# Earnings Release

# Petroperu[1] Announces First Quarter 2018 Earnings Results - 1Q18

**Lima, Peru, May 30, 2017:** Petroperú (OTC: PETRPE) announced financial and operating results for the period ended March 31, 2018 ("1Q18"). For a comprehensive analysis please refer to the Intermediate Financial Statements 1Q18[2] available on the Superintendencia Mercado de Valores del Perú website - SMV (www.smv.gob.pe).



## 1. EXECUTIVE SUMMARY

1Q18 results improved compared to the same period in 2017. Net Income was US$ 87.2 million in 1Q18 compared to US$ 39.1 million in 1Q17, mainly explained by higher sales volume and the interest payment by SUNAT for the process in favor of PETROPERÚ SA regarding the Selective Consumption Tax (ISC) and the VAT concept associated to Turbo A-1 sales.

The Company continues to progress with the PMRT works, with an integral physical advance of the PMRT of 68.4% vs the 83.7% scheduled. This lag is explained by the delays in the assembly of the main Contractor's pipes, as well as in the adjudication of the Auxiliary Units. The estimated term of completion is expected to be December 2020.

Despite the two cuts of the Nor Peruano Pipeline (ONP) caused by third-party, which took place during the first quarter of 2018, the company was able to manage the contingencies and the crude oil pumping continued in all its sections.

The new organizational structure, aimed at achieving the best performance of the organization and supported in the creation of an Integrity System and the strengthening of Corporate Governance, has contributed to achieve better results for the company.

It is worth mentioning that on March 21, 2018, Mr. Luis Eduardo García Rosell Artola, Chairman of the Board of Directors, due to personal reasons, presented his letter of resignation to the Presidency of Petróleos del Perú - PETROPERÚ SA's General Shareholders' Meeting.

It is in this context that we present the Company's financial, operational, commercial and management results, not without mentioning that just like the exception granted to the Company for the delivery of the 2017 Financial Statements for the reasons described in the Earnings Release 2017, the same exception was also granted for the 1Q18 Financial Statements.

[1] Petróleos del Perú-PETROPERU S.A. (hereinafter "PETROPERU" or "the Company").
[2] Intermediate Financial Statements for the First Quarter 2018. 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 according with International Financial Reporting Standards (IFRS), as issued by the IASB (International Accounting Standards Board).

## 1.1. FINANCIAL HIGHLIGHTS

- Cash Flow at the end of 1Q18 balance reached US$ 576.6 million compared to US$ 282.9 million at the 1Q17 balance, as a result of the US$ 2 billion bond issuance raised in 2017.
- Cash Flow from Operating Activities decreased to US$ -38.0 million in 1Q18 from US$ -35.9 million in 1Q17.
- Net Profit in 1Q18 was US$ 87.2 million compared to US$ 39.1 million in 1Q17, mainly as a result of higher sales volume in 1Q18 compared to 1Q17 and the increase in fuel prices. This increase was also benefited by lower operating expenses and the reduction of net financial expenses compared to 1Q17.
- Operating Profit increased from US$ 62.1 million in 1Q17 to US$ 119.0 million in 1Q18, mainly due to the increase in Income from Sales and Other Income, mainly due to the income generated by the transportation of crude oil through the pipeline.
- Adjusted EBITDA for 1Q18, increased from US$ 74.5 million in 1Q17 to US$ 96.4 million YoY, mainly as a result of the increase in the Gross Margin, explained by the good commercial management carried out which led to a higher Income from Sales in that sense, the EBITDA margin increased from 7.9% in 1Q17 to 8.4% in 1Q18.
- During 1Q18, income increased by 21.6% compared to 1Q17, driven mainly by price increases YoY. Domestic income grew by 18.4% YoY, while Exports grew by 1,311.3% YoY, considering that Domestic Sales have a greater share of the Total Income than Exports.
- Total Sales Volume reached 148.6 KBPD[3] in 1Q18 from 139.4 KBPD in 1Q17, 84.4% of sales (125.5 KBPD) were concentrated in the domestic market. Refined products volume reached 108.0 KBPD in 1Q18.

## 1.2. OPERATIONAL, COMMERCIAL AND MANAGEMENT HIGHLIGHTS

The integral physical progress of the PMRT was 68.4% in 1Q18, vs the 83.7% scheduled. This lag is explained by the delays in the assembly of the main Contractor's pipes, as well as by the delay in the adjudication of the Auxiliary Units, which was granted to the Cobra SCL UA & TC Consortium and whose implementing schedule will imply a new version of the project's integrated schedule. The new estimated term of completion is expected to be December 2020.

Regarding the EPC project, the Detail Engineering registered an advance of 99.9% vs the 99.6% scheduled; Procurement of equipment and materials, reported an advance of 99.1% vs the 99.9% scheduled; and Construction posted an advance of 76.1% vs the 84.8% scheduled. The lag is explained by the lower progress in the assembly of pipes and equipment.

Regarding the Auxiliary Units, EPC in charge of COBRA-SCL UA & TC Consortium, some activities are being carried out for the delivery of various execution plans, work schedules and delivery of sites for the start of the work.

Regarding PMRT´s financing, the Ministry of Economy and Finance approved (15.01.2018) to carry out the transaction of external indebtedness with the international banks for US$ 1.3 billion, with the guarantee of CESCE but without Peruvian government guarantee. Also, PETROPERU obtained the "No Objection Report" from the General Comptroller (22.02.2018).

The Company estimates that second Bond issuance will take place during the second quarter of 2019, for a total amount of US$ 600 million.

Regarding the operations of the other PETROPERU refineries, including the current Talara Refinery, the total production was higher compared to the same period of the previous year, mainly due to higher production of LPG, in view of the fact that no stoppages of the Catalytic Cracking Unit (UCC) were recorded, unlike February 2017 when a 10-day maintenance stoppage was registered. Moreover, by higher Turbo production for inventory recovery and; finally, due to the higher production of Gasolines 95/97 (formulated with imported product), to generate inventories in order to meet the dispatches at the Callao Plant, in anticipation of the departure of one of the Callao docks for maintenance work.

In the commercial arena, at March 2018, the Company posted total sales volume of 148.6 MBDC, an increase compared to the same period of 2017 (+ 6.7%), with 85% of sales concentrated in the domestic market (125.5 MBDC), which increased by 6.1 MBDC (+ 5%) compared to the same period of the previous year. Foreign sales rose by 3.2 MBDC, mainly due to high Fuel Oil inventories at the beginning of the year.

[3] KBPD: Thousands of Barrels Per Day

Despite the two (02) contingencies occurred during the first quarter of 2018 at the ONP, due to the pipeline cuts caused by a third party, the volume of crude oil transported at March 2018, was 223.4 MB in Section I, 1,374 MB in Section II and 885 MB in the North Branch.

As informed in the 2017 Earnings Release, TECHNIT had until 10.01.2018 to submit its technical/economic proposal for the enhancement of the ONP. Since the report did not meet PETROPERÚ´S expectations, it was discarded, and following the instruction of the Senior Management, a bidding document for the contracting of specialized services that prepares studies for the Modernization of the ONP is being elaborated.

Regarding the exploration and production activities, during the first quarter of 2018, GeoPark, as the operating partner of Block 64, collected information to develop the Environmental Impact Study (EIA) for the Development of the Central Situche Deposit Project. In the case of Blockl 192, it continues to be operated by Frontera Energy. In January 2018, PETROPERÚ was rated by Perupetro S.A. as a 100% oil company to assume the License Contract for this Block. PETROPERÚ is waiting to be called by Perupetro S.A. for a direct negotiation of the License Agreement conditions.

In 2018, PETROPERÚ will continue with the process of strengthening and improving the management for local employment and local companies in Talara. PETROPERÚ and the Chamber of Commerce and Industries of Talara signed a collaboration agreement, aiming to promote the strengthening of these local companies in order to develop activities in this province. In the ONP, sewing workshops have been started in some nearby centers, with the perspective of generating income for these populations.

Regarding environmental care, PETROPERÚ began the execution of the "Solid Waste Routes" project in order to improve the disposal of solid waste in the Pariñas district. Likewise, PETROPERÚ continued the cleaning and remediation works of the areas affected by the oil spills that occurred in the Norperuano Pipeline during 2017, as well as two (02) new events occurred during the first quarter of 2018.

Finally, during 1Q18, the Company obtained the certification of its Integrated Corporate Management System (SIG-C) in all its offices and operations, being the first Peruvian company in the hydrocarbons sector to be certified at the corporation level, under the latest versions of the ISO 9001: 2015, ISO 14001: 2015 and OHSAS 18001: 2007 international standards.

# 2. FINANCIAL & OPERATIVE ANALYSIS

## 2.1. MACROECONOMIC ENVIRONMENT

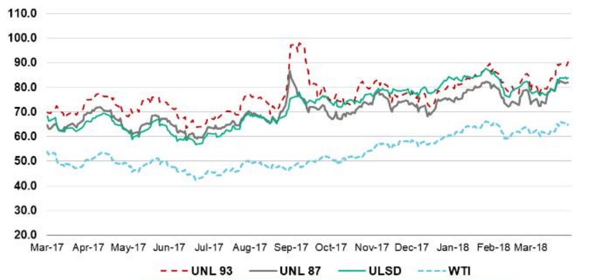
The Peruvian economic activity posted a 3.2% growth in GDP in 1Q18, at constant prices of 2007. This growth was mainly due to the positive performance of the domestic demand driven by the increase in consumption and investment, in an international context of greater growth of the economies of Peru's main trading partners. On the other hand, inflation decreased from 1.54% in November 2017 to 1.18% in February 2018 (below the lower limit of the target range), due to the rapid reversal of persistent supply shocks that affected agricultural products, such as the water deficit at the end of 2016 and the El Niño Costero Phenomenon in the first quarter of 2017; as well as a weak economic cycle.

**Exchange Rate**


| | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 |
|---|---|---|---|---|---|
| Exchange Rate | 3.249 | 3.255 | 3.267 | 3.245 | 3.229 |

Source: SBS

**WTI & Other International By-Product Prices**




| US$/Bl (End of Period) | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 |
|---|---|---|---|---|---|
| UNL 93 | 75.0 | 67.6 | 75.5 | 80.8 | 90.2 |
| UNL 87 | 69.6 | 63.9 | 68.4 | 75.4 | 81.8 |
| ULSD | 66.3 | 61.3 | 74.9 | 84.2 | 83.8 |
| WTI | 50.6 | 46.0 | 51.7 | 60.4 | 64.9 |

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, in February 2018, the evolution of the Sol was affected by greater aversion to risk in the international markets. There was a period of greater volatility at the beginning of that month, caused by the correction of the US stock exchanges that reacted to the expectations of higher interest rates in US$, this volatility was extended to the rest of the financial markets. Between December 2017 and February 2018, the Sol rose from S/ 3.23 to S/ 3.27 per Dollar, which implied a depreciation of 1%. However, at the end of March 2018, the exchange rate went to S/ 3.229 per Dollar, which resulted in an appreciation of the Sol of 1.0%, compared to February 2018.

In relation to the oil price, during the first quarter of 2018, it showed a very volatile performance, with a slight upward trend compared to 2017 that showed a downward behavior; the price of the barrel began at US$ 60/bbl and ended the period close to US$ 65/bbl. The reasons that positively impacted the price of oil during the first quarter of the year are explained by a reduction in supply by OPEC and Russia, the reduction of inventory levels worldwide and the conflict between the United States and Iran. The main factor that reduces the price is the significant increase in oil production in the United States, which will become the main worldwide oil producer with close to 11 million barrels of production per day.

Comparatively, the value of the barrel was at US$ 52/bbl, at the beginning of 2017, and ended the period at US$ 50/bbl. The main reasons that lowered the price at the end of that period were the increase to record levels of oil inventories and the increase of Shale Oil production in the United States.

In line with the movements of WTI prices, it is important to analyze the impact that this generates in the company's performance. The fuel prices have performed similarly to the price of WTI crude as seen in the graph above, which shows a slight increase in March 2018 due to the reduction in the level of inventories of gasoline, diesel and gas oil for heating in the United States, except for the fuel oil.

During 1Q18, the spreads between the prices of gasoline UNL 93 and UNL 87 on the US Gulf Coast (USGC) and the price of WTI crude were relatively stable with two sharp falls, driven by reductions in the price of crude oil. As a result, the average differential for March for UNL 93, was US$ 21/bbl, while for UNL 87 it was US$ 15/bbl.

In the case of Diesel 2 ULSD, the spread with respect to the WTI price, has shown a decreasing trend throughout the 1Q18, reverting from the mid of March 2018, due to the greater demand derived from the transportation of commercial loads across the country, while in the case of Residual 6 (3% sulfur), the spread has continued to expand, due to the decrease in its use, especially in the energy and maritime sectors.

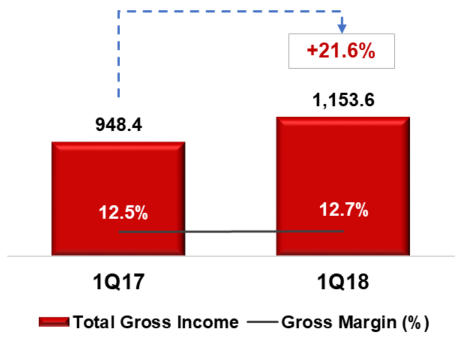
Local market prices are determined considering the international prices of crude oil by-products (Import Parity Prices calculated by PETROPERÚ). Prices are expressed in Soles at the current exchange rates. Note that between 85-90% of the ex-plant price (before taxes and margins of wholesale service stations) 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

**Incomes & Gross Margin**

(In millions of US$)




| | 1Q17 | 1Q18 |
|---|---|---|
| Total Sales (US$ million) | 932.7 | 1,132.6 |
| Volume (MMbbl) | 12.5 | 13.4 |
| Price US$ (Sales/bbl) | 74.4 | 84.7 |

Revenues reached US$ 1,153.6 million in 1Q18, an increase of 21.6% YoY compared to US$ 948.4 million in 1Q17 of. This variation was due to the increase in sales volume of 148.6 MBDC compared to 139.4 MBDC in 1Q17, as well as the increase in fuel prices. Local sales increased by 18.4% from US$ 42.2 million in 1Q17 to US$ 997.3 million in 1Q18. Exports increased 1,311.3% YoY, from US$ 9.6 MM to US$ 135.3 MM. Among the products that the Company exports is Diesel 2 (Diesel HS, which used to be sold locally).

Gross Margin increased from 12.5% in 1Q17 to 12.7% in 1Q18, as a result of the increase in Total Sales Revenue but mainly due to exports, which increased by 1,311.3%.

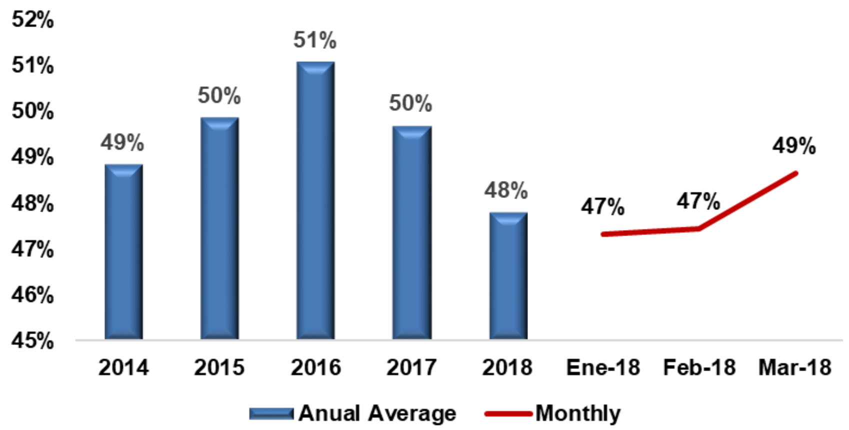
<u>Analysis of the Product Portfolio:</u>

| | VOLUME (In KPBD) | | | SALES (In Millions of US$) | | | |
|---|---|---|---|---|---|---|---|
| **SALES** | **1T17** | **1T18** | **YoY** | **1T17** | **1T18** | **YoY** | **Weight on Total Sales** |
| **LOCAL SALES** | | | | | | | |
| LPG [(1) (2)] | 11.7 | 10.9 | -6.9% | 51.3 | 50.2 | -2.2% | 4.4% |
| Gasoline 97 / Gasohol 97 [(1)] | 1.67 | 1.74 | 4.7% | 13.4 | 15.3 | 14.5% | 1.4% |
| Gasoline 95 / Gasohol 95 [(1)] | 4.6 | 5.3 | 16.0% | 35.3 | 44.9 | 27.4% | 4.0% |
| Gasoline 90 / Gasohol 90 [(1)] | 17.2 | 19.1 | 10.9% | 124.8 | 150.8 | 20.8% | 13.3% |
| Gasoline 84 / Gasohol 84 [(1)] | 7.2 | 6.5 | -9.8% | 52.6 | 52.7 | 0.1% | 4.7% |
| Turbo A-1 | 2.8 | 3.5 | 26.8% | 22.2 | 31.5 | 41.9% | 2.8% |
| Diesel B5 (Includes Biodiesel B100) [(1) (2)] | 22.5 | 17.0 | -24.6% | 147.6 | 84.8 | -42.5% | 7.5% |
| Diesel B5 S-50 [(1) (2)] | 44.5 | 53.6 | 20.5% | 343.7 | 471.5 | 37.2% | 41.6% |
| Industrial Oil [(1) (2)] | 2.5 | 2.7 | 6.9% | 13.9 | 16.9 | 21.2% | 1.5% |
| Bunkers (Marine Residual - IFO + Marine Diesel N°2) [(1)] | 3.0 | 2.7 | -9.3% | 13.3 | 14.4 | 8.5% | 1.3% |
| Asphalt Liquid / Asphalt Solid [(1)] | 1.4 | 2.1 | 50.1% | 6.6 | 12.8 | 93.5% | 1.1% |
| Others [(1) (3)] | 0.4 | 0.5 | 6.0% | 17.5 | 51.4 | 193.1% | 4.5% |
| **Total Local Sales** | **119.4** | **125.5** | **5.1%** | **842.2** | **997.3** | **18.4%** | **88.1%** |
| **EXPORTS** | | | | | | | |
| Nafta Virgin | 5.3 | 5.0 | -6.3% | 25.6 | 27.9 | 8.8% | 2.5% |
| N°6 Fuel Oil, Reduced Crude, Industrial Oil 500 | 9.0 | 12.2 | 35.9% | 32.0 | 61.2 | 91.1% | 5.4% |
| Diesel 2 | 4.2 | 4.3 | 2.0% | 23.4 | 31.8 | 35.8% | 2.8% |
| Others [(4)] | 1.4 | 1.6 | 13.4% | 9.6 | 14.5 | 51.6% | 1.3% |
| **Total Exports** | **20.0** | **23.2** | **15.9%** | **90.6** | **135.3** | **49.4%** | **11.9%** |
| **Total Local Sales & Exports** | **139.4** | **148.6** | **6.7%** | **932.7** | **1,132.6** | **21.4%** | |
| Other Operational Incomes | | | | | 21.0 | | |
| **TOTAL REVENUES** | | | | | **1,153.6** | | |

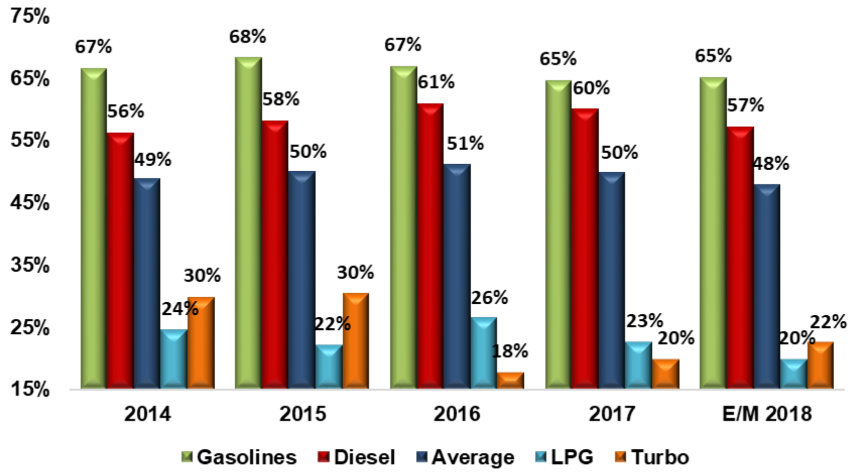
[(1)] Discount Included
[(2)] FEPC Included
[(3)] Cutting material, Solvents, Gasoline Aviation and Naphthenic Acid.
[(4)] Turbo A-1, Gasolines, Asphalts, IFO's and Naphthenic Acid.

The market share of PETROPERÚ (annual average) has been reduced from 50% in 2017 to 48% in 2018 due to competitive aspects and aggressiveness of the competition. In the monthly share of the year 2018, it is observed that a slight recovery in the month of March 2018 having reached 49%. The fuels that are contributing negatively in our lower market share between 2017 and 2018 are mainly: diesel, whose share has been reduced from 60% to 57% due to lower demand from electricity companies and lower purchases in mining due to the loss of two important mining customers during 2017; and LPG whose share has been reduced from 23% to 20%.

**Petroperú Market Share Evolution**




**Petroperú Market Share Evolution by Product**



**Income Breakdown**

**(In millions of US$)**

| | LTM 1Q 2018 |
|---|---|
| **LOCAL REVENUES** | |
| LPG (1) (2) | 205.2 |
| Gasoline 97 / Gasohol 97 (1) | 56.1 |
| Gasoline 95 / Gasohol 95 (1) | 158.7 |
| Gasoline 90 / Gasohol 90 (1) | 569.5 |
| Gasoline 84 / Gasohol 84 (1) | 214.5 |
| Turbo A-1 | 107.8 |
| Diesel B5 (Includes Biodiesel B100) (1) (2) | 316.7 |
| Diesel B5 S-50 (1) (2) | 1,836.6 |
| Industrial Oil (1) (2) | 65.0 |
| Bunkers (Marine Residual - IFO + Marine Diesel N°2) (1) | 63.1 |
| Asphalt Liquid / Asphalt Solid (1) | 51.6 |
| Others (1) (3) | 96.0 |
| **Total Local Revenues** | **3,740.7** |
| **EXPORTS** | |
| Nafta Virgin | 93.1 |
| N°6 Fuel Oil, Reduced Crude, Industrial Oil 500 | 190.0 |
| Diesel 2 | 109.0 |
| Others (4) | 46.3 |
| **Total Exports** | **438.5** |
| **TOTAL REVENUE** | **4,179.1** |

| % Participation | |
|---|---|
| **7 Products** | **83.5%** |
| Diesel B5 S-50 (1) (2) | 43.9% |
| Gasoline 90 / Gasohol 90 (1) | 13.6% |
| Diesel B5 (Includes Biodiesel B100) (1) | 7.6% |
| Gasoline 84 / Gasohol 84 (1) | 5.1% |
| LGP (1) (2) | 4.9% |
| N°6 Fuel Oil, Reduced Crude, Industrial Oil 500 | 4.5% |
| Gasoline 95 / Gasohol 95 (1) | 3.8% |
| **3 Products** | **65.2%** |
| Diesel B5 S-50 (1) (2) | 43.9% |
| Gasoline 90 / Gasohol 90 (1) | 13.6% |
| Diesel B5 (Includes Biodiesel B100) (1) | 7.6% |
| **Local Revenues** | **89.5%** |
| **Exports** | **10.5%** |

(1) Descuentos Incluidos
(2) Incluye FEPC.
(3) Material de Corte, Solventes, Gasolina de Aviación y Acido Naftenico.
(4) Turbo A-1, Gasolinas, Asfaltos, IFO's y Ácido Nafténico.

As of March 2018, the Company had a total sales volume of 148.6 MBDC higher than the same period of 2017 (+ 6.7%), with 85% of sales (125.5 MBDC) concentrated in the domestic market.

Below, it is shown the sales analysis of our products for the same period (first quarter) of the previous year. As of March, sales to the domestic market increased by 6.1 MBDC (+ 5%), due to the following:

LOCAL MARKET

Diesel ULSD (+9.1 KBCD)

- ✓ Wholesale customers at +9.9 MBDC, due to the substitution of Diesel B5 high sulfur.
- ✓ Petrol stations of PETRORED chain, at +1.6 MBDC, for the reason mentioned in the previous paragraph and for the increase in affiliated petrol stations (667 to March 2018 vs. 655 to March 2017).
- ✓ The two previous increases were offset by lower sales of -2.9 MBDC to companies in the mining and electricity sectors. In the first case, due to the loss of an important mining client; and, in the second case, due to lower sales to an electricity generation company.

Gasolines/Gasoholes 90, 95 and 97 (+2.6 MBDC): higher sales due to the growth of PETRORED chain, as well as higher sales to wholesale customers.

Turbo A-1 (+0.7 MBDC): New customers and increased sales to existing customers due to more air activity in the country.

However, higher sales in the domestic market were mainly offset by the following:

Diesel B5 (-5.5 MBDC): mainly due to lower sales to:

- ✓ Wholesale customers, which replaced the product with Diesel B5 of low sulfur in compliance with the D.S. No. 025-2017-EM.
- ✓ Petrol Stations of PETRORED, also for the above reason.

LPG (-0.8 MBDC): due to the oversupply of LPG since the rupture of the Camisea pipeline led to higher imports.

EXTERNAL MARKET

Export sales were up by 3.2 MBDC mainly due to high Fuel Oil inventory levels at the beginning of the year.

Regarding to the Company's Supply Chain, the shutdown of Dock 7 (located in Puerto del Callao) on February 2018 due to major maintenance works, is causing operational restrictions. As a result, the Company decided to implement a tank filling program of gasolines, Diesel and Turbo A1 in Callao. At the same time, works are being held at Dock 5, also located in Callao, to enable gasoline and diesel unloads. LPG is purchased from Pluspetrol and Solgas in order to meet 80% of LPG's demand and the remaining 20% will be handled at our Terminal - Callao.

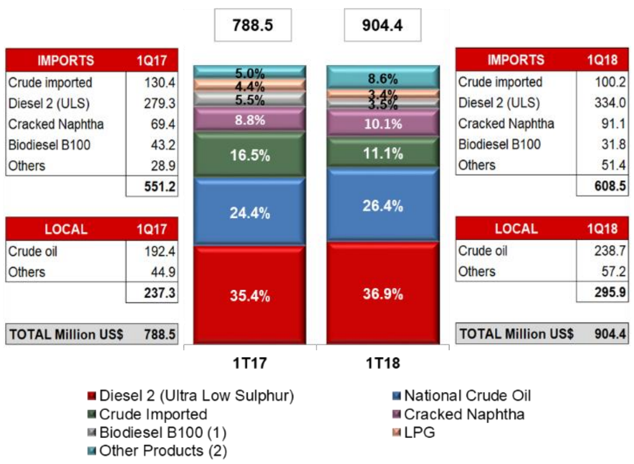
In the first quarter of 2018, the investments made for the construction of new Plants and Terminals are as follows: i) Terminal Ilo has a 42.1% construction progress versus the planned 47.2%, the deviation is due to contractor delays, ii) Supply plant of Pasco - Ninacaca with a cosntruction progress of 40.5% versus 42.6% planned, also slightly delayed due to the postponed deadlines for the acquittal of consultations within the bidding process.

Port closures persisted between January and March due to climate changes, reporting 164.71 days versus 123.18 days (up 33.71%) reported in the same period (Jan-Mar) of 2017, generating costs increases for product loads and unloads as well as in land transportation in order to timely supply customer demand, without any restrictions.

In January, a Safe Transportation Plan was implemented aiming to raise accident prevention awareness within land transportation companies in order to reach zero accidents during the year. During this period, no major accidents were reported in the more than 700 contracted units that provided ground transportation service in the different supply routes to our installations.

**Purchases**

**(In millions of US$)**




| IMPORTS | 1Q17 |
|---|---|
| Crude imported | 130.4 |
| Diesel 2 (ULS) | 279.3 |
| Cracked Naphtha | 69.4 |
| Biodiesel B100 | 43.2 |
| Others | 28.9 |
| | 551.2 |
| **LOCAL** | **1Q17** |
| Crude oil | 192.4 |
| Others | 44.9 |
| | 237.3 |
| TOTAL Million US$ | 788.5 |

| IMPORTS | 1Q18 |
|---|---|
| Crude imported | 100.2 |
| Diesel 2 (ULS) | 334.0 |
| Cracked Naphtha | 91.1 |
| Biodiesel B100 | 31.8 |
| Others | 51.4 |
| | 608.5 |
| **LOCAL** | **1Q18** |
| Crude oil | 238.7 |
| Others | 57.2 |
| | 295.9 |
| TOTAL Million US$ | 904.4 |

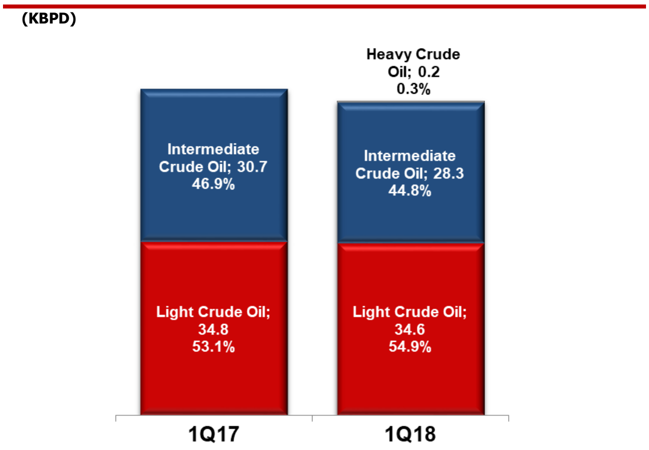
(1) Inputs for formulation of Diesel B5
(2) Includes: HOGBS, Gasoline Aviation, Alcohol Fuel, Natural Gas Condensate and Turbo A1

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 volume purchased locally, grew 1% YoY, while crude oil purchases (in US$) raised by 5.0% YoY, as a result of price increases. Crude oil (from the Northwestern region of Peru) today represents 26.4% of total purchases.

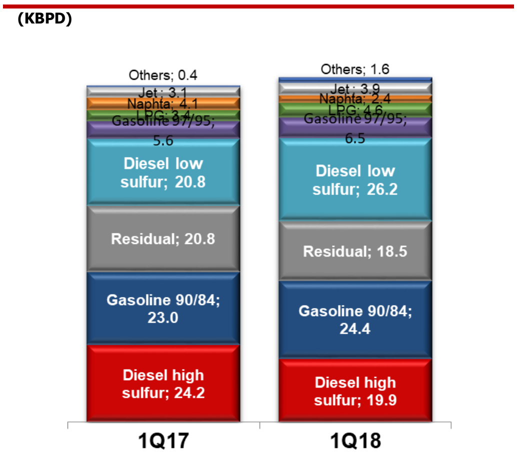
In 1Q18 the oil imports correspond to 11.1% of total purchases in our refineries. Purchase volume decrease by 5.1% YoY, while the imported crude volume declined 40.4% YoY, reflecting the reduction of oil slates into production process to reduce the output of Diesel HS.

PETROPERU

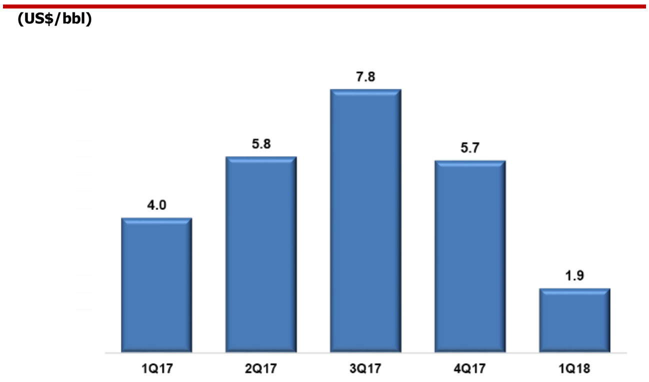
## Oil Slate




## Product Yield

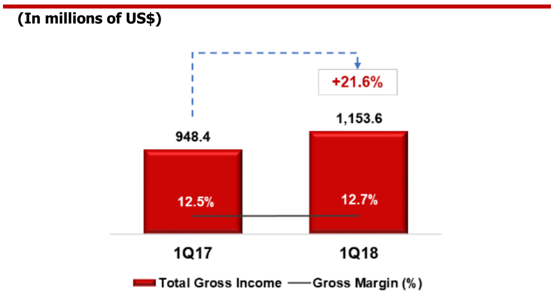



## Net Refining Margin (1)




(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

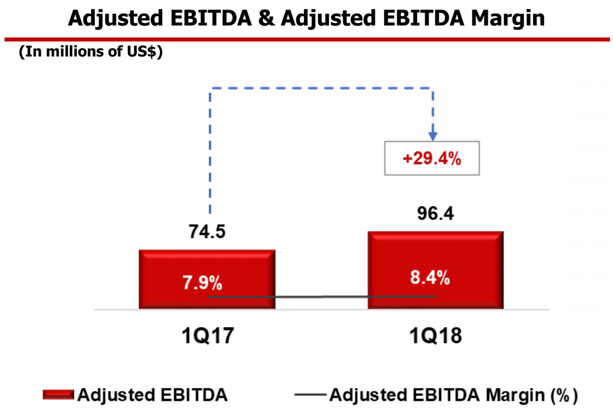



| | 1Q17 | 1Q18 |
|---|---|---|
| Total Sales (US$ million) | 932.7 | 1,132.6 |
| Volume (MMbbl) | 12.5 | 13.4 |
| Price US$ (Sales/bbl) | 74.4 | 84.7 |

In 1Q18, the net refining margin declined by 52.4% from US$ 4.0/bbl in 1Q17 to US$ 1.9/bbl YoY, due to the fact that in January 2018, the commercialization of Diesel ULSD[4] diesel began in "La Libertad" department, in compliance with the DS 025-2017-EM. Therefore, the operation of the Talara and Conchán refineries were affected, as these do not have the capacity to produce Diesel ULSD. The diesel obtained from the operations of the aforementioned refineries was supplied to a local customer (at a lower price with respect to its realization value in the local market), meeting the national demand for Diesel ULSD with product formulated from imported or inputs purchased locally.

However, the decrease of the refining margin was compensated with the margins obtained in the blending operations carried out in Talara and Conchán refineries to formulate Gasoline of 97 and 95 octane, as well as Diesel ULSD, from imported components.

[4] Diesel ULSD: Ultra Low Sulphur Diesel or "Diesel B5-S50 (ULSD)".




PETROPERÚ generated US$ 96.4 million as Adjusted EBITDA in 1Q18, compared to US$ 74.5 MM in 1Q17, mainly as a result of the increase in the Gross Margin of 0.9%, which went from 12.5% in 1Q17, to 12.7% in 1Q18, explained by the good commercial management performed, which led to higher Income from Sales in 1Q18 of US$ 1,153.6 million compared to US$ 948.4 million in 1Q17. In that sense, the Adjusted EBITDA Margin increased from 7.9% in 1Q17 to 8.4% in 1Q18.

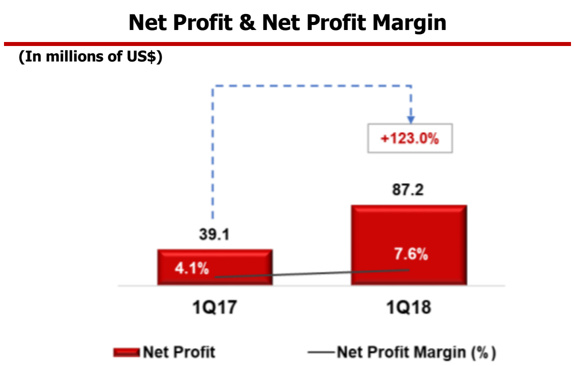
COGS represent 87.3% of the Company's revenues, which underlines the importance of having a sound management of commodities purchase; however, there are exogenous factors, such as the crude oil prices, which do not contribute to a reduction of the COGS. Operating expenses per business unit are as follows:

**OPEX: Operative Expenses**

(In thousands of US$)

| Business Unit | Executed on 2017 | Executed on March 2018 |
|---|---|---|
| Refining | 232,976 | 54,319 |
| Transportion through ONP | 39,264 | 15,191 |
| Distribution & Comercialization | 159,401 | 37,467 |
| Others | 102,513 | 21,574 |
| **Total** | **534,154** | **128,551** |

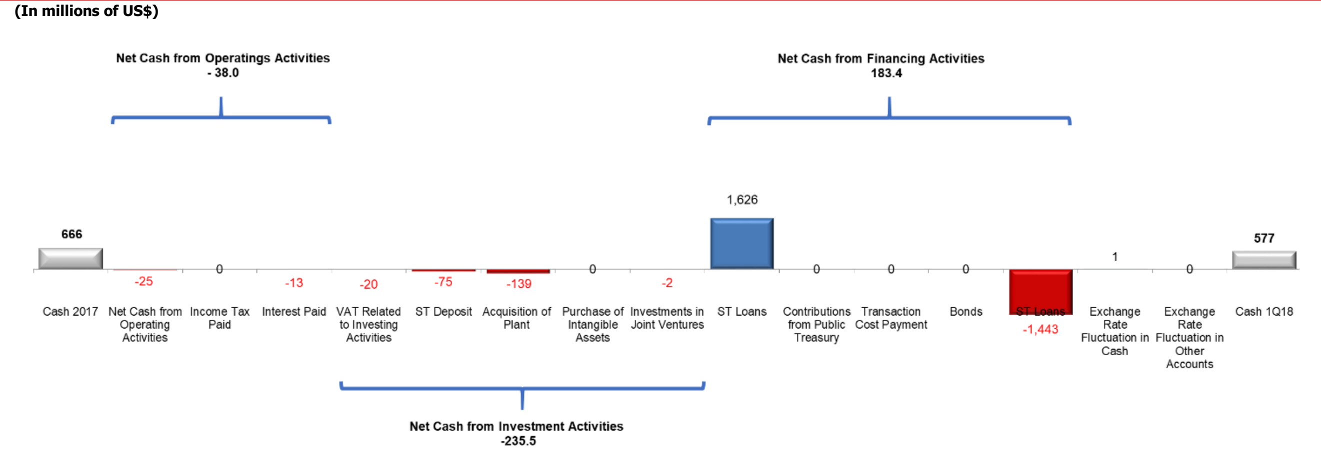
The Refining business, the Company's main unit at the moment, reported the highest operating expenses among all the operating units (44% and 40% in 2017 and 2016, respectively). The refineries at Talara, Conchán and Iquitos are currently in operation. The second largest unit is the Distribution and Commercialization business, which is comprised by the Supply Plants and Storage Tanks throughout the country and; finally followed by the ONP business, where operating expenses were significantly reduced thanks to environmental remediation initiatives implemented in 2016 derived from pipe cuts made by third parties.



Net Income in 1Q18 was US$ 87.2 MM compared to US$ 39.1 MM in 1Q17, mainly as a result of higher sales volume of 148.6 KBPC in 1Q18 versus 139.4 KBPC in 1Q17, and to increases in fuel prices. This increase was also benefited by a 52.5% YoY decrease in operating expenses as well as to a reduction of 32.0% in net financial expenses when compared to 1Q17.

## CASH FLOW STATEMENT

**Cash Flow Analysis 1Q18**



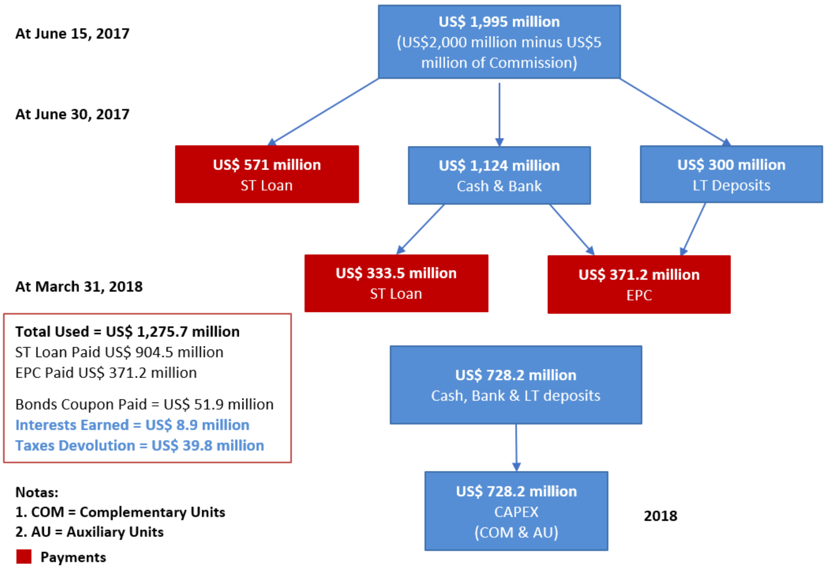

At the end of 1Q18, PETROPERÚ reported a Cash Flow of US$ 576.6 million compared to US$ 282.9 million in 1Q17 resulting from the US$ 2 billion bond issuance made in 2017, as well as to the short-term financing made in 1Q18 for working capital.

Cash Flow from Operating Activities in 1Q18 decreased to US$ -38.0 million from US$ -35.9 million in 1Q17, mainly due to higher interest payments from hedging derivatives.

Accordingly, Cash Flow from Investing Activities reached US$ -235.5 million in 1Q18 compared to US$ -190.4 million in 1Q17. This reduction is mainly due to the placement of Fixed-Term Deposits in local and foreign banks in 1Q18.

Likewise, Cash Flow from Financing Activities declined to US$ 183.4 million in 1Q18 from US$ 431.8 million in 1Q17, due to payments made during 1Q18 for working capital financing.

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, was also approved.

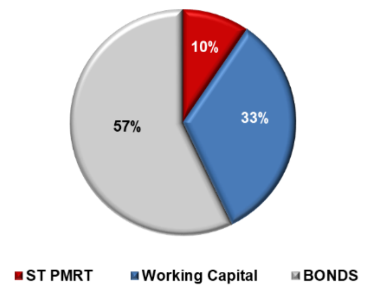
Regarding CESCE, on January 15, 2018 the Ministry of Economy and Finance approved to carry out the transaction of external indebtedness with the international banking, with the guarantee of CESCE but without Peruvian government guarantee. Also, PETROPERU obtained the "No Objection Report" from the General Comptroller on February 22, 2018. PETROPERU have not yet received the loan, there are some previous steps that have to be first completed.

During 1Q18, PETROPERÚ maintained its revolving credit lines granted by local and foreign banks for up to US$ 2.5 billion, of which US$ 909.5 million are still available. This is sufficient to cover the Company's working capital needs.

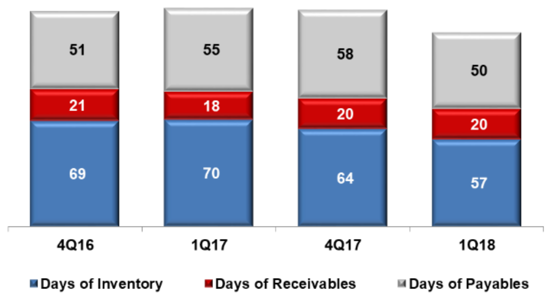
Total debt outstanding is comprised as follows: 57% Bonds, 33% Working Capital and 10% Short-Term loans for PMRT. In 1Q18, cost per capitalized loans related to PMRT reached US$ 33.8 million (versus US$ 74.7 million in 2017). Working Capital during 1Q18 reached US$ 19.3 million compared to US$ 52.9 million in 2017.

### Debt Composition

1Q18




### Cash Conversion Cycle



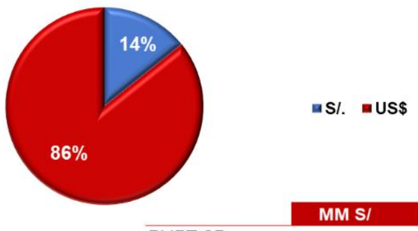

| | 4Q16 | 1Q17 | 4Q17 | 1Q18 |
|---|---|---|---|---|
| Cash Conversion Cycle[1] | 38 | 33 | 26 | 27 |

[1] Days of Inventory + Days of Receivables – Days of Payable

The Cash Conversion Cycle during 1Q18 reached 27 days, slightly higher than in 4Q17 and lower of 1Q17. The currency mix of total debt is: 86% US$, and 14% Soles. The duration of debt averaged 10.31 years for the 15 years Bond, and 14.25 years for the 30 years Bond. The Amortization Schedule shows that existing short-term loans from the PMRT will be paid during 2Q18. Bonds are long term and due in 2032 and 2047, respectively, and will be paid with PMRT cash generation.

### Foreign Exchange Debt Composition

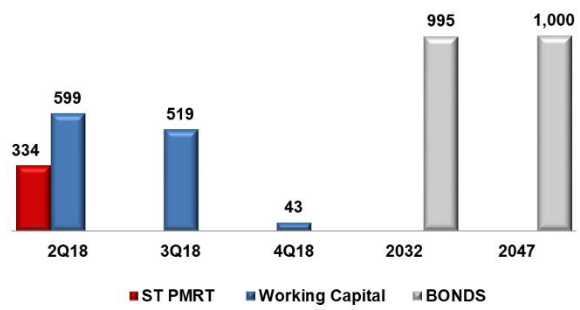
At 1Q18 (In millions of US$)




| | MM S/ | MM US$ |
|---|---|---|
| PMRT CP | - | 334 |
| Capital de Trabajo | 497 | 664 |
| Bonos | - | 1,995 |
| **TOTAL** | **497** | **2,993** |

### Amortization Schedule

(In millions of US$)




## FINANCIAL INDICATORS

### Ratios

| | 2017 | LTM 1Q18 | YoY |
|---|---|---|---|
| EBITDA / Interest | 10.0 | 7.4 | -26.0% |
| Debt / Assets | 55.6% | 58.4% | 4.9% |
| EBITDA / Assets | 5.8% | 6.1% | 4.9% |
| Debt / EBITDA | 9.5 | 9.5 | 0.0% |
| Current Rate | 1.02 | 1.01 | -1.4% |

The EBITDA/Interest ratio refers to an indicator of interest coverage, which was reduced by 26% in LTM 1Q18. Even so, the Company can pay up to 7.4 times the interest not included in the financing activities with the cash flow generated from the main operation.

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 LTM 1Q18 this represented 6.1% of Total Assets, mainly, this ratio refers to the ability of assets to generate profitability from the main activity.

During LTM 1Q18, 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 1Q18, the Liquidity Ratios have declined by 1.4%; we see that the Current Liabilities almost equals to Current Assets.

## 2.3. OPERATING RESULTS

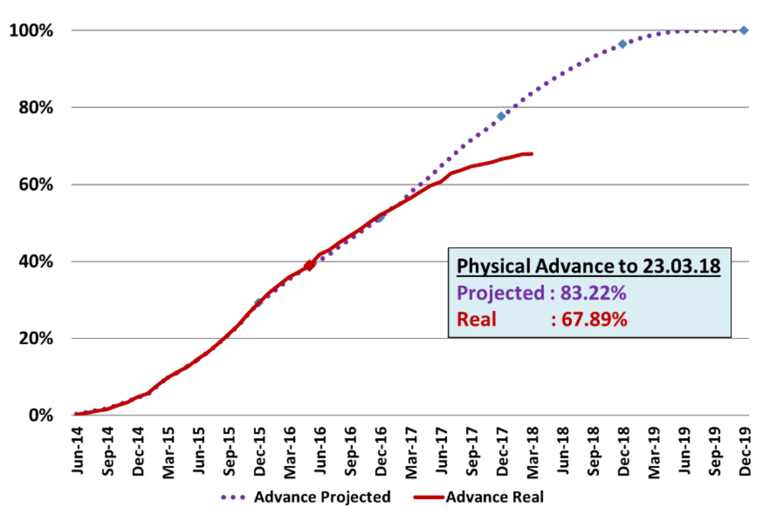
PETROPERÚ focuses on three business lines: 1) Refining and commercialization, which represented 98.8% of Total Gross Income during 1Q18, 2) Leasing and privatization of certain units, which represented 1.1% of Total Gross Income during 1Q18, and 3) the Nor Peruano Oil Pipeline, which represented 0.1% of Total Gross Income during 1Q18, as a result of the pipeline's shutdown.

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

### PMRT

At the end of March 2018, there exists a 68.4% real vs 83.7% scheduled. This lag is explained by delays in the assembly of pipes (Técnicas Reunidas Co) as well as due to the delay with the bidding process for the EPC of the Auxiliary Units, which was granted to the Cobra SCL UA & TC Consortium. The execution schedule will imply a new version of the project's integrated timeline, with a projection to the new estimated completion date of December 2020.

**Integral Advance of the Project**




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

Detailed Engineering: Work progress reached so far is 99.9% vs the scheduled 99.6%. There are some pending engineering works for the full integration with the Auxiliary Units.

Procurement of equipment and materials: Work progress reached so far is 99.1% vs the scheduled 99.9%. The purchasing process of electrical cables for wiring works at units and buildings is ongoing.

Construction: Work progress reached so far is 76.1% vs the scheduled 84.8%. The delays were reported during the assembly of pipes and equipment, the modification of tanks and interconnections and in the assembly of instrumentation, which impacts to meet the milestone of mechanical completion.

**Auxiliary Units and Complementary Works**

On February 8th, 2018, a preliminary meeting was held along with the COBRA-SCL UA & TC Consortium in Talara, which marked the contract start date.

Start-up coordination are being made in order to meet with execution plans, work schedules and timelines for all units.

**Financing**

The US$ 2 billion obtained from the bond issuance were used to pay bond structure commissions in accordance with the terms of the mandate letter, short-term debt and invoices related to the EPC. The balance, including the interests earned, is deposited in investment banks as well as in local and foreign banks.

Regarding the financing with CESCE-Spain Export Credit Agency, a credit agreement was signed on January 30, 2018, and coordination activities are being held with the administrative agent of the contract (DEUTSCHE BANK, SAE) and the legal advisor (Skadden). As of March 2018, the first disbursement has not yet been made.

It is estimated that a second bond issuance will be made during the second quarter of 2019 for a total of US$ 600 million.

**Local Labor Recruitment**

During March 2018, the Company fulfilled a total of 7,091 positions for the PMRT. Thus, local unskilled labor has a participation of 87%, exceeding the minimum established by the EIA (70%), while qualified local labor has a participation of 29%.

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

## REFINING

The Net Refining Margin was lower than 1Q17 (US$ 1.89/bbl in 1Q18 vs. US$ 3.97/bbl in 1Q17), due to the fact that since January 2018 the commercialization of low sulfur diesel began in "La Libertad" department, in compliance with the DS 025-2017-EM of 07.09.2017; therefore, the operation of Talara and Conchán refineries has been affected, since they do not have the capacity to produce diesel with those characteristics required. The diesel obtained from the operations of the both refineries was supplied to a local customer (at a lower price with respect to its realization value in the local market), meeting the national demand for low sulfur diesel with product formulated from imported inputs or acquired locally.

Additionally, the lower processed load has resulted in an increase in the unit operating cost of refining (US$ 6.10/bbl 1Q2018 vs. US$ 5.72/bbl 1Q2017).

The decrease in refining margin was offset by the margins obtained in Gasoline of 97 and 95 octane blending operations carried out at Talara and Conchán refineries, as well as Diesel B5 S50, from imported components.

Considering overall results, refining and mixing margin in refineries was US$ 4.98/bbl.

## Operating Data

| | 2017 | LTM 1Q18 | 1Q17 | 4Q17 | 1Q18 | YoY | QoQ |
|---|---|---|---|---|---|---|---|
| Refining Capacity (in KBPD) (1) | 94.5 | 94.5 | 94.5 | 94.5 | 94.5 | - | - |
| Refinery Utilization (in KBPD) (2) | 69.4 | 68.8 | 67.8 | 73.7 | 65.7 | -3.1% | -10.9% |
| Refined Products (in KBPD) (3) | 104.7 | 105.3 | 105.4 | 114.1 | 108.0 | 2.5% | -5.3% |
| Refining Margin (US$ per barrel) (4) | 5.8 | 5.3 | 4.0 | 5.7 | 1.9 | -52.4% | -66.6% |
| Blending Margin (US$ per Bl) (5) | 11.9 | 11.6 | 11.3 | 11.4 | 11.7 | 4.4% | 3.3% |
| Net Total Margin (US$ per Bl) (6) | 7.3 | 6.9 | 6.4 | 6.1 | 5.0 | -22.3% | -17.7% |
| Capacity utilization rate (7) | 73.4% | 72.8% | 71.8% | 78.0% | 69.5% | - | - |
| Volume Sales (in KBPD) | 145.2 | 147.5 | 139.4 | 147.3 | 148.6 | 6.6% | 0.9% |

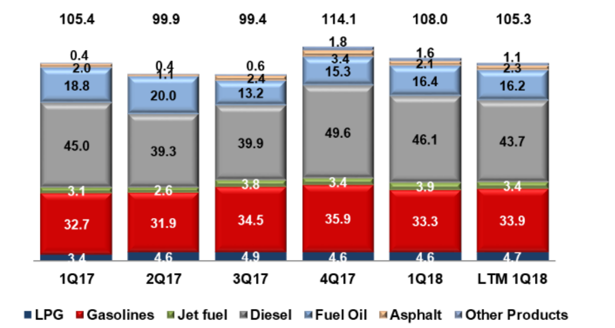
**Notes:**
(1) Maximum amount of crude that can be introduced into the first step of refining process, referred to as atmospheric distillation.
(2) Total amount of crude, asphalts residual and diesel reprocess introduced into the first step of the refining process, referred to as atmospheric distillation.
(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) 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 higher compared to the same period of the previous year, mainly due to higher LPG production given that there were no stoppages in the UCC (Unidad de Craqueo Catalítico) unit, unlike February 2017 when a 10-day maintenance stoppage was registered. This result was also due to higher Turbo production for inventory recovery and to higher Gasolines 95/97 production (formulated with imported product) in order to generate inventories to meet the dispatches at the Callao Plant in anticipation of the temporary shutdown of one of the Callao Port´s docks for maintenance works.

The Installed Refining Capacity Utilization Ratio decreased from 71.8% in 1Q17 to 69.5% in 1Q18 due to the commercial startup of low sulfur diesel in the Department of "La Libertad" in compliance with the regulations. This fact increased the pressure made to the Talara and Conchán refineries as these are not capable of producing diesel with the required sulfur content as previously stated.

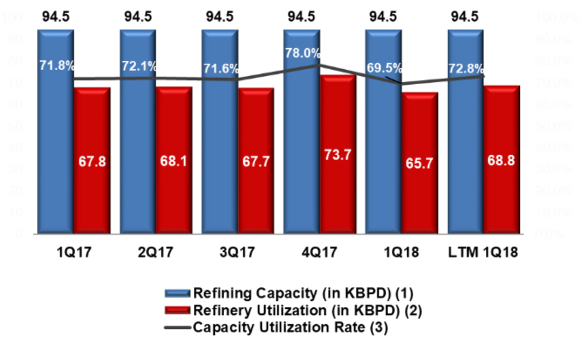
### Refined Products

(In KBPD)




| | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | LTM 1Q18 |
|---|---|---|---|---|---|---|
| Refining Margin (US$ per barrel) | 4.0 | 5.8 | 7.8 | 5.7 | 1.9 | 5.3 |

### 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 residual 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)

Even though two (02) pipeline cuts by third parties have been reported during the first quarter of 2018, the pumped crude oil volume of crude oil at March 2018 is as follows:

| Section | Pumped Volume At March 2018 (MB) | Average at March 2018 (MBDC) |
|---|---|---|
| SECTION I | 223.4 | 2.5 |
| SECTION II | 1,374.3 | 15.3 |
| NORTHERN BRANCH | 885.0 | 9.5 |

As of March 2018, the following has been embarked at the Bayóvar Terminal:

- ✓ 900.6 MB of crude oil to external customers (Pacific and Perupetro).
- ✓ 232.0 MB of crude oil to internal customers (Talara Refinery and Conchán Refinery).

Twenty one (21) contingencies have occurred in the ONP between 2016 and March 2018 (see table below). To date, the cleaning and remediation of fifteen (15) contingencies have been completed, two (2) are in the removal phase of solid wastes, three (3) are in full execution of cleaning and, finally, the Company expects to improve its relations with the "July 6" Community for the safe entry of bidders for the cleaning of the contingency occurred on 11.03.2018 (Km 87 + 887 - Section I, cut to the pipeline carried out by unidentified third parties, it was possible to stop the leak and the crude was confined).

In the first quarter 2018 (02.27.2018), another contingency also occurred (Km 20 + 204 - Section I, two (02) cuts made by unidentified third parties, the spill was contained).

| Year | Quantity | Ongoing | Completed |
|---|---|---|---|
| **2016** | 13 | 0 | 13 |
| **2017** | 6 | 2 | 4 |
| **2018** | 2 | 2 | 0 |
| | **21** | **4** | **17** |

As previously stated, PETROPERÚ has implemented an Early Warning System and the Clearing of ONP's Right of Way through local companies as a security mechanism. Additionally, a dialogue is being held between the Company and the "National Police of Peru" to sign an agreement between both institutions in order to provide security to ONP facilities.

As scheduled, TECHINT's deadline to present its technical/economic proposal for ONP was January 10, 2018. This proposal was analyzed by PETROPERÚ; however, both parties did not reach any agreement. Thus, the Agreement of Intentions between both parties was cancelled. In compliance with management's instructions, a bidding document is being developed to hire experts on the development of studies to modernize ONP, which in addition to identifying potential investments to startup and upgrading ONP's engineering, it also includes the development of its Business Model, the studies of possible extensions to the upstream and downstream installations that will guarantee the long-term economic and financial sustainability of the entire transportation system.

## EXPLORATION AND PRODUCTION

### Block 64

During the first quarter of 2018, GeoPark, in its position as operating partner of the Block, has gathered information for the Environmental Impact Study (EIA) corresponding to the Central Situche Deposit development. At the same time, it has requested changes to the Environmental Impact Study scope of the Exploratory Program by adding new areas. A data collection process for the conceptual Engineering of the early production facilities began by the end of the quarter.



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**Block 192**

At March 2018, the Block continues to be operated by Pacific Stratus Energy (current Frontera Energy) through a Temporary Services Contract of two (02) years, which is estimated to end on June 10, 2019. Under Law N ° 30357, which states that prior evaluation and direct negotiation with Perupetro SA, PETROPERÚ could sign the Hydrocarbon Exploitation License Agreement. In January 2018, PETROPERÚ requested Perupetro S.A. to be qualified as a 100% Operation Oil Company to assume the License Contract. This qualification was granted that same month. To date, PETROPERÚ is still waiting to be contacted by Perupetro S.A. for a direct negotiation of terms and conditions of the License Agreement. Once this stage is concluded, PETROPERÚ is authorized to consider strategic partners for the Block's development.

### 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$ 21.0 million in 1Q18.

# 3. OTHER SIGNIFICANT MANAGEMENT MATTERS IMPACTING EARNINGS

## 3.1. CORPORATE GOVERNANCE

During the first quarter of 2018, the main milestones related to Corporate Governance (CG) were the following:

1. Development of the Annual Report in Compliance with the CG Code for Peruvian Companies. At the end of March 2018, approval by the Board and Shareholders Committee was still pending.
2. Elaboration of the 2017 CG Annual Report. At the end of March 2018, approval by the Board was still pending.
3. Update the Company's CG Code in compliance with Legislative Decree No. 1292, which, in its Article 3, establishes that the Code must comply with global best hydrocarbon practices, including, among others, mechanisms guaranteeing the Company's compliance with its main purposes and the minimum requirements established by CG best practices and the securities market for financial disclosure. At the end of March 2018, approval by the Board was still pending.
4. Approval of the Annual Work Plan by the Board of Directors which helps with the Company's efficient performance and includes all meetings and agendas to be held during the year.
5. Regarding Integrity System, the following activities have been carried out:
    a) Bidding requirements are being established for the Implementation of the Anticorruption Prevention System.
    b) Over 15 institutions linked to ethics and transparency issues have been reached in order to strengthen relations between them and the Company and to have them consider our participation in activities of the subject.
    c) Petroperú´s Integrity Code is being promoted to several companies. Institutional visits are being offered to present the system.

## 3.2. ENVIRONMENTAL & SOCIAL MANAGEMENT

In 2018, PETROPERÚ continues with the process of strengthening and improving management for local employment and local companies in Talara, for which dedicated specialists have been appointed for the systematic monitoring and control of hiring cases, complaints, labor conditions and debts of workers and suppliers, all from Talara. Also, regarding the auxiliary units' construction, the contractor responsible for it has been reached the procedures for contracting local labor and management of passes in order this contractor to be aligned with PETROPERÚ´s standards.

On the other hand, PETROPERÚ and the Chamber of Commerce and Industries of Talara signed a collaboration agreement aimed at strengthening the business management of the companies that develop activities in the province. The objective is to create a database of local businesses that will be available to contractors. For these purposes, the Company will promote standards of homologation and the strengthening of business management by organizing training courses.

We continue strengthening the employability of populations surrounding our operations by holding workshops that contribute to improve their skills. A workshop was held for the development of soft skills of 70 people in the province of Talara with the aim of increasing their possibilities of labor insertion. Likewise, it is planned to start, in the second quarter, an entrepreneurship promotion program for low-income women from Talara. In 2017, 80 women were trained and another 140 will be trained this year, who will also receive the necessary tools for the creation and formalization of Micro and Small Enterprises (MYPES, for its acronyms in Spanish) that will allow them to generate their own income, which will be constituted with a "capital seed" and will be monitored to ensure their development in the local market.

Finally, as part of the commitments assumed by Petroperú in Talara, the works of integral improvement of Avenue G, register an advance of 90%. Upon completion, it will be delivered to the Provincial Municipality of Talara for subsequent reopening.

Regarding ONP, a Sewing Workshop started in Maypuco town, Urarinas, (Loreto), with the participation of 30 women who will be trained in cutting, pattern making and making garments thus having the prospect of generating income for them. At the same time, a cooperation agreement was signed with FONDEPES with the objective of promoting aquaculture projects that benefit the neighboring communities in the districts of Loreto.

In environmental matters, the Company is awaiting the approval, by the General Directorate of Environmental Energy Affairs of MINEM (Ministerio de Energía y Minas), of the identification reports of potentially contaminated sites that exceed the Environmental Quality Standards (ECA) for Soil, in order to continue with the following phases of the process, in compliance with the ECA for Soil.

With regard to environmental care, PETROPERÚ began the execution of the "Solid Waste Routes" project, in coordination with the Provincial Municipality of Talara and the Japanese International Cooperation Agency (JICA), in order to improve the disposal of solid waste in Pariñas district. As part of the project, a study has been carried out to improve the solid waste management system, which includes the identification of critical points and a route plan for the efficient collection of garbage in the entire Pariñas district.

Likewise, PETROPERÚ continued the execution of cleaning and remediation works of the areas affected by the oil spills occurred in the Nor Peruano Oil Pipeline during 2017, as well as attending two (02) new events originated by third party acts, occurred during the first quarter of 2018. In parallel, the Company has launched a systematic process of environmental monitoring focused on monitoring and evolution of the soil rehabilitation, surface waters and aquatic sediments, as well as, flora and fauna of the remediated areas.

Finally, during 1Q18, the Company obtained the certification of its Integrated Corporate Management System (SIG-C) in all its headquarters, being the first Peruvian company in the hydrocarbons sector to be certified at the corporation level, under the latest versions of the ISO 9001: 2015, ISO 14001: 2015 and OHSAS 18001: 2007 international standards.

## 3.3. ORGANIZATIONAL MATTERS

PETROPERÚ, with its new organization structure and the actions established in 2017, as mentioned in the 2017 Earnings Release, continues to improve its organizational and management aspects in order to contribute to the Company's performance and therefore the best results of the company.

On March 14, 2018, the Performance Evaluation Process was initiated, and is expected to conclude by the end of the first half of the present year.

Regarding the actions focused on implementing attracting and retaining talent strategies, the Company has held meetings with external consultants who presented proposals to deploy actions/activities to attract and retain talent.

In matters related to human talent management, during the first quarter of this year, the Company conducted Evaluations of Staff Potential for some workers in level 3 (Sub Managers) and 4 (Managers), with the support of the Mercer Company. This evaluation seeks to obtain the maximum result that a talent can offer in the long term; related to professional growth and development.

We are implementing the Voluntary Redundancy Program, aimed at staff whose retirement age ranges between 66 and 69 years, as well as for staff with critical health conditions. This program will be valid until May 2018.

# Financial Summary

## Income Statement

| In Millions of US$ | 2016 | 2017 | LTM 1Q18 | 1Q17 | 1Q18 | YoY [1] |
|---|---|---|---|---|---|---|
| Revenues Domestic | 3,052.5 | 3,585.5 | 3,740.7 | 842.2 | 997.3 | 18.4% |
| Revenues Exports | 265.2 | 393.7 | 519.5 | 9.6 | 135.3 | 1311.3% |
| Other Revenues | 72.2 | 72.3 | 77.7 | 15.7 | 21.0 | 34.3% |
| Total Revenues | 3,390.0 | 4,051.6 | 4,256.8 | 948.4 | 1,153.6 | 21.6% |
| COGS | -2,834.8 | -3,462.3 | -3,640.5 | -829.5 | -1,007.7 | 21.5% |
| COGS (% of Revenues) | 83.6% | 85.5% | -85.5% | -87.5% | -87.3% | - |
| Gross Profit | 555.2 | 589.2 | 616.3 | 118.9 | 146.0 | 22.7% |
| Gross Margin (%) | 16.4% | 14.5% | 14.5% | 12.5% | 12.7% | - |
| SG&A | -449.5 | -290.7 | -260.8 | -56.9 | -27.0 | -52.5% |
| SG&A (% of Revenues) | 13.3% | 7.2% | 6.1% | 6.0% | 2.3% | - |
| Operating Profit | 105.7 | 298.6 | 355.5 | 62.1 | 119.0 | 91.7% |
| Operating Margin (%) | 3.1% | 7.4% | 8.4% | 6.5% | 10.3% | - |
| Net Profit | 40.7 | 185.1 | 233.2 | 39.1 | 87.2 | 122.9% |
| Net Profit Margin (%) | 1.2% | 4.6% | 5.5% | 4.1% | 7.6% | - |
| Adj. EBITDA | 376.6 | 347.3 | 369.3 | 74.5 | 96.4 | 29.5% |
| Adj. EBITDA Margin (%) | 11.1% | 8.6% | 8.7% | 7.9% | 8.4% | - |

(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 | LTM 1Q18 | 1Q17 | 1Q18 | YoY |
|---|---|---|---|---|---|---|
| Operating Cash Flow | 374.9 | 165.0 | -1,575.6 | -35.9 | -38.0 | 6.1% |
| Capital Expenditures | -1,101.0 | -1,228.5 | -1,743.4 | -190.4 | -235.5 | 23.7% |
| Cash Flow from Financing | 793.9 | 1,652.7 | 6,669.8 | 431.8 | 183.4 | -57.5% |

## Balance Sheet

| In Millions of US$ | 2016 | 2017 | LTM 1Q18 | 1Q18 | YoY |
|---|---|---|---|---|---|
| Current Assets | 1,148.0 | 2,319.2 | 2,277.6 | 2,277.6 | -2% |
| Non-Current Assets | 3,028.7 | 3,619.6 | 3,741.0 | 3,741.0 | 3% |
| Total Assets | 4,176.8 | 5,938.7 | 6,018.6 | 6,018.6 | 1% |
| Short Term Debt | 1,733.4 | 1,319.2 | 1,528.0 | 1,528.0 | 16% |
| Long Term Debt | 248.9 | 1,985.1 | 1,985.2 | 1,985.2 | 0% |
| Total Debt | 1,982.4 | 3,304.3 | 3,513.2 | 3,513.2 | 6% |
| Other Liabilities | 1,078.5 | 1,016.8 | 800.5 | 800.5 | -21% |
| Total Liabilities | 3,060.8 | 4,321.1 | 4,313.7 | 4,313.7 | 0% |
| Stockholders´ Equity | 1,115.9 | 1,617.6 | 1,704.9 | 1,704.9 | 5% |
| Total Capitalization (Debt + Equity) | 4,176.8 | 5,938.7 | 6,018.6 | 6,018.6 | 1% |
| Total Current Liabilities | 2,728.2 | 2,266.2 | 2,258.3 | 2,258.3 | 0% |
| Working Capital | -1,580.2 | 52.9 | 19.3 | 19.3 | -64% |
| Debt / EBITDA | 5.3 | 9.5 | 36.4 | 36.4 | 283% |



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