



Annual 2017 Corporate Governance Report

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MAIN ACTIVITIES

1 Presentation

Corporate Governance (CG) acquires more and more importance among companies, both nationally and internationally, since it generates trust and allows the establishment of rules of action that are equivalent and interrelated and serve as a guarantee for stakeholders.

The benefits of establishing CG practices are translated simply into an effective governance of the company and a clear transparency in its activities.

The implementation and consolidation of the best CG standards constitutes a commitment that PETROPERU S.A. has assumed for several years. In 2010, new Corporate Bylaws, Board of Shareholders and Board Regulations and the first Corporate Governance Code of PETROPERU S.A. were approved. These standards incorporate CG practices that have been developed and complemented by other internal Company regulations, and materialized through decisions and actions from the management and administration levels of PETROPERU S.A.

As part of the continuous process of incorporation and compliance with the best CG standards, in mid-2016, the Board of Directors approved the new Corporate Governance Code, which reflects good international practices, as well as what is established in the Corporate Governance Code for Peruvian Companies and complies with the provisions of Law No. 30130 and its Regulations.







2 Corporate Governance Code

During 2017, the Corporate Governance Code, approved on June 16, 2016, was approved by means of Agreement No. 052-2016-PP.

However, by means of Agreement No. 047-2018-PP of May 28, 2018, the Board of Directors approved the updating of said Code; according to the corporate structure, to the provisions of the Corporate Governance Code for Peruvian Companies and in compliance with the provisions of Legislative Decree No. 1292.



3 Implementation of Corporate Governance in PETROPERU

PETROPERU S.A., by corporate decision, is implementing CG since 2012. This is done through the approval, by the Board of Directors, of CG action plans that are executed by the different levels of the Company throughout the year. The Board of Directors approved the 2017 CG Action Plan, through Board of Directors Agreement No. 005 2017-PP.

The annual action plans of CG have allowed over the last few years to implement and maintain good practices, seeking to achieve greater levels of efficiency and effectiveness in the administration of the Company. During 2017, the main results were reflected in the consolidation of various CG practices in the day-to-day performance of the Company's various corporate management.

The progress in the implementation of the 2017 CG Action Plan was recorded by the General Secretariat, which monitored the corporate governance situation of PETROPERU S.A.





4 Compliance of Corporate Governance

The analysis of compliance of CG takes its main references from the Corporate Governance Code of PETROPERU S.A., the Corporate Governance Code for Peruvian Companies whose compliance report is presented as an annex to the Annual Report and the Action Plan of CG, as well as other national and international references, taking into account the pillars detailed below:

4.1 Property

PETROPERÚ S.A. has a Shareholders' Meeting Regulation, which is communicated through its website. It details the rights and responsibilities of the Shareholders, as well as the procedures for the organization and development of the General Shareholders' Meetings. The role of the State as owner is regulated, so that the company can only accept special orders by express mandate approved by Supreme Decree and with allocation of the State budget. During the year 2017, no orders received under this modality have been registered.

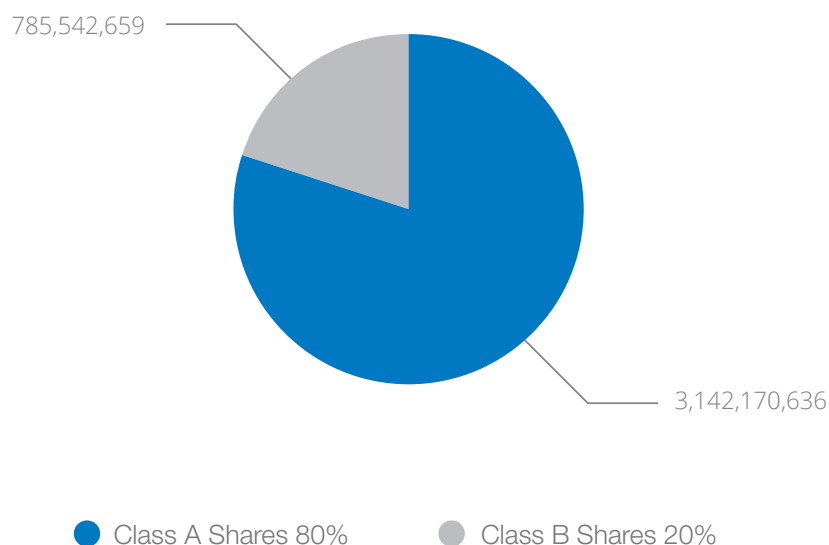
The Peruvian State as the sole shareholder of PETROPERU S.A. is represented at the General Shareholders' Meeting through five members, as established by Supreme Decree No. 056-2008-EM, and is composed as follows:

- Minister of Energy and Mines
- Minister of Economy and Finance
- Vice Minister of Hidrocarbons from the Ministry of Energy and Mines
- Vice Minister of Economy from the Ministry of Economy and Finance
- Secretary General of the Ministry of Energy and Mines.

Each member of the General Shareholders' Meeting exercises the representation of 20% of the capital stock shares, as stated in Supreme Decree No. 006-2009-EM.

At the close of fiscal year 2017, PETROPERU S.A. maintains as sole shareholder the Peruvian State, with a capital stock of S / 3,927,713,295, represented by an equal number of shares distributed as follows:

SOCIAL CAPITAL OF PETROPERU



4.2 Board of Directors

The Board of Directors of PETROPERU S.A. must be composed of six members, two of them must have the status of independent, in accordance with the Internal Regulation of Organization and Operation of the Board of Directors. During 2017, Patricia Carreño Ferre was incorporated as the new director.

The composition of the Board of Directors of PETROPERU S.A., as of December 31, 2017, is as follows:

Position	Name	Start Date	Condition	References
Members of the Board	Luis Eduardo García Rossel Artola (Chairman of the board)	02/12/16	Not Independent	Industrial Engineer from Universidad de Lima, participated in the Governance Program for Business Director (E&Y - 2016), Directive Development Program (UDEP - 1997) and in Action Learning Programme (Sabmiller - 2008). Has over 30 years' experience in management and directive roles in companies such as Grupo Wiese, AFP Integra, Hermes Transportes Blindados and Sabmiller – Corporacion Backus.
	Alex Alberto Alvarado Arauzo	02/12/16	Independent	Industrial Engineer from PUCP, with an MBA from The Wharton School (Univ. of Pennsylvania). Participated in the leadership programs at Credit Suisse and for executives on Private Equity and Ventura Capital. Has 20 years of international experience as a Global Executive in investment banking.
	Hernan Barros Cruchaga	02/12/16	Not Independent	Business Administrator from Univ. del Pacifico, with a Masters' in Business Administration from the University of Texas at Austin, McCombs of Business. He has extensive experience in financial work in national and international companies (Quanted Asset Management, Biscayne Americas Advisers, among others).
	Luis Paul Sumar Gilt	02/12/16	Independent	Lawyer specializing in Energy issues, with more than 20 years of professional experience, carrying out management or advisory positions in several companies and public and private institutions. Solid training for business and multidisciplinary development. Arbitrator of the Chamber of Commerce of Lima and the College of Engineers of Peru.

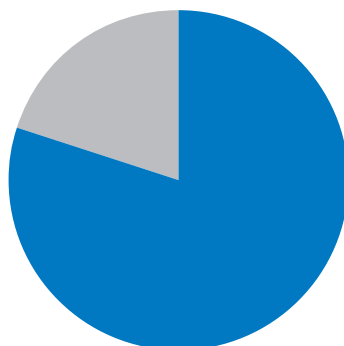
**Members of
the Board**Patricia
Carreño
Ferre

26/10/17

Not
Independent

Attorney at the Universidad Mayor de San Marcos and a full member of the Lima Bar Association, with a Master's Degree in Law with a mention in Intellectual Property and Competition Law from the Pontificia Universidad Catolica del Peru, and a Postgraduate Degree in Law and Management of Telecommunications by the Simon Bolivar Andean University of Quito and the Externado de Colombia University; with more than fifteen years of experience in public management and regulation of services.

At the end of the period, the percentage of female members in the Company's Board of Directors was 20%, so, it should be noted, the incorporation of the Director means an important measure to enhance the participation of women in the Board of Directors of public and private companies.

MAKE-UP OF THE BOARD BY GENDER

● Male members (80%)

● Female members (20%)

In consideration of the incorporation of the new director, during 2017 the induction program was applied for the aforementioned, in accordance with the policies and procedures of PETROPERU S.A.

In December 2017, the Assisted Self-Assessment of Directors, Board of Directors and Board Committees began, with Ernst & Young Asesores SCRL being responsible for providing the corresponding support.

a. Profile of the members of the Board

Directors must comply with the following requirements for their designation or during their exercise:

- i. Moral solvency, competence and accredited professional experience.
- ii. Not to perform positions or functions of representation, direction or advice in competing companies, or the performance of those same positions or functions in companies that hold a position of dominion or control in competing companies.
- iii. They cannot hold the position of members of the Board of Directors who, by themselves or through a nominee, hold positions in companies that are regular clients or suppliers of goods and services of PETROPERU S.A., are representatives of said companies or are related to them, provided that they are condition may give rise to a conflict or collision of interests with those of PETROPERU S.A.
- iv. The incompetent, the bankrupt, those who because of their position or functions are prevented from doing business, the people who have a pending lawsuit with PETROPERU S.A. or are prevented by court order cannot be Directors.
- v. They must not be involved, directly or indirectly, in a judicial process that, in the opinion of the Board, could endanger the reputation of PETROPERU S.A.

b. Selection of the independent members

Those who meet as a minimum the following requirements may be considered as Independent Directors:

- i. Carry out a full and qualified professional activity outside the Board.
- ii. Maintain a economic situation that allows to presume its economic independence in front of the remuneration they may perceive for participating in the Board.
- iii. Have a professional and personal profile that allows you to show off your independence.
- iv. Not being an official or public servant.
- v. Not having had a working relationship with PETROPERU S.A. or a significant commercial or contractual relationship with the Company, in the two years prior to its appointment.
- vi. Not maintaining litigation or conflict of interest with the Company.

c. Attendance of Directors to the sessions of the Board

During the 2017 period, a total of 43 Board sessions were held. The average attendance was 95.12%. The detail can be seen in the following table:

Name	Start date	End date	Sessions carried out in their period	Sessions attended	% of attendance in their period
Luis Garcia Rosell Artola	02/12/2016	21/03/2018	43	42	97.67
Hernan Barros Cruchaga	02/12/2016	--	43	42	97.67
Alex Alvarado Arauzo	02/02/2016	--	43	43	100
Luis Sumar Gilt	02/12/2016	10/01/2018	43	41	95.35
Roxana Barrantes Caceres	26/08/2016	25/10/2017	31	31	100
Patricia Carreño Ferre	26/10/2017	--	10	8	80

d. Board Committees

PETROPERU S.A. has three Board Committees: Corporate Governance Committee on Corporate Governance, Audit and Control Committee, and Administration Committee. The Board Committees are composed of three Directors, two of whom are Independent Directors and are chaired by an Independent Director.

e. Follow-up System for Board Agreements and Requests

In August 2017, the Follow-up System for Board Agreements and Requests (SSAPD) was implemented, a personalized control tool, under the responsibility of the General Secretariat, which allows immediate communication to each of the Managements of the Agreements and Orders to its charge, so that the actions for its fulfillment are established.

In the same way, it allows to inform the progress or termination of the actions that have been assigned to them. In this way, a systematized record is made that allows to establish the real situation of the orders and agreements of the Board.

4.3 Management

As of December 31 2017, the management roster of PETROPERU S.A. that reports to the Board or General Management was made up as follows:

General Manager (e)*	Esteban Mario Bertarelli Bustamante
Auditing Manager**	Percy Ronald Espino Menacho
General Secretariat	Ruben Martin Contreras Arce
Corporate Planning, Management and Risk Manager	Luis Alberto Suarez Carlo
Corporate Human Resources Manager	Jose Manuel Rodriguez Haya

Investor Relations Manager	Maria Alejandra De La Puente Leon
Corporate Legal Manager	Juan Alberto Malpartida Del Pozo
Corporate Environmental, Occupational Health and Safety Manager (e)	Juan Del Carmen Gallarday Pretto
Supply Chain Manager	Guillermo Felix Bergelund Seminario
Corporate Finance Manager	Carlos Adrian Linares Peñaloza
Talara Refinery Manager	Jorge Reynaldo Almestar Mauricio
Nor Peruano Pipeline Manager (e)	Manuel Jesus Ugaz Burga
Corporate Social and Communications Management Manager	Beatriz Regina Alva Hart
Refinery Manager (i)	Jose Alfredo Coronel Escobar
Commercial Manager	Gustavo Adolfo Navarro Valdivia

* It should be noted that by means of Board of Directors Agreement No. 023-2018-PP, Mr. Esteban Mario Bertarelli Bustamante was appointed to the position of General Manager of PETROPERU S.A.

** Appointed by the Comptroller General of the Republic and ratified by the Board of Directors.

4.4 Transparency

Class B shares of PETROPERU S.A. are registered in the Public Registry of the Securities Market and in the Securities Registry of the Lima Stock Exchange, for which reason they are obliged to report the following:

1. Significant events related to the Company.
2. Periodical information to the securities market through the publication of financial statements and qualitative reports sent to the Superintendency of the Securities Market.

The PETROPERU S.A. website has a section of CG in which the main internal rules, regulations, policies and recognitions of the Company are listed. Likewise, in the Transparency and Citizen

Service section of the website a link has been incorporated to access the Superintendence of the Securities Market portal, where the information reported by PETROPERU S.A. is listed.

On the other hand, PETROPERU S.A. handles the requests for information from the various stakeholders through the link implemented in the Transparency Portal and Citizen Attention on the Company's website, within the framework of the Law on Transparency and Access to Public Information (Law No. 27806). Also, PETROPERU S.A. informs the general public about provisions regarding the legal framework, organization, organization chart, procedures, communications, budget, financial statements, list of investment projects, active personnel, unemployed and pensioners, registration of acquisitions of goods and services, selection processes and processes according to strategic plans, as well as some additional information through the link www.petroperu.com.pe/transparencia/mapa.asp.

In relation to raising awareness among staff on issues of transparency and access to public information, during 2017, 3 talks and 1 workshop were held, with the participation of 179 workers from the Main Office. Additionally, Transparency Week was held in September for the International Day of Access to Public Information.


4.5 Risk and control

a. Internal Control and Risk Management

During 2017, the Board approved the modification of the organization. As part of the aforementioned modification, it now has an Internal Control and Risk Management Sub Management. This allowed us to continue with actions that contribute to the progressive implementation of the Internal Control and Risk Management System, a task that was carried out through the Internal Control System and Business Risk Assessment Committee.

The Internal Control and Risk Management Sub Management has been monitoring the execution of a work plan for the implementation of the Company's Comprehensive Risk Management System and for the effective operation of the Internal Control System. It should be noted that the activities included in this plan cover all areas of the Company.

As of December 2017, the implementation of the activities of the Work Plan to close the diagnosed gaps of the Internal Control and Risk Management System reported an advance of 56.01% versus the planned schedule of 66.16%.

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On the other hand, from a total of 484 recommendations of the Audit reports, to December 2017, 152 recommendations were implemented (31%), 285 recommendations (59%) are in process and 47 recommendations (10%) are pending. The actions deployed in this area during 2017 have been reported to the Board.

On the other hand, Audit Management, which reports to the General Comptroller of the Republic and the Board of Directors directly or through the Audit and Control Committee, is responsible for planning, organizing and directing the tasks of preventive and subsequent control of economic management, administrative and operative developed by the Company, in accordance with the regulations that regulate the Audit and the Governmental Control and the National Control System.

In 2017, 11 Audit reports and 21 Simultaneous Control Services reports were issued.

b. External Auditing

The PETROPERU Board of Directors is responsible for proposing to the General Shareholders' Meeting the selection criteria of the auditing companies for their approval. These criteria are incorporated into the bases of the public merit tender conducted by the General Comptroller of the Republic for the designation of the auditing company that will issue the PETROPERU S.A. financial statements.

Once the outcome of the process is available, it is submitted to the General Shareholders' Meeting for formalization of the designation of the auditing company.

For fiscal year 2017, the external audit of PETROPERU's financial statements will be carried out by the Gaveglio Auditing Company, Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.

4.6 Relations with stakeholders

As of May 2017, the Investor Relations Management was incorporated into the Organization. This Management is responsible for planning and developing the Investor Relations Program, in order to ensure that the investment community (financiers, individual or institutional investors, investment banks, debt holders, etc.) is kept informed about the correct and timely financial, commercial, operational and management information of the Company using CG criteria and the best practices of the securities and financial markets, thus guaranteeing an effective bidirectional communication between PETROPERU S.A., the financial community and other subjects of interest. The creation of the Investor Relations Management was done within the context of the issuance of two billion US dollars in corporate bonds in international markets.

In July 2017, it was initiated the implementation of quarterly financial reports which describe the financial and operational results of the business, commercial and management matters, progresses in the strategic objectives, risks, mitigations and facts of importance in a truthful, complete and transparent way to existing and potential investors.

Also, Press Releases were implemented, which are communications through which the investor community is informed about important events related to the Company, among other topics of interest.

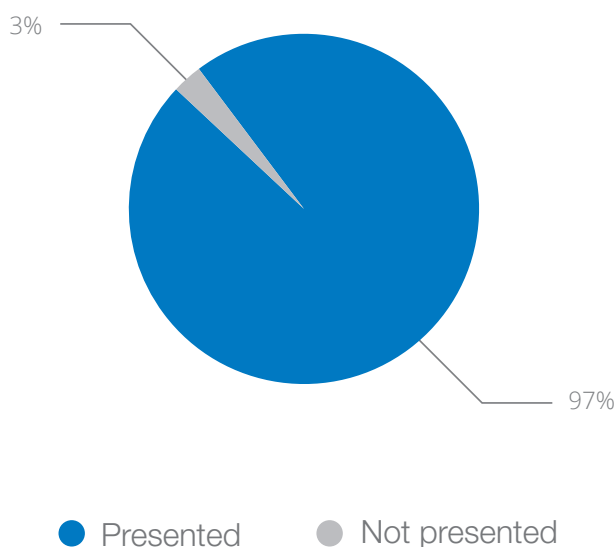
Since August 2017, perceptions studies were conducted quarterly by the company I-Advize Corporate Communications Inc., which allow frequent, open and direct feedback from the investment community.

On the other hand, in May 2017, the Integrity System of PETROPERU S.A. was launched, and the new Integrity Code and the Anti-Fraud and Anti-Corruption Corporate Policy became effective.

Likewise, the Integrity System Guideline was approved, which includes guidelines on the prevention of fraud, corruption, conflict of interest, and acceptance or granting of gifts and services.

In order to keep control over the risks of conflict of interests in order to detect them and prevent them in time, the Integrity System Application (SIIN) was implemented to complete the Commitment of Adherence to the Integrity System of PETROPERU S.A. As of December 2017, 97% of the total number of workers at the company level was collected.

COMMITMENTS PRESENTED VS. NOT PRESENTED AT THE CORPORATE LEVEL - 2017



In addition, the Integrity Line, a whistleblower system operated by an independent company, which has various communication channels to report irregularities or breaches of the Integrity Code and related regulations, went into operation.

With the operation of the Integrity Line, the Integrity Committee of PETROPERU S.A., began its functions, attending and taking decisions on the investigation process of the complaints presented, and offering recommendations for response to the Administration.

Finally, during 2017, the 2016 Sustainability Report was approved, in accordance with the Global Reporting Initiative standards.



5 Evaluation of the level of compliance with the Principles of Corporate Governance

The evaluation of the level of compliance with the principles of CG in PETROPERU S.A. is carried out annually. In a first stage, a self-assessment process is performed by the General Secretariat, based on the evaluation parameters set by the Lima Stock Exchange for participation in the recognition by corporate governance practices that this entity grants.

In May 2017, the company Mercados de Capitales, Inversiones y Finanzas, Consultores S.A. evaluated the degree of compliance with CG principles for the 2016 period, and measured a total of 83.13% compliance by PETROPERU S.A., in accordance with the Parameters of the Lima Stock Exchange.

- ▶ Also, in May 2018, the aforementioned company evaluated our degree of compliance for the **2017 period**, obtaining a total of **83.7% compliance.**

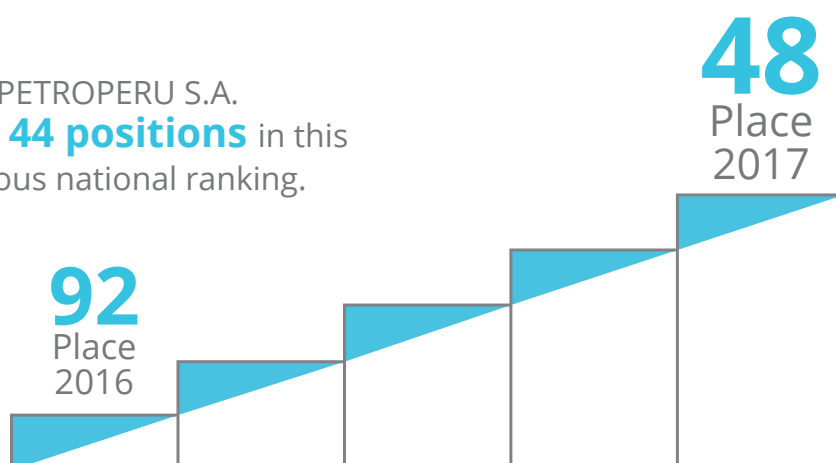




6 Acknowledgements

In the 6th edition of Social Merco-Responsibility and Corporate Governance Peru 2017, held to reward the most responsible companies and with the best corporate governance in Peru, PETROPERU S.A. it ranked 48th out of the 100 most responsible companies and with the best corporate governance, going back considerably to the 92nd position in which it was placed in the 2016 awards.

- ▶ That is, PETROPERU S.A. climbed **44 positions** in this prestigious national ranking.





7 Prosemer

PETROPERU S.A. is one of the beneficiaries of the Program for the Efficient and Sustainable Management of Energy Resources of Peru (PROSEMER), whose component II is aimed at improving the efficiency and transparency in the management of the most important State companies in the energy sector. For this purpose, it is proposed to strengthen the governance and corporate governance of these companies. In this area, actions are developed aimed at the implementation and improvement of corporate governance standards.

PROSEMER carries out its activities within the framework of the Non-Reimbursable Financing Agreement ATN/CN-13202-PE signed between the Republic of Peru and the Inter-American Development Bank. In this sense, since 2013 various consultancies have been executed that contribute to the implementation of CG standards in PETROPERU S.A.



During 2017, the following activities were developed:

Name of the Consultancy	List of Activities	Current Situation
DIAGNOSIS, ELABORATION OF MANUALS AND POLICIES AND TRAINING FOR ITS IMPLEMENTATION IN FINANCIAL RISK MANAGEMENT IN PETROPERU	<ol style="list-style-type: none">1. Policy design2. Design of manuals and methodologies.3. Development and recommendation of strategy in relation to identified market risks.4. Recommendation of platform and tools.5. Final report.	<p>On February 8, 2017, the execution of the service was started by the company Analistas Financieros Internacionales SA, which was concluded in October 2017. With the service, the company's financial risk map was obtained, the proposal of regulations related to the correct measurement and control of market risk; as well as the tool for its measurement. Likewise, the service included the development of training on the application of manuals, methodologies and tools proposed in the service.</p>

Name of the Consultancy	List of Activities	Current Situation
<p>TRAINING PROGRAM ON CORPORATE GOVERNANCE ADDRESSED TO DIRECTORS, MANAGERS AND KEY PERSONNEL OF THE COMPANIES OF THE FONAFE CORPORATION AND PETROPERU</p>	<ol style="list-style-type: none"> 1. Delivery of the training course to the Board. 2. Delivery of the training course to the Corporate Managers, Deputy Managers and key personnel. 3. Final report. 	<p>The contract was signed on October 11, 2017, with the firm Ernst & Young Asesores S. Civil R.L., having carried out the Trainings to the Chairman of the Board, Directors, Corporate Managers and Deputy Managers; and to the key personnel. The training sessions were held in November and December, concluding the execution of the service in December 2017. The objective of the service was to strengthen the knowledge on corporate governance issues for the Board of Directors, senior management and key personnel of the Company.</p>

The consultancies carried out through the PROSEMER agreement since 2014 have allowed the execution of activities to improve corporate governance in PETROPERU S.A. in various aspects. Part of the proposals have been implemented and others of greater scope are in the process of being implemented through the CG action plans.



8 Primary activities

PETROPERU S.A. has carried out activities conducive to improving its CG, which are detailed below:

- The Induction Program for new Directors of PETROPERU S.A.
- In May 2017, the Investor Relations Management was incorporated into the basic structure of the organization.
- The same month, the Company launched the Integrity System of PETROPERU S.A., entering into force the new Integrity Code and the Anti-Fraud and Anti-Corruption Corporate Policy.
- In July 2017, the Annual Corporate Governance Report 2016 was approved, which was published on the corporate website.
- In August 2017, the System for Monitoring Agreements and Orders of the Board of Directors (SSAPD) was implemented.
- The Board of Directors supervised the actions and situation of the Company in relation to ethics and conflict of interests. In addition, the Board took cognizance of the situations in which potential conflicts of interest that arose within the Board of Directors were presented, as well as the measures adopted by said board.
- In December 2017, the Board appointed the members of the Board Committees.
- Likewise, before the end of the year, the Assisted Self-Assessment of Directors, Board of Directors and Committees of the Board of Directors began.

