2014, which includes the commissioning of the new refinery process units, whose new deadline is at 2020.

COBRA-SCL UA & TC Consortium, formed by the companies "Cobra Instalaciones y Servicios S.A." and "Sinohydro Corporation Limited" will be in charge of the Engineering, Procurement and Construction of the Auxiliary Units.

Regarding financing, the long-term financial structure includes the issuance of bonds, funds from bank financing guaranteed by the export credit agency "Spanish Company of Export Credit Insurance (CESCE<sup>5</sup>)", capital contribution of US\$ 316 million under of the Law N° 1292 of December 30, 2016, and from own resources. In line with this, the following advances took place 2017:

- The Supreme Decree N ° 005-2017-EF authorized the transfer of S/ 1,056 million, to finance the capital increase of PETROPERÚ S.A. for the execution of the PMRT, in accordance with the Law N° 1292 of December 30, 2016.
- First international bond issuance for US\$ 2 billion.

On June 12, 2017, the above bond issuance for US\$ 2 billion in the international debt markets was successfully completed. The transaction was carried out in two tranches: US\$ 1 billion at a 15-year term, annual interest rate of 4.750%; and US\$1 billion at a 30-year term, annual interest rate of 5.625%, in both cases with a single payment at maturity. The bonds were issued without guarantee from the Peruvian State.

The approval, by the Ministry of Economy and Finance, so that PETROPERÚ could carry out the operation of external indebtedness with the international bank, with the guarantee of CESCE for US\$ 1.3 billion, is on its way to completion; and is expected to be completed at the beginning of the year 2018.

Regarding the operations of the other PETROPERÚ refineries, including the current Talara refinery, the total production compared to the previous year was slightly higher, mainly explained by the increase in the demand for gasolines/gasoholes 90, 95 and 97, as well as the higher production of LPG, in order to meet the demand.

Regarding the commercial arena, in the last decade PETROPERÚ has maintained a market share of 47% to 51%; in 2017 it had a 50% market share. This places PETROPERÚ as the leading company in the fuel market, as its closest competitor only has a 28% market share. Likewise, in the current decade growth has been 42% since 2010 (or 5.3% annually) versus 31% (or 3.8% annually) for the competition, which means that, on average, we have grown more than our competitors.

We are market leaders in diesel and gasoline, with a participation of 60% and 65%, respectively. Likewise, sales of these two products represent 99.1 KBPD, which is equivalent to 80% of PETROPERU's total sales (including asphalts and solvents). Strategically, diesel

<sup>4</sup> KBPD: Thousands of Barrels Per Day

<sup>5</sup> Compañía Española de Seguros de Crédito a la Exportación. Spanish Export Credit Agency.

# Earnings Release



and gasoline are the Company's most important products and we market them mainly through wholesalers, retail (Petrored<sup>6</sup> and white stations<sup>7</sup>) and mining.

Regarding ONP, following the inspection of the repair and maintenance works of the pipeline and the fulfilling of the mandates of OSINERGMIN<sup>8</sup>, the pumping restarted in all sections, on different dates.

PETROPERÚ extended the term to Techint<sup>9</sup> to deliver its technical and economic proposal, for an additional 90 days, expiring on 10.01.2018. PETROPERÚ signed an Intention Agreement with Techint to evaluate the possibility of subscribing a Partnership Agreement for the ONP upgrade.

Regarding the exploration and production activities, as it is known, PETROPERÚ is a non-operating partner in Block 64, product of the assignment of a contractual position in favor of GeoPark<sup>10</sup> in the License Agreement (01.12.2016). GeoPark has been carrying out activities related to the Environmental Impact Study for the development of Central Situche Deposit, as well as activities for the Exploratory Program with the initial objective of putting into production the SC-3X and SC-2X wells, and the drilling of an exploratory well. Regarding Block 192, as of December 2017, the block is operated by Pacific Stratus Energy (currently Frontera Energy<sup>11</sup>) with a Temporary Services Contract of two (02) years; previous evaluation and direct negotiation with Perupetro S.A.<sup>12</sup> PETROPERÚ could sign the Hydrocarbon Exploitation License Agreement of this block. PETROPERÚ entered into a negotiation process with Frontera Energy in order to jointly operate the block, which did not progress due to the lack of adequate conditions for it at that time. PETROPERÚ will request Perupetro S.A. be qualified to be able to develop and operate this Block, and then be called to a direct negotiation of terms and conditions for the referred License Agreement.

In 2017, the new basic organizational structure for PETROPERU was approved, forming the Corporate Management Social Management and Communications and Environment, Safety and Occupational Health Management groups, which are evidence of the Company's strategic decision to include social and environmental management as variables of paramount importance for business continuity and for decision making.

In this sense, PETROPERÚ maintains its constant commitment with the communities surrounding the Pumping Stations of ONP through community outreach activities, workshops, educational discussions, medical and psychological discussions offered to residents of the region.

In terms of social matters, the Company created a Social Management Plan, which encompasses activities of all the Company's operations at a national level under an intercultural approach, which allows it to incorporate the different visions of the different human groups that coexist in the areas surrounding the operations; as well as establish different commitments, such as zero tolerance for the hiring of child labor and the empowerment of women.

Regarding environmental matters, during 2017 the Company completed the process of identifying potentially contaminated sites that exceed the Environmental Quality Standards (ECA) for Soil. Likewise, PETROPERÚ continued the cleaning and remediation works of the areas affected by the oil spills that occurred in the ONP during 2016.

At the end of 2017, an external audit was carried out in all of PETROPERÚ's offices, resulting in the recommendation of the "company SGS del Peru S.A.C." to obtain the ISO 9001: 2015, ISO 14001: 2015 and OHSAS 18001: 2007 certifications.

As a result of the implementation of the Integrity System, PETROPERÚ's efforts to achieve a better corporate reputation were recognized by various stakeholders. PETROPERÚ significantly improved its position in the ranking of the 100 most respected companies in the country. According to the Business Monitor of Corporate Reputation (MERCOR), PETROPERÚ reached position 48,

<sup>6</sup> Network of affiliated stations that sell our fuels and carry the Petroperú logo and colors.

<sup>7</sup> Network of stations that sell our fuels but do not carry the Petroperú logo or colors.

<sup>8</sup> OSINERGMIN: Supervisory Organism for Investment in Energy and Mining

<sup>9</sup> Techint Engineering & Construction provides project management, engineering, procurement and construction services on a global basis for large-scale projects in the Oil & Gas, Power, Mining, Infrastructure and Architecture civil Works and Industrial plants sectors. <http://www.techint-ingenieria.com/en/about-us>

<sup>10</sup> GeoPark: Is a leading independent Latin American oil and gas explorer, operator and consolidator with assets and growth platforms.

<sup>11</sup> Frontera Energy Corp. is a Canadian public company and a leading explorer and producer of crude oil and natural gas, with operations focused in Latin America. The Company has a diversified portfolio of assets with interests in more than 25 exploration and production blocks in Colombia and Peru. <http://www.fronteraenergy.ca/about-ep/>

<sup>12</sup> Perupetro S.A. is the State agency, on behalf of the Peruvian State and it is responsible for promoting, negotiating, underwriting and monitoring contracts for exploration and exploitation of hydrocarbons in Peru. <http://www.perupetro.com.pe/>

# Earnings Release

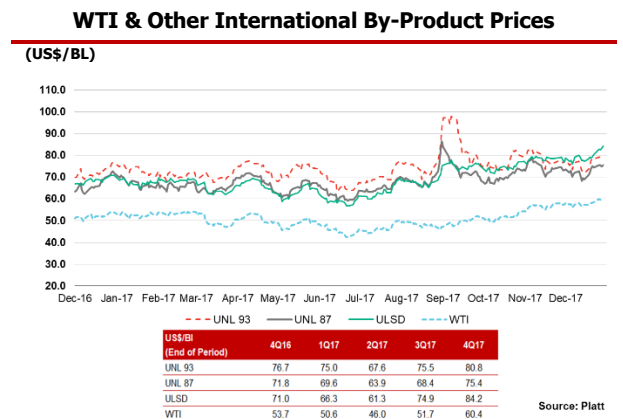
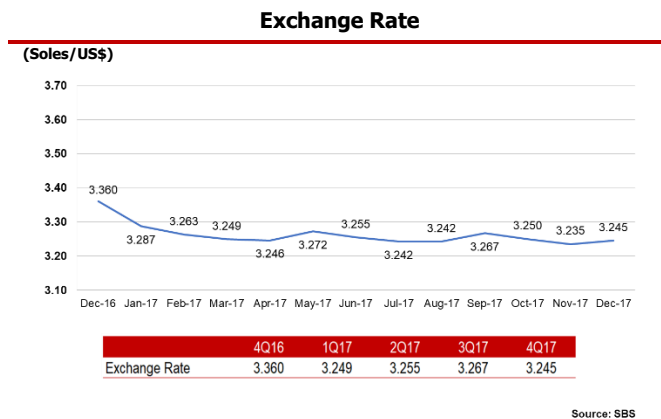


which is an improvement of 44 positions compared to the previous year. It is important to note that PETROPERÚ was able to climb more positions than any of the other, despite the criticism from some sectors.

## 2. FINANCIAL & OPERATIVE ANALYSIS

### 2.1. MACROECONOMIC ENVIRONMENT

The global economy grew 3.7% during 2017, the highest growth since 2011. For its part, Peruvian economic activity closed 2017 with a growth of 2.5%, after reversing the shocks that affected the economy at the beginning of 2017 and driven by better trade terms of trade due to the growth in the export of traditional products and the increase of base metals and gold at the end of the year. The variation between the growth of 4.0% in 2016 and the current growth was due to a lower boost of private consumption and public and private investment during 2017 and events such as the “El Niño Costero” weather phenomenon and the “Lava Jato” case, the latter causing the paralysis of several projects and reduction of investor confidence. With respect to inflation, the year ended at levels of 1.40%, which fell from the 1.54% in November 2017, being within the inflation target range of the BCRP<sup>13</sup>.



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

The Company is exposed to the volatility of the exchange rate, since it buys raw materials in US\$, and the income is generated mainly in Soles (with the exception of exports and contracts with some clients in US\$). This is one of the reasons why at the end of 2017, the process to change the company’s functional currency was initiated. In 2017, the Sol appreciated 3.5% due to the weakening of the Dollar internationally and the sustained increase in the prices of raw materials that favored the positive evolution of external accounts in Peru. In December, the Sol was affected by a brief period of political uncertainty before resuming its trend of the year.

During 2017, the price of WTI increased by 11% reaching US\$ 60.4/bbl at the end of December, versus US\$ 53.7/bbl at the end of December 2016, which reversed the decline that was experienced during the first half of the year, with prices ranging from maximums of US\$ 54.1/bbl in February 2017 to minimums of US\$ 42.3/bbl in June 2017. The average WTI during 2017 reached US\$ 51.0/bbl compared to US\$ 43.0/bbl during 2016<sup>14</sup>. The increase in the price of WTI in recent months reflects the gradual reduction of the supply surplus as a result of the hurricanes that affected the United States and the production cuts of OPEC and other major producers (such as Russia), however, growth was limited by the acceleration of US crude production, due to the deflation of costs in the oil industry associated with productivity gains. In addition, higher oil prices will favor new projects in 2018, particularly shale oil, due to expectations that US crude production will continue to grow and counteract OPEC efforts.

On the other hand, the prices UNL 93, UNL 87 and the Diesel ULSD have been more volatile than the prices of the WTI. During 3Q17, these prices significantly increased in September 2017, due to Hurricanes Harvey and Irma, which caused closures in several refineries along the Gulf Coast. The price of the Diesel ULSD reached the minimum of US\$ 56.7/bbl during June 2017 and reached its maximum level of US\$ 78.0/bbl during September 2017. The average price of the Diesel ULSD was US\$ 58.6/bbl during 3Q16 and US\$ 68.9/bbl

<sup>13</sup> BCRP: Central Reserve Bank of Peru

<sup>14</sup> Report of Inflation December 2017 – Outlook and current panorama, 2017 - 2019 BCRP

# Earnings Release



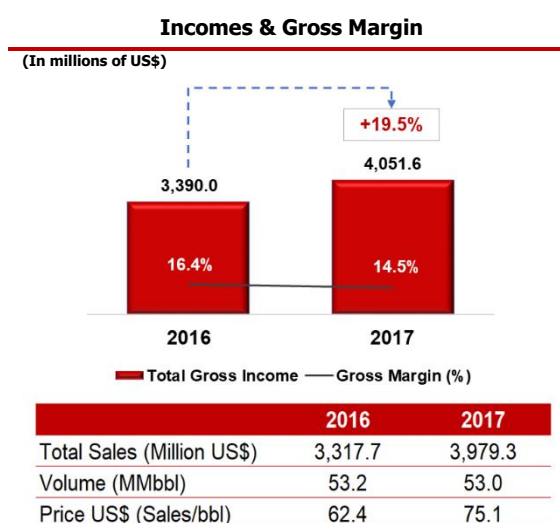
during 3Q17. Similarly, UNL 93 gasoline decreased to a minimum of US\$ 57.2/bbl during November 2016 and reached the maximum level of US\$ 97.9/bbl during September 2017. UNL 93 gasoline averaged US\$ 63.4/bbl during 3Q16 and US\$ 77.3/bbl during 3Q17. Gasoline UNL 87 reached its lowest level of US\$ 50.8/bbl during November 2016 and obtained the highest level of US\$ 86.6/bbl during August 2017. The average UNL 87 reached US\$ 69.6/bbl in 3Q17 compared to US\$ 59.1/bbl in 3Q16. These prices returned to their previous levels at the end of September.

PETROPERÚ buys crude oil (local or imported) and final/intermediate products (imported and local). Crude oil is used for the production of LPG, Gasoline, Diesel HS<sup>15</sup>, Turbo A-1, Industrial Oil, Bunkers and Asphalts. The final/intermediate products include Diesel ULSD that is imported, mainly, from the US Gulf Coast, and an additional volume of LPG that is purchased locally from Pluspetrol. PETROPERÚ purchases national crude oil (from the Northwest blocks of the country) for the Talara Refinery, through contracts based on a basket of crude oil. Additionally, the Company purchases crude oil "Maynas" from Block 8, and crude oil "Los Angeles" from Block 131, both to be processed in Iquitos Refinery.

Local market prices are determined considering the international prices of crude oil by-products (Import Parity Prices calculated by PETROPERÚ). 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 service 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, long stays), yield, distribution costs, margin of profit and tariffs of OSINERGMIN.

## 2.2. FINANCIAL RESULTS

### INCOME STATEMENT



Total Gross Income was US\$ 4,051.6 million in 2017, a 19.5% YoY increase, mainly due to higher final product prices and decreases in volume during 2017, note that the price effect was more important than the volume effect in the increased of Incomes during 2017. Local Sales increased 17.5% from US\$ 3,052.5 million in 2016 to US\$ 3,585.5 million in 2017, as a consequence of price increases in intermediate and refined products due to the effects of Hurricanes Harvey and Irma in the US Gulf Coast. Additionally, Exports increased 48.5% YoY from US\$ 265.2 million to US\$ 393.7 million. The Company exports Diesel 2<sup>16</sup> (Diesel HS, which used to be sold locally).

<sup>15</sup> Diesel HS: High Sulphur Diesel (more than 50ppm) or "Diesel B5 (HS)"

<sup>16</sup> Diesel 2: Diesel HS (High Sulfur) without Biodiesel

# Earnings Release



Gross Margin decreased YoY from 16.4% in 2016 to 14.5% in 2017, as a result of increased COGS<sup>17</sup> YoY of 22.1% (from the increased input prices compared to 3Q16), considering that, due to the effects of the regulation of low sulfur fuels, Diesel ULSD has been imported at a higher proportion with the higher price than the price of crude, which influences in the COGS increase.

## Analysis of the Product Portfolio:

SALES	VOLUME (In KPBD)			SALES (In Millions of US\$)			Weight on Total Sales
	2016	2017	YoY	2016	2017	YoY	
<b>LOCAL SALES</b>							
LPG	14.0	12.0	-14.3%	213.1	206.3	-3.2%	5.2%
Gasoline 97 / Gasohol 97	1.6	1.6	1.2%	45.2	54.1	19.8%	1.4%
Gasoline 95 / Gasohol 95	4.2	4.6	9.9%	114.3	149.0	30.4%	3.7%
Gasoline 90 / Gasohol 90	17.3	17.9	2.9%	445.4	543.5	22.0%	13.7%
Gasoline 84 / Gasohol 84	7.7	7.0	-9.7%	197.9	214.4	8.3%	5.4%
Turbo A-1	2.6	3.0	14.3%	79.6	98.5	23.7%	2.5%
Diesel B5 (Includes Biodiesel B100) <sup>(1)</sup>	28.0	17.0	-39.2%	667.6	379.4	-43.2%	9.5%
Diesel B5 S-50	41.8	53.2	27.5%	1,139.5	1,708.7	50.0%	42.9%
Industrial Oil	2.5	2.8	13.3%	42.1	62.0	47.4%	1.6%
Bunkers (Marine Residual - IFO + Marine Diesel N°2)	3.6	3.4	-5.5%	47.0	61.9	31.7%	1.6%
Asphalt Liquid / Asphalt Solid	2.0	2.0	-2.6%	44.2	45.4	2.8%	1.1%
Other: <sup>(1)</sup> <sup>(2)</sup>	0.4	0.4	13.2%	16.6	62.1	273.9%	1.6%
<b>Total Local Sales</b>	<b>125.7</b>	<b>124.9</b>	<b>-0.6%</b>	<b>3,052.5</b>	<b>3,585.6</b>	<b>17.5%</b>	<b>90.1%</b>
<b>EXPORTS</b>							
Nafta Virgin	4.6	4.7	3.7%	74.3	90.9	22.2%	2.3%
N°6 Fuel Oil, Reduced Crude, Industrial Oil 500	12.0	9.7	-18.8%	126.6	160.9	27.0%	4.0%
Diesel 2	1.5	4.3	178.1%	34.1	100.6	194.8%	2.5%
Others <sup>(3)</sup>	1.5	1.6	3.8%	30.1	41.4	37.3%	1.0%
<b>Total Exports</b>	<b>19.6</b>	<b>20.3</b>	<b>3.6%</b>	<b>265.2</b>	<b>393.7</b>	<b>48.5%</b>	<b>9.9%</b>
<b>Total Local Sales &amp; Exports</b>	<b>145.3</b>	<b>145.2</b>	<b>-0.1%</b>	<b>3,317.7</b>	<b>3,979.3</b>	<b>19.9%</b>	

Other Operational Incomes

72.3

**TOTAL REVENUES**

**4,051.6**

<sup>(1)</sup> Discount Included

<sup>(2)</sup> Solvents, Gasoline Aviation and Naphthenic Acid

<sup>(3)</sup> Turbo A1, IFO's, Asphalts and Gasolines

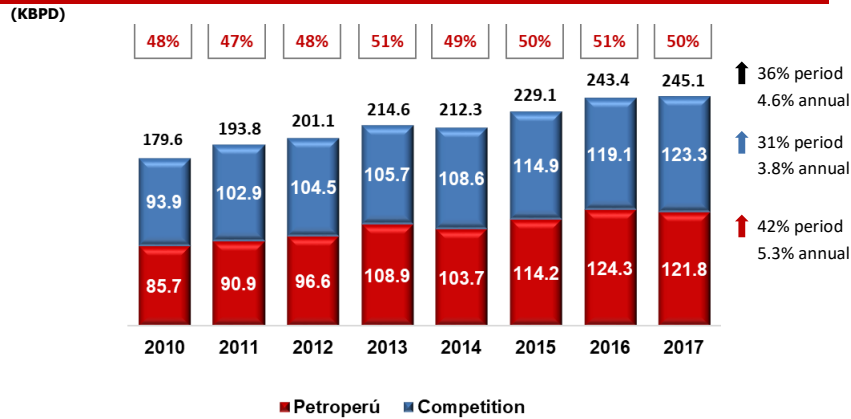
In the current decade, PETROPERÚ has maintained a market share range of between 47% and 51%; reaching 50% in 2017. This places PETROPERÚ as the leading company in the fuel market, with its closest competitor at a 28% market share. Likewise, in the current decade, growth has been 42% since 2010 (or 5.3% annual) versus 31% (or 3.8% annual) for the competition, which means that we have grown, on average, more than our competitors.

<sup>17</sup> COGS: Cost of Goods Sold

# Earnings Release



## Market Share Evolution

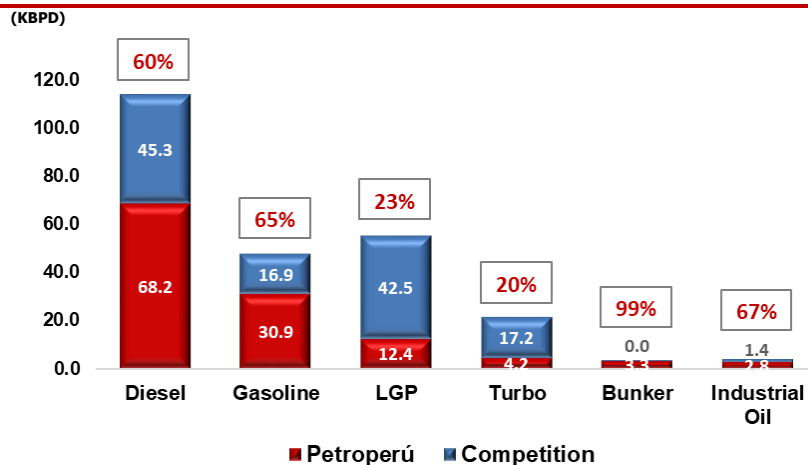


Source: MINEM/DGH (Informe Estadístico y Revista En Cifras). Petroperú/Data Warehouse/SAP  
Information as of December 2017

We must point out that from 2016 to 2017 fuel sales declined by 2.5 KBPD, from 124.3 KBPD to 121.8 KBPD. This was a consequence of aggressive competition, which affected our diesel sales during 2017 by 1.2 KBPD and LPG in 2.1 KBPD (it marginally increased in turbo, residual and gasoline for a total of 1.0 KBPD). However, in the case of our competitors, their sales increased by 4.2 KBPD, from 119.1 KBPD in 2016 to 123.3 KBPD in 2017. In general, the competition captured 2.5 KBPD of our sales and 1.7 KBPD of the natural growth in the market.

We are market leaders in terms of diesel and gasoline, with a participation of 60% and 65%, respectively. Likewise, sales of these two products represented 99.1 KBPD, which is equivalent to 80% of PETROPERU's Total Sales (including asphalts and solvents). Strategically, diesel and gasoline are the Company's most important products and we market them mainly through wholesalers, retail (Petrored and white stations) and mining.

## Market Share By-Product 2017



Source: MINEM/DGH (Informe Estadístico y Revista En Cifras). Petroperú/Data Warehouse/SAP  
Information as of December 2017

At the end of 2017, the Company reached a total sales volume of 145.2 KBPD, slightly lower than compared to the figure for 2016 (-0.1%), with 86% of sales (124.9 KBPD) concentrated in the domestic market. However, given the effect of variations in crude oil prices, which have a positive correlation with the prices of final products, the level of Sales Income increased by 19.9% compared to 2016 (US\$ 3,317.7 million in 2017 vs US\$ 3,979.3 million in 2016).

# Earnings Release



During the year 2017, in the domestic market, PETROPERÚ renewed two commercial contracts, one of them with one of its main wholesale clients and the other with an important mining company; Likewise, sales to the electricity sector significantly increased due to the entry into operation of a cold reserve plant in the southern part of the country. On the side of the external market, sales increased by 0.7 KBPD (+ 4%), mainly due to higher Diesel 2 (+2.8 KBPD) that were exported (mainly to Bolivia), due to the entry into force of DS N ° 038-2016-EM, which makes the commercialization of Diesel B5 lower sulfur mandatory within the country.

## Income Breakdown

(In millions of US\$)

2017		% Participation	
<b>LOCAL REVENUES</b>		<b>7 Products</b> <b>84.5%</b>	
LPG	206.3	Diesel B5 S-50	42.9%
Gasoline 97 / Gasohol 97	54.1	Gasoline 90 / Gasohol 90	13.7%
Gasoline 95 / Gasohol 95	149.0	Diesel B5 (Includes Biodiesel B100) <sup>(1)</sup>	9.5%
Gasoline 90 / Gasohol 90	543.5	Gasoline 84 / Gasohol 84	5.4%
Gasoline 84 / Gasohol 84	214.4	LGP	5.2%
Turbo A-1	98.5	N°6 Fuel Oil, Reduced Crude, Industrial Oil 500	4.0%
Diesel B5 (Includes Biodiesel B100) <sup>(1)</sup>	379.4	Gasoline 95 / Gasohol 95	3.7%
Diesel B5 S-50	1,708.7		
Industrial Oil	62.0	<b>3 Products</b> <b>66.1%</b>	
Bunkers (Marine Residual - IFO + Marine Diesel N°2)	61.9	Diesel B5 S-50	42.9%
Asphalt liquid / Asphalt Solid	45.4	Gasoline 90 / Gasohol 90	13.7%
Others <sup>(2)</sup>	62.1	Diesel B5 (Includes Biodiesel B100) <sup>(1)</sup>	9.5%
<b>Total Local Revenues</b>	<b>3,585.6</b>	<b>Local Revenues</b> <b>90.1%</b>	
<b>EXPORTS</b>		<b>Exports</b> <b>9.9%</b>	
Nafta Virgin	90.9		
N°6 Fuel Oil, Reduced Crude, Industrial Oil 500	160.9		
Diesel 2	100.6		
Others <sup>(3)</sup>	41.4		
<b>Total Exports</b>	<b>393.7</b>		
<b>TOTAL REVENUE</b>	<b>3,979.3</b>		

<sup>(1)</sup> Discount Included

<sup>(2)</sup> Solvents, Gasoline Aviation and Naphthenic Acid

<sup>(3)</sup> Turbo A1, IFO's, Asphalts and Gasolines

Products with the highest contributions to Sales Incomes are, for Local Sales, Diesel ULSD and for Gasolines or Gasoholes 90, with 42.9% and 13.7%, respectively.

**Diesel ULSD:** This product has become the most important contributor to Sales Income with a 42.9% share of the Total Sales. The Company is gradually selling this product nationally after a government decree. The commercialization of Diesel ULSD has been replacing the Diesel HS in the areas of Lambayeque, Ancash, Huánuco, Pasco, Ayacucho, Ica, Cajamarca, Huancavelica and Apurimac.

The sales variation of this fuel, from one period to another (-1.2 KBPD) is mainly related to the reduction of minor purchases of unaffiliated customers from the retail sector (-1.2 KBPD), which transferred their purchases to the competition due to better commercial conditions. Another factor that influenced this outcome was the migration of purchases and the decrease in the purchase volume of two of our wholesale clients (both -1.3 KBPD). In mining, there was a sales reduction (-0.2 KBPD) due to the migration of purchases from one of our most important mining clients. However, there was an increase in customer purchases in the electricity sector (+0.96 KBPD), when one of the power generation plants came into operation due to increased energy demand in the south and the shutdown/maintenance of Camisea facilities. There was also an increase in our exclusive wholesale clients (+0.7 KBPD).

**Diesel HS:** When replaced by Diesel ULSD, local sales have significantly decreased. However, due to the entry into force of DS No. 038-2016-EM, which mandates the commercialization of Diesel B5 lower sulfur within the country, this fuel has been exported, increasing its sales by 0.7 KBPD (+ 4% compared to last year).

**Gasoline 90:** This gasoline represents 13.7% of Total Sales Income. Sales increased by 22.0% YoY mainly driven by the price increase. The Sales are directed mainly to wholesalers, retailers (Petrored), other private gas service stations and the armed forces. Sales grew mainly in affiliate and wholesale stations.

**Gasoline 84:** This product represents 5.4% of the Total Sales Income. Sales increased 8.3% YoY, despite a significant decrease in volume. This is because the demand requires more gasoline with higher octane rating of 90/95. Sales are more focused on eastern Peru (Amazonas). Sales are aimed mainly at wholesalers and retailers.



# Earnings Release



There was a total increase of gasolines in this period (+0.2 KBPD), mainly due to higher sales to PETRORED stations (+0.8 KBPD). However, sales to wholesale customers (-0.3 KBPD) and unaffiliated service stations (-0.3 KBPD) were lower, mainly due to the El Niño Costero phenomenon and greater aggressiveness by the competition who offered better commercial conditions.

**LPG:** Represents 5.2% of Total Sales Income. Sales decreased by 3.2% YoY, mainly due to lower volume. PETROPERÚ produces part of the LPG and purchases the rest from Pluspetrol. Lately there have been some restrictions in the market by Pluspetrol, affecting sales. The variation during this period (-2.1 KBPD) was mainly due to the better commercial conditions offered by the competition and to the operational limitations in Callao port as well as the limited storage in PETROPERÚ's Callao Plant.

**Turbo:** The sales increase in 2017 compared to last year (+0.4 KBPD), was mainly due to the acquisition of two new airlines during this year and higher purchases by two important clients.

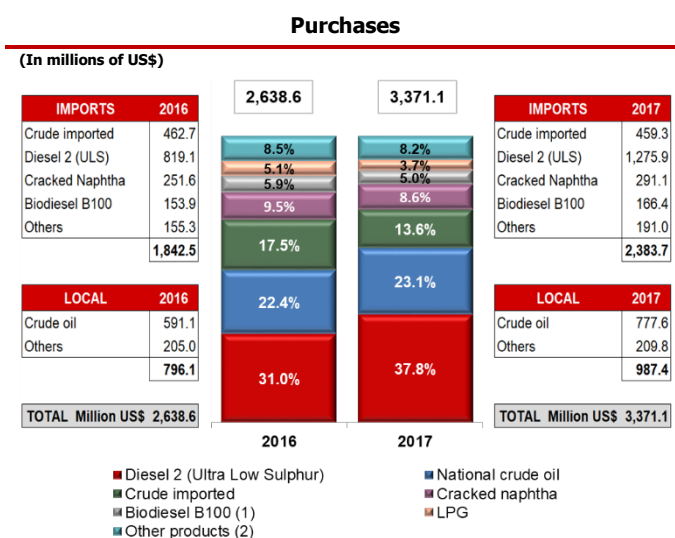
**Industrial Oil:** There were more purchases in electric companies (+0.3 KBPD), consuming I.O. 6 and I.O. 500.

**Asphalt:** Lower sales to clients in the construction sector (-0.1 KBPD) because the competition offered better commercial conditions.

In terms of our supply chain, the most significant challenge that has affected the supply of products during 2017 is the effect of climate change, which caused the closure of ports nationwide that generates cost increases due to the extended stay of the ships. This situation, in addition to the increase in demand for products with low sulfur content, which must be imported and stored in order to effectively operate in this situation, has affected the supply of products.

To address this kind of challenge and, in order to ensure the supply of fuel throughout the country, the following new terminals are being constructed: Ilo (South), Ninacaca Supply Plant (Pasco) and the new submarine terminal in Talara (North). Likewise, the following port terminals are being improved: Conchán (Lima), Mollendo (South), Salaverry, Eten (North) and the liquid cargo dock in Talara (North). These constructions and improvements are estimated for completion 2020 and will be executed with resources of PETROPERÚ.

The construction of the new terminal and sales plant in Ilo, reached an execution progress of 38.2% at December 2017 and registers a delay of eight (08) months for the start of the work, due to the delay in the issuance of the port authorization by the National Port Authority (APN). In the case of the Ninacaca Supply Plant, the process for contracting the construction contractor will begin during the first semester of 2018.



(1) Inputs for formulation of Diesel B5

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

# Earnings Release



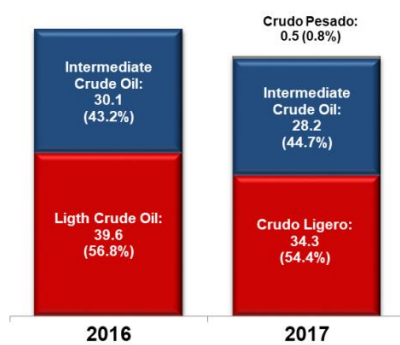
In order to obtain refined products, the Company processes crude oil and mixes it with intermediate products purchased. The crude oil processed in our refineries is either local or imported. Local crude oil comes mainly from the Talara area and is purchased considering an average oil prices basket. Crude oil volume purchased locally declined 2.5% YoY, while crude oil purchases (in US\$) raised 17.4% YoY, as a result of price increases. Crude oil (from the Northwestern region of Peru) today represents 23.1% of total purchases. Crude oil is an input for the elaboration of gasoline, diesel, residual products. As it is light oil, product yield from this crude oil is higher compared to the one from intermediate oil, which benefits refining margin. The new Talara refinery will be able to obtain higher refining margins and product yields from heavy oil (which is cheaper input) due to its advanced refining units.

In 2017 the oil import corresponds to 13.6% of total purchases in our refineries. Purchase volume increased 2.0% YoY, while the imported crude volume declined 21.7% YoY, reflecting the reduction of oil slates into production process to reduce the output of Diesel HS.

PETROPERÚ uses short-term derivative instruments (forwards) for terms of up to 1 year, to cover short-term obligations in US\$ and part of its working capital needs. Note, that all purchases of oil products are made in US\$ according to international prices. These prices are adjusted to Soles according to the Import Parity Price and the exchange rate.

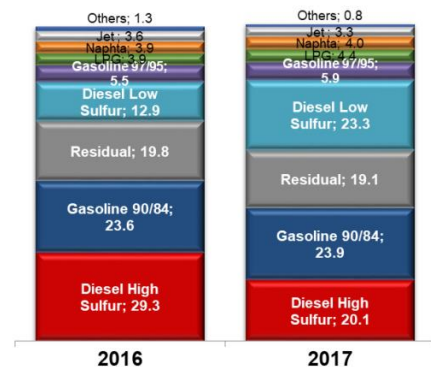
## Oil Slate

(KBPD)



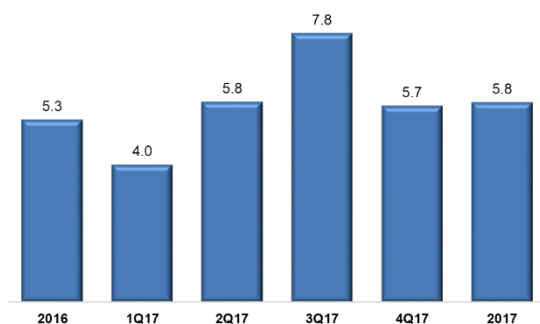
## Product Yield

(KBPD)



## Net Refining Margin <sup>(1)</sup>

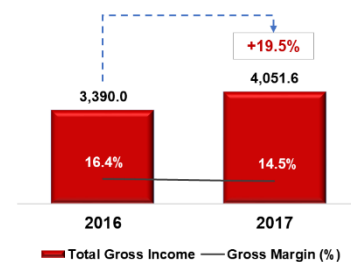
(US\$/BL)



(1) 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.

## Incomes & Gross Margin

(In millions of US\$)

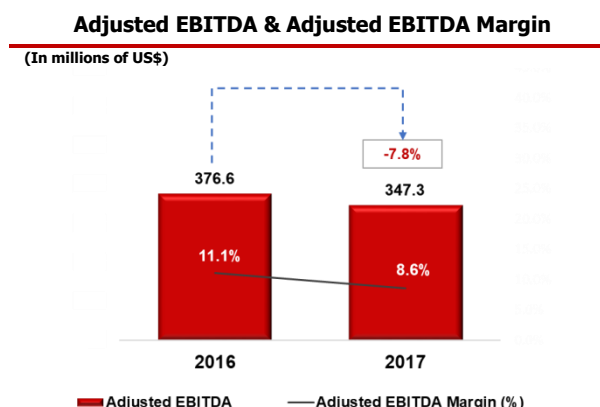


	2016	2017
Total Sales (MM US\$)	3,317.7	3,979.3
Volume (MMbbl)	53.2	53.0
Price US\$ (Sales/bbl)	62.4	75.1

# Earnings Release



Net Refining Margin registers the actual purchase price of crude oil and subtracts the price of the refined products extracted from that crude (at market values), plus the corresponding operational costs. The Net Refining Margin is a real indicator of the overall profitability of PETROPERÚ's refining operations. Net Refining Margin increased 9.4% from US\$ 5.3/bbl in 2016 to US\$ 5.8/bbl in 2017, as a result of good management in the refining operations.



PETROPERÚ generated US\$ 347.3 million in Adjusted EBITDA in 2017, compared to US\$ 376.6 million in 2016, mainly as a result of the reduction of the Gross Margin in 1.9%, which went from 16.4% in December 2016, to 14.5% in December 2017, which is explained by the realization of inventories at higher YoY prices. Thus, EBITDA margin decreased to 8.6% in 2017 compared to 11.1% in 2016.

It is important to mention that the 2016 EBITDA is different to the reported in same period in past reports, because in 2016 a provision for impairment of ONP assets was recorded for US\$ 43 million and in 2017 US\$ 35 million was reversed out of that provision, which implies that there is a difference in depreciation that affects the EBITDA calculation.

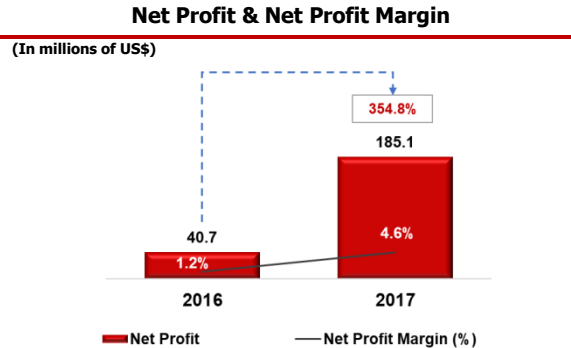
The COGS correspond to 85.5% of the Company's income, which underlines the importance of having good management in place for the purchase of commodities; however, there are exogenous factors, such as crude oil prices, which do not contribute to a reduction of the COGS. Operating expenses per business unit are the following:

**OPEX: Operative Expenses**  
(In thousands of US\$)

Business Unit	2016	Executed on 2017
Refining	229,000	232,976
Transportation through ONP	105,088	39,264
Distribution & Comercialization	156,558	159,401
Others	84,937	102,513
<b>Total</b>	<b>575,583</b>	<b>534,154</b>

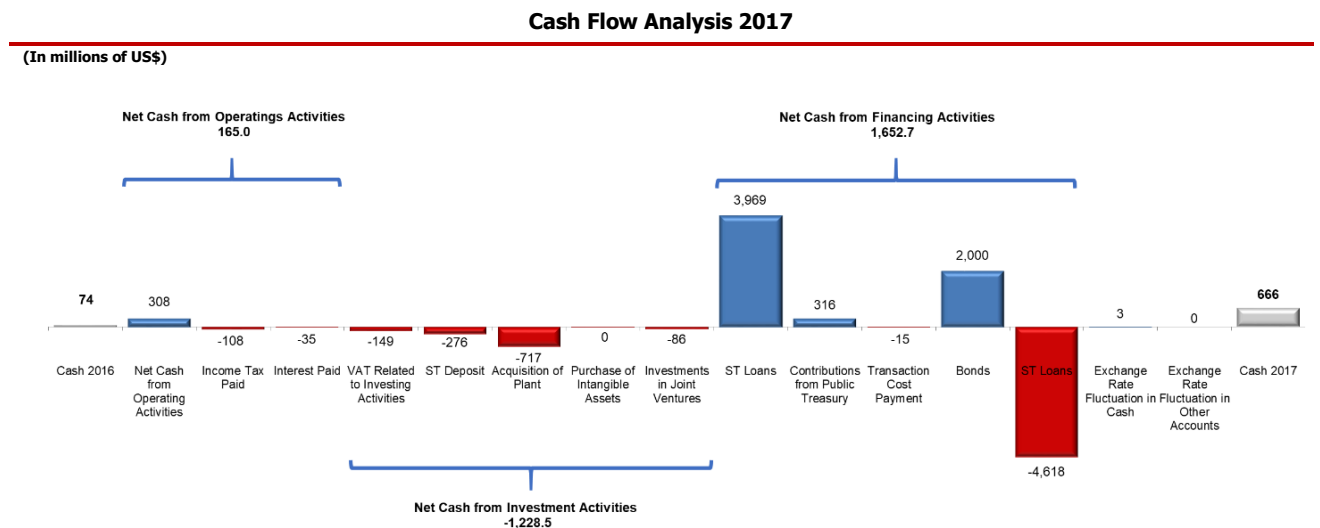
The refining operation, currently the Company's most important activity, the highest operating expenses among all the operating units (44% and 40% in 2017 and 2016, respectively); present, the refineries of Talara, Conchán and Iquitos are in operation. The second is the distribution and commercialization, through the Supply Plants and Storage Tanks throughout the country and; finally, ONP, whose operating expenses have been significantly reduced by the environmental remediation activities incurred in 2016 due to pipe cuts caused by third parties.

# Earnings Release



Net Income in 2017 reached US\$ 185.1 million, compared to US\$ 40.7 million in 2016. Net Income in 2016 was affected by the environmental expenses following the oil leaks during 1H16. However, the improvement in the Operating Margin due to the higher Sales Income during 2017 allowed the Net Profit to be greater YoY.

## CASH FLOW STATEMENT



At the end of 2017 PETROPERÚ recorded Cash Flow of US\$ 666.1 million compared to US\$ 74.0 million in 2016. Note that during 2016, the Company liquidity position was weak, since, while the PMRT was progressing, it was only financed with short term financings and longer maturities with suppliers. Positive Cash Flow was supported by the financing increase for the PMRT.

Cash Flow from Operating Activities in 2017 decreased to US\$ 165.0 million from US\$ 335.1 million in 2016, mainly as a consequence of higher payment of Income Tax, higher Sales Income in 2017 and the payment of interests not included in the Financial Activities.

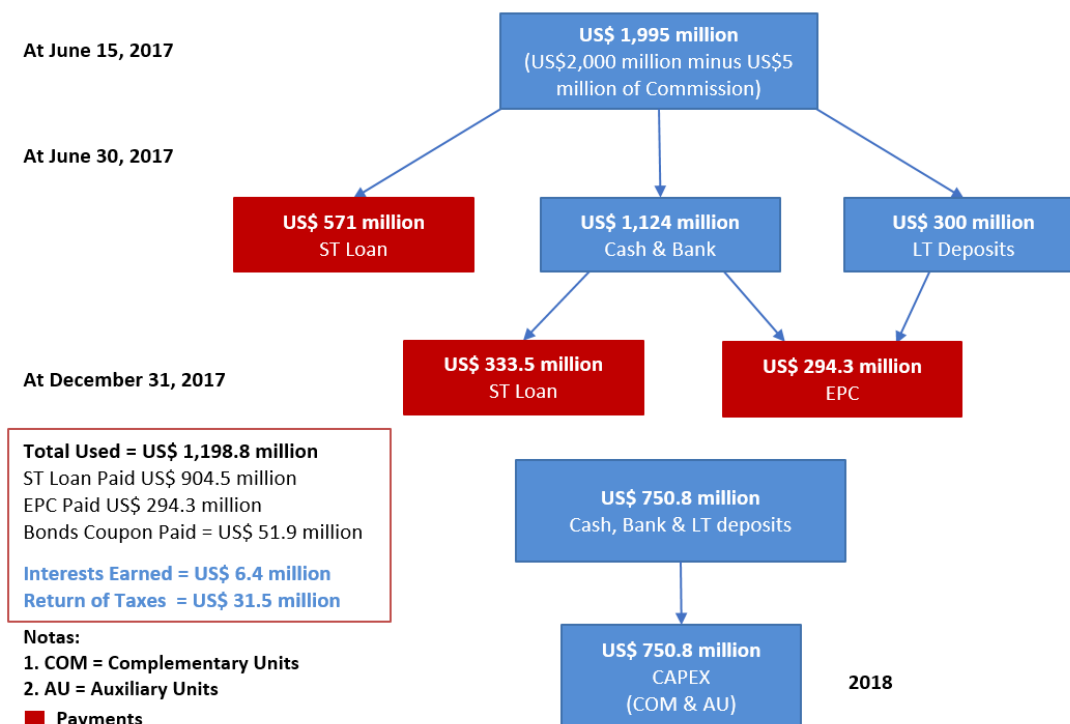
In that sense, Cash Flow from Investing Activities reached US\$ -1,228.5 million in 2017 compared to US\$ -1,101.0 million in 2016, driven mainly by investments in fixed-term deposits which reached US\$ 276.2 million. In addition, this variation in the Cash Flow from Investment Activities is also related to investments in the PMRT and other projects that include: construction of a sales plant in Ninacaca, and the installation of the new terminal in Ilo. These construction projects are funded with cash from operations.

Likewise, Cash Flow from Financing Activities reached to US\$ 1,652.7 million in 2017 compared to US\$ 833.7 million in 2016. During 2017, the Company: 1) obtained new bank loans for US\$ 3,968.8 million, 2) successfully completed the issuance of bonds for a total of US\$ 2.0 billion 3) completed the amortization of US\$ 4,617.5 million (Bank Loans: US\$ 4,200.9 million and the Syndicated Loan: US\$ 416.7 million) and 4) the payment of the Transactional Costs for the issuance of the bonds for US\$ 14.9 million.

# Earnings Release



The bond proceeds were used as follows:



Note: In relation to outstanding balances, these are placed in investment banks, local and international recognized financial institutions, which are regularly reported to the Central Reserve Bank and the Ministry of Economy and Finance.

## BALANCE SHEET

PETROPERÚ continues to make substantial progress on the PMRT financing. In 2017, the Company approved the selection of a group of banks comprised of BBVA, BNP Paribas, HSBC, Santander Bank, Citibank, JP Morgan and Deutsche Bank; and the external financing operation for US\$ 1.3 billion guaranteed by CESCE, were approved.

In November 2017, the terms and conditions of the "Engagement Letter" was approved to be signed by the set of banks indicated above, to act as structurers of the credit with CESCE guarantee, for up to US\$ 1.3 billion in the framework of PMRT financing. It is expected that in January 2018 MEF (Ministerio de Economía y Finanzas) authorizes PETROPERÚ S.A. to arrange the operation of external indebtedness, for an amount of up to US\$ 1.3 billion to finance the PMRT. It is estimated that a second bond issuance will be made up to a maximum of US\$ 1.0 billion in 2019, in order to cover the financial expenses of the PMRT.

As of September 30, 2017, PETROPERÚ maintains revolving credit lines granted by local and foreign banks for up to US\$ 2.4 billion, of which US\$ 1,015.8 million are available. This is sufficient to cover its working capital needs.

Total debt outstanding is distributed as follows: 60% Bonds, 30% Working Capital and 10% Short Term loans for PMRT. Borrowing costs capitalized during the 2017 related to PMRT reached to US\$ 74.6 million (US\$ 44.7 million during 2016).

Working Capital during 2017 reached US\$ 52.9 million compared to US\$ -1,580.2 million in 2016, mainly as a result of the bond issue which provided liquidity to the Company.

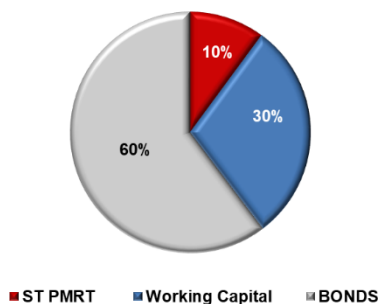
PETROPERÚ S.A.'s investment grade was reconfirmed by the risk rating agencies: Standard & Poor's (BBB- for long-term debt) and Fitch Ratings (BBB+ for long-term debt in foreign currency), as well as the local rating of AA- with Apoyo & Asociados.

# Earnings Release

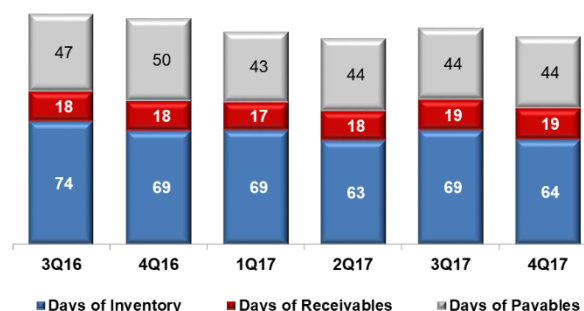


## Debt Composition

2017



## Cash Conversion Cycle



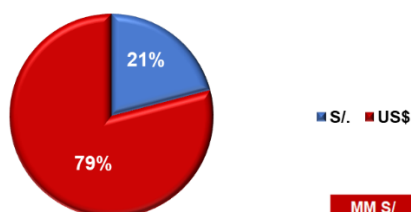
	4Q16	1Q17	2Q17	3Q17	4Q17
Cash Conversion Cycle <sup>1</sup>	37	43	37	44	39

<sup>1</sup> Days of Inventory + Days of Receivables – Days of Payable

The Cash Conversion Cycle during 4Q17 reached 39 days, slightly higher than in 4Q16. It is important to highlight the reduction in inventory days compared to 4Q16. The currency mix of total debt is: 79% US\$, and 21% Soles. The duration of debt averaged 10.55 years for the 15 years Bond, and 14.49 years for the 30 years Bond. The Amortization Schedule shows that existing short-term loans from the PMRT will be paid during 1Q18. Bonds are long term and due in 2032 and 2047, respectively, and will be paid with PMRT cash generation.

## Foreign Exchange Debt Composition

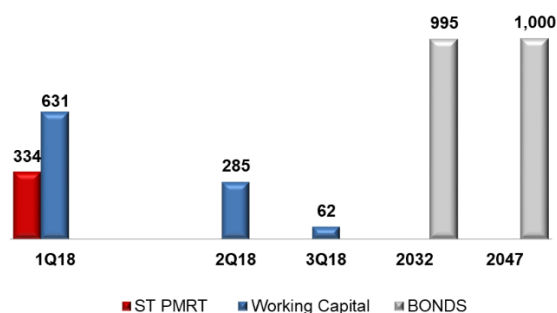
At the 2017 (In millions of US\$)



	MM S/	MM US\$
ST PMRT	-	334
Working Capital	692	286
BONDS	-	1,995
<b>TOTAL</b>	<b>692</b>	<b>2,615</b>

## Amortization Schedule

(In millions of US\$)



## FINANCIAL INDICATORS

### Ratios

	2016	2017	YoY
EBITDA/ Interest	24.8	10.0	-59.8%
Debt / Assets	47.5%	55.6%	17.2%
EBITDA / Assets	9.0%	5.8%	-35.1%
Debt / EBITDA	5.3	9.5	80.7%
Current Rate	0.42	1.02	143.2%

The EBITDA/Interest ratio refers to an indicator of interest coverage, which was reduced by 59.8% in 2017. Even so, the Company can pay up to 10 times the interest not included in the financing activities with the cash flow generated from of the main operation.

# Earnings Release



On the other hand, Total Debt represents more than half of Total Assets, which is mainly due to the bond issuance that took place in mid-2017. With respect to EBITDA, in 2017 this represented 5.8% of Total Assets, mainly, this ratio refers to the ability of assets to generate profitability from the main activity.

In 2017, the Company had a Debt/EBITDA Ratio of 9.5 times, due to the level of leverage it maintains, to a certain extent the Company is able to face its financing, considering that the most relevant financing is a long term one and it is expected that the PMRT income generation will be able to cope with these financing.

Finally, as a result of the short-term financing at the end of 2017, the Liquidity Ratios have increased by 143%, but as a result of close to 1, we see that the Company has almost the equal level of Current Liabilities as it does Current Assets.

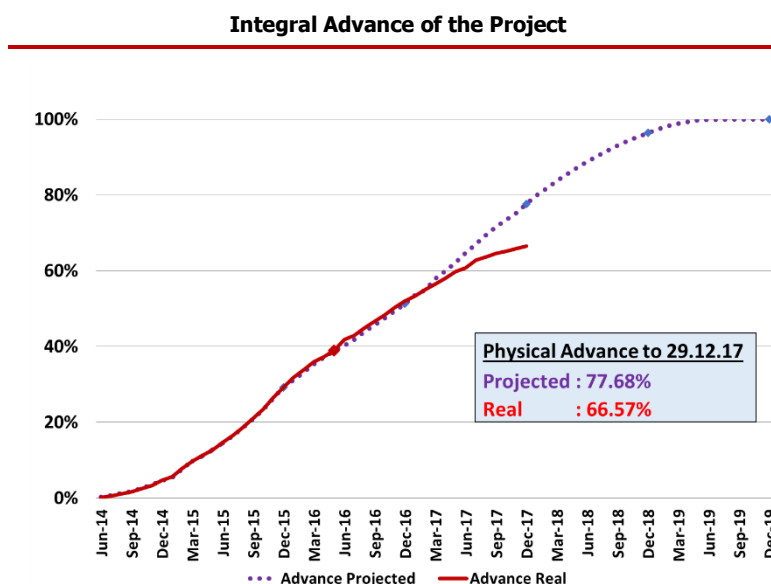
## 2.3. OPERATING RESULTS

PETROPERÚ focuses on three business lines: 1) Refining and commercialization, which represented 98.8% of the Total Gross Income in 2017, 2) Leasing and privatization of certain units, which represented 1.1% of the Total Gross Income during the year 2017, and 3) the Nor Peruano oil pipeline, which represented 0.1% of the Total Gross Income during 2017, as a result of the closure of the pipeline.

Additionally, PETROPERÚ participates as a non-operating partner in the exploration and exploitation activities of hydrocarbons in Block 64 and has the option of participating in the development of Block 192 (formerly Block 1 AB). This participation does not yet generate income for PETROPERÚ, as explained further on.

### PMRT

At the end of 2017, overall physical progress of the PMRT of 66.57% vs 77.68% was achieved, explained by the lower progress in the modification of tanks, pipelines assembly and interconnections as can be seen in the graph below:



### Engineering, Procurement and Construction (EPC) of the Process Units of the Talara Refinery Modernization Project (PMRT)

The execution of the EPC of the Process Units of the PMRT is under the direction of Tecnicas Reunidas, which has signed with PETROPERÚ S.A. a lump-sum contract for US\$ 2,730 million and a 5-year term starting from June 5, 2014, which includes the commissioning of the new refinery process units.

# Earnings Release



By the end of 2017, the processing units with the greatest progress in civil works are the Naphtha Hydrotreater and Separator, Naphtha Reformer, Diesel Hydrotreatment, LPG Treatment, the Gas Recovery Unit II, the Amines Plant and the Disposer of Sour Water. Likewise, the construction of the second part of the works related to the MU2 dock has a progress rate of 28%. Besides, 21 new tanks are also under construction.

The supervision of the works is carried out by the PMC Talara-CPT Consortium (formed by the companies Inelectra-Idom Engineering and Consulting SA-Nippon Koei Co., Ltd.), while the Project Management Office (PMO) in charge of providing project management support, is carried out by Deloitte Talara consortium (CDT for its acronyms in Spanish).

## **Auxiliary Units**

The construction of the auxiliary units, whose initial strategy considered to be carried out by third party companies, with the payment of fees by PETROPERÚ S.A., will be finally carried out under the EPC modality. Through the bidding process to select the company that will be in charge of the construction of the auxiliary units and complementary works, the Consortium COBRA-SCL UA & TC (formed by the companies Cobra Instalaciones y Servicios S.A. and Sinohydro Corporation Limited) won the referred process.

The Auxiliary Service Units include facilities for the production and supply of products and services necessary for the completion of the PMRT and operation of the New Talara Refinery, and consists of: 1) Plant for production and purification of Hydrogen and production of Nitrogen, 2) Production plant of sulfuric acid (includes storage and dispatch facilities), 3) Desalination and demineralization of water and system of distribution, 4) seawater collection and cooling system, treatment of wastewater and sanitary water, and 5) power generation plant and steam power generation system.

The complementary Works include additional works such as: 1) the construction of treatment units for Turbo A1 and Processed Soda, 2) construction of crude oil and gasoline storage tanks, 3) the acquisition of catalysts, chemical products and lubricants, 4) the construction of warehouse and maintenance buildings, 5) the integration of electrical and telecommunications systems, 5) implementation of a dynamic training simulator for the operator (OTS system), 6) the implementation of the new laboratory and 7) the installation of a monitoring machine system, among others .

## **Financial Structure**

The long-term financial structure includes the issuance of bonds, funds from multilateral financial entities, bank financing guaranteed by the export credit agency "Spanish Company of Export Credit Insurance (CESCE)", capital contribution of US\$ 300 million under of the Law N° 1292 of December 30, 2016, and finally from its own resources.

In line with the above, the following progress took place in 2017:

- i. The Supreme Decree N ° 005-2017-EF authorized to transfer the amount of S/ 1,056 million, to finance the capital increase of PETROPERÚ S.A. for the execution of the PMRT, in accordance with the provisions of article 8 of Law No. 29970.
- ii. First international bond issuance for US\$ 2.0 billion.

On June 12, 2017, this bond issue in the international debt markets was successfully completed. The transaction was carried out in two tranches: US\$ 1.0billion at a 15-year term, annual interest rate of 4,750%; and US\$ 1.0 billion at a 30-year term, annual interest rate of 5,625%, in both cases with a single payment at maturity. The bonds were issued without guarantee from the Peruvian State.

The following actions are scheduled for the coming years (2018 and 2019):

- iii. 2018: Operation of external financing with CESCE guarantee for US\$ 1.3 billion.
- iv. 2019: Second international bond issue of US\$ 1.0 billion



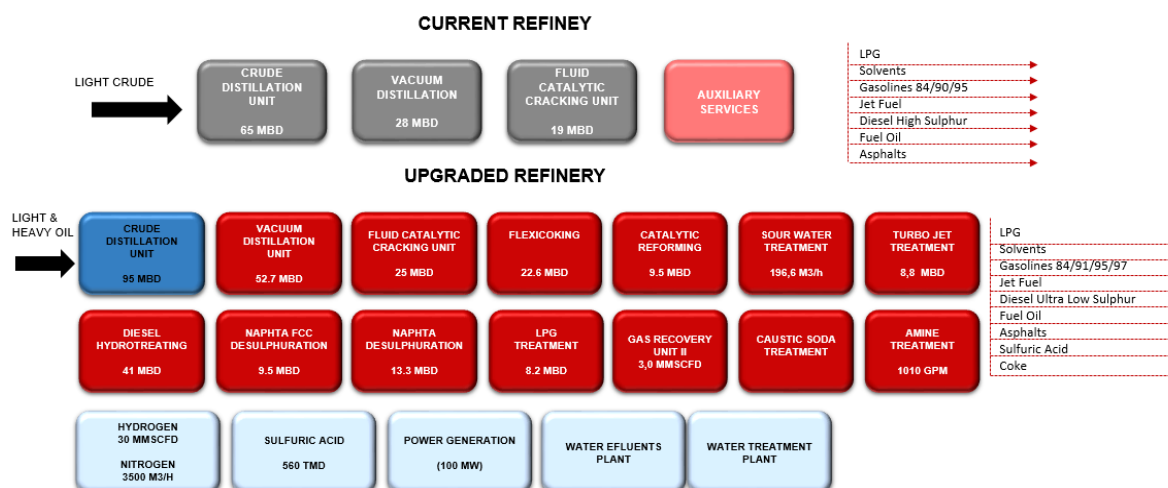
# Earnings Release



## Hiring of Local Labor

The average annual hiring of unskilled labor of local origin was 83%, higher than the minimum stipulated in the Environmental Impact Study (EIA), while the average hiring of skilled labor of local origin was 32%.

With the Upgraded Refinery, PETROPERÚ will be able to diversify its product portfolio as follows:



## REFINING

The refining and commercialization business generated most of the Company's income. As mentioned previously, the Net Margin of Refining is a key indicator of the Company's ability to generate profitability from its refining process. The Net Refining Margin was slightly higher than 4Q16 (US\$ 5.7/bbl in 4Q17 vs. US\$ 5.4/bbl in 4Q16). The Refining Margin for 2017 reached US\$ 5.8/bbl.

## Operating Data

In Millions of US\$	2016	2017	YoY	4Q16	3Q17	4Q17	YoY	QoQ
Refining Capacity (in KBPD) <sup>(1)</sup>	94.5	94.5	-	94.5	94.5	94.5	-	-
Refinery Utilization (in KBPD) <sup>(2)</sup>	70.8	69.4	-2.0%	68.6	67.7	73.7	7.5%	9.0%
Refined Products (in KBPD) <sup>(3)</sup>	103.9	104.7	0.7%	104.9	99.4	114.1	8.7%	14.8%
Refining Margin (US\$ per barrel) <sup>(4)</sup>	5.3	5.8	9.6%	5.4	7.8	5.7	4.0%	-27.0%
Capacity Utilization Rate <sup>(5)</sup>	74.9%	73.4%	-	72.6%	71.6%	78.0%	-	-
Volume Sales (in KBPD)	145.3	145.2	-0.1%	149.4	152.6	147.3	-1.4%	-3.5%

### 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 residual 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) Defined crude refinery utilization (in thousands of average barrels per day for the period) divided by atmospheric distillation refining capacity.

Production increased to 114.1 KBPD in 4Q17 compared to 104.9 KBPD in 4Q16 due to the fact that in 4Q17, a greater volume of Diesel ULSD was formulated in the Talara and Conchán refineries from inputs imported or purchased in the local market. The lower production in 4Q16 was mainly due to problems at Iquitos Refinery, since Crudo Mayna could not be removed from Station 1 of the Pipeline due to the riots of the native communities of Marañon, Chambira, Morona, Pastaza, Corrientes and Tiger that caused a traffic blockade in Saramuro - Iquitos road from 01.09.2016 until 16.12.2016. During 2017, average production was similar to 2016 (104.7

# Earnings Release

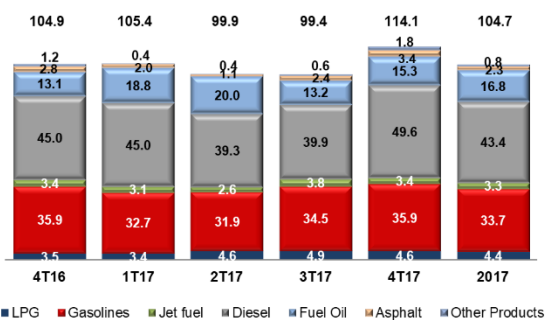


KBPD in 2017 vs. 103.9 KBPD in 2016). Sales volume of 147.3 KBPD in 4Q17 was similar to the 149.4 KBPD in 4Q16. The sales volume during 2017 was 145.2 KBPD.

The installed capacity utilization ratio was 78.0% in 4Q17, higher than the ratio of 72.6% in 4Q16. Refining Margin of US\$ 5.4/bbl in 4Q16 was similar to US\$ 5.7/bbl in 4Q17, maintaining good operational management. In 2017, the Refining Margin reached US\$ 5.8/bbl. The installed capacity ratio decreased from 70.8% in 2016 to 69.4% in 2017 due to the fact that in this last year, the commercialization of Diesel ULSD began in the departments of Ancash, Apurímac, Ayacucho, Cajamarca, Huánuco, Huancavelica, Ica, Lambayeque and Pasco in compliance with the regulations, which impacted on the operation of Talara and Conchán refineries since they do not have the capacity to produce diesel with these characteristics from their production process. The diesel obtained from the operations of the aforementioned refineries was exported and/or supplied to a local customer, meeting the national demand for Diesel ULSD with product formulated from imported or locally purchased inputs. Sales were 147.3 KBPD in 4Q17, similar to the 149.4 KBPD in 4Q16.

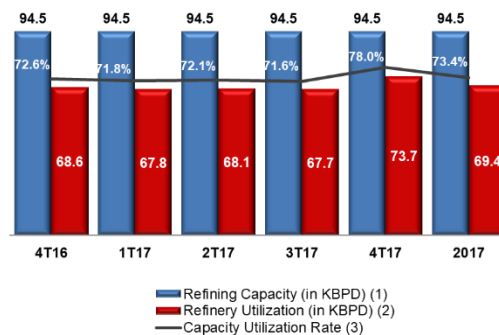
## Refined Products

(In KBPD)



	4Q16	1Q17	2Q17	3Q17	4Q17	2017
Refining Margin (US\$ per barrel)	5.4	4.0	5.8	7.8	5.7	5.8

## Capacity Utilization Rate



- (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.

## NOR PERUANO OIL PIPELINE (ONP)

Following the inspection of the repair and maintenance works of the ONP pipeline and the fulfilling of the mandates of OSINERGMIN, the pumping was restarted throughout its three sections, on the following dates:

Section	Restart Date
Northern Branch	06.02.2017
Branch II	15.06.2017
Branch I	26.09.2017

To put into operation the 3 sections of the ONP, the following works were carried out:

- Repair of anomalies due to loss of thickness and dents on the pipeline, and execution of untightening works; according to the last internal inspections carried out in each section.
- Repair of faults and damages occurred in the ONP in 2016 and 2017, through the installation of reinforcement sleeves or pipe replacement.
- Inspection of reinforcement sleeves installed in the ONP before 1999 and repair of weld seams where required.

# Earnings Release



The volumes transported in the three sections of the ONP, in the last 5 years, were the following:

The volume transported through Section II in 2017 was 1,905 KB (5.22 KBPD in 365 days), mainly due to the fact that during the referred year pumping was gradually restarted in all sections of ONP.

Volume transported in last five years

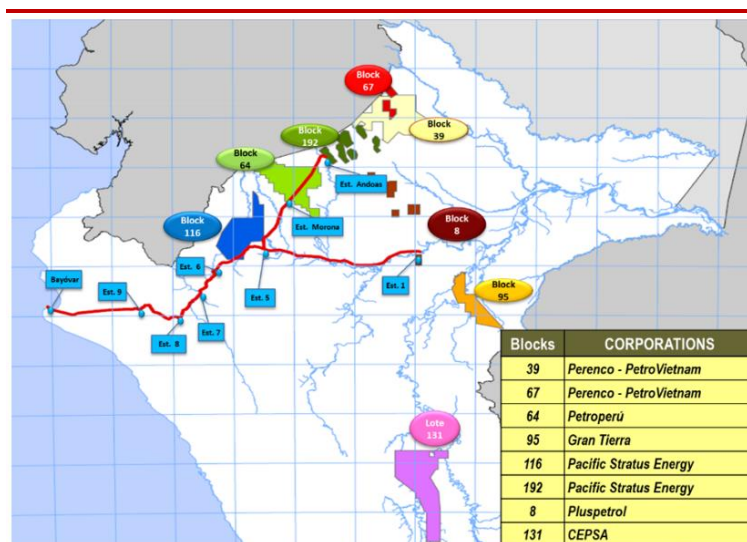
YEAR	Northern Branch (KB)	Branch I (KB)	Branch II (KB)
2013	5,480	2,234	7,825
2014	4,709	3,794	8,603
2015	3,529	3,130	6,338
2016 (*)	287	350	614
2017	1,454	614	1,905

(\*) The ONP was paralyzed during 11 months due to the imposition of mandates by OSINERGMIN, which restricted its operation.

Station 1 of the ONP has operated continuously during 2017, receiving a volume of crude oil of 2,130 KB from Block 8, operated by Pluspetrol; for later dispatch through barges to the Iquitos Refinery. This volume was 33% higher than the volume received and dispatched in 2016.

The following image shows the strategic position of the ONP, since there is a significant potential of proved reserves in the northern jungle. Another potential oil well is Block 64 operated by GeoPark. GeoPark will start producing by the end of 2019, with 10,000 barrels of oil per day (BPD) since it already has two wells drilled, and expects to obtain the environmental impact study approved by the end of 2018. GeoPark, in partnership with PETROPERÚ, has a 75% stake in Block 64 and PETROPERÚ holds the remaining 25%.

Strategic Position of the Nor Peruano oil pipeline



As mentioned in the Third Quarter of 2017 Financial Report, PETROPERÚ signed an Agreement of Intent with Techint to evaluate the possibility of subscribing a JVA for the enhancement of the ONP; TECHNIT is committed to making the diagnosis of the current situation of the ONP and deliver a technical/economic proposal. At the request of TECHNIT, PETROPERÚ extended the deadline for submitting its proposal for an additional 90 days, which expires on 10.01.2018.

It is important to mention that, Legislative Decree N° 1292, established that, amongst others, upon the proposal of OSINERGMIN, the Ministry of Energy and Mines, through a Supreme Decree should approve (within a period of 360 days, which expired on December 26, 2014) a Scheme of Tariff Regulation in the framework of the corresponding Concession Contract and its modifications subscribed

# Earnings Release



between the Peruvian State and PETROPERÚ. For this purpose and with the aim of contributing to the fulfillment of that term, PETROPERÚ proposed to the Ministry of Energy and Mines, a Tariff Regulation Scheme and the necessary modifications in the Definitive Concession Contract that make its application viable. As of December 2017, there is still no response from the Ministry of Energy and Mines.

OSINERGMIN did comply with the term established in the D.L. 1292 to deliver its proposal; however, it concludes, in its Legal Technical Report N ° 616-2017-GRT, that it has not been possible to elaborate a Tariff Regulation Scheme that fully complies with all the restrictions imposed by the regulation (DL N ° 1292), so that is unable to deliver to the Ministry of Energy and Mines a proposal for a new Tariff Regulation Scheme, recommending at the same time, make the modifications to the DL 1292 in order to make compatible the application of the financial sustainability criteria for PETROPERÚ and the promotion of oil production from the northern jungle.

Regarding the social and environmental matters, PETROPERÚ maintains its constant commitment with the communities surrounding the Pumping Stations through community outreach activities, workshops, educational discussions, medical and psychological discussions given to the residents of the region, demonstrating the interest in the social and economic development of the surrounding communities, thus improving the bonds of friendship. Likewise, the quarterly monitoring of gaseous emissions - air quality, liquid effluents - water quality of the stations was carried out.

## **EXPLORATION AND PRODUCTION**

### **Block 64**

PETROPERÚ is a non-operating partner in Block 64, product of the assignment of a contractual position in favor of GeoPark in the License Agreement (01.12.2016). The transfer of the operation culminated on 01.31.2017, as of that date GeoPark has been carrying out activities related to the Environmental Impact Study for the development of the Central Situche Deposit, as well as activities for the Exploratory Program with the initial objective of putting the wells into production SC-3X and SC-2X, and the drilling of an exploratory well. As of December 2017, the development of the environmental study of development, coordination and permits for the exploratory program, and community relations activities continue.

### **Block 192**

As of December 2017, Block 192 is operated by Pacific Stratus Energy (currently Frontera Energy) with a Temporary Services Contract of two (02) years; the Contract was in Force Majeure from February 2016 until December 2017; therefore, it is estimated that the Contract will end in June 2019. Under the regulations of Law N ° 30357, PETROPERÚ after evaluation and direct negotiation with Perupetro S.A., PETROPERÚ possibly could sign the Hydrocarbons Exploitation License Contract of Block 192. As reported in the Earning Release 3T2017, PETROPERÚ entered into a negotiation process with Frontera Energy in order to operate the Block jointly, which did not progress due to the absence of the right conditions for it at that time. As of December 2017, PETROPERÚ will request that Perupetro S.A. be qualified to be able to develop and operate this Block, and then be called to a direct negotiation of the terms and conditions of the License Agreement. Once the License Agreement is signed, PETROPERÚ would be empowered to call strategic partners for the development and operation of the Block.

## **ALQUILERES Y UNIDADES PRIVATIZADAS**

### **LEASED & PRIVATIZED UNITS**

This segment corresponds to the leasing of certain facilities to third parties. Income reported from this segment is classified under Other Operating Income and reached US\$ 72.3 million in 2017.



## 3. OTHER SIGNIFICANT MANAGEMENT MATTERS IMPACTING EARNINGS

### 3.1. CORPORATE GOVERNANCE

PETROPERÚ has a Code of Corporate Governance since 2010, the last update of which was made in June 2016. Its Corporate Governance practices are constantly being renewed, to contribute to its efficiency, reliability and responsibility with its environment and groups of interest.

During 2017, PETROPERÚ implemented the Integrity System, which includes an Integrity Code and an Anti-Fraud and Anti-Corruption Policy, as well as an Integrity Line (confidential complaints/reports channel) and an Integrity Committee to deal with and recommend an answer to the reports presented, in order to generate mechanisms for the detection and timely resolution of situations about conflicts of interest, fraud, corruption or any act contrary to the Integrity Code and its related regulations. In addition, the Company renewed its Integrated Internal Control Policy and its Comprehensive Risk Policy in accordance with Corporate Governance standards. Likewise, in December 2017, the annual self-evaluation of the Board of Directors and Directors of PETROPERÚ began, in compliance with its Corporate Governance practices.

As a result of the implementation of the referred Integrity System, PETROPERÚ 's efforts to achieve a better corporate reputation were recognized by various stakeholders. PETROPERÚ significantly improved its position in the ranking of the 100 most respected companies in the country. According to the Business Monitor of Corporate Reputation (MERCOSUR), PETROPERÚ was placed in position 48, which means an improvement of 44 positions compared to the previous year. It is important to notice that PETROPERÚ is the Company, which has managed to climb more positions among all, despite the criticism of some sectors.

### 3.2. ENVIRONMENTAL & SOCIAL MANAGEMENT

In 2017, the new PETROPERU basic organizational structure was approved, and the Corporate Management Social Management and Communications (GCGS) and Environment, Safety and Occupational Health Management (GCAS) were formed, evidencing the company's strategic decision to include social and environmental management as variables of paramount importance for business continuity and for decision making. Likewise, the relationship with the native communities surrounding the Nor Peruano oil pipeline (ONP) was strengthened, through the consolidation of a permanent community relations team in the field.

In social matters, a Social Management Plan was drawn up, which encompasses the activities of all the Company's operations at a national level under an intercultural approach, which allows it to incorporate the different visions of the different human groups that coexist in the surroundings of the operations; as well as establish different commitments, such as zero tolerance for the hiring of child labor and the empowerment of women. Within this framework, the Company declares itself to be respectful of the commitments assumed in the different dialogue roundtables in which it participates. During 2017, the Company has emphasized the fulfillment of these commitments, such as the delivery of surveillance cameras for citizen security and improvement of educational infrastructure in the city of Ilo; the renegotiation of commitments with 22 localities and populations in the Morona river basin; the beginning of the construction of the Villarreal school and the integral improvement of the G Avenue in Talara.

Likewise, the Company maintained its social intervention in the areas of education, health care and environmental protection, for which, during 2017, it developed educational and environmental programs benefiting more than 116,760 children and adults. Due to its relevance, it is important to highlight the delivery of 62,549 kits of school supplies, the realization of 16,783 medical care consultations, the training of 150 environmental monitoring staff and the installation of 21 points for the segregation of solid waste in the towns surrounding our operations Talara, Iquitos, Conchán and Nor Peruano oil pipeline.

PETROPERÚ has identified opportunities for mutual work with the population, such as the implementation of an Early Warning System and the clearing of the right of way of the ONP, as well as participatory security mechanisms through local companies, exhaustively supervising local hiring and working conditions in line with the main Human Rights standards. Likewise, support has been provided so that 13 communities of Section II of the ONP can accredit their communal boards of directors, in accordance with the current rules and legal provisions.

During 2017, the Company exceeded the percentage of hiring of unskilled local labor established in the Environmental Impact Study of the Talara Refinery Modernization Project (PMRT), covering more than 80% of the total positions required, with workers from

# Earnings Release



Talara. Regarding skilled labor, even when there is no minimum percentage for local hiring, more than 30% of the qualified personnel come from Talara. In total, more than 1,700 people from Talara have worked in the PMRT and have therefore improved their family income.

Regarding environmental matters, during 2017 the Company completed the process of identifying potentially contaminated sites that exceed the Environmental Quality Standards (ECA, for its acronyms in Spanish) for Soil. The resulting reports have been sent to the General Directorate of Environmental Energy Affairs of the MEM (for its acronyms in Spanish – Ministry of Energy and Mines). Once approved by the Authority, the following phases of the process, in compliance with the ECA for Soil, will continue.

Likewise, PETROPERÚ continued the execution of the cleaning and remediation works of the areas affected by the oil spills that occurred in the Nor Peruano oil pipeline during 2016, as well as attending six (06) new events originated both by third party acts (04) and for technical aspects (02). In parallel, the Company 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 the flora and fauna of the remediated areas.

The Company has continued to deploy efforts in the measurement and reporting of its Ecological Footprint with an Eco-efficiency approach, through its annual greenhouse gas inventories, prepared under the guidelines of ISO 14064-I: 2006 and the determination, for the first year, of the Conchan Refinery Water Footprint according to the requirements of ISO 14046: 2014. It should be noted that these performance indicators, as well as the main environmental results of the Company, are reported annually through its Sustainability Report, prepared under the "Global Reporting Initiative" standard.

Since 2014, PETROPERÚ performs banking audits to comply with the Ecuador Principles (EP) and the performance standards of the IFC<sup>18</sup> in PMRT. The Company makes a permanent effort to improve social, safety and environmental practices, and thus achieve sustainable development. In that sense, the Company has decided to be part of the framework of EP and international IFC standards. These standards include business management systems and policies, best practices in the industry, market trends and concerns of stakeholders. The last audit conducted in July, 2017, showed the compliance with the implementation of the EP and IFC performance standards, and issued 26 recommendations that are being gradually implemented.

The Integrated System of Corporate Management (SIG-C, for its acronyms in Spanish), is the set of elements that allows corporate management to protect the environment, the prevention of accidents and the deterioration of health at work and the satisfaction of the needs of our customers. The implementation of the SIG-C began in 2014 having as main scope the Operational Areas of the Company (Talara Refinery, Conchán Refinery, Iquitos Refinery, Nor Peruano oil pipeline), as well as the Commercial, Supply Chain and Engineering Areas.

From November 29, 2017 to December 15, 2017, an external audit was carried out in all the offices of PETROPERÚ across the country, resulting in the recommendation of the audit team of the "company SGS del Peru S.A.C." to obtain the ISO 9001: 2015, ISO 14001: 2015 and OHSAS 18001: 2007 certifications.

### 3.3. ORGANIZATIONAL MATTERS

The Board of Directors approved the new Organizational Structure of the Company for levels 1 (General Manager), 2 (Corporate Managers, Audit Manager, Oil Pipeline Manager, Talara Refinery [includes the current and proyect ones] Manager, Refining [includes the other refineries] Manager, Commercial Manager, Supply Chain Manager, Investor Relations Manager and General Secretary) and 3 (Deputy Managers, General Management Advisor). Also, on September 4, 2017, General Management approved the Complementary Structure of the levels: 4 (Chiefs), 5 (Supervisors), and 6 (Employees).

PETROPERÚ continues to improve the organization, through the following actions: 1) definition of clear strategic guidelines, 2) strengthening of the organizational culture, 3) implementation of new retribution policies, 4) implementation of voluntary redundancy incentive programs, 5) strengthening of internal communications, 6) management of talents and knowledge, 7) updating of HR

<sup>18</sup> IFC: International Finance Corporation, part of the World Bank.

# Earnings Release



policies, 8) budget reduction, 9) optimization of judicial defenses for employees and 10) reduction of labor contingencies, among others.

The evaluation of the personnel is a strategic objective of the Company that, through an Individual Development Plan, will generate opportunities that will improve the skills that each employee uses in the execution of their work activities. To this end, a Performance Management System has been established, which will be carried out as of 2018.

In order to maintain qualified personnel at the Company, talent attraction and retention strategies have been established; for this, support will be sought through external advisory. This strategy of attraction and retention of talent is supported by the processes of Performance Management, Remuneration Policy, Labor Climate and Organizational Culture and Training.

# Earnings Release



## Financial Summary

### Income Statement

In Millions of US\$	2016	2017	YoY <sup>(1)</sup>
Domestic Incomes	3,052.5	3,585.5	17.5%
Exports Incomes	265.2	393.7	48.5%
Other Incomes	72.2	72.3	0.1%
Total Gross Income	3,390.0	4,051.6	19.5%
COGS	-2,834.8	-3,462.3	22.1%
COGS (% of Total Gross Incomes)	83.6%	85.5%	-
Gross Profit	555.2	589.2	6.1%
Gross Margin (%)	16.4%	14.5%	-
SG&A	-449.5	-290.7	-35.3%
SG&A (% of Total Gross Incomes)	13.3%	7.2%	-
Operating Profit	105.7	298.6	182.4%
Operating Margin (%)	3.1%	7.4%	-
Net Profit	40.7	185.1	355.0%
Net Profit Margin (%)	1.2%	4.6%	-
Adj. EBITDA	376.6	347.3	-7.8%
Adj. EBITDA Margin (%)	11.1%	8.6%	-

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

### Cash Flow Statement

In Millions of US\$	2016	2017	YoY
Operating Cash Flow	374.9	165.0	-56.0%
Capital Expenditures	-1,101.0	-1,228.5	11.6%
Cash Flow from Financing	793.9	1,652.7	108.2%

### Balance Sheet

In Millions of US\$	2016	2017	YoY
Current Assets	1,148.0	2,319.2	102%
Non-Current Assets	3,028.7	3,619.6	20%
Total Assets	4,176.8	5,938.7	42%
Short Term Debt	1,733.4	1,319.2	-24%
Long Term Debt	248.9	1,985.1	697%
Total Debt	1,982.4	3,304.3	67%
Other Liabilities	1,078.5	1,016.8	-6%
Total Liabilities	3,060.8	4,321.1	41%
Stockholders' Equity	1,115.9	1,617.6	45%
Total Capitalization (Debt + Equity)	4,176.8	5,938.7	42%
Total Current Liabilities	2,728.2	2,266.2	-17%
Working Capital	-1,580.2	52.9	103%
Debt / EBITDA	5.3	9.5	-81%