

DIRECT NEGOTIATION OR COMPETITIVE BIDDING PROCESS CONTRACTING POLICY

According to what is set for in Article 11 of Law N° 26221, Hydrocarbons Organic Law, whose Unique Ordered Text was approved by Supreme Decree N° 0402-2005-EM (hereinafter referred to as “Law”); License Contracts, Services Contracts and other contracting procedures authorized by the Ministry of Energy and Mines, to perform hydrocarbon exploration and exploitation activities, referred to in Article 10 of the Law (hereinafter referred to as “Contracts”) may be concluded by direct negotiation or by competitive bidding, at criterion of the Contracting Party, PERUPETRO S.A.

This Policy establishes the general rules applicable by PERUPETRO S.A in the direct negotiation and competitive bidding processes, to enter into new Contracts with natural and legal entities, national or foreign (hereinafter “Oil Companies”) or consortiums made up by these.

1. GENERALITIES

1.1. Qualification

In all cases, according to the Oil Companies Qualification Bylaws approved by Supreme Decree Nr. 030-2004-EM and the complementary policies and/or procedures approved by PERUPETRO S.A., an Oil Company shall be duly qualified by PERUPETRO S.A. to start negotiations for a Contract or to participate in a Competitive Bidding Process.

1.2. Citizen Participation

Before starting the negotiation or the Competitive Bidding Process, PERUPETRO S.A. shall perform the Citizen Participation process, according to the Citizen Participation Bylaws to perform Hydrocarbon Activities, approved by Supreme Decree N°012-2008-EM.

1.3. Contract Approval

The Contract project resulting from the direct negotiation process or the competitive bidding process shall be subject to the approval of the Board of Directors of PERUPETRO S.A. and to the approval by Supreme Decree, according to what is established for in Article 11 of the Law and Supreme Decree N° 045-2008-EM.

At the same time, as it may correspond, the consultation process according to Law N° 29785, Right to Previous Consultation to Indigenous or Native Peoples Law, acknowledged by Agreement 169 of the International Labor Organization (OIT) and its Bylaws approved by Supreme Decree N° 001-2012-MC shall be performed.

2. DIRECT NEGOTIATION CONTRACTING PROCESS

The execution of new Contracts with Oil Companies shall be preferably performed by competitive bidding processes. Direct negotiation shall correspond in the following cases:

- a) In exercise of the first option in a Technical Evaluation Agreement
- b) Upon request of an Oil Company
- c) Upon request of PERUPETRO S.A.

2.1 Direct negotiation in exercise of the first option in a Technical Evaluation Agreement

Direct Negotiation shall correspond with Oil Companies which are holders of Technical Evaluation Agreements having the first option to negotiate and sign a Contract for all or part of the Agreement Area.

To that effect, the Oil Company shall communicate PERUPETRO S.A. its decision to exercise the first option to negotiate and sign a Contract, as it is established in the respective Technical Evaluation Agreement. The Oil Company shall indicate the requested area and submit a work program proposal. At the same time, the Qualification Request, together with the respective documentation, shall be enclosed to that communication.

In a maximum term of ten (10) working days, once received the communication mentioned in the above paragraph, PERUPETRO's Administration shall verify the fulfillment of the conditions established in the Technical Evaluation Agreement and, if it is the case, will approve a referential work program for the Contract, considering the characteristics of the requested area and the Oil Company work program proposal.

PERUPETRO S.A. shall perform the Oil Company Qualification Process considering the referential work program mentioned in the above paragraph.

2.2 Direct negotiation upon request of an Oil Company

Direct negotiation shall correspond upon request of Oil Companies in relation to areas that, at the date of the request, are not totally or partially included in Contract Areas or Technical Evaluation Agreements, in force, under approval process or negotiation process, and, are not totally or partially included in Blocks approved by PERUPETRO S.A. for a competitive bidding process.

In such cases, the applying Oil Company shall comply at least with one of the following conditions:

- Prove higher technical capacity at PERUPETRO's Administration satisfaction, according to the approved guidelines.
- Appear as oil and gas exploration and production company or as oil and gas integrated company, in the last publication of "The Energy Intelligence Top 100: Global NOC & IOC Rankings" of Energy Intelligence, "The Platt's Top

250 Global Energy Company Rankings”, the publications replacing these or any other publication of similar characteristics approved by PERUPETRO’s administration.

The Oil Company shall inform PERUPETRO S.A. about its interest to negotiate a Contract, indicating the area requested, including a work program proposal. Such communication shall be accompanied by the Qualification request, along with the respective documentation, and if it is the case, the complementary documentation proving its higher technical capacity.

In a maximum term of ten (10) working days, upon receiving the above mentioned communication, PERUPETRO’s administration shall verify if the area requested and the Oil Company comply with the required conditions, and if so, PERUPETRO shall approve the referential work program for the Contract, according to the characteristics of the requested area and the work program proposal of the Oil Company.

PERUPETRO S.A. shall qualify the Oil Company considering the referential work program mentioned in the above paragraph.

2.3 Direct negotiation upon request of PERUPETRO S.A.

Exceptionally, direct negotiation with an Oil Company may proceed upon request of PERUPETRO S.A. when at the administration judgment exists the need to celebrate a Contract in a given Block and it is not feasible to perform a competitive bidding process. Previous to negotiation, PERUPETRO’s Administration shall have approved a referential work program for the Contract.

PERUPETRO’s Administration will identify the Oil Company, which at its judgment, results the most suitable to celebrate a Contract in the Block and shall send a communication proposing to negotiate a Contract, granting a term not longer than thirty (30) days to confirm its interest and submit the Qualification request, accompanied by the respective documentation.

Once confirmed the interest of the Oil Company, PERUPETRO S.A. shall perform the Qualification process, considering the mentioned referential work program.

2.4 Common Rules

2.4.1 Development of Direct Negotiation

Once conditions required have been met, according the type of direct negotiation, and after Qualification is granted to the Oil Company, PERUPETRO S.A. shall send the Oil Company a letter to communicate of this result and invite the company to start negotiating the Contract in a maximum term of sixty (60) calendar days, counted upon the date of reception of the communication.

In all cases, Direct Negotiation process shall be subject to the following rules:

- a) PERUPETRO S.A. and the Oil Company shall have a maximum term of thirty (30) calendar days, counted upon the date of starting negotiation to negotiate the Contract.

During the mentioned term, the area matter of negotiation shall not be total or partially considered by PERUPETRO S.A., in other direct negotiation or competitive bidding process.

- b) For the Contract negotiation the most recent text of the corresponding Contract Model, elaborated by PERUPETRO S.A. will be used as basis.
- c) The following aspects may be matter of negotiation:
 - Work Periods and Programs
 - Royalty or retribution methodology, percentages and valuation mechanisms.

Exceptionally, in cases duly justified upon judgment of PERUPETRO's administration, other aspects of the Contract may be negotiated.

- d) Representatives of PERUPETRO S.A. and the Oil Company will sign a record at the end of each negotiation process meeting, to register attendees and subjects covered.
- e) In case of reaching an agreement within the term indicated in literal a) representatives of PERUPETRO S.A and the Oil Company shall sign the respective Contract project, for its approval process.
- f) In case of not reaching an agreement within the term indicated in literal a) the negotiation process shall be deem as terminated by PERUPETRO S.A.

2.4.1 Baseline

Before starting negotiation of the Contract, the Board of Directors of PERUPETRO S.A. shall approve, upon request of the Administration, a baseline for the aspects matter of negotiation, mentioned in literal b) of numeral 2.4.1

3. COMPETITIVE BIDDING PROCESS

Celebration of new Contracts with Oil Companies by Competitive Bidding shall be performed through the following process:

- a) Ordinary competitive bidding
- b) Simplified competitive bidding
- c) Competitive bidding by invitation

3.1. Ordinary Competitive Bidding

By an ordinary Competitive Bidding PERUPETRO S.A. publicly calls Oil Companies to submit bids in the opportunity determined by PERUPETRO S.A., for the celebration of Contracts for one or more Blocks, according to the rules established in the Bidding Conditions.

Without changing its nature, in the Bidding Conditions, this may be referred to as tender, competition or bidding round.

3.2. Simplified Competitive Bidding

Alternatively to the ordinary competitive bidding, PERUPETRO S.A. shall perform simplified competitive biddings for individual Blocks.

For such purpose, PERUPETRO S.A. shall publish through its web portal the availability of the Block and the respective Bidding Conditions, inviting the Oil Companies to submit their bids in the opportunity that these consider within a period of time previously established by PERUPETRO S.A. according to the rules established in the Bidding Conditions.

Regarding the bids submission and evaluation and the award granting, the Bidding Conditions include the following:

- a) Once received the first bid for a Block, PERUPETRO S.A. shall inform through its web portal the interest of one Oil Company for such Block during thirty (30) working days, term in which any other Oil Company may submit a bid.
- b) At the end of the mentioned term, the envelopes containing the bids shall be opened in a public act, continuing with its evaluation and award granting, or if it is the case, declare the process void.

In case of multiple valid bids, the Oil Company which submitted the first bid, provided it is within the bids mentioned, shall have the right to equal the best offer, obtaining the award.

3.3. Competitive Bidding by invitation

PERUPETRO S.A. may perform a competitive bidding by invitation when it is not feasible to contract a Block through other competitive bidding processes.

In this case, PERUPETRO S.A. shall invite two (2) or more Oil Companies, previously identified, to submit bids in the opportunity determined by PERUPETRO S.A., to celebrate a Contract for the Block, according to rules established in the respective Bidding Conditions. In addition to the Qualification requirements established in the Bidding Conditions, the Oil Companies shall fulfill at least with one of the following conditions:

- Prove higher technical capacity on PERUPETRO 's Administration satisfaction, according the guidelines approved.
- Appear as oil and gas exploration and production company, or oil and gas integrated company in the last publication of "The Energy Intelligence Top 100: Global NOC & IOC Rankings", "The Platt's Top 250 Global Energy Company Rankings", the publications replacing these or other publication of similar characteristics approved by PERUPETRO's Administration.

If there are not at least two (2) participating Oil Companies qualified, eligible to submit bid, according to the rules established in the Bidding Conditions, the competitive bidding will be void.

3.4. Common Rules

3.4.1. Bidding Conditions

The Bidding Conditions of all the competitive biddings shall be approved by the Board of Directors of PERUPETRO S.A., upon request of the Administration and published before the call date in the web portal of PERUPETRO S.A., without prejudice of publishing them in other means and spread them in promotion activities within Peru and abroad.

Bidding Conditions shall contain all the rules applicable to the selection process, and shall include as minimum the following aspects:

- a) Purpose of the selection process, indicating the type of process according to this Policy, the Block or Blocks subject matter of this process and the type of contract to be celebrated.
- b) Rules to participate in the process.
- c) Rules for the Qualification of Oil Companies, including the minimum qualification indicators or requirements and the required documentation.
- d) Process phases and terms.
- e) Mechanisms to formulate consultations, and if it is the case, remarks to the Bidding Conditions.
- f) Rules for the bid submission
- g) Rules for the bid evaluation, including detail of the evaluation factors
- h) Rules for the award granting or if it is the case, to declare void the process.
- i) Contract approval and signature procedure.
- j) Objection procedure.
- k) Rules for the suspension or cancellation of the selection process.
- l) Guarantees.
- m) Description of Block or blocks included in the selection process, including map and coordinates.
- n) Procedure for the access to Block or Blocks included in the selection process information.
- o) Contract Model.
- p) Minimum Work Program of the Block or Blocks included in the selection process.
- q) Methodology for royalty or retribution determination and determination of the respective percentages, for the Block or Blocks included in the selection process.

3.4.2. Evaluation Factors

The following evaluation factors may be considered in the Bidding Conditions of the selection processes:

- a) Minimum Work Program Additional Work Units
- b) Increase of royalty percentages o reduction of retribution percentages

The Bidding Conditions may include additional evaluation factors.

For evaluation purposes, Bidding Conditions shall establish the weighting of each evaluation factor as well as the maximum points and score for each factor.

APPENDIX 1

OIL COMPANY GUIDELINES FOR HIGHER TECHNICAL CAPACITY

As per established in numeral 2.2 of the “Contracting by Direct Negotiation or Bidding Process Policy” (hereinafter, “Contracting Policy”), approved by Board of Directors N° 029-2017, direct negotiation may proceed, in areas proposed by Oil Companies (hereinafter “OC”), areas which at the moment of the request, are not totally or partially included in Contract Areas or Technical Evaluation Agreements in force, in approval process or in negotiation process, and are not totally or partially included in Blocks approved by PERUPETRO S.A. for Bidding Processes.

To this effect, this document establishes the Guidelines applicable to establish the Higher Technical Capacity of the OC.

To prove higher technical capacity the OC shall comply with the following general and specific guidelines, the specific guidelines are established in relation to the area requested:

General Guidelines:

- **The OC shall have experience in Exploration and Exploitation Contracts and/or Exploitation Contracts (hereinafter “CONTRACTS”).**
 - The OC shall have current participation in Hydrocarbon CONTRACTS at least in ten (10) countries, or have current participation in at least twenty five (25) CONTRACTS, and
 - The EP shall be operator in at least ten (10) hydrocarbon CONTRACTS

Specific Guidelines:

- **The OC shall have experience in exploration activities and as consequence having performed hydrocarbon commercial discovery(ies) in the last fifteen (15) years, as appropriate according its request:**
 - For areas in the “Peruvian Jungle”, the OC shall prove documented experience, as operator, at least in three (3) or more CONTRACTS in which has drilled at least (3) exploratory wells in areas of similar characteristics. At the same time the commercial discovery shall be higher than fifty (50) million oil barrels equivalent (MMBOE).
 - For areas in the “Northern Coast”, the OC shall prove documented experience, as operator, at least in three (3) or more CONTRACTS in which has drilled at least (3) exploratory wells in areas of similar characteristics. At the same time, the commercial discovery shall be higher than twenty (20) MMBOE.
 - For “Offshore” areas – “Shallow Waters” the OC shall prove documented experience, as operator, at least in three (3) or more

CONTRACTS in which has drilled at least three (3) exploratory wells in depths lower than 200 meters. At the same time, the commercial discovery shall be higher than fifty (50) MMBOE.

- For “Offshore” areas in “Depth Waters”ⁱ, the OC shall prove documented experience, as operator, at least in three (3) or more CONTRACTS in which has drilled at least two (2) exploratory wells in depths higher to 200 meters. This indicator shall have greater significance if the exploratory wells have been drilled in water depths greater than 500 meters. At the same time the commercial discovery shall be higher than one hundred (100) MMBOP, or
- For “Frontier”ⁱⁱ areas the OC shall prove documented experience, as operator, at least in three (3) CONTRACTS or more in which has drilled at least two (2) exploratory wells. At the same time, the commercial discovery shall be higher than twenty (20) MMBOE.

- **The OC shall have experience as operator in hydrocarbons production**

- The OC shall prove an average production, during the last three (3) years, greater than 50,000 barrels of oil equivalent per day (BOED). Compliance of this requirement may be proved with its percentages of participation in CONTRACTS or based on operated production.

ⁱ As per PERUPETRO’s definition, it is established for drillings over 120 meters of water column.

ⁱⁱ Frontier areas are considered areas where the existence of an oil system is not determined due to the little or no geological information. At the same time, exploratory objectives in which the commercial existence of hydrocarbons has not been proven.