**IMPORTANT NOTICE**

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("QIBs") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, AS AMENDED (THE "SECURITIES ACT")) OR (2) NON-US PERSONS (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) OUTSIDE THE U.S.

**IMPORTANT: You must read the following before continuing.** The following applies to the attached offering memorandum (the "Offering Memorandum"), and you are advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS. THE OFFERING MEMORANDUM AND THE OFFER OF THE NOTES ARE ONLY ADDRESSED TO AND DIRECTED AT PERSONS IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA WHO ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC, AS AMENDED) AND RELATED IMPLEMENTATION MEASURES IN MEMBER STATES ("QUALIFIED INVESTORS"). IN ADDITION, IN THE UNITED KINGDOM THE OFFERING MEMORANDUM IS ONLY BEING DISTRIBUTED TO QUALIFIED INVESTORS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLES 19(5) AND 19(2)(A) TO (D) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AND OTHER PERSONS TO WHOM IT MAY OTHERWISE LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS TOGETHER REFERRED TO AS "RELEVANT PERSONS"). ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO (I) IN THE UNITED KINGDOM, RELEVANT PERSONS, AND (II) IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA OTHER THAN THE UNITED KINGDOM, QUALIFIED INVESTORS, AND WILL BE ENGAGED IN ONLY WITH SUCH PERSONS. IN ADDITION, NO PERSON MAY COMMUNICATE OR CAUSE TO BE COMMUNICATED ANY INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY, WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (THE "FSMA"), RECEIVED BY IT IN CONNECTION WITH THE ISSUE OR SALE OF THE NOTES OTHER THAN IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA DOES NOT APPLY TO US.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**Confirmation of your Representation:** In order to be eligible to view this Offering Memorandum or make an investment decision with respect to the securities, investors must be either (1) QIBs or (2) non-US persons (within the meaning of Regulation S under the Securities Act) outside the U.S. This Offering Memorandum is being sent at your request and by accepting the e-mail and accessing this Offering Memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons (within the meaning of Regulation S under the Securities Act), and (2) that you consent to delivery of such Offering Memorandum by electronic transmission.

You are reminded that this Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Offering Memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction.

This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently neither the initial purchasers, nor any person who controls them nor any of their directors, officers, employees nor any of their agents nor any affiliate of any such person accept any liability or responsibility whatsoever in respect of any difference between this Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the initial purchasers.

**TECPETROL S.A.**

**Irrevocably and Unconditionally Guaranteed by Tecpetrol Internacional, S.L.U.**

**U.S.$500,000,000**

**4.875% Notes due 2022**

We, Tecpetrol S.A. (the "Company"), are offering U.S.$500,000,000 aggregate principal amount of our 4.875% notes due 2022 (the "Notes"). The principal of the Notes will be payable on December 12, 2022. Interest on the Notes will accrue at a rate of 4.875% per year and will be payable semi-annually in arrears on June 12 and December 12 of each year, commencing on June 12, 2018.

We may, at our option, redeem the Notes, in whole or in part, at any time and from time to time prior to December 12, 2020, at a redemption price based on a "make-whole" premium, plus accrued and unpaid interest. We may also redeem the Notes, in whole or in part at any time after December 12, 2020, at the prices set forth elsewhere in this offering memorandum plus accrued and unpaid interest. At any time prior to December 12, 2020, we may redeem up to 35% of the original principal amount of the Notes with the proceeds of certain equity offerings at a redemption price of 104.875% of the principal amount of the Notes, plus accrued and unpaid interest. In addition, we may redeem the Notes, in whole but not in part, at a price equal to 100% of their outstanding principal amount plus accrued and unpaid interest and any additional amounts upon the occurrence of certain changes in Argentine tax law.

The Notes will be irrevocably and unconditionally guaranteed on an unsecured and unsubordinated basis by our controlling shareholder Tecpetrol Internacional, S.L.U. (the "Parent Guarantor"). We refer to the guarantee issued by the Parent Guarantor as the "Note Guarantee."

The Notes offered hereby and the related Note Guarantee, respectively, (i) will rank equally with all of the existing and future senior unsecured indebtedness of the Company and the Parent Guarantor, (ii) will be effectively junior to all existing and future secured indebtedness of the Company and the Parent Guarantor to the extent of the assets securing that indebtedness and (iii) will be structurally subordinated to the obligations of our subsidiaries.

**Investing in the Notes involves risks. See "Risk Factors" commencing on page 39 of this offering memorandum for a discussion of certain risks that you should consider in connection with an investment in the Notes.**

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**Issue Price: 100.000%, plus accrued interest, if any, from December 12, 2017**

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The Notes and the related Note Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold within the U.S. or to U.S. persons, except to "qualified institutional buyers" ("QIBs") in reliance on the exemption from registration provided by Rule 144A under the Securities Act ("Rule 144A") and in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S"). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Because the Notes have not been registered, they are subject to the restrictions on resales and transfers described under "Transfer Restrictions" in this offering memorandum.

This offering memorandum does not constitute, and may not be used for the purpose of, and offer or solicitation by anyone in any jurisdiction in which such offer of solicitation is not authorized to any person to whom it is unlawful to make such offer or solicitation, and no action is being taken to permit an offering of the Notes or the distribution of this offering memorandum in any jurisdiction where such action is required.

Any offer or sale of Notes in any member state of the European Economic Area which has implemented directive 2003/71/EC (as amended, the "Prospectus Directive") must be addressed to Qualified Investors (as defined in the Prospectus Directive).

The Notes will constitute non-convertible notes (*obligaciones negociables simples no convertibles en acciones*) under the Argentine Negotiable Obligations Law No. 23,576, as amended (the "Argentine Negotiable Obligations Law"), will rank *pari passu* in right of payment with all of our unsecured and unsubordinated indebtedness, except as otherwise provided by law, will be issued and placed in accordance with such law, Capital Markets' Law No. 26,831 (the "Argentine Capital Markets Law"), Decree No. 1023/2013 implementing the Argentine Capital Markets Law, as amended and supplemented the General Resolution No. 622/2013, as amended and supplemented (the "CNV Rules"), issued by the *Comisión Nacional de Valores*, the Argentine Securities Commission (the *Comisión Nacional de Valores*, or "CNV") and any other applicable law and/or regulation, and will have the benefits provided thereby and will be subject to the procedural requirements therein set forth.

The notes will be offered in Argentina by means of an Argentine prospectus (the "Argentine Prospectus") and an Argentine pricing supplement (the "Pricing Supplement") in the Spanish language, in accordance with CNV Rules containing substantially the same information as this offering memorandum, other than with respect to the description of U.S. securities and tax laws that are relevant to the notes, but in a different format, implementing a program for the issuance of notes thereunder, approved by our shareholders on May 15, 2017, and authorized by the CNV by Resolution No. RESFC-2017-18994-APN-DIR#CNV dated October 30, 2017 (the "Program"). The CNV authorization means only that the information requirements of the CNV have been satisfied. The CNV has not rendered any opinion in respect of the accuracy of the information contained in the Argentine Prospectus, the Argentine Pricing Supplement or this offering memorandum.

There is currently no public market for the Notes. We have applied to have the Notes listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market of such exchange. We have applied to have the Notes listed on *Bolsas y Mercados Argentinos S.A.* ("BYMA"), through the *Bolsa de Comercio de Buenos Aires* ("BASE") acting in accordance with the authority delegated by BYMA pursuant to Resolution No. 17,501 of the CNV. There can be no assurance that these applications will be accepted.

Delivery of the Notes is expected to be made in book-entry form through the facilities of The Depository Trust Company ("DTC") and its direct and indirect participants, including Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"), on or about, December 12, 2017.

**Joint Bookrunners**

**BBVA** **Citigroup** **J.P. Morgan** **Santander**

The date of this offering memorandum is December 5, 2017.

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## NOTICE TO INVESTORS

Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to “Tecpetrol,” the “Issuer,” “we,” “our,” “ours,” “us” or similar terms refer to Tecpetrol S.A. together with its subsidiaries and references to the “Parent Guarantor” are to the Parent Guarantor together with its subsidiaries (including us).

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the Notes described herein.

We reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the Notes offered by this offering memorandum. BBVA Securities Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Santander Investment Securities Inc. (together, the “initial purchasers”) will act as initial purchasers with respect to the offering of the Notes. BBVA Banco Francés S.A. and Banco Santander Río S.A. will act as local placement agents (the “Local Placement Agents”) with respect to the offering of the Notes in Argentina. This offering memorandum does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the Notes. Distribution of this offering memorandum by you to any person other than those persons retained to advise you is unauthorized, and any disclosure of any of the contents of this offering memorandum without our prior written consent is prohibited.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past, the present or future. The Issuer and the Parent Guarantor have furnished the information contained in this offering memorandum. The initial purchasers have not independently verified all of the information contained herein (financial, legal or otherwise) and assume no responsibility for the accuracy or completeness of all such information.

Neither we nor the initial purchasers have authorized anyone to provide you with any information other than that contained in this offering memorandum. We take no responsibility for, and can provide no assurance as to the reliability of, any information that others may provide you. You should assume that the information in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum, regardless of time of delivery of this offering memorandum or any sale of the notes. Our and the Parent Guarantor’s business, financial condition, results of operations and prospects may change after the date on the front cover of this offering memorandum.

Our board of directors hereby represents that, as of the date hereof, this offering memorandum contains true, accurate and complete information regarding any material fact that may affect our financial condition and results of operations as well as all other information that is required to be furnished to prospective investors in respect of the Notes in accordance with applicable law and that there are no other facts the omission of which would make this offering memorandum as a whole or any of such information or the expression of any opinions or intentions expressed herein to be misleading. Prospective investors should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum.

We are not, and the initial purchasers are not, making an offer to sell the Notes in any jurisdiction where the offer is not permitted.

Neither the Securities Exchange Commission (the “SEC”) nor any state securities commission has approved or disapproved the Notes or passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

In making a decision to invest in the Notes, prospective investors must rely on their own examination of our business and financial condition and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the Notes under applicable legal investment or similar laws or regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

You must (i) comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the Notes and (ii) obtain any consent, approval or permission required to be obtained by you for the purchase, offer or sale by you of the Notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers shall have any responsibility therefor.

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASERS (OR PERSONS ACTING ON BEHALF OF THE INITIAL PURCHASERS) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE INITIAL PURCHASERS (OR PERSONS ACTING ON BEHALF OF THE INITIAL PURCHASERS) WILL UNDERTAKE STABILIZATION ACTIONS. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER WE RECEIVED THE PROCEEDS OF THE ISSUE AND 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

## AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with resale of Notes, we will be required under the terms of the indenture under which the Notes are issued (the "Indenture"), upon the request of a holder of Rule 144A Notes or Regulation S Notes, to furnish to such holder and any prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request we are neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

The Indenture further requires that we furnish to the Trustee (as defined herein) all notices of meetings of the holders of Notes and other reports and communications that are generally made available to holders of the Notes. At our request, the Trustee will be required under the Indenture to mail these notices, reports and communications received by it from us to all record holders of the Notes promptly upon receipt.

We will make available to the holders of the Notes, at the corporate trust office of the Trustee at no cost, copies of the Indenture, the Note Guarantee and this offering memorandum.

We have applied to have the Notes listed on BYMA, through the BASE acting in accordance with the authority delegated by BYMA pursuant to Resolution No. 17,501 of the CNV. The Argentine Prospectus and Pricing Supplement filed with the CNV and BYMA in relation to this offering contain substantially the same information as this offering memorandum, but in a different format, and other than with respect to descriptions of U.S. securities and tax laws that are relevant to the Notes.

We have also applied to have the Notes listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market of such exchange. In Luxembourg, this offering memorandum will be distributed free of charge to anyone upon request.

## ENFORCEMENT OF CIVIL LIABILITIES

We are a *sociedad anónima* organized and incorporated under the laws of Argentina. Substantially all of our assets are located outside the United States and all of our directors, executive officers and controlling persons reside outside of the United States, and certain of the experts named in this offering memorandum also reside outside of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them or against us judgments predicated upon the civil liability provisions of the federal securities laws of the United States or the laws of other jurisdictions.

Enforcement of foreign judgments would be recognized and enforced by the courts in Argentina provided that the requirements of Articles 517 through 519 of the Law No. 17,454 (Argentine National Code of Civil and Commercial Procedure (if enforcement is sought before federal courts) are met, such as (i) the judgment, which must be final in the jurisdiction where rendered, was issued by a court competent in accordance with Argentine principles regarding international jurisdiction and resulted from a personal action, or an *in rem action* with respect to personal property if such was transferred to Argentine territory during or after the prosecution of the foreign action, (ii) the defendant against whom enforcement of the judgment is sought was personally served with the summons and, in accordance with due process of law, was given an opportunity to defend against such foreign action, (iii) the judgment must be valid in the jurisdiction where rendered and its authenticity must be established in accordance with the requirements of Argentine law, (iv) the judgment does not violate the principles of public policy of Argentine law and (v) the judgment is not contrary to a prior or simultaneous judgment of an Argentine court.

The Parent Guarantor is a limited liability company (*sociedad limitada unipersonal*) organized under the laws of the Kingdom of Spain. Most of its directors, officers and other executives are neither residents nor citizens of the United States. Furthermore, most of its assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or us, or to enforce against them or us, judgments of U.S. courts predicated upon the civil liability provisions of U.S. federal or state securities laws.

A final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not based on United States federal or state securities laws, may not be automatically enforceable in Spain. A final and conclusive judgment obtained against the Parent Guarantor in any U.S. Courts or any other appellate court in the United States, would be recognized and enforced by the courts of Spain after having obtained the "exequatur," in accordance with article 523.2 of the Spanish Civil Procedure Act (*Ley 1/2000, de 7 de enero, de Enjuiciamiento Civil*) and articles 41 to 55 of the Spanish International Cooperation in Civil Matters Act (*Ley 29/2015, de 30 de julio de cooperación jurídica internacional en materia civil*), both inclusive.

Such provisions set forth that any, in principle, final and conclusive judgment rendered outside Spain may be enforced in Spain:

In accordance with the provisions of any applicable treaty (there being none currently in existence between Spain and the United States for these purposes);

In the absence of any treaty, in those cases in which the relevant court from a foreign country which is not a member bound by the provisions of the EU Regulation 1215/2012, if it meets the formal requirements of (i) the relevant law from said foreign country and (ii) Spanish law, to be considered authentic, i.e., enacted by an authorized court (in Spain it would be required, inter alia, that the judgement is duly legalized or apostilled and translated into Spanish) and enforceable, and

If it does not fall within the circumstances set forth in article 46 of the Spanish International Cooperation in Civil Matters Act, in particular:

- that the judgement breaches Spanish public order (*orden público*);
- that the judgement is not final (i.e., subject to further appeal) and therefore is not an enforceable nature (*fuerza ejecutiva*) in the foreign jurisdiction;
- that the judgement has been rendered by clearly breaching the rights of defense of any of the parties (if a judgement has been rendered by default (*en rebeldía*) of the defendant it would be deemed to

breach his rights of defense if the defendant has not been regularly and timely notified to enable him to defend himself properly);

- that the subject matter in respect of which the judgement has been rendered falls within the exclusive jurisdiction of the Spanish courts or, in any other matters, if the foreign court jurisdiction does not have a reasonable connection with the dispute;
- that the foreign judgement is incompatible with other Spanish judgements;
- that the foreign judgement is incompatible with another country's judgement which meets the requirements to be enforceable in Spain;
- that there is an ongoing proceeding between the same parties and dealing with the same subject which was opened before a Spanish court prior to the opening of the proceedings before the foreign court; or
- the company is subject to an insolvency proceeding in Spain and the foreign judgment does not meet the requirements provided for in the Spanish Insolvency Act.

According to Article 3.2 of the Spanish International Cooperation in Civil Matters Act, the Spanish Government may establish that the Spanish authorities will not cooperate with other country's authorities when there has been a reiteration refusal of cooperation or a legal prohibition of providing cooperation by such other country's authorities.

The United States and Spain are not party to any treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards rendered in civil and commercial matters. Accordingly, any party wishing to have a U.S. ruling recognized or enforced in Spain, which would not directly be recognized or enforced in Spain, must file an application seeking declaration of enforceability of the U.S. resolution (*exequatur*) with the relevant Spanish Judge of First Instance (*Juzgado de Primera Instancia*) or Commercial Court (*Juzgado de lo Mercantil*) for which purpose the abovementioned requirements must be met.

The Spanish courts may express any such order in a currency other than euro in respect of the amount due and payable by the Parent Guarantor, but in case of enforcement in Spain, the court costs and interest will be paid in euros.

The enforcement of any judgments in Spain entails, among others, the following actions and costs: (a) documents in a language other than Spanish must be accompanied by a sworn translation into Spanish and apostilled; (b) certain professional fees are required for the verification of the legal authority of a party litigating in Spain, if needed; (c) certain court fees must be paid and (d) the procedural acts of a party litigating in Spain must be directed by an attorney-at-law and the party must be represented by a court agent (*procurador*). In addition, Spanish civil proceedings rules cannot be amended by agreement of the parties and will therefore prevail notwithstanding any provision to the contrary in the Notes.

## FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Words such as “believe”, “anticipate”, “may”, “will”, “aim”, “continue”, “plan”, “expect”, “intend”, “target”, “estimate”, “project”, “predict”, “forecast”, “should” and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying these statements. We have based these forward-looking statements on our current beliefs, expectations and projections about future events, financial trends, business strategy, competitive position, business environment, potential growth, effects of regulations and competition, and other circumstances affecting our business. Many important factors, in addition to those discussed in this offering memorandum, could cause our or the Parent Guarantor’s results to differ substantially from those anticipated in our forward-looking statements, including:

- local, regional and national business, economic, political, social, legal or other conditions in Argentina and elsewhere in Latin America or changes in either developed or other emerging markets;
- inflation and interest rates fluctuations in the countries in which we and the Parent Guarantor operate, in particular, Argentina, Peru and Ecuador;
- government regulations in the countries in which we and the Parent Guarantor operate, in particular, Argentina, Peru and Ecuador;
- adverse legal or regulatory disputes or proceedings;
- uncertainty regarding our reserve estimates and our and the Parent Guarantor’s ability to discover or acquire, develop and exploit new hydrocarbon reserves;
- price for oil, gas, energy and other sources or means of power;
- volatility in the markets where we and the Parent Guarantor operate;
- exchange rate fluctuations, including a significant devaluation of the currencies of the countries in which we and the Parent Guarantor operate, in particular, the Argentine peso;
- exchange controls, restrictions on transfers abroad and restrictions on capital inflows and outflows;
- the availability of financing on reasonable terms, including as a result of conditions in regional and global markets;
- changes in capital markets which may affect the policies or attitudes regarding the granting of loans to or investment in Argentine companies;
- our and the Parent Guarantor’s relationship with governmental authorities;
- the operational risks related to the drilling, exploration and production of oil and gas;
- increases in the cost of funding or inability to obtain funding on acceptable terms;
- our relationship with our and the Parent Guarantor’s employees and their unions;
- an increase in our and the Parent Guarantor’s costs and expenses;
- import and export activities;
- liquidity, cash flow and uses of cash flow;
- allocation of capital expenditures to exploration and production activities; and
- the risk factors discussed under “Risk Factors.”

Examples of these forward-looking statements include:

- projections of capital expenditures, capital structure or other financial items or ratios;
- statements of our and the Parent Guarantor’s plans, objectives or goals, including those relating to exploratory activities and renewable energy projects as well as trends, competition, regulation and investments;

- statements about our and the Parent Guarantor's future financial performance or economic conditions in Argentina or the other countries in which we and the Parent Guarantor operate; and
- statements of assumptions underlying these statements.

You should not place undue reliance on forward-looking statements, which are based on our current expectations. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our and the Parent Guarantor's future results may differ materially from those expressed in forward-looking statements. Many of the factors that will determine our performance are beyond our ability to control or predict. All forward-looking statements and risk factors included in this offering memorandum are made as of the date on the front cover of this offering memorandum, based on information available to us and the Parent Guarantor as of such date, and neither we nor the Parent Guarantor assume any obligation to update publicly or to revise any forward-looking statement or risk factor after we distribute this offering memorandum because of new information, future events or other factors. In light of the risk and uncertainties described above, the forward-looking events and circumstances discussed in this offering memorandum might not occur, which could result in a material adverse effect on our financial performance.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Financial Information

Our fiscal year ends on December 31 of each year. This offering memorandum includes information extracted from our audited annual consolidated financial statements as of and for the years ended December 31, 2016 and 2015 (the "2016 Audited Annual Financial Statements"); and our consolidated financial statements as of and for the years ended December 31, 2015 and 2014 (the "2015 Audited Annual Financial Statements" and together with the 2016 Audited Annual Financial Statements, the "Audited Annual Financial Statements"), and our unaudited interim consolidated condensed financial statements as of September 30, 2017 and for the nine-month periods ended September 30, 2017 and 2016, (the "Unaudited Interim Financial Statements", and together with our Audited Annual Financial Statements, the "Financial Statements"). Our Financial Statements are consolidated and reflect the financial information relating to our subsidiaries. Our Financial Statements and other financial information included in this offering memorandum, unless otherwise specified, are stated in pesos.

Our Audited Annual Financial Statements have been prepared in accordance with generally accepted accounting principles in Argentina ("Argentine GAAP"). Our 2016 Audited Annual Financial Statements and 2015 Audited Annual Financial Statements have been audited by Price Waterhouse & Co. S.R.L. ("PwC"), Buenos Aires, Argentina, a member firm of PricewaterhouseCoopers global network, independent accountants, whose reports dated April 11, 2017 and June 3, 2016, respectively, are included in this offering memorandum. Our Unaudited Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). The results for the nine-month period ended September 30, 2017 are not necessarily indicative of results to be expected for the entire year ending December 31, 2017. We have applied International Financial Reporting Standards ("IFRS"), as issued by the IASB for the first time for the six-month period ended June 30, 2017, with a transition date of January 1, 2016.

The Parent Guarantor's fiscal year also ends on December 31 of each year. This offering memorandum includes information of the Parent Guarantor's extracted from:

- as it relates to 2016, the audited consolidated annual accounts as of December 31, 2016 and for the year then ended (the "2016 Parent Guarantor's audited annual financial statements");
- as it relates to 2015 and 2014, the audited consolidated annual accounts as of December 31, 2015 and for the year then ended (the "2015 Parent Guarantor's audited annual financial statements" and, together with the 2016 Parent Guarantor's audited annual financial statements, the "Parent Guarantor's Audited Annual Financial Statements"); and
- as it relates to the nine-month periods ended September 30, 2017 and 2016, the unaudited condensed consolidated interim financial statements as of September 30, 2017 and for the nine-month period then ended (the "Parent Guarantor's Unaudited Interim Financial Statements", and together with the Parent Guarantor's Audited Annual Financial Statements, the "Parent Guarantor's Financial Statements").

The Parent Guarantor's Audited Annual Financial Statements have been prepared in accordance with IFRS as adopted by the European Union ("IFRS–EU"). The Parent Guarantor's Unaudited Interim Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting."

The Parent Guarantor's Audited Annual Financial Statements have been audited by PricewaterhouseCoopers Auditores, S.L., a member firm of PricewaterhouseCoopers global network, independent auditors, whose reports dated May 31, 2017 and May 30, 2016, respectively, are also included in this offering memorandum.

### Currency Information

Unless otherwise specified, references to "U.S.$" and "U.S. dollars" are to United States dollars. References to "Ps." and "pesos" are to Argentine pesos. References to "euro" are to the official currency of the Eurozone. This offering memorandum contains translations of various peso and euro amounts into U.S. dollars at specified rates solely for the convenience of the reader. You should not consider these translations to be representations that the peso or euro amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated U.S. dollar amounts in this offering memorandum as of September 30, 2017 and for the nine-month period then ended at the exchange rate of Ps.17.31 to U.S.$1.00, which was the selling rate published by Banco de la Nación Argentina ("Banco Nación") on September 30, 2017 and of euro 0.847 to U.S.$1.00, which was the noon buying rate for euros as reported by the U.S. Federal Reserve Board on September 30, 2017 and U.S. dollar amounts as of December 31, 2016 and for the year then ended at the exchange rate of Ps.15.89 to U.S.$1.00, which was the selling rate published by Banco Nación on December 31, 2016 and of euro 0.9487 to U.S.$1.00, which was the noon buying rate for euros as reported by the U.S. Federal Reserve Board on December 31, 2016. Investors should be aware that the methodology used in this offering memorandum for foreign exchange conversion may differ from the one recommended by the SEC. See "Argentine Exchange Rates and Exchange Controls" for information regarding the rates of exchange between the peso and the U.S. dollar.

**Argentine GAAP to IFRS Transition**

Our Audited Annual Financial Statements included elsewhere in this offering memorandum were prepared and presented in accordance with Argentine GAAP. The CNV requires that the companies under its supervision prepare their financial statements in accordance with IFRS. Although IFRS uses a conceptual framework similar to Argentine GAAP, there are significant differences in recognition, measurement and disclosures. Our financial statements prepared pursuant to IFRS as of and for the nine-month period ended September 30, 2017 include a description of the main differences resulting from such transition as of December 31, 2016.

**Presentation of Non-GAAP Information**

The measurements of Adjusted EBITDA (defined below) contained herein may not be comparable to those used by other companies. For purposes hereof, we and the Parent Guarantor calculate Adjusted EBITDA as for any year/period as follows:

- *"Company Adjusted EBITDA considering Argentine GAAP Financial Statements"* the sum (without duplication), determined on a consolidated basis in accordance with Argentine GAAP for such period, of (i) our consolidated (Loss)/Income for the year (after income tax and minority interest in controlled companies); plus (ii) the sum of each of the following, to the extent that it would be necessary or applicable under Argentine GAAP to deduct them for purposes of determining our consolidated (Loss)/Income for the year, (a) the consolidated income tax, (b) the minority interest in controlled companies, (c) the consolidated financial and holding results generated by assets and liabilities, (d) consolidated depreciation of fixed assets and amortization of other assets, and (e) consolidated charges and recoveries of allowance variation and other liabilities.
- *"Company Adjusted EBITDA considering IFRS/IAS 34 Financial Statements"* the sum (without duplication), determined on a consolidated basis in accordance with IFRS/IAS 34 for such period, of (i) our consolidated Result for the year/period (after income tax); plus (ii) the sum of each of the following, to the extent that it would be necessary or applicable under IFRS/IAS 34 to deduct them for purposes of determining our consolidated Result for the period, (a) the income tax from both continuing and discontinued operations, (b) consolidated net financial results, from both continuing and discontinued operations, including consolidated interest cost, interest income and other financial results, net (including net result from exchange differences), (c) all amounts in respect of depreciation of property, plant and equipment and impairment of property, plant and equipment from both continuing and discontinued operations, and (d) all charges and reversal of provisions in respect of continuing and discontinued operations related to allowance for doubtful accounts and allowance for legal claims and contingencies.
- *"Parent Guarantor Adjusted EBITDA"* the sum (without duplication), determined on a consolidated basis in accordance with IFRS-EU for such year/period, of (i) the consolidated Result for the year/period of the Parent Guarantor (after income tax); plus (ii) the sum of each of the following, to the extent that it would be necessary or applicable under IFRS-EU to deduct them for purposes of determining the consolidated Result for the year/period of the Parent Guarantor, (a) the Income tax from both continuing and discontinued operations, (b) consolidated Net Financial Results, from both continuing and discontinued operations, including consolidated Interest expense, Interest income and

Other financial results, net (including foreign exchange differences), (c) all amounts in respect of Depreciation of property, plant and equipment, Amortization of intangible assets and Impairments of property, plant and equipment and intangible assets from both continuing and discontinued operations, and (d) all charges for provisions in respect of both continuing and discontinued operations, including charges of Allowance for doubtful accounts, Provisions for legal claims and contingencies and Reversal of provisions, in each case, for the Parent Guarantor for such year/period.

Accordingly, the measurements of Company Adjusted EBITDA considering Argentine GAAP Financial Statements, Company Adjusted EBITDA considering IAS 34 Financial Statements and Parent Guarantor Adjusted EBITDA (collectively, "Adjusted EBITDA") contained herein may not be calculated in the same manner as similarly titled measurements used by other companies which may limit their usefulness as a comparative measurement. Because of these limitations, the measurements of Adjusted EBITDA contained herein should not be considered a measurement of discretionary cash available to us and the Parent Guarantor to invest in the growth of our and the Parent Guarantor's business or as a measurement of cash that will be available to us and the Parent Guarantor in order to meet our obligations. Adjusted EBITDA is not a recognized financial measurement under Argentine GAAP, IFRS or IFRS-EU. Investors should, therefore, rely primarily on our and the Parent Guarantor's results of operations for the year or period, as applicable, contained in the Financial Statements prepared under Argentine GAAP, or, as the case may be, IFRS or IFRS-EU and use the measurement of Adjusted EBITDA contained herein as a supplementary measurement only.

We have included the calculations of Adjusted EBITDA to the nearest corresponding Argentine GAAP, or, as the case may be, IFRS or IFRS-EU measure for all the periods presented. See "Summary Financial Data" and "Selected Consolidated Financial Information."

**Reserves Estimates**

Our and the Parent Guarantor's oil and gas proven reserves are estimated using geological and engineering data to determine whether the crude oil or natural gas in known reservoirs is recoverable under existing economic and operating conditions.

The accuracy of proven reserves estimates depends on a number of factors, assumptions and variables, among which the most important are:

- the results of drilling, testing and production after the date of the estimates;
- the quality of available geological, technical and economic data and its interpretation and judgment;
- the production performance of reservoirs;
- developments such as acquisitions and dispositions, new discoveries and extensions of existing reservoirs and the application of improved recovery techniques; and
- changes in oil and natural gas prices, which could have an effect on the size of our proven reserves because the estimates of reserves are calculated under existing economic conditions when such estimates are made.

Many of the factors, assumptions and variables involved in estimating proven reserves are beyond our control and are subject to change from time to time. Consequently, measures of reserves are not precise and are subject to revision. See "Risk Factors—Risks Relating to the Oil and Gas Business—Our oil and natural gas reserves are estimates."

**Cautionary Note Regarding Non-conventional Reserves in the *Fortín de Piedra* area**

The information included in this offering memorandum regarding estimated quantities of proved and probable reserves, the future net revenues from those reserves and their present value is derived, in part, from estimates of the proved and probable reserves and present values of proved and probable reserves as of December 31, 2016, June 30, 2017 and August 31, 2017, as set forth herein. The reserves estimates for the *Fortín de Piedra* area are derived from a report prepared by Ryder Scott Company, L.P. ("Ryder Scott"), independent reserves engineers. These estimates are included in this offering memorandum in reliance upon the authority of such firm as an expert in these matters.

The reserves report prepared by Ryder Scott (the "Ryder Scott Reserves Report") was prepared by Ryder Scott for us and presents an appraisal as of August 31, 2017 of oil and gas reserves located in the *Fortín de Piedra* area in Argentina. The reserves estimates presented in the Ryder Scott Reserves Report have been prepared according to standards established by the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers Petroleum Resources Management System ("SPE-PRMS"), and not according to SEC standards. In 2010, the SEC adopted revisions to the SEC standards that make them more consistent with the SPE-PRMS standards, including allowing for the voluntary disclosure of probable and possible reserves.

Prospective investors should read "—Business of the Company—Reserves" for more information on our reserves and resources in the *Fortín de Piedra* area in Argentina, the assumptions, methods and procedures used in the preparation of the reserve estimates and the underlying assumptions thereof and the reserves and resources definitions that we use. See "—Risk Factors—Risks Relating to the Oil and Gas Business—Our and the Parent Guarantor's oil and natural gas reserves are estimates" for more information on how reserve estimates affect our financial results.

**Industry and Market Data**

Market data and other statistical information used throughout this offering is based on data collected by and available from the *Instituto Argentino del Petróleo y del Gas,* the Argentine Ministry of Energy and Mining (*Ministerio de Energia y Mineria*), the former Secretariat of Energy (the "SE"), the *Subsecretaría de Hidrocarburos, Energía y Minería de la Provincia de Neuquén* (the "Secretariat of Energy of Neuquén"), the INDEC and the Argentine gas authority (*Ente Nacional Regulador del Gas*, or "ENARGAS"). Some data are also based on our and the Parent Guarantor's estimates, which are derived from our review of internal surveys as well as independent sources. Although we and the Parent Guarantor believe these sources are reliable, we and the Parent Guarantor have not independently verified the information and cannot guarantee its accuracy or completeness.

**Rounding**

Certain figures included in this offering memorandum have been rounded for ease of presentation. Percentage figures included in this offering memorandum have in some cases been calculated on the basis of such figures prior to rounding. For this reason, certain percentage amounts in this offering memorandum may vary from those obtained by performing the same calculations using the figures in the financial statements. Certain numerical figures shown as totals in this offering memorandum, due to rounding, may not be an arithmetic aggregation of the figures that precede them.

## TECHNICAL AND REGULATORY TERMS

In this offering memorandum, references to:

- "AFIP" are to the *Administración Federal de Ingresos Públicos* (Argentine Federal Tax Administration);
- "ANSES" are to the Argentine *Administración Nacional de la Seguridad Social* (National Social Security Administration);
- "CAMMESA" are to *Compañía Administradora del Mercado Mayorista Eléctrico Sociedad Anónima*, a nonprofit private stock corporation (sociedad anónima) created pursuant to Law No. 24,065 and Decree No. 1.192/1992, owned by the Argentine government and four other associations that represent the whole-sale electricity market ("WEM") agents with a 20% ownership interest each, which is in charge of the administration of the WEM and the dispatch of electricity into the NIS;
- "ENARGAS" are to the *Ente Nacional Regulador del Gas* (the Argentine National Gas Regulatory Agency);
- "ENARSA" are to *Energía Argentina Sociedad Anónima*, a private stock corporation (sociedad anónima) controlled and managed by the Argentine government for the exploration, exploitation and commercialization of petroleum and natural gas, as well as the generation, transmission and commercialization of electricity;
- "ENRE" are to the *Ente Nacional Regulador de la Electricidad* (the Argentine National Electricity Regulatory Agency);
- "IFRS" are to the International Financial Reporting Standards as issued by the International Accounting Standards Board;
- "IFRS-EU" are to the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the European Union;
- "km" are to kilometers;
- "m3" and "m3d" are to cubic meters and cubic meters per day, respectively;
- "m3eq" and "m3eqd" are to cubic meters are to cubic meters of oil equivalents and cubic meters per day of oil equivalents, respectively;
- "Ministry of Economy" are to the Argentine *Ministerio de Hacienda y Finanzas Públicas* (Ministry of Treasury and Public Finance), formerly the *Ministerio de Economía y Finanzas Públicas* (Ministry of Economy and Public Finance);
- "Ministry of Energy" or "Ministry of Energy and Mining" are to the Argentine *Ministerio de Energía y Minería* (Ministry of Energy and Mining);
- "mm3" and "mm3d" are to cubic millimeters and cubic millimeters per day, respectively;
- "mm3eq" and "mm3eqd" are to cubic millimeters are to cubic meters of oil equivalents and cubic millimeters per day of oil equivalents, respectively;
- "mmcfd" are to millions of cubic feet per day;
- "MMboe" are to million barrels of oil equivalents;
- "MMBTU" are to one million British Thermal Units (BTU);
- "MMm3" and "MMm3d" are to million cubic meters and million cubic meters per day, respectively;
- "MULC" are to the *Mercado Único y Libre de Cambios*, the foreign exchange market of Argentina;
- "MW" are to megawatts;
- "SE" are to the *Secretaría de Energía de la Nación* (the Argentine National Secretariat of Energy);

- "SMB" are to *Servicios Múltiples de Burgos S.A. de C.V.*;
- "SPE" are to the Society of Petroleum Engineers;
- "TGS" are to *Transportadora de Gas del Sur S.A.*;
- "TGN" are to *Transportadora de Gas del Norte S.A.*; and
- "WPC" are to the World Petroleum Council.

## SUMMARY

*This summary highlights selected information contained elsewhere in this offering memorandum, but it does not contain all of the information that may be important to you. Before making a decision to invest in the Notes, you should carefully read this entire offering memorandum, including the information under the heading "Risk Factors" and in the financial statements and accompanying notes in this offering memorandum.*

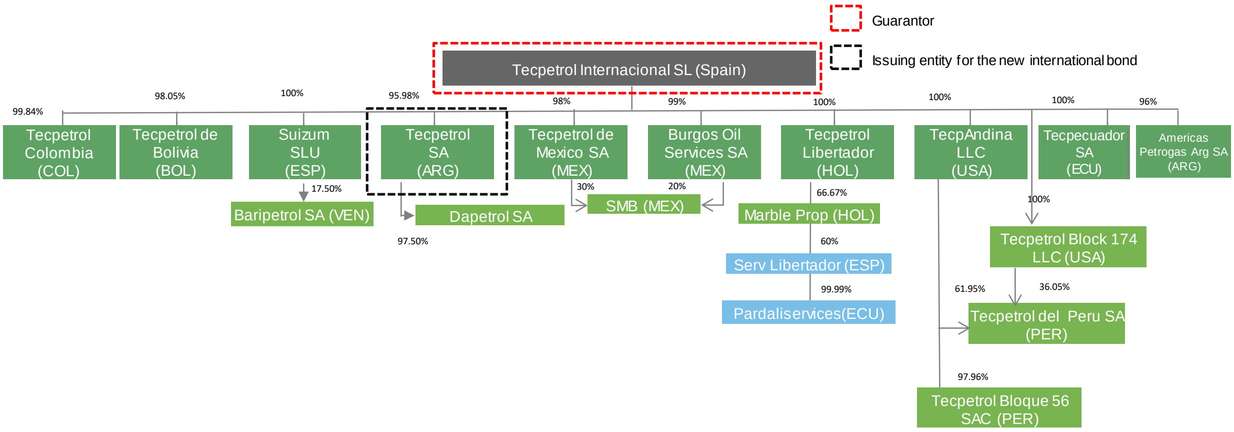
**Description of the Business of the Parent Guarantor**

The Parent Guarantor, through its subsidiaries, engages in exploration and production, transportation and distribution of hydrocarbons, as well as in power generation in Latin America.

The map below shows the location of the various businesses of the Parent Guarantor in the countries where it operates:

## Exploration and Production

The following chart sets out the corporate structure of the Parent Guarantor in relation to exploration and production:




The Parent Guarantor operates areas in Argentina’s *Neuquina* basin (which includes four non-conventional areas), *Noroeste* basin and *Golfo San Jorge* basin. The Parent Guarantor also operates in the Oriental basin of Ecuador and in the Burgos basin in Mexico, and has a share in the Baripetrol mixed enterprise, which operates the Colon area in the Maracaibo basin in western Venezuela. In Colombia, the Parent Guarantor is exploring and operating two areas: CPO-7 and CPO-13, respectively. The Parent Guarantor also has the following interests in areas operated by third parties: a 25% holding in the Ramos area in the *Noroeste* basin in Argentina; a 25% holding in the Shushufindi area and a 40% holding in the Kamana area (Eden Yuturi and Pañacocha) in Ecuador; a 10% holding in Blocks 88 and 56 of the Camisea gas field in the Ucayali basin in Peru; and a 20% holding in the Ipati and Aquío areas and in the basin of Tarija, Bolivia.

As of December 31, 2016, the Parent Guarantor produced approximately 85,000 barrels of petroleum equivalent (BOE) per day, and had over 1,400 producing wells, plants and facilities for primary and secondary recovery of oil and gas, conditioning and processing, and for power generation.

### Argentina

In Argentina, the Parent Guarantor carries out oil and gas exploration and production activities through the Company and the Parent Guarantor’s subsidiary Americas Petrogas Argentina S.A. (“APASA”).

We are a leading participant in the oil and gas market in Argentina with our activities of exploration, exploitation and transport of hydrocarbons. As of December 31, 2016, we held concessions or permits in 14 areas in the *Neuquina*, *Noroeste* and *Golfo San Jorge* basins. In particular, we are the second largest holder of wet gas acreage in the *Vaca Muerta* formation in the *Neuquina* basin, one of the largest shale reservoirs in the world, where we are focusing the vast majority of our development efforts.

In the year ended December 31, 2016 the production in the areas operated by us was 2,574 m3d of oil and 3,532 Mm3d of gas. In the year ended December 31, 2016, our own deliveries represented 1,399 m3d of oil and 1,466 Mm3d of gas. During the nine-month period ended September 30, 2017, the production in the areas operated by us was 1,994 m3d of oil and 4,084 Mm3d of gas. During the nine-month period ended September 30, 2017 our own deliveries represented 1,131 m3d of oil and 2,174 Mm3d gas. According to information from the Ministry of Energy, during the twelve month-period ended September 30, 2017 the production in the areas operated by us represented 2.8% of Argentina’s total oil production and 3.3% of Argentina’s total natural gas production, resulting in us being the fifth largest oil operator in Argentina after YPF S.A. (“YPF”), Pan American Energy LLC Sucursal Argentina, Pluspetrol Energy S.A. and Sinopec Argentina Exploration and Production Inc. and the sixth natural gas operator in the industrial sector.

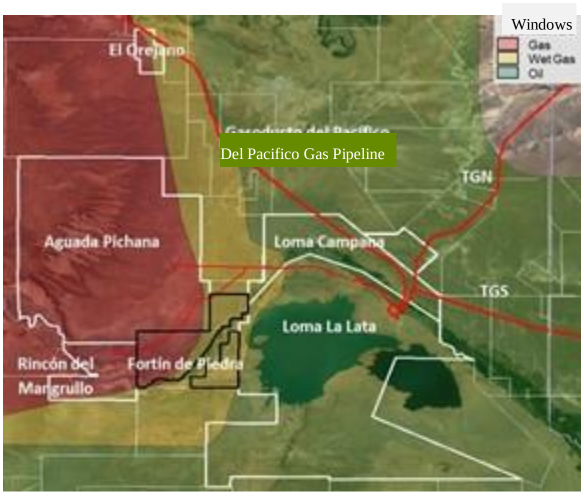
***Vaca Muerta***

With over 300 trillion cubic feet of gas resources, according to the EIA/ARI report dated June 17, 2013, *Vaca Muerta* is one of the largest shale areas (shale oil and shale gas) in the world, with technical characteristics similar to the most productive fields already developed in the United States. Their location in the Province of Neuquén, with abundant water and remote from urban areas should provide good conditions to promote its development.

In recent years, we positioned ourselves as one of the principal holders of acreages in the wet gas and dry gas windows in this formation, totaling 96,000 acres (184,000 acres including those of APASA). The most promising area is *Fortín de Piedra*, for which in July 2016 we obtained a concession for non-conventional exploitation until 2051.

The new framework established in agreement with the labor unions and the announcement by the Argentine government of a new gas price regime, both of which occurred at the beginning of 2017, along with the availability of equipment and qualified labor, persuaded us to commit to the most important investment plan in the following years. We expect to make investments of U.S.$2.3 billion by 2019 in the first development phase of the *Fortín de Piedra* area, which includes drilling approximately 150 wells and constructing facilities for gas treatment and transportation in a project that is technically very complex and requires the coordination of several parties.

The location of the *Fortín de Piedra* area (see map) only 40 kilometers away from the *Loma La Lata* power plant in the gas center of the basin, provides full access to the available transportation infrastructure of both TGN and TGS. Moreover, it is situated on the Neuquén river, which provides water for fracturing.




During 2016, in the *Fortín de Piedra* area we drilled one vertical well and two wells nearly 4,750 meters deep, with 1,500-meter horizontal branches, and we made investments in a gas treatment plant and connecting pipelines to transport production in the area. The first horizontal well tests showed good flow and wellhead pressure with satisfactory production prospects.

In early 2017, we drilled three wells in the *Fortín de Piedra* area, with 1,500-meter horizontal branches aimed at the *Vaca Muerta* formation. These wells were completed and are currently undergoing production testing, with gas and pressure volumes in line with expectations. Together with the four wells drilled in previous years - two horizontal and two vertical - daily production at the *Fortín de Piedra* area now totals 750,000 m3d of gas, restricted by surface processing capacity. Additionally, between the months of May and August of 2017 four drilling rigs were added, totaling five currently in operation in that area, which are drilling 20 horizontal wells with branches that are 2,000-meters-long. At the same time, progress continues on infrastructure projects in the *Fortín de Piedra* area, including erecting sites, constructing batteries, constructing and expanding treatment and dehydration plants, laying flow lines, and laying and connecting transport pipelines, among others things, with the objective of bringing gas treatment and delivery capacity in the area to 1.5 MMm3d by Septermber 2017 and to 5 MMm3d by the beginning of 2018.

On October 6, 2017, Ryder Scott delivered to us the Ryder Scott Reserves Report setting out an estimate of the proved, probable and possible gas and liquid hydrocarbon reserves, future production and income attributable to our 100% working interest in this area as of August 31, 2017, based on the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (the "SPE"), the World Petroleum Council (the "WPC"), American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers Petroleum Resources Management System, based on varying gas prices. The report estimates that, as of August 31, 2017, there were 674,981 MM cubic feet of proven gas reserves and 7,578 Mbbl of proven reserves of oil. See "Business of the Company—Reserves."

**Peru**

In Peru, the Parent Guarantor participates through its subsidiaries Tecpetrol del Peru S.A.C. ("Tecpetrol Peru") and Tecpetrol Bloque 56 S.A.C. ("Tecpetrol Bloque 56"), each of which hold a 10% interest (as non-operators) in the license agreements for the exploration and exploitation of hydrocarbons of Blocks 88 and 56, respectively, in the Camisea gas field.

**Ecuador**

In Ecuador, the Parent Guarantor has holdings in different subsidiaries in the Bermejo, Libertador-Atacapi, Shushufindi-Aguarico and Eden Yuturi-Pañacocha areas, all located in the Ecuadorian Amazon region. The Parent Guarantor is the operator of the first two fields through its subsidiaries Tecpecuador S.A. and Pardaliservices S.A., with interests of 100% and 40%, respectively, while in the remaining fields the interests are 25% and 40%, through Consorcio Shushufindi S.A. (Shushufindi) and Kamana Services S.A. (Kamana), respectively, both operated by Schlumberger.

**Bolivia**

In Bolivia, the Parent Guarantor, through its subsidiary *Tecpetrol de Bolivia S.A.* ("Tecpetrol Bolivia"), has a 20% holding as non-operator in the Ipati and Aquío blocks located between the departments of Santa Cruz and Chuquisaca. Such blocks are operated by Total Exploration & Production Bolivié Sucursal Bolivia, which has a holding of 50%, and other partners are GP Exploración y Producción SL Sucursal Bolivia with 20% and YPFB Chaco SA with 10%.

**Colombia**

The Parent Guarantor, through its subsidiary *Tecpetrol Colombia S.A.S.*, holds 100% of the exploration and production agreements for Blocks CPO-7 and CPO-13 located in Llanos Orientales, Colombia, awarded by the National Hydrocarbons Agency (ANH) in a competitive bidding process (Ronda Colombia 2008). The purpose of the agreements is to explore areas under contract and produce any oil (owned by the Colombian government) that is discovered in the aforesaid areas.

**Mexico**

The Parent Guarantor, through its subsidiaries Burgos Oil Services S.A. de C.V. and *Tecpetrol de México S.A. de C.V.*, holds 50% of *Servicios Múltiples de Burgos S.A. de C.V.* ("SMB"), and is the operator of the Mision Block, an area of 1,972 square kilometers, where there are currently over 120 producing wells with total production of approximately 27 bcf of natural gas per year and 0.1 million barrels of oil.

## Net Sales by Country

The following table shows the Parent Guarantor's net sales from the main countries where it operates for the nine-month period ended September 30, 2016 and 2017:

| | For the nine-month period ended September 30, | | Variation | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017/2016** | |
| | **unaudited (in euros and percentages)** | | | |
| Argentina | 192,620,918 | 180,497,758 | 12,123,160 | 7% |
| Peru | 148,570,391 | 122,418,195 | 26,152,196 | 21% |
| Ecuador | 78,945,906 | 90,732,926 | (11,787,020) | (13)% |
| Bolivia | 27,845,813 | 1,539,973 | 26,305,840 | 1708% |
| Mexico | 25,395,580 | 42,877,713 | (17,482,133) | (41)% |
| Colombia | 10,403,964 | — | 10,403,964 | 100% |
| Other | 14,270 | 306,298 | (292,028) | (95)% |
| **Net Sales** | **483,796,842** | **438,372,863** | **45,423,979** | **10**% |

## Reserves

The percentage holding of the Parent Guarantor in proven reserves certified by independent experts equaled 518.1 MMboe as of June 30, 2017 (including reserves under service contracts in which there is no ownership of production).

The following table sets out information on the total proven reserves of the Parent Guarantor as of June 30, 2017. Certain of the information provided below has been certified by independent third-party experts as indicated:

| | Oil (MMBbl) | | | Gas (Bcf) | | | |
|---|---|---|---|---|---|---|---|
| **Proven Reserves of the Parent Guarantor as of June 30, 2017**(1) | **Developed** | **Undeveloped** | **Total** | **Developed** | **Undeveloped** | **Total** | **Total (MMboe)** |
| **Argentina** | | | | | | | |
| El Tordillo(4) | 15.1 | 7.7 | 22.8 | 5.6 | 8.0 | 13.6 | 25.2 |
| Agua Salada(4) | 1.2 | 0.7 | 1.9 | 13.5 | 13.5 | 27.0 | 6.7 |
| Fortín de Piedra(6) | 0.5 | 7.1 | 7.6 | 35.0 | 667.1 | 702.0 | 132.6 |
| Aguaragüe(2)(4) | 0.8 | 0.2 | 0.9 | 13.7 | 3.8 | 17.5 | 4.0 |
| Ramos(4) | 0.3 | — | 0.3 | 17.8 | — | 17.8 | 3.5 |
| Otras | 1.1 | 0.5 | 1.7 | 19.6 | 14.1 | 33.7 | 7.7 |
| **Bolivia** | | | | | | | |
| Ipati(4) | 4.3 | — | 4.3 | 187.5 | — | 187.5 | 37.7 |
| Aquío(4) | 0.6 | — | 0.6 | 24.8 | — | 24.8 | 5.0 |
| **Peru** | | | | | | | |
| Bloque 88(3)(5) | 22.6 | 17.1 | 39.6 | 432.7 | 385.0 | 817.7 | 185.3 |
| Bloque 56(3)(5) | 6.1 | 6.3 | 12.3 | 92.6 | 102.2 | 194.8 | 47.0 |
| **Ecuador** | | | | | | | |
| Bermejo | 1.5 | — | 1.5 | — | — | — | 1.5 |
| Libertador | 1.9 | 4.6 | 6.5 | — | — | — | 6.5 |
| Shushufindi | 17.4 | 11.9 | 29.3 | — | — | — | 29.3 |
| Eden Yuturi | 1.7 | 2.8 | 4.5 | — | — | — | 4.5 |
| Pañacocha | — | 2.6 | 2.6 | — | — | — | 2.6 |
| **Venezuela** | | | | | | | |
| Colón | 1.9 | 0.1 | 2.0 | 1.4 | 0.1 | 1.5 | 2.3 |
| **Colombia** | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Bloque CPO-7 | 0.4 | — | 0.4 | — | — | — | 0.4 |
| Bloque CPO-13 | 2.3 | 7.2 | 9.5 | — | — | — | 9.5 |
| **Mexico** | | | | | | | |
| Misión(5) | 0.1 | 0.0 | 0.2 | 36.9 | 0.4 | 37.3 | 6.8 |
| **TOTAL** | **79.8** | **68.7** | **148.5** | **881.1** | **1,194.3** | **2,075.4** | **518.1** |

*Notes:—*

(1) At economic limit or end of concession, whichever occurs first.

(2) Gas reserves of Aguaragüe are net of balancing with YPF for quality adjustment.

(3) Gas reserves of Camisea pertain to production available for sale.

(4) Reserves certified by independent third-party expert as of June 30, 2017, 100%.

(5) Reserves certified by independent third-party expert as of December 31, 2016, 100% less production during the period from January – June 2017.

(6) Reserves certified by independent expert as of August 31, 2017, 100% plus production during the period from July – August 2017.

Proven reserves include reserves in exploitation as well as unexploited reserves.

Reserves are classified according to the methodologies used by the SPE and by the WPC. All estimates of reserves made by any independent third-party expert are prepared based on information provided by engineers, geologists and geophysicists of the relevant operator. On some occasions internal estimates are in turn validated by other independent certifying companies.

The process of estimation of volume of existing reserves of petroleum and natural gas is necessarily inexact due to geological, geophysical and other types of unknowns. The process entails ongoing review of estimates usually on an annual basis (except for cases when an immediate revision is necessary), based on additional information obtained from drillings, well tests and reserves studies.

For the calculation of reserve volumes of oil and natural gas, estimates are used, and quantities of oil and natural gas that are actually recovered may vary considerably.

### Transportation and Distribution

The Parent Guarantor also has interests in, and operates strategic energy companies in Argentina and Mexico. It has holdings in TGN, Transportadora de Gas del Mercosur (“TGM”) and in Litoral Gas S.A., all in Argentina, and in Norpower S.A. de C.V. in Mexico (Sistema 3).

### Power Generation

#### *Pesquería Power Plant*

In February 2014, Ternium, Tenaris and the Parent Guarantor signed an agreement to jointly build and operate a combined cycle natural gas power plant in Mexico, to supply power to the industrial plants of Tenaris and Ternium in Mexico. In order to carry out the project, Techgen, S.A. de C.V. was created as a variable capital corporation owned directly or indirectly by Ternium with a 48% holding, the Parent Guarantor with 30% and Tenaris with 22%.

The Pesqueria power plant is located in the area of Pesqueria in the state of Nuevo Leon, in northeastern Mexico and has a capacity of 900 MW.

### Business Strategy

Since the start of its operations in Argentina, the Parent Guarantor and its subsidiaries have focused on acquiring and developing hydrocarbon producing areas and reserves, either independently or with local and international partners.

In the short- to medium-term, the Parent Guarantor’s strategy is centered around the development of non-conventional gas in the *Vaca Muerta* formation in the Province of Neuquén.

**Competitive Strengths**

We believe that our and the Parent Guarantor's business strategy is underpinned by the following strengths:

- *Integration*: We participate in the exploration and exploitation of oil and gas in Argentina and, through the Parent Guarantor, we also have non-controlling interest in the transportation and distribution business of the same (i.e., TGN, TGM, and Litoral Gas S.A. in Argentina).
- *Increase of productivity in mature fields*: Using the most efficient technologies, we have been able to increase productivity in the areas we operate, achieving greater recovery of reserves in mature fields.
- *Exploration efficiency*: Since taking over operation in various areas, we have invested continuously in the exploration and study of reservoirs to incorporate new reserves while controlling costs and minimizing environmental impact of operations.
- *Optimization of processes*: Using modern technology in communications and information systems, we continuously aim to improve processes, increasing reliability and reducing costs and environmental impact.
- *Safety, Environment and Health*: We are strongly committed to the environment, social development, preservation of the environment, and the safety of personnel, all of which are fundamental in day to day activities.
- *Development of human resources*: It is our priority to consolidate growth by means of training employees who are qualified, committed and experienced in the various businesses in which we operate. Robust investment in training is a distinct example of our commitment in this direction.
- *Community commitment*: In consideration of the welfare of communities surrounding our operations, we carry out a sustainable development program to foster autonomy and decision-making, creating networks with the government, nongovernmental organizations, and other institutions.
- *Experienced management*: Our management is made up of stable, committed personnel with experience in the industry. In exploration and production, we have a group of highly qualified professionals in geosciences who evaluate projects, exploration strategies, location selection, drilling proposals, and workovers and make risk decisions involving risk. This team of professionals has wide experience in the petroleum basins of Latin America and in work methodology for operating in any area.
- *Member of the Techint Group*: We are part of the Techint Group of companies, with revenues of U.S.$15.2 billion for the year ended December 31, 2016 and approximately 48,500 permanent employees worldwide. As a result, we are able to take advantage of its state-of-the art technology, modern management systems and global presence.
- *Strategic positioning in Vaca Muerta*: We believe the non-conventional resources in the *Vaca Muerta* formation presents a unique investment opportunity and we believe we are well placed to benefit from it due to our acreage holding, experience and presence in the area and strong commitment to its development.

## THE OFFERING

*The following is a brief summary of certain terms of this offering. It does not contain all the information that is important to you. For a more complete understanding of this offering, you should read the entire offering memorandum, including "Description of the Notes."*

| | |
|---|---|
| Issuer………………………………….. | Tecpetrol S.A. |
| Parent Guarantor……………………… | Tecpetrol Internacional, S.L.U. |
| Notes Offered…………………………. | U.S.$500,000,000 of 4.875% Notes due 2022. |
| Offering Price…………………………. | 100.000%, plus accrued interest, if any, from December 12, 2017. |
| Maturity Date…………………………. | December 12, 2022. |
| Interest Rate………………………….. | The Notes will accrue interest at a rate of 4.875% per year. Interest will accrue from the issue date of the Notes. |
| Interest Payment Dates……………….. | June 12 and December 12 of each year, commencing on June 12, 2018. |
| Ranking……………………………….. | The Notes and Note Guarantee will be senior unsecured obligations and will rank equal in right of payment with all of our and the Parent Guarantor's existing and future senior unsecured indebtedness. The Notes and the Note Guarantee will effectively rank junior to all of our and the Parent Guarantor's secured indebtedness to the extent of the value of our and the Parent Guarantor's assets securing such indebtedness. The Notes and the Note Guarantee will be structurally subordinated to the indebtedness of the Company's subsidiaries.<br><br>As of September 30, 2017, we had consolidated total indebtedness of Ps.3,089.0 million (U.S.$178.5 million) and our Parent Guarantor had total indebtedness in an aggregate principal amount of euro 167.5 million (U.S.$197.8 million). As adjusted to give effect to the issuance of the Notes and the use of the net proceeds of this offering, we expect to have approximately Ps. 11,657.5 million (U.S.$673.5 million) of consolidated indebtedness, of which none is expected to be secured. |
| Additional Amounts…………………... | We will make payments in respect of the Notes without withholding or deduction for any taxes or other governmental charges imposed by Argentina, Spain or any political subdivision or any taxing authority thereof. In the event that such withholdings or deductions are required by law, we will, subject to certain exceptions, pay such additional amounts to ensure that the holders receive the same amount as the holders would otherwise have received in respect of payments on the Notes in the absence of such withholdings or deductions. See "Description of the Notes—Additional Amounts." |
| Optional Redemption Without a Make Whole Premium…………………….. | We may redeem all or part of the Notes at any time and from time to time on or after December 12, 2020 at the redemption prices set forth in "Description of the Notes—Optional Redemption—Optional Redemption without a Make-Whole Premium," plus accrued and unpaid interest thereon, if any, to the applicable redemption date. See "Description of the Notes—Optional |

| | |
|---|---|
| | Redemption—Optional Redemption without a Make-Whole Premium." |
| Optional Make-Whole Redemption…... | We may redeem the Notes, in whole but not in part, at any time prior to December 12, 2020, in an amount equal to 100% of the principal amount thereof, plus accrued and unpaid interest to the redemption date and a Make-Whole Premium. See "Description of the Notes—Optional Redemption—Optional Redemption with Make-Whole Premium." |
| Optional Redemption with Proceeds of Equity Offerings…………………….. | At any time prior to December 12, 2020, we may redeem up to 35% of the original principal amount of the Notes with the proceeds of certain equity offerings at a redemption price of 104.875% of the principal amount of the Notes thereof, plus accrued and unpaid interest to the redemption. See "Description of the Notes—Optional Redemption—Optional Redemption with Proceeds of Equity Offerings." |
| Optional Redemption Upon Tax Event.. | We may redeem the Notes, in whole but not in part, at a price equal to 100% of the principal amount plus accrued and unpaid interest and any Additional Amounts, upon the occurrence of certain changes in Argentine tax law. See "Description of the Notes—Optional Redemption—Optional Redemption upon Tax Event." |
| Change of Control…………………….. | Upon the occurrence of a Change of Control (as defined in "Description of the Notes"), we may be required to make an offer to purchase all or a portion of the Notes at a purchase price equal to 101% of the principal amount thereof, plus Additional Amounts (if applicable) and accrued and unpaid interest thereon to but excluding the purchase date. See "Description of the Notes—Change of Control Event." |
| Certain Covenants…………………….. | The Indenture governing the Notes limits our and our restricted subsidiaries' ability to, among other things:<br>• incur additional indebtedness;<br>• pay dividends and make other restricted payments;<br>• place limitations on dividends and other payments by our restricted subsidiaries;<br>• incur liens;<br>• make certain investments;<br>• sell assets outside the ordinary course of business;<br>• engage in transactions with affiliates; and<br>• merge, consolidate or transfer all or substantially all our assets.<br>These covenants are subject to a number of important qualifications and exceptions. In addition, if the Notes obtain investment grade ratings by at least two rating agencies and no default has occurred and is continuing, certain of the foregoing covenants will cease to be in effect for so long as the Notes maintain such ratings. See "Description of the Notes—Certain Covenants." |

| | |
|---|---|
| Use of Proceeds……………………….. | We will apply the net proceeds of the issuance of the Notes under this offering memorandum in compliance with the requirements of Article 36 of the Argentine Negotiable Obligations Law, and other applicable Argentine regulations, in effect in Argentina, for investment in fixed assets in the *Fortín de Piedra* area in the *Vaca Muerta* formation, in the Province of Neuquén, Argentina, in order to perform drilling activities and to complete existing oil and gas wells in such area (being understood by completions the set of works that is carried out at a well after drilling or during a repair, to leave the well in a condition where it can efficiently produce formation fluids or to allocate them to other uses, such as water or gas injection and the works can include lining the production reservoir with a smooth or grooved pipe, packing it with gravel or the perforating the lining and, finally, installing the production pipeline) as well as for oil and gas processing and transportation facilities in the area.<br><br>We may use the balance of the proceeds for (a) productive investments for the acquisition of fixed assets to be used in the hydrocarbon industry (including, without limitation, the acquisition of hydrocarbon areas) or in the conventional or renewable energy industry; and (b) working capital purposes in Argentina, it being understood that "working capital" shall be deemed to include current assets less current liabilities, including, payment to suppliers for inputs and / or services rendered and the payment of other current operating liabilities or impairment of other current liabilities.<br><br>The use and allocation of the net proceeds derived from the placement and issuance of the Notes are subject to market conditions. Therefore, we may modify the order of the aforementioned uses based on our business strategy. See "Use of Proceeds." |
| Book Entry; Form and Denominations; Minimum Subscription Amount……. | The Notes will be issued in the form of one or more global Notes without coupons, registered in the name of a nominee of DTC, as depositary, for the accounts of its direct and indirect participants including Clearstream and Euroclear. The Notes will be issued in minimum denominations of U.S.$1,000 and integral multiples of U.S.$1,000 in excess thereof. See "Description of the Notes—Book-Entry; Delivery and Form." This offering will require a minimum subscription amount of U.S.$150,000. |
| Listing………………………………… | We have applied to have the Notes listed on BYMA and on the Luxembourg Stock Exchange. We expect the Notes to be eligible for trading on the Euro MTF Market of the Luxembourg Stock Exchange. |
| Transfer Restrictions………………….......... | We have not registered the Notes under the Securities Act. The Notes are subject to restrictions on transfer and may only be offered in transactions exempt from or not subject to the registration requirements of the Securities Act. See "Transfer Restrictions." |

| | |
|---|---|
| Governing Law……………………….. | Each of the Notes and the Indenture shall be governed by, and construed in accordance with, the laws of the State of New York. Notwithstanding the foregoing, all matters relating to the issuance and initial delivery of the Notes, such as the capacity and corporate authorizations of the Company to execute and deliver the Notes, the authorization of the CNV for the establishment of the Program and the public offering of the Notes in Argentina, and the requirements to qualify the Notes as non-convertible *obligaciones negociables* are governed by, and shall be construed in accordance with, the Argentine Negotiable Obligations Law, together with Argentine Companies Law No. 19,550, as amended (the "Argentine Companies Law"), and other applicable Argentine laws and regulations. |
| Initial Purchasers……………………… | BBVA Securities Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Santander Investment Securities Inc. |
| Argentine Placement Agent…………… | BBVA Banco Francés S.A. and Banco Santander Río S.A. |
| Trustee, Co-Registrar, Paying Agent and Transfer Agent……………………… | The Bank of New York Mellon |
| Local Registrar, Local Paying Agent, Local Transfer Agent and Representative of the Trustee in Argentina…………………………… | Banco Santander Río S.A. |
| Luxembourg Listing Agent…………… | The Bank of New York Mellon SA/NV, Luxembourg Branch |
| Risk Factors…………………………… | You should carefully consider all of the information in this offering memorandum. See "Risk Factors" in this offering memorandum for a description of the principal risks involved in making an investment in the Notes. |

## SUMMARY FINANCIAL DATA

The following tables present our and the Parent Guarantor's summary financial information as of and for the periods indicated. Financial information as of and for the years ended December 31, 2016 and 2015 is derived from and should be read together with our 2016 Audited Annual Financial Statements and the 2016 and 2015 Parent Guarantor's audited annual financial statements, each of them included in this offering memorandum. Financial information as of and for the year ended December 31, 2014 is derived from and should be read together with our 2015 Audited Annual Financial Statements and the 2015 Parent Guarantor's Audited Annual Financial Statements, each of them included in this offering memorandum. Financial information as of September 30, 2017 and for the nine-month periods ended September 30, 2017 and 2016 is derived from and should be read together with our Unaudited Interim Financial Statements and the Parent Guarantor's Unaudited Interim Financial Statements, each of them included in this offering memorandum.

Our Financial Statements and other financial information included in this offering memorandum, unless otherwise specified, are stated in pesos. The U.S. dollar amounts set forth below are conversions from the peso amounts, included solely for the convenience of the reader. These conversions should not be construed as representations that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate. Unless otherwise indicated, we have translated U.S. dollar amounts in this offering memorandum, as of September 30, 2017 and for the nine-month period then ended, at the exchange rate of Ps.17.31 to U.S.$1.00, which was the selling rate published by Banco Nación on September 30, 2017 and U.S. dollar amounts as of December 31, 2016 and for the year then ended at the exchange rate of Ps.15.89 to U.S.$1.00, which was the selling rate published by Banco Nación on December 31, 2016. Investors should be aware that the methodology used in this offering memorandum for foreign exchange conversion may differ from the one recommended by the SEC. See "Exchange Rates and Exchange Controls" for information regarding the rates of exchange between the peso and the U.S. dollar.

The Parent Guarantor's Financial Statements and other financial information included in this offering memorandum, unless otherwise specified, are stated in euros. The U.S. dollar amounts set forth below in relation to the Parent Guarantor are conversions from the euro amounts, included solely for the convenience of the reader. These conversions should not be construed as representations that the euro amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate. Unless otherwise indicated, we have translated U.S. dollar amounts in this offering memorandum, as of September 30, 2017 and for the nine-month period then ended, at the exchange rate of euro 0.847 to U.S.$1.00, which was the noon buying rate published by the U.S. Federal Reserve Board on September 30, 2017 and U.S. dollar amounts as of December 31, 2016 and for the year then ended at the exchange rate of euro 0.9487 to U.S.$1.00, which was the noon buying rate published by the U.S. Federal Reserve Board on December 31, 2016. Investors should be aware that the methodology used in this offering memorandum for foreign exchange conversion may differ from the one recommended by the SEC. See "Exchange Rates and Exchange Controls" for information regarding the rates of exchange between the euro and the U.S. dollar.

For additional information regarding financial information presented in this offering memorandum, see "Presentation of Financial and Other Information."

TECPETROL S.A.

**Consolidated Income Statement**

| | Pursuant to Argentine GAAP For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | **2016** | **2016** | **2015** | **2014** |
| | **(in thousands of U.S.$)** | **(in thousands of pesos)** | | |
| Net sales | 237,677 | 3,776,688 | 2,884,458 | 3,443,396 |
| Export duties and other export costs | (762) | (12,103) | (3,846) | (391,639) |
| Operating costs | (186,738) | (2,967,264) | (2,315,368) | (1,986,752) |
| **Gross profit** | **50,178** | **797,322** | **565,243** | **1,065,005** |
| Result from valuation of inventories at net realizable value | 5,148 | 81,801 | 64,149 | 51,068 |
| Selling expenses | (12,204) | (193,919) | (93,786) | (88,562) |
| Administrative expenses | (37,339) | (593,312) | (420,841) | (463,602) |
| Exploration costs | (3,623) | (57,575) | (23,286) | (24,999) |
| Other taxes | (5,104) | (81,107) | (64,483) | (51,386) |
| Other income and expenses, net | 607 | 9,646 | 23,804 | 101,200 |
| **Operating Result** | **(2,338)** | **(37,145)** | **50,801** | **588,722** |
| Result from investments in subsidiaries under significant influence and other related parties | (88) | (1,396) | 188,351 | (105,954) |
| Net financial and holding results generated by assets / liabilities, net | (46,489) | (738,710) | (670,497) | (257,788) |
| **(Loss)/Income before income tax** | **(48,914)** | **(777,252)** | **(431,346)** | **224,980** |
| Income tax | 14,082 | 223,757 | 239,453 | (116,611) |
| Minority interest in controlled companies | 191 | 3,038 | (668) | (361) |
| **(Loss)/Income for the year** | **(34,642)** | **(550,457)** | **(192,561)** | **108,007** |
| Company Adjusted EBITDA considering Argentine GAAP Financial Statements(2) (unaudited) | 68,026 | 1,080,940 | 834,904 | 816,999 |

*Notes:—*

(1) We have translated U.S. dollar amounts at the selling rate at December 31, 2016 of Ps.15.89 per U.S. dollar, published by Banco Nación.

(2) We calculate Company Adjusted EBITDA considering Argentine GAAP Financial Statements as, for any year/period, the sum (without duplication), determined on a consolidated basis in accordance with Argentine GAAP for such period, of (i) our consolidated (Loss)/Income for the year (after income tax and minority interest in controlled companies); plus (ii) the sum of each of the following, to the extent that it would be necessary or applicable under Argentine GAAP to deduct them for purposes of determining our consolidated (Loss)/Income for the year, (a) the consolidated income tax, (b) the minority interest in controlled companies, (c) the consolidated financial and holding results generated by assets and liabilities, (d) consolidated depreciation of fixed assets and amortization of other assets, and (e) consolidated charges and recoveries of allowance variation and other liabilities.

**Condensed Consolidated Interim Income Statement**

| | Pursuant to IAS34 For the Nine-month Periods Ended September 30, | | |
|---|---|---|---|
| | (unaudited) | | |
| | 2017(1) | 2017 | 2016 |
| | (in thousands of U.S.$) | (in thousands of pesos) | |
| **Continuing operations** | | | |
| Net sales | 192,414 | 3,330,687 | 2,827,050 |
| Operating costs | (186,541) | (3,229,029) | (2,156,457) |
| **Gross margin** | **5,873** | **101,658** | **670,593** |
| Selling expenses | (7,995) | (138,390) | (173,467) |
| Administrative expenses | (35,008) | (605,980) | (483,828) |
| Exploration costs | (45) | (784) | (35,239) |
| Other operating income | 1,110 | 19,222 | 2,352 |
| Other operating expenses | (169) | (2,930) | (14,703) |
| **Operating result** | **(36,234)** | **(627,204)** | **(34,292)** |
| Financial income | 888 | 15,371 | 34,219 |
| Financial costs | (9,181) | (158,930) | (188,218) |
| Other financial results, net | (3,076) | (53,254) | (7,399) |
| **Loss before result of equity-accounted investments and before income tax** | **(47,604)** | **(824,017)** | **(195,690)** |
| Result of equity accounted investments | (3) | (60) | (2) |
| **Loss before income tax** | **(47,607)** | **(824,077)** | **(195,692)** |
| Income tax | 3,935 | 68,123 | 77,963 |
| **Loss for the period from continuing operations** | **(43,672)** | **(755,954)** | **(117,729)** |
| **Discontinued operations** | | | |
| Loss for the period from discontinued operations | (9,484) | (164,172) | (188,934) |
| **Loss for the period** | **(53,156)** | **(920,126)** | **(306,663)** |
| **Loss attributable to:** | | | |
| Owners of the parent | (52,929) | (916,203) | (302,679) |
| Non-controlling interest | (227) | (3,923) | (3,984) |
| Company Adjusted EBITDA considering IAS 34 Financial Statements(2) (unaudited) | 40,411 | 699,517 | 797,200 |

*Notes:—*

(1) We have translated U.S. dollar amounts at the selling rate at September 30, 2017, of Ps.17.31 per U.S. dollar, published by Banco Nación.

(2) We calculate Company Adjusted EBITDA considering IFRS/IAS 34 Financial Statements as, for any year/period, the sum (without duplication), determined on a consolidated basis in accordance with IFRS/IAS 34 for such period, of (i) our consolidated Result for the year/period (after income tax); plus (ii) the sum of each of the following, to the extent that it would be necessary or applicable under IFRS/IAS 34 to deduct them for purposes of determining our consolidated result for the year/period, (a) the income tax from both continuing and discontinued operations, (b)

consolidated net financial results, from both continuing and discontinued operations, including consolidated interest cost, interest income and other financial results, net (including net result from exchange differences), (c) all amounts in respect of depreciation of property, plant and equipment and impairment of property, plant and equipment from both continuing and discontinued operations, and (d) all charges and reversal of provisions in respect of continuing and discontinued operations related to allowance for doubtful accounts and allowance for legal claims and contingencies.

The following table presents, for the periods indicated, our reconciliation of Company Adjusted EBITDA, considering Argentine GAAP Financial Statements to (Loss)/Income for the year:

| | **Pursuant to Argentine GAAP For the Years Ended December 31,** | | | |
|---|---|---|---|---|
| **Income Statement** | **2016[(1)]** | **2016** | **2015** | **2014** |
| | **(in thousands of U.S.$)** | **(in thousands of Ps.)** | | |
| (Loss)/Income for the year | (34,642) | (550,457) | (192,561) | 108,007 |
| Depreciation of fixed assets and amortization of other assets | 63,616 | 1,010,855 | 583,664 | 396,711 |
| Minority interest in controlled companies | (191) | (3,038) | 668 | 361 |
| Income Tax | (14,082) | (223,757) | (239,453) | 116,611 |
| Financial and holding results generated by liabilities / assets | 46,489 | 738,710 | 670,497 | 257,788 |
| Allowance variation and other liabilities | 6,836 | 108,626 | 12,089 | (62,480) |
| **Company Adjusted EBITDA considering Argentine GAAP Financial Statements (unaudited)** | **68,026** | **1,080,940** | **834,904** | **816,999** |

*Note:—*

(1) We have translated U.S. dollar amounts at the selling rate at December 31, 2016, of Ps.15.89 per U.S. dollar, published by Banco Nación.

The following table presents, for the periods indicated, our reconciliation of Company Adjusted EBITDA, considering IAS 34 Financial Statements to Loss for the period:

| Condensed Consolidated Interim Income Statement | Pursuant to IAS 34 For the Nine-month period ended September 30, (unaudited) 2017[(1)] | 2017 | 2016 |
|---|---|---|---|
| | (in thousands of U.S.$) | (in thousands of Ps.) | |
| Loss for the period | (53,156) | (920,126) | (306,663) |
| Depreciation of property, plant and equipment and impairment of property, plant and equipment | 80,495 | 1,393,372 | 789,916 |
| Income Tax | (3,935) | (68,123) | (77,963) |
| Financial results, net | 17,614 | 304,891 | 312,642 |
| Allowance for doubtful accounts and allowance for legal claims and contingencies | (606) | (10,497) | 79,268 |
| **Company Adjusted EBITDA considering IAS 34 Financial Statements (unaudited)** | **40,411** | **699,517** | **797,200** |

*Note:—*

(1) We have translated U.S. dollar amounts at the selling rate at September 30, 2017, of Ps.17.31 per U.S. dollar, published by Banco Nación.

### Consolidated Balance Sheet

| | Pursuant to Argentine GAAP As of December 31, 2016[(1)] | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| | (in thousands of U.S.$) | (in thousands of pesos) | | |
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and banks | 1,866 | 29,654 | 42,497 | 92,361 |
| Other investments | 11,894 | 188,991 | 153,643 | 61,924 |
| Trade receivables | 39,781 | 632,122 | 282,331 | 319,230 |
| Other receivables | 51,958 | 825,610 | 832,964 | 225,489 |
| Inventories | 14,849 | 235,953 | 171,279 | 150,278 |
| **Total current assets** | **120,348** | **1,912,331** | **1,482,714** | **849,281** |
| **Non-current assets** | | | | |
| Other receivables | 43,908 | 697,691 | 516,963 | 215,193 |
| Deferred Tax | 8,962 | 142,407 | 278,368 | 246,907 |
| Investments | 682 | 10,837 | 10,560 | 16,120 |
| Fixed assets | 611,602 | 9,718,353 | 6,628,097 | 3,360,667 |
| Other assets | 20,619 | 327,635 | 262,839 | 290,173 |
| **Total non-current assets** | **685,772** | **10,896,923** | **7,696,827** | **4,129,060** |
| **Total assets** | **806,120** | **12,809,253** | **9,179,541** | **4,978,342** |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Debts | | | | |

| | Pursuant to Argentine GAAP As of December 31, | | | |
|---|---|---|---|---|
| | 2016[1] | 2016 | 2015 | 2014 |
| | (in thousands of U.S.$) | (in thousands of pesos) | | |
| Trade payables | 73,030 | 1,160,447 | 697,701 | 847,809 |
| Borrowings | 218,057 | 3,464,918 | 1,342,152 | 564,798 |
| Social security and tax payables | 8,970 | 142,539 | 124,089 | 189,885 |
| Other liabilities | 156 | 2,474 | 3,659 | 264,393 |
| Total debts | 300,213 | 4,770,379 | 2,167,601 | 1,866,885 |
| Allowances and provisions | 313 | 4,980 | 6,111 | 22,721 |
| **Total current liabilities** | **300,526** | **4,775,359** | **2,173,712** | **1,889,605** |
| **Non-current liabilities** | | | | |
| Debts | | | | |
| Borrowings | 321,126 | 5,102,686 | 4,686,006 | 1,976,816 |
| Social security and tax payables | 22,621 | 359,449 | 286,519 | 227,898 |
| Other liabilities | 69,955 | 1,111,590 | 680,023 | 406,018 |
| Total debts | 413,702 | 6,573,725 | 5,652,549 | 2,610,732 |
| Allowances and provisions | 2,598 | 41,283 | 39,922 | 35,874 |
| **Total non-current liabilities** | **416,300** | **6,615,007** | **5,692,470** | **2,646,606** |
| **Total liabilities** | **716,826** | **11,390,366** | **7,866,183** | **4,536,211** |
| **MINORITY INTEREST IN SUBSIDIARIES** | **(126)** | **(2,000)** | **1,278** | **1,304** |
| **SHAREHOLDERS' EQUITY** | | | | |
| **As per related statement** | **89,420** | **1,420,887** | **1,312,081** | **440,826** |
| **Total liabilities plus shareholders' equity** | **806,120** | **12,809,253** | **9,179,541** | **4,978,342** |
| Current liquidity ratio[2] (unaudited) | 0.40 | 0.40 | 0.68 | 0.45 |
| Solvency ratio[3] (unaudited) | 0.12 | 0.12 | 0.17 | 0.10 |
| Capital immobilization ratio[4] (unaudited) | 0.85 | 0.85 | 0.84 | 0.83 |

*Notes:—*

(1) We have translated U.S. dollar amounts at the selling rate at December 31, 2016, of Ps.15.89 per U.S. dollar, published by Banco Nación.

(2) Current Assets/Current Liabilities.

(3) Shareholders' Equity/Total Liabilities.

(4) Non-Current Assets/Total Assets.

**Condensed Consolidated Interim Statement of Financial Position**

| | Pursuant to IAS 34 As of September 30, (unaudited) | |
|---|---|---|
| | 2017(1) | 2017 |
| | (in thousands of U.S.$) | (in thousands of pesos) |
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment. Exploration, evaluation and development assets | 519,357 | 8,990,063 |
| Investments in entities accounted for using the equity method | 71 | 1,232 |
| Available-for-sale financial assets | 14,409 | 249,418 |
| Deferred tax asset | 11,298 | 195,575 |
| Other receivables and prepayments | 44,414 | 768,802 |
| Income tax credit | 4,841 | 83,794 |
| **Total Non-current assets** | **594,390** | **10,288,884** |
| **Current assets** | | |
| Inventories | 11,192 | 193,741 |
| Other receivables and prepayments | 24,888 | 430,819 |
| Income tax credit | 206 | 3,568 |
| Trade receivables | 41,832 | 724,116 |
| Cash and cash equivalents | 14,151 | 244,960 |
| **Total Current assets** | **92,271** | **1,597,204** |
| **Total assets** | **686,660** | **11,886,088** |
| **EQUITY AND LIABILITIES** | | |
| **Equity** | | |
| Share capital | 219,526 | 3,800,000 |
| Capital contributions | 51,874 | 897,941 |
| Special reserve | 25,173 | 435,751 |
| Other reserves | 41,012 | 709,913 |
| Retained earnings | (91,360) | (1,581,442) |
| **Total equity attributable to Company Shareholders** | **246,225** | **4,262,163** |
| Non-controlling interest | (20) | (351) |
| **Total Equity** | **246,205** | **4,261,812** |
| **Non-current liabilities** | | |
| Borrowings | 175,986 | 3,046,317 |
| Employee benefits programs | 19,556 | 338,513 |
| Provisions | 73,531 | 1,272,823 |
| Trade and other payables | 45 | 784 |

| | Pursuant to IAS 34 As of September 30, (unaudited) | |
|---|---|---|
| | 2017[(1)] | 2017 |
| | (in thousands of U.S.$) | (in thousands of pesos) |
| **Total Non-current liabilities** | 269,118 | 4,658,437 |
| **Current liabilities** | | |
| Borrowings | 2,468 | 42,717 |
| Provisions | 2,809 | 48,622 |
| Trade and other payables | 166,060 | 2,874,500 |
| **Total Current liabilities** | **171,337** | **2,965,839** |
| **Total liabilities** | **440,455** | **7,624,276** |
| **Total equity and liabilities** | **686,660** | **11,886,088** |
| Current liquidity ratio[(2)] (unaudited) | 0.54 | 0.54 |
| Solvency ratio[(3)] (unaudited) | 0.56 | 0.56 |
| Capital immobilization ratio[(4)] (unaudited) | 0.87 | 0.87 |

*Notes:—*

(1) We have translated U.S. dollar amounts at the selling rate at September 30, 2017, of Ps.17.31 per U.S. dollar, published by Banco Nación.

(2) Current Assets/Current Liabilities.

(3) Shareholders' Equity/Total Liabilities.

(4) Non-Current Assets/Total Assets.

TECPETROL INTERNACIONAL, S.L.U.

## Consolidated Income Statements

| | Pursuant to IAS 34 For the Nine-Month Periods Ended September 30, (unaudited) | | | Pursuant to IFRS For the Years Ended December 31, | | | |
|---|---|---|---|---|---|---|---|
| | **2017** | **2017** | **2016** | **2016** | **2016** | **2015** | **2014** |
| | **(in U.S.$)[1]** | **(in euros, except percentages or ratios)** | | **(in U.S.$)[2]** | **(in euros, except percentages or ratios)** | | |
| **Continuing Operations** | | | | | | | |
| Net sales | 571,188,715 | 483,796,842 | 438,372,863 | 631,964,153 | 599,544,392 | 663,196,663 | 758,223,492 |
| Operating costs | (440,065,016) | (372,735,069) | (311,016,627) | (449,697,030) | (426,627,572) | (519,079,749) | (433,229,209) |
| **Gross profit** | **131,123,699** | **111,061,773** | **127,356,236** | **182,267,123** | **172,916,820** | **144,116,914** | **324,994,283** |
| Selling expenses | (24,422,765) | (20,686,082) | (64,024,208) | (10,190,424) | (9,667,655) | (31,074,401) | (48,367,912) |
| Administrative expenses | (52,376,898) | (44,363,233) | (38,869,878) | (50,400,334) | (47,814,797) | (58,486,592) | (61,910,669) |
| Exploration costs | (8,752,302) | (7,413,200) | (2,150,743) | (2,990,207) | (2,836,809) | (11,469,957) | (2,490,020) |
| Other operating income | 5,755,459 | 4,874,874 | 419,147 | 1,175,456 | 1,115,155 | 6,277,773 | 11,626,441 |
| Other operating expenses | (353,081) | (299,059) | (1,552,929) | (9,301,245) | (8,824,092) | (10,086,515) | (17,574,411) |
| **Operating income** | **50,974,112** | **43,175,073** | **21,177,625** | **110,560,369** | **104,888,622** | **39,277,222** | **206,277,712** |
| Interest income | 7,278,739 | 6,165,092 | 3,609,573 | 5,400,281 | 5,123,247 | 2,675,927 | 3,869,951 |
| Interest expense | (24,583,282) | (20,822,040) | (27,884,869) | (38,607,460) | (36,626,897) | (48,573,422) | (28,574,061) |
| Other financial results, net | (621,767) | (526,637) | (534,976) | (1,584,248) | (1,502,977) | 41,819,441 | 1,830,732 |
| **Income before equity in earnings of investments accounted for using the equity method and income tax** | **33,047,802** | **27,991,488** | **(3,632,647)** | **75,768,942** | **71,881,995** | **35,199,168** | **183,404,334** |
| Equity in earnings of investments accounted for using the equity method | 63,798,990 | 54,037,745 | 21,618,590 | 12,837,153 | 12,178,607 | 32,758,134 | 56,515,797 |
| **Income before tax** | **96,846,792** | **82,029,233** | **17,985,943** | **88,606,095** | **84,060,602** | **67,957,302** | **239,920,131** |
| Income tax | (25,544,310) | (21,636,031) | (9,361,394) | (35,364,521) | (33,550,321) | (28,761,100) | (71,424,062) |
| **Income for the period/year from continuing operations** | **71,302,482** | **60,393,202** | **8,624,549** | **53,241,574** | **50,510,281** | **39,196,202** | **168,496,069** |
| **Discontinued operations** | | | | | | | |
| Result for the period/year from discontinued operations | — | — | — | — | — | (46,928,504) | (55,066,265) |
| **Result for the period/year** | **71,302,482** | **60,393,202** | **8,624,549** | **53,241,574** | **50,510,281** | **(7,732,302)** | **113,429,804** |
| **Attributable to:** | | | | | | | |
| Owners of the parent | 67,240,363 | 56,952,587 | 24,777,764 | 41,870,154 | 39,722,215 | (10,234,387) | 102,226,458 |
| Non-controlling interests | 4,062,119 | 3,440,615 | (16,153,215) | 11,371,420 | 10,788,066 | 2,502,085 | 11,203,346 |
| Parent Guarantor Adjusted EBITDA[3] (unaudited) | 277,616,947 | 235,141,554 | 206,681,527 | 277,310,971 | 263,084,918 | 268,854,326 | 352,883,654 |

*Notes:—*

(1) We have translated U.S. dollar amounts at the noon buying rate at September 30, 2017, of euro 0.847 per U.S. dollar, published by the Federal Reserve Board.

(2) We have translated U.S. dollar amounts at the noon buying rate at December 31, 2016, of euro 0.9487 per U.S. dollar, published by the Federal Reserve Board.

(3) The Parent Guarantor calculates Parent Guarantor Adjusted EBITDA as, for any year/period, the sum (without duplication), determined on a consolidated basis in accordance with IFRS-EU for such year/period, of (i) the consolidated Result for the year/period of the Parent Guarantor (after income tax); plus (ii) the sum of each of the following, to the extent that it would be necessary or applicable under IFRS-EU to deduct them for purposes of

determining the consolidated Result for the year/period of the Parent Guarantor, (a) the Income tax from both continuing and discontinued operations, (b) consolidated Net Financial Results, from both continuing and discontinued operations, including consolidated Interest expense, Interest income and Other financial results, net (including foreign exchange differences), (c) all amounts in respect of Depreciation of property, plant and equipment, Amortization of intangible assets and Impairments of property, plant and equipment and intangible assets from both continuing and discontinued operations, and (d) all charges for provisions in respect of both continuing and discontinued operations, including charges of Allowances for doubtful accounts, Provisions for legal claims and contingencies and Reversal of provisions, in each case, for the Parent Guarantor for such year/period.

The following table presents, for the years/periods indicated, the reconciliation of Parent Guarantor Adjusted EBITDA to Result for the year/period:

| | For the Nine-Month Period Ended September 30, | | | For the Years Ended December 31, | | | |
|---|---|---|---|---|---|---|---|
| | (unaudited) | | | | | | |
| **Consolidated Income Statement** | **2017** | **2017** | **2016** | **2016** | **2016** | **2015** | **2014** |
| | **(in U.S.$)(1)** | **(in euros)** | | **(in U.S.$)(2)** | **(in euros)** | | |
| Result for the period / year | 71,302,482 | 60,393,202 | 8,624,549 | 53,241,574 | 50,510,281 | (7,732,302) | 113,429,804 |
| Depreciation of property, plant and equipment, Amortization of intangible assets and Impairment of property, plant and equipment | 150,877,843 | 127,793,533 | 106,246,033 | 152,439,014 | 144,618,893 | 219,787,386 | 137,121,087 |
| Income Tax | 25,544,311 | 21,636,031 | 9,361,394 | 35,364,521 | 33,550,321 | 28,761,100 | 71,424,062 |
| Interest income, Interest expense and Other financial results, net | 17,926,310 | 15,183,585 | 24,810,272 | 34,791,427 | 33,006,627 | 10,925,023 | 28,074,344 |
| Allowances for doubtful accounts, Provisions for legal claims and contingencies and Reversal of Provisions | 11,966,001 | 10,135,203 | 57,639,279 | 1,474,435 | 1,398,796 | 17,113,119 | 2,834,357 |
| **Parent Guarantor Adjusted EBITDA (unaudited)** | **277,616,947** | **235,141,554** | **206,681,527** | **277,310,971** | **263,084,918** | **268,854,326** | **352,883,654** |

*Notes:—*

(1) We have translated U.S. dollar amounts at the noon buying rate at September 30, 2017, of euro 0.847 per U.S. dollar, published by the Federal Reserve Board.

(2) We have translated U.S. dollar amounts at the noon buying rate at December 31, 2016, of euro 0.9487 per U.S. dollar, published by the Federal Reserve Board.

## Consolidated Statement of Financial Position

| | As of September 30, | | As of December 31, | | | |
|---|---|---|---|---|---|---|
| | (unaudited) | | | | | |
| | **2017** | **2017** | **2016** | **2016** | **2015** | **2014** |
| | **(in U.S.$)(1)** | **(in euros)** | **(in U.S.$)(2)** | **(in euros)** | | |
| **ASSETS** | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 1,190,514,089 | 1,008,365,433 | 961,734,782 | 912,397,788 | 828,242,402 | 713,216,645 |
| Intangible assets | 95,647,280 | 81,013,246 | 118,995,757 | 112,891,275 | 154,470,782 | 161,696,334 |

| | As of September 30, | | As of December 31, | | | |
|---|---|---|---|---|---|---|
| | (unaudited) | | | | | |
| | 2017 | 2017 | 2016 | 2016 | 2015 | 2014 |
| | (in U.S.$)[(1)] | (in euros) | (in U.S.$)[(2)] | | (in euros) | |
| Investments in entities accounted for using the equity method | 281,206,228 | 238,181,675 | 222,655,208 | 211,232,996 | 198,088,634 | 152,817,107 |
| Available-for-sale financial assets | 2,654,721 | 2,248,549 | 2,164,257 | 2,053,231 | 1,920,367 | 21,816,957 |
| Deferred tax assets | 25,360,911 | 21,480,692 | 18,125,035 | 17,195,221 | 15,723,037 | 19,600,241 |
| Other investments | 24,512,713 | 20,762,268 | — | — | — | — |
| Other receivables and prepayments | 158,027,000 | 133,848,869 | 104,977,616 | 99,592,264 | 49,061,514 | 28,502,127 |
| Income tax credit | 4,840,968 | 4,100,300 | 9,181,947 | 8,710,913 | 1,622,368 | 2,283,476 |
| Trade receivables | — | — | 58,826,569 | 55,808,765 | — | — |
| **Total non-current assets** | **1,782,763,910** | **1,510,001,032** | **1,496,661,171** | **1,419,882,453** | **1,249,129,104** | **1,099,932,887** |
| **Current assets** | | | | | | |
| Inventories | 26,340,316 | 22,310,248 | 36,474,345 | 34,603,211 | 34,363,081 | 26,847,920 |
| Other receivables and prepayments | 44,920,633 | 38,047,776 | 47,541,984 | 45,103,080 | 45,961,302 | 45,762,417 |
| Income tax credit | 14,370,018 | 12,171,405 | 2,449,007 | 2,323,373 | 15,434,919 | 4,386,459 |
| Trade receivables | 138,245,548 | 117,093,979 | 156,011,462 | 148,008,074 | 120,675,234 | 99,115,015 |
| Other investments | 36,625,566 | 31,021,854 | — | — | — | — |
| Cash and cash equivalents | 226,929,485 | 192,209,274 | 111,766,674 | 106,033,044 | 72,918,059 | 220,840,792 |
| **Total current assets** | **487,431,566** | **412,854,536** | **354,243,472** | **336,070,782** | **289,352,595** | **396,952,603** |
| Assets of disposal group classified as held for sale | — | — | — | — | 26,057,895 | 43,194,976 |
| **Total assets** | **2,270,195,476** | **1,922,855,568** | **1,850,904,643** | **1,755,953,235** | **1,564,539,594** | **1,540,080,466** |
| **EQUITY** | | | | | | |
| **Capital and reserves attributable to owners of the parent** | | | | | | |
| Share capital | 118,063,754 | 100,000,000 | 13,460,525 | 12,770,000 | 12,770,000 | 12,770,000 |
| Share premium | 988,273,783 | 837,067,894 | 197,198,103 | 187,081,840 | 233,831,372 | 233,831,372 |
| Other shareholders contributions | 39,657,995 | 33,590,322 | 1,084,927 | 1,029,270 | — | — |
| Legal reserve | 3,015,348 | 2,554,000 | 2,692,105 | 2,554,000 | 2,554,000 | 2,554,000 |
| Currency translation differences and revaluation reserve | (210,786,164) | (178,535,881) | (69,977,830) | (66,387,967) | (86,821,889) | (94,009,274) |
| Retained earnings and other reserves | 657,752,598 | 557,116,450 | 529,354,761 | 502,198,862 | 415,727,115 | 286,836,192 |
| **Total equity attributable to owners of the parent** | **1,595,977,314** | **1,351,792,785** | **673,812,591** | **639,246,005** | **578,060,598** | **441,982,290** |
| Non-controlling interests | 62,639,743 | 53,055,862 | 49,558,407 | 47,016,061 | 33,657,346 | 23,276,310 |
| **Total equity** | **1,658,617,057** | **1,404,848,647** | **723,370,998** | **686,262,066** | **611,717,944** | **465,258,600** |

| | As of September 30, | | As of December 31, | | | |
|---|---|---|---|---|---|---|
| | (unaudited) | | | | | |
| | 2017 | 2017 | 2016 | 2016 | 2015 | 2014 |
| | (in U.S.$)[1] | (in euros) | (in U.S.$)[2] | | (in euros) | |
| **Liabilities** | | | | | | |
| **Non-current liabilities** | | | | | | |
| Borrowings | 132,099,749 | 111,888,487 | 586,164,244 | 556,094,018 | 462,178,316 | 637,090,564 |
| Deferred tax liabilities | 49,325,011 | 41,778,284 | 49,596,300 | 47,052,010 | 47,899,015 | 44,523,052 |
| Employee benefits | 21,358,615 | 18,090,747 | 21,043,201 | 19,963,685 | 18,922,408 | 20,198,453 |
| Provisions | 90,632,055 | 76,765,351 | 76,492,665 | 72,568,591 | 56,679,700 | 53,247,613 |
| Trade and other payables | 52,001 | 44,045 | 51,931 | 49,267 | 159,015 | 271,051 |
| **Total non-current liabilities** | **293,467,431** | **248,566,914** | **733,348,341** | **695,727,571** | **585,838,454** | **755,330,733** |
| **Current liabilities** | | | | | | |
| Borrowings | 65,707,704 | 55,654,425 | 216,290,861 | 205,195,140 | 205,375,923 | 97,887,391 |
| Provisions | 2,809,000 | 2,379,223 | 313,385 | 297,308 | 430,450 | 2,756,852 |
| Income tax liabilities | 14,931,328 | 12,646,835 | 13,675,032 | 12,973,503 | 4,240,889 | 16,764,128 |
| Trade and other payables | 234,662,956 | 198,759,524 | 163,906,026 | 155,497,647 | 145,071,478 | 194,305,166 |
| **Total current liabilities** | **318,110,988** | **269,440,007** | **394,185,304** | **373,963,598** | **355,118,740** | **311,713,537** |
| Liabilities of disposal group classified as held for sale | — | — | — | — | **11,864,456** | **7,777,596** |
| **Total liabilities** | **611,578,419** | **518,006,921** | **1,127,533,645** | **1,069,691,169** | **952,821,650** | **1,074,821,866** |
| **Total equity and liabilities** | **2,270,195,476** | **1,922,855,568** | **1,850,904,643** | **1,755,953,235** | **1,564,539,594** | **1,540,080,466** |
| Current liquidity ratio[3] (unaudited) | 1.53 | 1.53 | 0.90 | 0.90 | 0.81 | 1.27 |
| Solvency ratio[4] (unaudited) | 2.61 | 2.61 | 0.60 | 0.60 | 0.61 | 0.41 |
| Capital immobilization ratio[5] (unaudited) | 0.79 | 0.79 | 0.81 | 0.81 | 0.80 | 0.71 |

*Notes:—*

(1) We have translated U.S. dollar amounts at the noon buying rate at September 30, 2017, of euro 0.847 per U.S. dollar, published by the Federal Reserve Board.

(2) We have translated U.S. dollar amounts at the noon buying rate at December 31, 2016, of euro 0.9487 per U.S. dollar, published by the Federal Reserve Board.

(3) Current Assets/Current Liabilities.

(4) Total equity attributable to owners of the parent/Total Liabilities.

(5) Non-Current Assets/Total Assets.

## RISK FACTORS

*An investment in the Notes involves a high degree of risk. Prospective investors should carefully consider the risks described below before making an investment decision. In general, investing in the securities of issuers in emerging market countries such as Argentina, Peru and Ecuador involves certain risks not typically associated with investing in securities of U.S. companies. Our business, financial condition and results of operations, including our ability to repay the Notes, could be materially and adversely affected by any of these risks. In particular, our and the Parent Guarantor's operations and earnings are subject to risks as a result of changes in competitive, economic, political, legal, regulatory, social, industrial, business and financial conditions. The trading price of the Notes could decline due to any of these risks, and investors may lose all or part of their investment. The risks described below are those known to us and to the Parent Guarantor and that we currently believe may materially affect us. Additional risks not presently known to us or to the Parent Guarantor or that we currently consider immaterial may also impair our business.*

*This offering memorandum also contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements." Our and the Parent Guarantor's actual results could differ materially and adversely from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this offering memorandum.*

### Risks Relating to Argentina

***We are highly dependent on macroeconomic conditions in Argentina.***

Our business and financial results depend to a significant degree on macroeconomic, political, regulatory and social conditions in Argentina. We are a corporation organized under the laws of Argentina and substantially all of our operations, assets and revenues are located in or derived from Argentina. The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high levels of inflation and currency devaluation, and may experience further volatility in the future.

During 2001 and 2002, Argentina experienced a period of severe political, economic and social crisis, which caused a significant economic contraction and led to radical changes in government policies. Among other consequences, the crisis resulted in Argentina defaulting on its sovereign foreign debt obligations, a significant devaluation of the peso and ensuing inflation, and the introduction of emergency measures that have affected many sectors of the economy, and the energy sector in particular. These emergency measures and other economic policies have included, among others, foreign exchange and capital controls, export duties and restrictions, price controls, and government intervention in the private sector and nationalizations. As a result of the crisis and the government's response, many private sector debtors with foreign currency exposure defaulted on their outstanding debt.

Although Argentina has largely recovered from the 2001-2002 crisis, the pace of growth of Argentina's economy diminished, suggesting uncertainty as to whether the growth experienced between 2003 and 2011 was sustainable, and the economy suffered a sustained erosion of capital investment. Economic growth was initially fueled by a significant devaluation of the peso, the availability of excess production capacity resulting from a long period of deep recession. During 2008 and 2009, however, the Argentine economy suffered a slowdown attributed to local and external factors, including the effects of the global economic crisis and an extended drought affecting agricultural activities. Economic conditions in Argentina from 2012 to 2015 included a tightening of foreign exchange controls (beginning in the second half of 2011), increased inflation, a rising fiscal deficit and limitations on Argentina's ability to service its sovereign debt in accordance with its terms due to its litigation with holdout creditors, which was settled in 2016. In addition, there is an increasing need for capital investment, with many sectors, particularly the energy sector, operating near full capacity. A decline in international demand for Argentine products, the loss of competitiveness of Argentine products and services vis à vis other markets, a decline in confidence among consumers and foreign and domestic investors, a higher rate of inflation and future political uncertainties, among other factors, may affect the development of the Argentine economy.

Volatility in the Argentine economy and measures taken by the Argentine government have had, and are expected to continue to have, a significant impact on us. As in the recent past, Argentina's economy may be adversely affected if political and social pressures inhibit the implementation by the present Argentine government of policies designed to control inflation, generate growth and enhance consumer and investor confidence, or if policies implemented by the Argentine government that are designed to achieve these goals are not successful. We cannot provide any assurance that future economic, social and political developments in Argentina, over which we have no control, will not impair our business, financial condition and results of operations.

***Political developments in Argentina could adversely affect the Argentine economy and the energy sector in particular.***

Presidential and congressional elections in Argentina took place and a runoff election (*ballotage*) between the two leading presidential candidates was held on November 22, 2015, which resulted in Mr. Mauricio Macri being elected President of Argentina. The Macri administration assumed office on December 10, 2015.

Since assuming office, the Macri administration has announced and implemented several significant economic and policy reforms, including:

- *INDEC reforms*. On January 2016, based on its determination that the INDEC had failed to produce reliable statistical information, the Macri administration declared the national statistical system and the INDEC in a state of administrative emergency. INDEC is implementing certain methodological reforms and adjusting certain macroeconomic statistics on the basis of these reforms which enabled a readjustment of Argentine duties towards the International Monetary Fund (the "IMF"). On June 15, 2016, INDEC began publishing inflation rates. Using its new methodology for calculating the consumer price index (the "CPI"), the variation of the CPI as of July 2017 calculated against December 31, 2016 was 13.8%. On June 29, 2016, INDEC also published revised GDP data for the years 2004 through 2015. On September 22, 2016, INDEC resumed publication of its essential goods and services basket assessment. See "—Continuing high inflation could have a negative effect on our financial performance." On November 9, 2016, the Executive Board of the IMF lifted its censure on Argentina, noting that Argentina had resumed the publication of data in a manner consistent with its obligations under the Articles of Agreement of the IMF. See "—The credibility of several Argentine economic indexes has been called into question, which may lead to a lack of confidence in the Argentine economy and may in turn limit our ability to access the credit and capital markets."

- *Foreign exchange reforms*. The Macri administration eliminated substantially all of the foreign exchange restrictions, including certain currency controls, that were imposed by the previous administration. Furthermore, on August 9, 2016, through the issuance of Communication "A" 6,037, the Argentine Central Bank substantially changed the existing legal framework and eliminated certain restrictions limiting the access to the MULC. See "—Exchange controls and restrictions on capital inflows and outflows could limit the availability of international credit, adversely affecting the Argentine economy, and, as a result, our financial condition and results of operations."

- *Financial policy*. Soon after taking office, the Macri administration sought to settle the outstanding claims with the holders of untendered debt, and the Minister of Treasury designed a debt restructuring and cancellation program with the aim of reducing the amount of outstanding untendered debt. In February 2016, Argentina entered into agreements to settle outstanding claims with certain holders of untendered debt and put forward a proposal to other holders of untendered debt, including those with pending claims in U.S. courts. On March 31, 2016, the Argentine Congress repealed the legislative obstacles to the settlement and approved the settlement proposal. As of December 31, 2016, the outstanding principal amount of untendered debt that was not subject to a settlement agreement totaled approximately U.S.$1.51 billion.

- *Foreign trade reforms*. The Macri administration has eliminated or reduced export duties on several agricultural products, most industrial and mining exports.

- *Fiscal policy*. The Macri administration took steps to anchor the fiscal policy looking to reduce the primary fiscal deficit through a series of tax and other measures, and has announced its intention to reduce the primary deficit in 2017, in part by eliminating public services subsidies currently in place, such as those applying to electricity and gas services.
- *Correction of monetary imbalances*. The Macri administration has adopted an inflation targeting regime in parallel with the floating exchange rate regime and set inflation targets for the next four years. The Argentine Central Bank has increased stabilization efforts to reduce excess monetary imbalances and raised peso interest rates to offset inflationary pressure. In addition, since January 2017, the Argentine Central Bank no longer uses the 35-day Lebac interest rate as its main policy instrument, but, instead, uses the seven-day interbank lending rate as a reference rate, which the Argentine Central Bank is to determine weekly. See "—Continuing high inflation could have a negative effect on our financial performance."
- *Tax Amnesty Law*. In July 2016, the *Régimen de Sinceramiento Fiscal* (the "Tax Amnesty Law") was introduced to promote the voluntary declaration of assets by Argentine residents. The law allowed Argentine tax residents holding undeclared funds or assets located in Argentina or abroad to (i) declare such property until March 31, 2017 without facing prosecution for tax evasion or being required to pay outstanding tax liabilities on the assets, provided they can provide evidence that the assets were held by certain specified cut-off dates, and (ii) keep the declared property outside Argentina and not repatriate such property to Argentina. In the case of cash that was not deposited in bank accounts by the specified cut-off dates, such amounts had to be disclosed by October 31, 2016 and deposited by November 21, 2016 in special accounts opened at Argentine financial entities. As of December 31, 2016, assets totaling approximately Ps.97.8 billion had been declared pursuant to which the Government raised Ps.106.8 billion in the special tax established by such law. The new regime also created a "National Program of Historic Reparation for Retirees and Pensioners" which aims, among other purposes, to repay retirees who sued the state over the readjustment of their pensions and to create a "universal old age pension plan" for everyone over 65 years old, even if they have never made contributions or do not qualify for the standard state pension. The new payments would be covered with the funds that the government hopes to obtain with the tax amnesty regime and with the sale of assets, including shareholdings of the Sustainability Guarantee Fund of the ANSES.
- *National electricity state of emergency and reforms*. The Macri administration declared a state of emergency with respect to the national electrical system, which will remain in effect until December 31, 2017. The state of emergency will allow the Argentine government to take actions designed to ensure the supply of electricity to the country, such as instructing the Ministry of Energy and Mining to design and implement, with the cooperation of all federal public entities, a coordinated program to guarantee the quality and security of the electricity system. In addition, the Macri administration announced the elimination of certain energy subsidies currently in effect and a substantial increase in electricity rates. By correcting tariffs, modifying the regulatory framework and reducing the Argentine government's role as an active market participant, the Macri administration aims to correct distortions in the energy sector and stimulate investment. In addition, the new administration increased substantially the price of natural gas in the regulated market, particularly for residential and commercial users, and instructed the gas entity to adjust gas transportation and distribution tariffs, which also increased substantially as part of the transition process to adjust tariffs. However, these measures have caused and may continue to cause unrest and result in judicial involvement, which may reduce the effectiveness of such measures. See "—Restrictions on the supply of energy could negatively impact the Argentine economy."
- *Draft bill on the development of the Argentine capital markets.* On November 13, 2016, the Argentine government submitted a draft bill to the Lower House of the Argentine Congress for the development of the domestic capital markets. The draft bill provides for the amendment and update of the Argentine Capital Markets Law, the Mutual Funds Law No. 24,083 and the Argentine Negotiable Obligations Law, among others. Furthermore, the bill provides for the amendment of certain tax provisions, regulations relating to derivatives and the promotion of a financial inclusion

program. On November 22, 2017 the draft bill obtained approval by the Lower House of the Argentine Congress and was sent to the Senate for its approval.

- *Labor and social security draft reform bill.* The Argentine government recently announced a labor and social security draft reform bill which was sent to Congress for debate on November 22, 2017. The draft bill intends to improve competitiveness and efficiency of the different productive sectors, increase generation of employment, attract investment and reduce the labor costs.
- *Draft tax reform bill*. On October 31, 2017, the Argentine government announced its intention to submit a series of tax and social security reforms to the Argentine Congress for consideration prior to the end of 2017. These reforms are intended to eliminate certain of the existing complexities and inefficiencies of the Argentine tax regime, diminish evasion, increase the coverage of income tax as applied to individuals and encourage investment while sustaining its medium and long term efforts aim at restoring fiscal balance. The proposed reforms are part of a larger program announced by President Macri intended to increase the competitiveness of the Argentine economy (including by reducing the fiscal deficit) as well as employment, and diminish poverty on a sustainable basis. On November 15, 2017, the draft tax reform bill was sent to the Argentine Congress by the Argentine government in order to be discussed and eventually passed into law. The draft bill would introduce several modifications to the existing tax regime, including modifications to income tax for corporate entities and individuals, value added tax, social security, tax on debit and credits on bank accounts, local taxes (turnover tax and stamp tax), excise tax, tax on fuels, tax on transfer of real estate and customs tax.

Some of the measures proposed by the Macri administration may generate political and social opposition, which may in turn prevent the new government from adopting such measures as proposed. Political parties opposed to the Macri administration retained a majority of the seats in both chambers of the Argentine Congress in the recent elections, which will require the Macri administration to continue to seek political support from the opposition for its economic proposals, however, the governing coalition of President Macri won decisive victories in key districts across Argentina in midterm legislative elections held on October 22, 2017.

The fiscal, monetary and currency adjustments undertaken by the Macri administration may subdue growth in the short-term. For example, immediately after the foreign exchange controls were lifted on December 16, 2015, the dismantling of the multiple exchange regime resulted in the official peso exchange rate (available only for certain types of transactions) falling in value by 36.4%, as the peso-U.S. dollar exchange rate reached Ps.13.4 to U.S.$1.00 on December 17, 2015. As of December 4, 2017, the peso-U.S. dollar exchange rate was Ps.17.36 to U.S.$1.00.

As of the date of this offering memorandum, the impact that these measures and any future measures taken by the Macri administration could have on the Argentine economy as a whole and the energy sector in particular cannot be predicted. In particular, we have no control over the implementation, nor can predict the outcome, of the reforms to the regulatory framework that governs our operations and cannot guarantee that these reforms will be implemented or implemented in a manner that will benefit our business. The failure of these measures to achieve their intended goals could adversely affect the Argentina economy and our ability to service our debt obligations, including the Notes.

***Significant fluctuations in the value of the peso could negatively affect the Argentine economy and our financial performance.***

With the tightening of exchange controls beginning in late 2011, in particular with the introduction of measures that limited access to foreign currency by private companies and individuals (such as requiring an authorization of tax authorities to access the foreign currency exchange market), the implied exchange rate, as reflected in the quotations for Argentine securities that trade in foreign markets, compared to the corresponding quotations in the local market, increased significantly over the official exchange rate. Certain foreign exchange restrictions were lifted in December 2015 and, as a result, the substantial spread between the official exchange rate and the implicit exchange rate derived from securities transactions has substantially decreased. See "—

Exchange controls and restrictions on capital inflows and outflows could limit the availability of international credit, adversely affecting the Argentine economy, and, as a result, our financial condition and results of operations."

In 2015, the peso depreciated 52.5% with respect to the U.S. dollar, including a 10% devaluation from January 1, 2015 to September 30, 2015 and a 38% devaluation during the last quarter of the year 2015, mainly concentrated after December 16, 2015. During 2016, the peso depreciated approximately 21.9% with respect to the U.S. dollar. As of December 4, 2017, the exchange rate was Ps.17.36 to U.S.$1.00. We are unable to predict the future value of the peso against the U.S. dollar. If the peso continues to devalue, all or some of the negative effects on the Argentine economy related to such devaluation could reappear.

Conversely, a substantial increase in the value of the peso against the U.S. dollar also presents risks for the Argentine economy. A significant real appreciation of the peso would adversely affect exports, which could have a negative effect on GDP growth and employment, as well as reduce the Argentine public sector's revenues by reducing tax collection in real terms, given its current heavy reliance on taxes on exports.

Since the end of the peso-dollar parity, the Argentine Central Bank repeatedly intervened in the peso exchange market to prevent further devaluations of the peso, which decreased the reserves of the Argentine Central Bank.

We are unable to predict whether, and to what extent, the value of the peso may further depreciate or appreciate against the U.S. dollar and how any such fluctuations may affect the demand for our products and services. Moreover, we cannot assure you that the Argentine government will not make regulatory changes that prevent or limit us from offsetting the risk derived from our exposure to the U.S. dollar and, if so, what impact these changes could have on our financial condition and results of operations.

A substantial portion of our revenues and investments are tied to the U.S. dollar, while a majority of our costs have a local component. Consequently, variations in the rate of exchange between the U.S. dollar and the peso could have a negative effect on our financial condition and results of operations.

***The credibility of several Argentine economic indexes has been called into question, which may lead to a lack of confidence in the Argentine economy and may in turn limit our ability to access the credit and capital markets.***

Since 2007, the INDEC has experienced a process of institutional and methodological reforms that have given rise to controversy with respect to the reliability of the information that it produces including inflation, GDP and unemployment data. As a result, the credibility of the CPI, as well as other indexes published by the INDEC has been affected, with allegations that the inflation rate in Argentina and the other rates calculated by INDEC could be substantially different than as indicated in official reports.

Reports published by the IMF state that their staff uses alternative measures of inflation for macroeconomic surveillance, including data produced by private sources, which have shown inflation rates considerably higher than those published by the INDEC since 2007. The IMF has also censured Argentina for failing to make sufficient progress, as required under the Articles of Agreement of the IMF, in adopting remedial measures to address the quality of official data, including inflation and GDP data.

In February 2014, the INDEC released a new inflation index, known as National Urban Consumer Price Index (*Índice de Precios al Consumidor Nacional Urbano*) that measures prices on goods across the country and replaces the previous index that only measured inflation in the urban sprawl of the City of Buenos Aires. Even though the new methodology brought inflation statistics closer to those estimated by private sources, material differences between recent official inflation data and private estimates remained during 2015.

However, during December 2015 and January 2016, the new administration declared the national statistical system and the INDEC in state of administrative emergency through December 31, 2016, and announced that the INDEC will implement certain methodological reforms and adjust certain macroeconomic statistics on the basis of these reforms. Accordingly, the new head of the INDEC announced the decision to temporarily suspend the publication of official data on prices, poverty, unemployment and GDP until a full review of the institution was completed. In the meantime, the Macri administration released an alternative CPI index based on data from the City of Buenos Aires and the Province of San Luis. In June 2016 the INDEC resumed its CPI publications and revised GDP data for the years 2006 through 2015. Among other adjustments, in calculating GDP for 2004, the INDEC made changes to the composition of GDP that resulted in a downward adjustment of approximately 12% for that year. In calculating real GDP for subsequent years based on the revised 2004 GDP, the INDEC used deflators that are consistent with its revised methodology to calculate inflation. By understating inflation in the past, the INDEC had overstated growth in real terms. The adjustments made by the INDEC result in a determination of real GDP growth for the period 2004-2015 of 48.6%, as opposed to a 63% growth in real terms for the same period resulting from the information used prior to June 2016. Despite these reforms that have been approved by the IMF, there remains uncertainty as to whether official data and measurement procedures sufficiently reflect inflation in the country, and what effect these reforms could have on the Argentine economy.

As of the date of this offering memorandum, the impact that these measures and other future measures taken by the Macri administration with respect to the INDEC could have on the Argentine economy and investors' perception of the country cannot be predicted.

***Continuing high inflation could have a negative effect on the Argentine economy and on our financial performance.***

Inflation has, in the past, materially undermined the Argentine economy and the government's ability to foster conditions that would permit stable growth. In recent years, Argentina has confronted inflationary pressures, evidenced by significantly higher fuel, energy and food prices, among other factors. In response, the prior Argentine administration implemented programs to control inflation and monitor prices for essential goods and services, including freezing the prices of key products and services (including electricity tariffs), and price support arrangements agreed between the Argentine government and private sector companies in several industries and markets.

Inflation rates could escalate in the future, and there is uncertainty regarding the effects that the measures adopted, or that may be adopted in the future, by the Argentine government to control inflation could have. If inflation remains high or continues to rise, Argentina's economy may be negatively impacted and our results of operations could be materially affected.

***Government intervention in the Argentine economy could adversely affect the economy and our financial condition and results of operations.***

In the recent past, the Argentine government has directly intervened in the economy, including through the implementation of expropriations or nationalizations and price controls.

In December 2012 and August 2013, the Argentine Congress established new regulations relating to domestic capital markets. The new regulations generally provide for increased intervention in the capital markets by the government, authorizing, for example, the CNV to appoint observers with the ability to veto the decisions of the board of directors of companies admitted to the public offering regime under certain circumstances and suspend the board of directors for a period of up to 180 days.

Although the Macri administration has not taken an interventionist approach, in the future, the level of intervention in the economy by the Argentine government may continue or increase. Therefore, it is subject to political uncertainties, including the risk of expropriation or nationalization of our business or assets, or subject to renegotiation or annulment of existing contracts and other similar risk. We cannot assure you that these or other measures that may be adopted by the Argentine government in the future in response to social unrest, such as nationalizations, intervention by the CNV, forced renegotiations or modifications of existing contracts, new tax policies, price fixing, regulations and reforms affecting foreign trade and investments, will not have a material adverse effect on the Argentine economy and, consequently, will not adversely affect our business, financial condition and results of operations.

***Exchange controls and restrictions on capital inflows and outflows could limit the availability of international credit, adversely affecting the Argentine economy, and, as a result, our financial condition and results of operations.***

In 2001 and 2002, Argentina experienced a mass withdrawal of deposits from the financial system as a result of a lack of confidence in the Argentine government's ability to repay its debt and sustain the parity between the peso and the U.S. dollar. This caused a liquidity crisis in the Argentine financial system, which led the Argentine government to impose exchange controls and transfer restrictions, substantially limiting the ability of companies to retain foreign currency or make payments abroad. After 2002, these restrictions, including those requiring the Argentine Central Bank's prior authorization for the transfer of funds abroad to pay principal and interest on debt obligations, were substantially eased. In addition to the foreign exchange restrictions applicable to outflows, however, in June 2005 the Argentine government adopted various rules and regulations that established new restrictive controls on capital inflows into the country, including a requirement that, for certain funds remitted into Argentina, an amount equal to 30% of the funds must be deposited into an account with a local financial institution as a U.S. dollar deposit for a one-year period without any accrual of interest, benefit or other use as collateral for any transaction.

Moreover, since the last quarter of 2011 and through December 17, 2015, the Argentine government increased controls on the sale of foreign currency and the acquisition of foreign assets by local residents, limiting the possibility of transferring funds abroad. Regulations were also issued pursuant to which certain foreign exchange transactions were subject to prior approval by Argentine tax authorities. As a result, the Argentine authorities significantly curtailed access to the foreign exchange market by individuals and private-sector entities.

The number of exchange controls introduced in the past and in particular after 2011 during the prior administration gave rise to an unofficial U.S. dollar trading market, and the peso-U.S. dollar exchange rate in such market substantially differed from the official peso-U.S. dollar exchange rate.

Since December 2015, the Macri administration lifted most exchange control restrictions, and in August 2016, the Argentine Central Bank issued new regulations which repealed most of the restrictions for the purchase of foreign currency and the inflow and outflow of funds from Argentina. Additionally, in order to increase the level of international reserves, the Argentine Central Bank has executed certain bond repurchase agreements with several Argentine and foreign entities.

Notwithstanding the measures adopted by the Macri administration, which lifted virtually all exchange and capital controls, in the future the Argentine government could reestablish exchange controls or restrictions on the movement of capital and/or take other measures in response to capital flight or a significant depreciation of the peso, which could limit our ability to access the international capital markets. Such measures could lead to political and social tensions and undermine the Argentine government's public finances, as has occurred in the past, which could adversely affect Argentina's economy and prospects for economic growth. For more information, see "—Exchange controls and restrictions on capital inflows and outflows could limit the availability of international credit, adversely affecting the Argentine economy, and, as a result, our financial condition and results of operations" and "Exchange Rates and Exchange Controls."

***The Argentine economy could be adversely affected by economic events in other markets.***

Argentina's economy is vulnerable to external shocks that could be caused by adverse developments affecting its principal trading partners. A significant decline in the economic growth of any of Argentina's major trading partners (including Brazil, the European Union, China and the United States) could have a material adverse impact on Argentina's balance of trade and adversely affect Argentina's economic growth. Declining demand for Argentine exports could have a material adverse effect on Argentina's economic growth. In particular, the economy of Brazil, Argentina's largest export market and its principal source of imports, is currently experiencing heightened negative pressure due to the uncertainties stemming from ongoing political crisis, including the impeachment of Brazil's former president, Ms. Dilma Rousseff and recent corruption allegations against Brazil's current president, Mr. Michel Temer. The Brazilian economy contracted by 3.8% during 2015, and by 3.6% during 2016. A further deterioration of economic conditions in Brazil may reduce demand for Argentine exports and create advantages for Brazilian imports. While the impact of Brazil's downturn on Argentina or our operations cannot be predicted, we cannot assure you that the Brazilian political and economic crisis will not have further negative impact on the Argentine economy or our operations.

In addition, financial and securities markets in Argentina have been influenced by economic and market conditions in other markets worldwide. Such was the case in 2008, when the global economic crisis led to a sudden economic decline in Argentina in 2009, accompanied by inflationary pressures, depreciation of the Argentine peso and a drop in consumer and investor confidence. Although economic conditions vary from country to country, investors' perception of the events occurring in one country may substantially affect capital flows into other countries. International investors' reactions to events occurring in one market sometimes demonstrate a "contagion" effect in which an entire region or class of investment is disfavored by international investors. Argentina could be adversely affected by negative economic or financial developments in other countries, which in turn could have an adverse effect on our financial condition and results of operations. Lower capital inflows and declining securities prices negatively affect the real economy of a country through higher interest rates or currency volatility. Moreover, Argentina may also be affected by other countries that have influence over world economic cycles.

The international economy is showing contradictory signals of global growth, leading to significant financial uncertainty. In addition, emerging market economies have been affected by the recent change in the U.S. monetary policy, resulting in the unwinding of investments and increased volatility in the value of their currencies. If interest rates rise significantly in developed economies, including the United States, emerging market economies, including Argentina, could find it more difficult and expensive to borrow capital and refinance existing debt, which would negatively affect their economic growth. Moreover, the challenges faced by the European Union to stabilize certain of its member economies have had and may continue to have international implications affecting the stability of global financial markets, which has hindered economies worldwide.

In a referendum on membership of the European Union held on June 23, 2016, the United Kingdom voted in favor of the British government taking the necessary action for the U.K. to leave the European Union (commonly known as "Brexit"). The British government has announced preliminary measures to be implemented in order to facilitate the U.K.'s exit from the European Union triggered the formal process to leave the European Union on March 29, 2017. That process is expected to conclude by mid-2019. The U.K.'s decision to leave the European Union has caused, and is anticipated to continue to cause, uncertainties and instability in the financial markets, which may affect us and the trading price of the Notes. These uncertainties could have a material adverse effect on our business, financial condition, results of operations and prospects.

On November 8, 2016, Donald J. Trump was elected as the president of the United States and he assumed office on January 20, 2017. The policies implemented by Trump's administration have tended to impose greater restrictions on free trade generally and immigration. Changes in social, political, regulatory and economic conditions in the United States, or in laws and policies governing foreign trade, could create uncertainty in the international markets and could have a negative impact on emerging market economies, including the Argentine economy, which in turn could have a negative impact on our operations.

***Government measures, as well as pressure from labor unions, could require salary increases or added worker benefits, all of which could increase companies' operating costs.***

Labor relations in Argentina are governed by specific legislation, such as Labor Law No. 20,744 and Collective Bargaining Law No. 14,250, which, among other things, dictate how salary and other labor negotiations are to be conducted. Most industrial or commercial activities are regulated by a specific collective bargaining agreement that groups together companies according to industry sectors and by trade unions. Argentine employers, both in the public and private sectors, have experienced significant pressure from their employees and labor organizations to significantly increase wages and to provide additional employee benefits. Due to the high levels of inflation, employees and labor organizations are demanding significant wage increases. In the past, the Argentine government has passed laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees.

In the future, the government could take new measures requiring salary increases or additional benefits for workers, and the labor force and labor unions may apply pressure for such measures. Any such increase in wage or worker benefit could result in added costs and reduced results of operations for Argentine companies, including us.

***A continued decline in the global prices for Argentina's main commodity exports could have an adverse effect on Argentina's economic growth.***

High commodity prices have contributed significantly to the increase in Argentine exports since 2002 as well as in governmental revenues from export taxes. However, this reliance on the export of certain commodities, such as soy, has made the Argentine economy more vulnerable to fluctuations in their prices. Since the beginning of 2015, international commodity prices for Argentina's primary commodity exports have tended to decline, which has had an adverse effect on Argentina's economic growth. If international commodity prices continue to decline, the Argentine economy could be adversely affected. In addition, adverse weather conditions can affect the production of commodities by the agricultural sector, which account for a significant portion of Argentina's export revenues.

These circumstances would have a negative impact on the levels of government revenues, available foreign exchange and the government's ability to service its sovereign debt, and could either generate recessionary or inflationary pressures, depending on the government's reaction. Either of these results would adversely impact Argentina's economy growth and, therefore, our financial condition and results of operations.

***Restrictions on the supply of energy could negatively impact the Argentine economy.***

Following Argentina's 2001-2002 economic crisis, the subsequent freeze of gas and electricity tariffs in pesos and the significant devaluation of the peso against the U.S. dollar, there has been a lack of investment in gas and electricity supply and transport capacity in Argentina. Over the same period, demand for non-liquefied natural gas and electricity increased substantially.

The Macri administration has announced various measures, including Decree No. 134/2015 of December 16, 2015, which placed the national electricity system in a state of emergency until December 31, 2017. The Macri administration also announced that it would review the energy subsidy policies, and on January 25, 2016, pursuant to Resolution No. 6/2016 and Resolution No. 31/2016, the Ministry of Energy and Mining approved the "Quarterly Reprogramming of Summer" for the wholesale electricity market, thus increasing rates by almost 200% on average, and the elimination of some natural gas subsidies and adjustments to natural gas rates.

Certain provincial governments, municipalities, hospitals, companies and residents, among others, have filed claims against the Ministry of Energy and Mining and with competent courts against the new electricity and gas tariffs. In some cases, intervening courts have agreed to their demands or ordered public services providers to suspend the application of the new tariffs, arguing, in general, that the increased tariffs are arbitrary, illegal and/or unconstitutional. The Federal Government has been holding formal meetings with several provinces to assess the situation and the impact that the rise in electricity and gas tariffs could have on their economy and financial situation. As a result of those meetings, an understanding has been recently announced by the Federal Government with respect to natural gas and electricity involving limitations on the increase in tariffs and the establishment of differential rates or discounts in certain cases.

On August 18, 2016, the Supreme Court ruled and confirmed the suspension of the increased residential gas tariffs, arguing that the increased tariffs cannot be established without previously holding public hearings (a requirement that was not fulfilled by the Federal Government when increasing the tariff). The Supreme Court ruling did not address industries and businesses, to which gas tariff increases will be applicable. On September 16, 2016, the Ministry of Energy conducted a public hearing and informed that a new gas tariff scheme will be announced during October 2016. In addition, on September 6, 2016, the Supreme Court reversed a Federal Court of Appeals ruling that suspended the increase in residential electricity tariffs in certain districts of the Province of Buenos Aires, arguing that the plaintiffs lacked standing to initiate the proceeding. As of the date of this offering memorandum, there are other claims initiated in other jurisdictions, which may reach the Supreme Court for resolution. On October 28, 2016, a non-binding public hearing was conducted by the Ministry of Energy and Mining and the National Electricity Regulating Agency (the Ente Nacional Regulador de la Electricidad or "ENRE") to present tariff proposals submitted by distribution companies covering the greater Buenos Aires area (with approximately 15 million inhabitants) for the 2017-2021 period in the framework of the integral tariff review. On February 1, 2017, the ENRE enacted several resolutions which, among other policy changes, implement a reduction of electricity subsidies for electricity distributors *Empresa Distribuidora y Comercializadora Norte S.A.* and *Empresa Distribuidora Sur S.A.*, and an increase in electricity tariffs for residential users of said companies. The amount of the increase varies between 61% and 148% depending on the amount of electricity consumption. On December 14, 2016, eight non-binding public hearings (in the Provinces of Buenos Aires (including Mar del Plata), Mendoza, Neuquén, Formosa, Santiago del Estero and the city of Puerto Madryn) were conducted by the Ministry of Energy and Mining and ENRE to present tariff proposals for electricity transmission at the national and regional levels and the seasonal reference prices of capacity and energy in the wholesale electricity market, as well as a proposal to reduce subsidies for the 2017-2021 period. The determination of the final tariffs and reference prices is pending.

If the Federal Government fails to address the negative effects on energy generation, transportation and distribution in Argentina with respect to both the residential and industrial supply, resulting in part from the pricing policies of the prior Federal Government administrations, it could weaken confidence in and adversely affect the Argentine economy and financial condition and lead to social unrest and political instability. Furthermore, if the investment that is required to increase non-liquefied natural gas production and energy generation, transportation and distribution capacity fails to materialize on a timely basis, economic activity in Argentina could be curtailed and our business, financial condition and results of operations could be adversely affected.

***High public expenditure could result in long-lasting adverse consequences for the Argentine economy.***

In recent years, the Argentine government has substantially increased public expenditures. In 2015 and 2016, respectively, public sector expenditures increased by 38.1% and 38.2% respectively year over year and the government reported a primary fiscal deficit of 5.4% and 4.6% of GDP, respectively according to the Ministry of Economy. During the past administration, the Argentine government has resorted to the Argentine Central Bank and to the ANSES to source part of its funding requirements. The Macri administration, in contrast, has resorted to debt financings to source funding requirements. Moreover, the primary fiscal balance could be negatively affected in the future if public expenditures continue to increase at a rate higher than revenues due to, for example, social security benefits, debt servicing, financial assistance to provinces with financial problems and increased spending on public works and subsidies, including subsidies to the energy and transportation sectors. A further deterioration in fiscal accounts could negatively affect the government's ability to access the long-term financial markets and could in turn result in more limited access to such markets by Argentine companies such as ourselves.

***The actions taken by the prior Argentine administration to reduce imports may adversely affect our ability to access capital goods that are necessary for our operations.***

In 2012, the Argentine government adopted an import procedure pursuant to which local authorities must pre-approve any import of products and services to Argentina as a precondition to allowing importers access to the foreign exchange market for the payment of such imported products and services. In the same year, the European Union, the United States and Japan filed claims with the World Trade Organization (the "WTO") against certain import-related requirements maintained by Argentina. Recently, the WTO found that those measures are not consistent with Argentina's obligations under the WTO and requested their removal. On December 22, 2015, through Resolution No. 3,823, the AFIP removed the import authorization system in place since 2012 denominated affidavit advance import (*declaraciones juradas anticipadas de importación* or "DJAI") and replaced it with the new comprehensive import monitoring system (*sistema integral de monitoreo de importaciones* or "SIMI"). Among other changes, local authorities must now respond to any request for approval within a 10-day period from the date on which the request is filed.

On August 10, 2017, the Macri administration through Decree No. 629/2027 introduced certain modifications to the import procedure of equipment for the exploitation of hydrocarbon in the country, establishing a regime of fiscal benefits for the importation of used machinery (up to 10 years old) and new machinery for such industry. Depending on the applicable custom position, the import of certain components is tax-free or are subject to a reduced tariff (ranging from 7% to 14%) applies. In case there is local production capacity, the importer must assume the commitment (and guarantee) to acquire national new goods in a specific percentage of the amount of products to be imported, which varies depending on the applicable custom position (ranging from 15% to 18%).

We cannot assure you that the Argentine government will not modify current import regulations, and we cannot predict the impact that any such changes could have on our results of operations and financial condition.

***The Argentine Government has recently announced a tax and labor reform, the impact of which on our operations or financial condition is unknown.***

On October 31, 2017, the Argentine Government announced that it recently submitted one bill and expects to submit another one to the Argentine Congress in order to implement reforms to the Argentine Federal labor and tax regimes. Given the preliminary nature of the proposed reforms and the need for congressional discussion and approval, it is difficult to determine how we could be affected by these potential legislative reforms, but given the high sensitivity of our industry to changes in tax regulations, any such reform (if approved) could have a material adverse effect on our business, financial condition or consolidated results of operations.

**Peru**

***Economic, political and social developments in Peru could have a material adverse effect on the Parent Guarantor's results of operations and financial condition.***

In Peru, the Parent Guarantor, through subsidiaries, holds a 10% interest (non-operating) in the licensing contracts for the exploitation of hydrocarbons from Blocks 88 and 56 of the Camisea gas production and exploration area. As a result, the Parent Guarantor's results of operations and financial condition are dependent on the economic, political and social development in Peru, and could be affected by the economic and other policies of the Peruvian government, including devaluation of the currency, currency exchange controls and inflation, as well as matters beyond the government's control such as economic downturns, political instability, social unrest, to a lesser extent, and terrorism.

During the past several decades, Peru has experienced political instability that has included a succession of regimes with differing economic policies. Previous governments have imposed controls on prices, exchange rates, local and foreign investment and international trade, restricted the ability of companies to dismiss employees, expropriated private sector assets and prohibited the remittance of profits to foreign investors.

Nonetheless, to date Peru is considered a stable country with economic growth; however, from the beginning of 2016 until the third quarter of 2017, the Peruvian economy has experienced a sharp slowdown due to the lack of clear policies, the impact of the El Niño climate conditions in much of the country and the impact of the Odebrecht case. These events have led to an increase in unemployment and some sectors are experiencing protests and high levels of citizen insecurity.

Presidential and Congressional elections in Peru took place in March 2016, and a runoff election between the two leading Presidential candidates was held in June 2016, which resulted in Mr. Pedro Pablo Kuczynski, a technocrat economist with a career spanning five decades in the public and private sectors, being elected President of Peru. During his first year in office, Mr. Kuczynski requested, and Congress granted, legislative powers that allowed him to implement measures to stimulate the economy; improve public safety, the anti-corruption system, and administrative simplification; enhance public investment; and improve provision of basic services like water and sanitary facilities, the latter being a priority on the government's agenda. However, the lack of concrete results from these measures, the decrease in tax collection and the growing social discontent, added to the fights with Fujimorismo, have forced Mr. Kuczynski to introduce a series of changes in his Cabinet after Congress impeached several members. During the 1980s and the early 1990s, Peru experienced severe terrorist activity targeted against, among others, the government and the private sector. Despite the suppression of terrorist activity, we cannot assure you that a resurgence of terrorism in Peru will not occur, or that if there is a resurgence, it will not disrupt the economy and the Parent Guarantor's business. In addition, Peru has, from time to time, experienced social and political turmoil, including riots, nationwide protests, strikes and street demonstrations.

Despite Peru's ongoing economic growth and stabilization over the past several years, the social and political tensions and high levels of poverty and unemployment continue; due to these factors, Peru experiences frequent political and social upheavals including riots, national protests, strikes and public demonstrations. The last significant national strike in the current year happened in the education sector carried out by the SUTEP and lasted several months during which school activities were suspended. Future government policies to preempt or respond to social unrest could include, among other things, expropriation, nationalization, suspension of the enforcement of creditors' rights and new taxation policies. These policies could adversely and materially affect the Peruvian economy and the Parent Guarantor's business.

***A depreciation of the Peruvian Sol could have a material adverse effect on the results of operations and financial condition of the Guarantor, and consequently, affect its ability to make payments on the Note Guarantee.***

A sudden and significant depreciation or devaluation of the Peruvian Sol could have a material adverse effect on the operational results and the financial condition of the Guarantor. The Peruvian banking system is substantially dollarized, and as of September 30, 2017, approximately 36% of loans made were denominated in U.S. dollars. As a result, a depreciation or devaluation of the Peruvian Sol against the U.S. dollar have a negative effect on the ability of borrowers to repay loans, which could negatively affect the financial system as a whole. Although the Camisea Operating License Agreements (as defined below) for Blocks 56 and 88 contemplate that revenue is denominated in U.S. dollars and provide for a regime of foreign exchange and tax stability, any disruption in that Peruvian banking system resulting from a severe devaluation or depreciation of the Peruvian Sol could have an adverse effect on the results of operations or financial condition of the Parent Guarantor and hence on its ability to make payments under the Note Guarantee.

***The re-implementation by the Peruvian government of restrictive exchange rate policies and other laws could have an adverse effect on the Parent Guarantor's business, financial condition and results of operations.***

Since 1991, the Peruvian economy has undergone a major transformation from a highly protected and regulated system to a free-market economy. During this period, protectionist and interventionist laws and policies have been dismantled gradually to create a liberal economy dominated by the private sector. Exchange controls and restrictions on remittances of profits, dividends and royalties have ceased. Prior to 1991, Peru exercised control over the foreign exchange markets by imposing multiple exchange rates and placing restrictions on the possession and use of foreign currencies. The Peruvian economy has responded to this transformation by growing at an average annual rate of over 4.8% during the period from 1998 to 2016,.

Currently, foreign exchange rates are determined by market conditions, with regular open-market operations by the Peruvian Central Bank in the foreign exchange market to reduce volatility in the value of Peru's currency against the U.S. dollar.

We cannot assure you that the Peruvian government will not institute restrictive exchange rate policies in the future. Although the Camisea Operating License Agreement includes protections against changes to the foreign exchange regime, we cannot assure you that such protection will be effective and in such case, any such restrictive exchange rate policy could have a material adverse effect on the Parent Guarantor's business, financial condition and results of operations and adversely affect the Parent Guarantor's ability to repay debt or other obligations and therefore restrict the Parent Guarantor's access to international financing.

***The operating license agreement in relation to the Camisea gas production and exploration area may be terminated.***

The Parent Guarantor is party to an operating license agreement in relation to its operations in Blocks 88 and 56 of the Camisea gas production and exploration area (the "Camisea Operating License Agreement"). There is a risk that the insolvency of any of the parties to the Camisea Operating License Agreement may cause the Camisea Operating License Agreement to terminate. Under the Camisea Operating License

Agreement, the declaration of insolvency, dissolution, liquidation or bankruptcy of any of the parties shall result in automatic termination of the Camisea Operating License Agreement without prior formalities, provided that another party thereto or a third party approved by Perupetro, does not assume, within the next 60 calendar days, such dissolved or liquidated company's participation in the Camisea area under the Camisea Operating License Agreement.

The Camisea Operating License Agreement also authorizes Perupetro to terminate such agreement in the event that any party thereto, or a party's corporate guarantor, seeks protection against actions of its creditors and Perupetro determines in its sole discretion that its rights under the Camisea Operating License Agreement are not satisfactorily covered, unless one of the other parties or a third party approved by Perupetro assumes the obligations and guarantees of the company in question within 60 calendar days following such determination. Termination of the Camisea Operating License Agreement could have a material adverse effect on the Parent Guarantor's business, financial condition and results of operations. See "Business of the Parent Guarantor—Peru."

***The joint operating agreement in relation to the Camisea gas production and exploration area may be terminated.***

In the event of non-compliance by any of the parties to the joint operating agreement (the "Camisea JOA") with respect to their payment obligations based on their respective "participating interest" or percentage of participation in the Camisea Operating License Agreement, the parties in compliance may (i) request the withdrawal of the party in breach of both the Camisea Operating License Agreement and the Camisea JOA and (ii) exercise the option of acquiring such non-compliant party's "participating interest" in proportion to their respective shares, unless otherwise agreed. Any party under the Camisea JOA may withdraw from it and the Camisea Operating License Agreement at any time, in which case the other parties may assume the percentage of participation of the outgoing party in proportion to their respective shares in the Camisea Operating License Agreement, unless otherwise agreed. The risk arising from any action or omission of the resigning party prior to its withdrawal will be guaranteed by the party or parties assuming such shares.

Upon the withdrawal of one of the parties, the remaining parties may also decide to withdraw, in which case the Camisea JOA and the Camisea Operating License Agreement will be terminated. In this case, the parties will remain subject to the terms and conditions of the Camisea JOA for as long as necessary to complete the formalities and requirements of the governmental authorities, including Perupetro, and to comply with any requirement of part thereof in this regard. Termination of the Camisea Operating License Agreement and the Camisea JOA could have a material adverse effect on the Parent Guarantor's business, financial condition and results of operations. See "Business of the Parent Guarantor—Peru."

***Interruptions in transportation of natural gas and natural gas liquids and any increase in transportation costs could have a material adverse effect on the Parent Guarantor's business, financial condition and results of operations.***

Both natural gas and natural gas liquids produced by the production operations in the Camisea area and therefore by the Parent Guarantor in relation to its operations in Blocks 88 and 56 are transported through two pipelines owned by *Transportadora de Gas del Peru S.A.* ("TGP"), a gas pipeline and a liquids pipeline, running from Malvinas Plant to the distribution point of reception located in Lurin-Lima, and to the fractionation plant (Pisco Plant) located on Lobería Beach in Pisco, respectively. Gas from Block 56 which is for export is transported by TGP from Malvinas Plant to Chiquintirca Compression Plant, from which point the gas is delivered to Perú LNG to be further transported to the coast (Pampa Melchorita LNG plant).

If there is a complete interruption of the liquids transport system, normally the production of natural gas for both local and export markets is reduced and gas deliveries to the local market take priority over export. To minimize the impact on production, the joint operators in the Camisea area, including the Parent Guarantor, have developed a mechanism to not interrupt the supply of natural gas to their customers by implementing the extraction of dry natural gas from the reinjection wells located at the San Martín 3 location. This procedure has been used successfully on previous occasions in which a problem occurred in the pipeline, however we cannot guarantee that this alternative method will be successful in future circumstances and prolonged, or even temporary interruptions of transportation could have a material adverse effect on the Parent Guarantor's business, financial condition and results of operations.

The sale of natural gas is carried out at the wellhead. Therefore, each client must contract directly with the transportation concessionaires (TGP and distributors, as the case may be), so that the product is transported to its facilities. The transportation of natural gas billed to the Parent Guarantor corresponds only to natural gas consumed in Pisco Plant as fuel.

The joint operators in the Camisea area and TGP have agreed a ship-or-pay contract (the Liquids Transportation Agreements, or "LTAs") for the transportation of liquids. The current capacity contracted is 115,000 barrels per day of natural gas liquids.

The LTAs states that the joint operators in the Camisea area must pay TGP, except in the case of certain force majeure events (as set out therein), a fixed monthly rate ("ship-or-pay"), that is, such joint operator will pay for the service whether or not the contracted capacity is used. This fixed rate is adjusted monthly according to the United States inflation index. There can be no assurance that there will be no increase in the transportation fee after the LTAs have ended. Any increase to such fees could have a material adverse effect on the Parent Guarantor's business, financial condition and results of operations.

**Ecuador**

***The ongoing economic uncertainty in Ecuador may adversely affect the Parent Guarantor's business, financial condition and results of operations.***

Ecuador defaulted on a sovereign debt obligation in 2008 and its economic policies have created uncertainty about its future. The Ecuadorian economy is heavily dependent on the oil industry, and the decline of oil prices in 2014 and 2015 had a significant impact on the Ecuadorian economy and its national budget. Due to Ecuador's dollarized economy, the strength of the U.S. dollar against local currencies of Ecuador's trading partners has negatively impacted the export sector in Ecuador. All of the foregoing has increased uncertainty as to the future economic conditions in Ecuador which could have a material adverse effect on the Parent Guarantor's business, financial condition and results of operations.

***Ecuador's history has been characterized by institutional instability. A return to an unstable political environment could adversely affect the Parent Guarantor's business, financial condition and results of operations.***

Between 1997 and 2007, Ecuador has had eight presidents, and three of them were overthrown during periods of political unrest: Abdala Bucaram in 1997, Jamil Mahuad in 2000 and Lucio Gutiérrez in 2005. Since 2007, Ecuador has experienced political stability with President Correa's Alianza PAIS party having won five consecutive National Assembly elections, and President Correa having won re-election in 2013.

On February 19, 2017 the presidential election was held with eight candidates. Lenin Moreno of President Correa's Alianza PAIS came in first with 39.36% of the vote and Guillermo Lasso of the CREO - SUMA party, came in second with 28.09% of the vote. Also, on February 19, a congressional election was held with Alianza PAIS preserving control of the legislative assembly by winning the majority of seats with 74 seats, CREO-SUMA with 28 seats and PSC with 15 seats, respectively. Since no candidate gained an outright victory of 50% of the vote or at least 40% of the vote with an additional ten points of advantage over the candidate in second place for the presidential election, a run-off election between President Moreno and Mr. Lasso was held on April 2, 2017. President Moreno was elected with 51.15% of the vote. The CNE declared President Moreno president elect on April 4, 2017. Both the OAS and the UNASUR monitored the elections and recognized the transparency of the electoral process and the election results. On April 13, 2017, CNE approved the recount of approximately 11.2% of the total ballots cast in the run-off election due to a claim of alleged inconsistencies by CREO-SUMA and Alianza PAIS. On April 18, CNE broadcast a live recount of the ballots subject to the claim. International observers, political delegates of Alianza PAIS and representatives of social organizations monitored the recount. The recount ratified President Moreno as the winner of the run-off election with 51.16% of the votes. President Moreno assumed the post of President of Ecuador on May 24, 2017 with Jorge Glas as Vice President for a four-year term.

A return to an unstable political environment could significantly affect Ecuador's economy, which in turn could adversely affect the Parent Guarantor's business, financial condition and results of operations.

### Risks Related to the Countries in Which We Operate

***Certain risks are inherent in any investment in a company operating in an emerging market such as those in which we and the Parent Guarantor operate.***

The countries in which we and the Parent Guarantor operate are emerging market economies, and investing in emerging markets generally carries risks. These risks include political, social and economic instability that may affect the countries' economic results which can stem from many factors, including the following:

- high interest rates;
- abrupt changes in currency values;
- high levels of inflation;
- exchange controls;
- wage and price controls;
- regulations to import equipment and other necessities relevant for operations;
- changes in governmental economic or tax policies; and
- political and social tensions.

In particular, we and the Parent Guarantor continue to actively manage our schedule of work, contracting, procurement and supply-chain activities to effectively manage costs. However, price levels for capital and exploratory costs and operating expenses associated with the production of crude oil and natural gas can be subject to external factors beyond our or the Parent Guarantor's control including, among other things, the general level of inflation, commodity prices and prices charged by the industry's material and service providers, which can be affected by the volatility of the industry's own supply and demand for such materials and services. In recent years, we and the oil and gas industry in Argentina generally experienced an increase in certain costs that exceeded the general trend of inflation. We cannot guarantee that these cost pressures will lessen as result of the decline in prices of crude oil and other commodities in the global and domestic market in the recent past.

Any of these factors, as well as volatility in the capital markets, may adversely affect our or the Parent Guarantor's financial condition and results of operations or the liquidity, trading markets and value of our securities.

***Our and the Parent Guarantor's business is subject to risks arising from natural disasters, catastrophic accidents and terrorist attacks.***

We and the Parent Guarantor rely on equipment for the exploitation of hydrocarbons that may be damaged by flooding, fires, earthquakes and other catastrophic disasters arising from natural or accidental or intentional human causes. We could experience severe business disruptions, significant decreases in revenues based on lower demand arising from catastrophic events, or significant additional costs to us not otherwise covered by business interruption insurance clauses. There may be an important time lag between a major accident, catastrophic event or terrorist attack and our definitive recovery from our insurance policies, which typically carry non-recoverable deductible amounts, and in any event are subject to caps per event. In addition, any of these events could cause adverse effects on the energy demand of some of our customers and of consumers generally in the affected market. Some of these considerations, could have a material adverse effect on our or the Parent Guarantor's financial condition and results of operations.

Earthquakes in Peru are frequent as the country is located in a seismic zone: where the Nazca and South America tectonic plates meet. Peru has been affected by earthquakes in the past, including a 7.9 magnitude earthquake that shook the central coast of Peru in 2007. The country is also vulnerable to the El Niño phenomenon, which causes floods and landslides in the northern and central Andean regions. For example, due to its intensity in 1997-1998, El Niño destroyed crops and infrastructure equivalent to 2.2% of Peruvian GDP. The heavy rains caused by El Niño Costero phenomenon in early 2017 caused serious damage to infrastructure in Peru. A natural disaster of this magnitude, or any other type of disaster, could affect our operational capacity. Our business continuity plan includes emergency response, disaster recovery, business continuity, crisis management, and data and critical systems recovery. Although we test our business continuity plan annually, the plan may be ineffective, which could have a material adverse effect on our ability to conduct business, especially if an incident or disaster affects the equipment used to carry out our operations. In addition, if a significant number of our employees are affected by a natural disaster, our ability to conduct business could be affected.

***Our and the Parent Guarantor's access to international capital markets is influenced by the perception of risk in the emerging economies in which we operate.***

International investors consider Argentina and the other countries in which the Parent Guarantor operates to be emerging markets. Economic and market conditions in other emerging market countries, especially those in Latin America, influence the market for securities issued by Argentine companies such as us. Volatility in securities markets in Latin America and in other emerging market countries could have a negative impact on the trading value of our securities and on our ability and the terms on which we or the Parent Guarantor are able to access international capital markets. We cannot assure that the perception of risk in Argentina and other emerging markets may not have a material adverse effect on our or the Parent Guarantor's ability to raise capital, including our or the Parent Guarantor's ability to refinance our or the Parent Guarantor's debt at maturity, which would negatively affect our or the Parent Guarantor's investment plans and consequently our or the Parent Guarantor's financial condition and results of operations, and also have a negative impact on the trading value of our debt. We can give no assurance as to potential adverse impact of the factors discussed above on our or the Parent Guarantor's financial condition and/or results of operations.

**Risks Relating to the Oil and Gas Business**

***Oil and gas operations are subject to extensive regulation.***

The oil and gas industry is subject to extensive regulation and control by governments in which companies like ours and the Parent Guarantor conduct their operations. These regulations relate, among other aspects, to the award of exploration and development areas, production and export controls, investment requirements, taxation, price controls and environmental aspects. As a result, our and the Parent Guarantor's business is to a large extent dependent upon regulatory and political conditions prevailing in the countries in which we operate and our and the Parent Guarantor's results of operations may be materially and adversely affected by regulatory and political changes in these countries.

We cannot assure you that changes in applicable laws and regulations, or adverse judicial or administrative interpretations of such laws and regulations, will not adversely affect our and the Parent Guarantor's results of operations. Similarly, we cannot assure you that future government policies will not adversely affect the oil and gas industry.

We and the Parent Guarantor also cannot provide assurances that concessions will be extended in the future as a result of the review by the controlling entities regarding the investment plans presented for analysis or that will not be imposed additional requirements to obtain extensions of permits and concessions.

Furthermore, there can be no assurance that regulations or taxes (including royalties) enacted by the provinces in which we and the Parent Guarantor operate will not conflict with federal law, and that such taxes or regulations will not adversely affect our results of operations financial condition, and our and the Parent Guarantor's ability to pay amounts due under the Notes and the Notes' Guarantee.

***Oil and gas price volatility could harm our and the Parent Guarantor's investment projects and a significant drop in such prices could adversely affect the results of our and the Parent Guarantor's operations.***

International oil and gas prices have fluctuated significantly in past years and they will most likely continue fluctuating in the future. Factors affecting international prices for crude oil and related oil products include: political developments in crude oil producing regions, particularly the Middle East; the ability of the Organization of Petroleum Exporting Countries ("OPEC") and other crude oil producing nations to set and maintain crude oil production levels and prices; global and regional supply and demand for crude oil, gas and related products; competition from other energy sources; domestic and foreign government regulations; weather conditions; and global and local conflicts or acts of terrorism. We and the Parent Guarantor have no control over these factors. Price volatility curtails the ability of industry participants to adopt long-term investment decisions given that returns on investments become unpredictable.

The prices that we and the Parent Guarantor are able to obtain for our and the Parent Guarantor's hydrocarbon products are further affected by domestic regulations and have had an adverse impact on our and the Parent Guarantor's ability to make investments in new exploration and developments We and the Parent Guarantor budget capital expenditures related to exploration, development and operation activities by taking into account, among other things, market prices for hydrocarbon products. In the event that domestic prices for certain products decrease further and export limitations remain in place or are imposed, our and the Parent Guarantor's ability to improve hydrocarbon recovery rates, find new reserves and carry out certain other capital expenditure plans may be adversely affected, which in turn might have an adverse effect on our and the Parent Guarantor's results of operations.

***Unless we and the Parent Guarantor replace our oil and gas reserves, reserves and production will decline over time.***

Production from oil and gas fields declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Accordingly, the amount of proved reserves declines as these reserves are produced. The level of our and the Parent Guarantor's future oil and natural gas reserves and production, and therefore our and the Parent Guarantor's cash flows and income, are highly dependent on our and the Parent Guarantor's success in efficiently developing our and the Parent Guarantor's current reserves, into new investing and economically finding or acquiring additional recoverable reserves. While we and the Parent Guarantor have had success in identifying and developing commercially exploitable deposits and drilling locations in the past, we may be unable to replicate that success in the future. We and the Parent Guarantor may not identify any more commercially exploitable deposits or successfully drill, complete or produce more oil or gas reserves, and the wells that we and the Parent Guarantor have drilled and currently plan to drill may not result in the discovery or production of any further oil or natural gas. If we and the Parent Guarantor are unable to replace our and the Parent Guarantor's current and future production, the value of our and the Parent Guarantor's reserves will decrease, and our and the Parent Guarantor's results of operations and financial condition could be negatively affected.

***Our and the Parent Guarantor's oil and natural gas reserves are estimates.***

Our and the Parent Guarantor's oil and gas proved reserves are estimated using geological and engineering data to determine whether the crude oil or natural gas in known reservoirs is recoverable under existing economic and operating conditions.

The accuracy of proved reserve estimates depends on a number of factors, assumptions and variables, among which the most important are:

- the results of drilling, testing and production after the date of the estimates;
- the quality of available geological, technical and economic data and its interpretation and judgment;
- the production performance of reservoirs;
- developments such as acquisitions and dispositions, new discoveries and extensions of existing fields and the application of improved recovery techniques; and
- changes in oil and natural gas prices, which could have an effect on the size of our and the Parent Guarantor's proved reserves because the estimates of reserves are calculated under existing economic conditions when such estimates are made.

Many of the factors, assumptions and variables involved in estimating proved reserves are beyond our and the Parent Guarantor's control and are subject to change over time. Consequently, measures of reserves are not precise and are subject to revision. Any downward revision in our and the Parent Guarantor's estimated quantities of proved reserves could adversely impact our and the Parent Guarantor's financial condition and results of operations.

***Uncertainty about the possibility of us and the Parent Guarantor acquiring, developing and exploiting new reserves may adversely affect our results of operations.***

Our and the Parent Guarantor's future success depends, among other things, on our and the Parent Guarantor's ability to produce oil and gas from existing reserves, to discover additional oil and gas reserves, and to economically exploit oil and gas from these reserves. Unless we and the Parent Guarantor are successful in our exploration of oil and gas reserves and the development thereof or otherwise acquire additional reserves, our and the Parent Guarantor's reserves would show a general decline in oil and gas as long as oil and gas production continue. The drilling activities are also subject to numerous risks and may involve unprofitable efforts, not only with respect to dry wells but also with respect to wells that are productive but do not produce enough net income to derive profit after covering drilling costs, and other operating costs. The completion of a well does not assure a return on investment or recovery of the costs of excavation, completion and operating costs.

There is no guarantee that our and the Parent Guarantor's future exploration and development activities will succeed, or that we or the Parent Guarantor will be able to implement our and the Parent Guarantor's capital investment program to acquire additional reserves or that we and the Parent Guarantor's will be able to economically exploit these reserves. Such events would adversely affect our and the Parent Guarantor's financial condition and results of operations, and our and the Parent Guarantor's ability to repay the Notes and the Notes Guarantee, respectively.

***The lack of availability of transport may limit our and the Parent Guarantor's possibility of increasing hydrocarbon production and may adversely affect our and the Parent Guarantor's financial situation and results of operations.***

Our and the Parent Guarantor's capacity to exploit our and the Parent Guarantor's hydrocarbon reserves depends, among other factors, upon the availability of transport infrastructure on commercially acceptable terms to transport the produced hydrocarbons to the markets in which they are sold. Typically, oil is transported by pipelines and tankers to refineries, and gas is usually transported by pipeline to customers. The lack of storage infrastructure, or adequate or alternative charge, or available capacity on existing long-range hydrocarbons transportation systems may adversely affect our and the Parent Guarantor's financial condition and results of operations.

***The oil and gas industry is subject to particular economic and operational risks.***

Oil and gas exploration and production activities are subject to specific economic and operational risks, some of which are beyond our and the Parent Guarantor's control, such as production, equipment and transportation risks, and natural hazards and other uncertainties, including those relating to the physical characteristics of oil or natural gas fields. Our and the Parent Guarantor's operations may be curtailed, delayed or cancelled due to mechanical difficulties, oil or natural gas spills or leaks, shortages or delays in the delivery of equipment, compliance with governmental requirements, fire, explosions, blow-outs, pipe failure, abnormally pressured formations, and environmental and health hazards. If these risks materialize, we may suffer substantial operational losses and disruptions to our operations and harm to our and the Parent Guarantor's reputation.

***Oil and gas activity has become increasingly dependent on digital technologies to conduct operations, including certain exploration, development and production activities.***

Our and the Parent Guarantor's technologies, systems, networks, and those of our and the Parent Guarantor's business partners may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, misuse or loss of confidential information, or other disruption of our business operations. In addition, certain cyber incidents, such as surveillance, may remain undetected for an extended period. We and the Parent Guarantor depend on digital technology, including information systems to process financial and operating data, analyze seismic and drilling information and oil and gas reserves estimates. Although neither we nor the Parent Guarantor have experienced any material loss related to cyberattacks, there can be no assurance that we or the Parent Guarantor will not be the target of cyberattacks in the future that could adversely affect our or the Parent Guarantor's operations or financial condition. As cyber threats continue to evolve, we and the Parent Guarantor may be required to incur additional expenses to enhance our and the Parent Guarantor's protective measures or to remediate any information security vulnerability.

***Our and the Parent Guarantor's activity requires significant capital investments and maintenance costs.***

Exploration and exploitation of hydrocarbon reserves requires heavy investments in capital goods. We and the Parent Guarantor must continue investing in order to maintain or increase the amount of our and the Parent Guarantor's hydrocarbon reserves, incurring in significant maintenance costs. We cannot guarantee that we and the Parent Guarantor will be able to maintain our and the Parent Guarantor's current production levels, generate sufficient cash flow or that we and the Parent Guarantor will have access to sufficient borrowing or other financing alternatives to continue our and the Parent Guarantor's exploration, exploitation and production activities at current or higher levels.

***Our and the Parent Guarantor's acquisition of exploratory acreage and crude oil and natural gas reserves is subject to heavy competition.***

We and the Parent Guarantor face intense competition in bidding or private acquisition for crude oil and natural gas production areas, which are typically auctioned by governmental authorities, especially those areas with the most attractive crude oil and natural gas reserves or sold by companies holding concession rights. Many competing companies may have access to financial resources on better terms than we or the Parent Guarantor's do and, therefore, may be in a better position to compete for future commercial opportunities. As a result, the conditions under which we and the Parent's Guarantor are able to access new exploratory or productive areas could be adversely affected and this could impact negatively on our and the Parent Guarantor's financial condition and results of operations.

***A majority of our and the Parent Guarantor's total estimated proven reserves at June 30, 2017 were proven undeveloped reserves requiring substantial capital expenditures and may ultimately prove to be less than estimated.***

Recovery of proven undeveloped reserves requires significant capital expenditures and successful drilling operations. The reserve data included in our and the Parent Guarantor's reserve reports assumes that substantial capital expenditures will be made to develop non-producing reserves. Although cost and reserve estimates attributable to our and the Parent Guarantor's natural gas and oil reserves have been prepared in accordance with industry standards, neither we nor the Parent Guarantor can be sure that the estimated costs are accurate. We or the Parent Guarantor may need to raise additional capital in order to develop our or the Parent Guarantor's estimated proved undeveloped reserves over the next five years and we cannot be certain that additional financing will be available to us on acceptable terms, if at all. Additionally, continued declines in commodity prices will reduce the future net revenues of our and the Parent Guarantor's estimated proved undeveloped reserves and may result in some projects becoming uneconomical. Any delays in the development of reserves could force us to reclassify certain of our and the Parent Guarantor's proven reserves as unproven reserves. Further, our and the Parent Guarantor's drilling efforts may be delayed or unsuccessful, and actual reserves may prove to be less than current reserve estimates, which could have a material adverse effect on our and the Parent Guarantor's financial condition, future cash flows and results of operations.

***We and the Parent Guarantor will rely on drilling to increase our levels of production, which drilling could be unsuccessful.***

The primary focus of our and the Parent Guarantor's business strategy is to increase production levels by drilling wells, in particular in connection with the development of our non-conventional reserves. We cannot provide assurance that we and the Parent Guarantor achieve desired production levels through drilling. Drilling involves numerous risks, including the risk that we will not encounter commercially productive oil or natural gas reservoirs. We must incur significant expenditures to drill and complete wells. The costs of drilling and completing wells are often uncertain, and it is possible that we will make substantial expenditures on drilling and not discover reserves in commercially viable quantities. Additionally, in the current depressed oil price environment, we may not be able to increase or maintain production through our and the Parent Guarantor's drilling activity, which could adversely affect our or the Parent Guarantor's ability to generate revenue and consequently adversely affect our financial condition.

***Climate change legislation or regulations restricting emissions of greenhouse gases ("GHGs") could significantly impact our and the Parent Guarantor's industry and result in increased operating costs and reduced demand for the oil and natural gas we produce.***

The 2015 United Nations Climate Change Conference adopted by consensus the Paris Agreement. The agreement deals with GHG emission reduction measures, targets to limit global temperature increases and will require countries to review and "represent a progression" in their intended nationally determined contributions, which set emissions reduction goals every five years, beginning in 2020. On October 5, 2016, the threshold for entry into force of the Paris Agreement was achieved. International treaties together with increased public awareness related to climate change may result in increased regulation to reduce or mitigate GHG emissions.

Compliance with legal and regulatory changes relating to climate change, including those resulting from the implementation of international treaties, may in the future increase our and the Parent Guarantor's costs to (i) operate and maintain our and the Parent Guarantor's facilities, (ii) install new emission controls on our and the Parent Guarantor's facilities and (iii) administer and manage any GHG emissions program. Revenue generation and strategic growth opportunities may also be adversely affected.

The effects upon the oil industry relating to climate change and the resulting regulations may also include declining demand for our and the Parent Guarantor's products in the long-term. In addition, increased regulation of GHG may create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil industry could adversely affect the financial and operational aspects of our and the Parent Guarantor's business, which we cannot predict with certainty at this time.

***Climate change could impact our and the Parent Guarantor's operating results and strategy.***

Climate change poses new challenges and opportunities for our and the Parent Guarantor's business. More stringent environmental regulations can result in the imposition of costs associated with GHG emissions, either through environmental agency requirements relating to mitigation initiatives or through other regulatory measures such as GHG emissions taxation and market creation of limitations on GHG emissions that have the potential to increase our and the Parent Guarantor's operating costs.

The risks associated with climate change could also manifest in difficulties accessing capital due to public image issues with investors; changes in the consumer profile, with reduced consumption of fossil fuels; and energy transitions in the world economy, such as increasing electrification in urban mobility. These factors could have a negative impact on the demand for our and the Parent Guarantor's products and services and may jeopardize or even impair the implementation and operation of our and the Parent Guarantor's businesses, adversely impacting our and the Parent Guarantor's operating and financial results and limiting some of our and the Parent Guarantor's growth opportunities.

***Potential physical effects of climate change could disrupt our and the Parent Guarantor's production and cause us and the Parent Guarantor to incur significant costs in preparing for or responding to those effects.***

Increasing concentrations of GHGs in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, floods, droughts, and other extreme climatic events. If any such effects were to occur, they could have an adverse effect on our and the Parent Guarantor's exploration and production operations.

We and the Parent Guarantor have taken measures to comply with environmental standards; which have been getting consistently stricter over time. We and the Parent Guarantor cannot predict, however, what environmental laws or regulations will be enacted in the future, or how current or future laws will be administrated or enforced. Compliance with stricter laws or regulations, and the adoption of more rigorously applied policies on the part of regulatory agencies may cause us and the Parent Guarantor to incur additional expenses in the future, including the installation and operation of systems and equipment to take corrective measures and, consequently, affect our and the Parent Guarantor's operations in general. Moreover, failure to comply with these laws and regulations may lead to the imposition of fines or administrative or criminal penalties and entail lawsuits or personal injury or other liabilities. In addition, these laws and regulations may also reduce our and the Parent Guarantor's rate of hydrocarbon production. Compliance with these laws can be costly, and this does not exclude potential claims. The regulatory burden imposed on the hydrocarbon sector increases the cost of carrying out operations in this sector and, consequently, affects our and the Parent Guarantor's financial condition and results of operations.

***We or the Parent Guarantor are not the operating partners in all of the joint ventures in which we participate, such as Blocks 56 and 88 of the Camisea field which represent a substantial part of the Parent Guarantor's income for the year 2016. Actions undertaken by the operators in such joint ventures could have a material adverse effect on the success of these operations.***

We and the Parent Guarantor generally undertake our and the Parent Guarantor's activities in exploration and exploitation of hydrocarbons in a particular area by entering into an agreement with third parties to participate in joint ventures (joint operations for accounting purposes). Under the terms and conditions of these agreements, one of the parties takes the role of operator of the joint venture, and thus assumes responsibility for executing all activities undertaken pursuant to the joint venture agreement. However, we or the Parent Guarantor do not always assume the role of operator and therefore, in such cases, are exposed to risks relating to the performance of and the measures taken by the operator to carry out the activities.

Neither we nor the Parent Guarantor are the operator of Blocks 56 or 88 of the Camisea field. Consequently, the performance of and the measures taken by the operator of such areas could adversely affect the Parent Guarantor's financial condition and results of operations.

***We and the Parent Guarantor conduct some of our operations through joint ventures, so our and the Parent Guarantor's results may be affected by the performance of our and the Parent Guarantor's business partners. Our or the Parent Guarantor's failure to resolve any material disagreements with our or the Parent Guarantor's partners or to continue such joint ventures could have a material adverse effect on the success of our or the Parent Guarantor's operations.***

Many of our and the Parent Guarantor's operations are performed through joint ventures with our and the Parent Guarantor's business partners. Consequently, we and the Parent Guarantor depend on the performance of our and the Parent Guarantor's business partners. The poor performance of any of them, could negatively impact oil and natural gas production, which in turn could have a negative impact on our and the Parent Guarantor's results of operations and financial condition.

In the event that any of our or the Parent Guarantor's partners were to decide to terminate a joint venture or sell their interest in a joint venture, we or the Parent Guarantor may not be able to replace that partner or obtain the necessary financing to purchase that partner's interest. Accordingly, our failure to resolve disagreements with our partners or to maintain the joint ventures could adversely affect our and the Parent Guarantor's ability to conduct the underlying operations of such joint venture, which, in turn, could negatively affect our and the Parent Guarantor's financial condition and results of operations.

***We and the Parent Guarantor are exposed to the credit, political and regulatory risks of our and the Parent Guarantor's customers and any material nonpayment or nonperformance by key customers could adversely affect our and the Parent Guarantor's cash flow and results of operations.***

Some of our or the Parent Guarantor's customers may experience financial problems that could have a significant negative effect on their creditworthiness. Severe financial problems encountered by our or the Parent Guarantor's customers could limit our and the Parent Guarantor's ability to collect amounts owed to us, or to enforce the performance of obligations owed to us or the Parent Guarantor under contractual arrangements. In addition, many of our and the Parent Guarantor's customers finance their activities through their cash flows from operations, short and long term debt or equity.

The combination of decreasing cash flows as a result of declines in commodity prices, a reduction in borrowing bases under reserve-based credit facilities and the lack of availability of debt or equity may result in a significant reduction of our or the Parent Guarantor's customers' liquidity and limit their ability to make payments or perform their obligations to us or the Parent Guarantor.

Furthermore, some of our or the Parent Guarantor's customers may be highly leveraged and subject to their own operating expenses. Therefore, the risk we and the Parent Guarantor face in doing business with these customers may increase. Other customers may also be subject to regulatory changes, which could increase the risk of defaulting on their obligations to us or the Parent Guarantor. Financial problems experienced by our or the Parent Guarantor's customers could result in the impairment of our or the Parent Guarantor's assets, a decrease in our or the Parent Guarantor's operating cash flows and may also reduce or curtail our or the Parent Guarantor's customers' future use of our or the Parent Guarantor's products and services, which could have an adverse effect on our and the Parent Guarantor's revenues and our and the Parent Guarantor's ability to make payments under our existing debt obligations.

## Risk factors related to the Company

***Limitations on local pricing in Argentina may adversely affect our results of operations.***

In the past, due to regulatory, economic and government policy factors, domestic oil, gas and LPG prices have frequently lagged substantially behind prevailing international and regional market prices for such products, and our ability to increase prices to track international price increases or domestic cost increases, including those resulting from the peso devaluation has been limited from time to time. Since 2002, the Argentine government has imposed withholding tax on exports of crude oil, gas and LPG, which has reduced the sales price of such product in the domestic market. Even though as of the date of this offering memorandum domestic oil prices are coming near to international oil prices, an increase in the international oil price without a carry over to the regional market may adversely affect our financial condition and results of operations. Further, we cannot provide any assurances that we will be able to increase the domestic prices of our products to reflect the effects of increased production costs, domestic taxes and exchange rate fluctuations, as well as to reflect the variations in international prices in case the domestic market for oil and gas products finally result in an import/export parity industry. Limitations on our ability to do so would adversely affect our financial condition and results of operations. Similarly, we cannot assure you that hydrocarbon prices in Argentina will match the increases or decreases in hydrocarbon prices at the international or regional levels.

***Export restrictions have affected and may continue to affect our financial condition and results of operations.***

The Hydrocarbons Law, Law No. 17,319, allows for hydrocarbon exports as long as they are not required for the domestic market and are sold at reasonable prices. In the case of natural gas, Law No. 24,076 and related regulations require that the needs of the domestic market be taken into account when authorizing long-term natural gas exports.

During the last few years, the Argentine government has adopted a number of measures that have resulted in extensive restrictions on exports of hydrocarbons from Argentina, which have prevented local producers, including us, from obtaining higher prices for their products, which in turn could compensate the increases in production costs, and affected their competitiveness. Due to the foregoing, producers could be obliged to sell a part of their natural gas and LPG production in the local market.

In accordance with former SE Resolution No. 1,679/04, crude oil exports, as well as the export of most of our hydrocarbon products, require authorization from the former SE prior to export (currently, such authorization must be granted by the Ministry of Energy and Mining). In addition, according to Decree No. 893/2016, the Natural Gas Law subjects gas exports to the approval of the Ministry of Energy and Mining which shall only authorize the exports if it is necessary to face emergency situations and/or in order to allow the use of infrastructure from neighbor countries to ease the transport of natural gas to the internal Argentine market and, consequently, increase the local production. As a result of this regulation, the Companies seeking to export crude oil must first demonstrate that the domestic demand for such product is satisfied or that an offer to sell the product to local purchasers at similar prices to the ones charged in the domestic market has been made and rejected.

Even though as of the date of this offering memorandum domestic oil prices are higher than international oil prices, and under the several meetings convened by the Government, certain producers and refineries signed the "Agreement for the Transition of Argentina's Hydrocarbon Industry to International Prices," establishing a pricing plan so that the price of a barrel of oil produced in Argentina would follow international prices, which will come into force on January 1, 2018, but which has been suspended since October 2017, we are unable to predict how long these export restrictions will be in place, or whether any further measures will be adopted that may adversely affect our ability to export gas, crude oil and LPG or other products and, accordingly, our financial condition and results of operations, and our ability to pay amounts due under the Notes.

***The imposition of export duties and other taxes have adversely affected and could continue to affect our results.***

In 2002, the Argentine government imposed duties on oil exports at a rate of 20% for crude oil and 5% for LPG products. Since then, the rates have been progressively increased. In November 2007, the Ministry of Economy and Production through Resolution No. 394/2007 increased the export duties on oil and other refined products, establishing that when the international price for the benchmark used under current regulations (West Texas Intermediate or "WTI") exceeds the reference price, which is fixed at U.S.$60.9/barrel, the producer shall be allowed to collect at U.S.$42/barrel, with the remainder being withheld by the Argentine government as an export tax. If the WTI international price is below the reference price but exceeds U.S.$45/barrel, a 45% withholding rate will apply. If such price is below U.S.$45/barrel, the applicable export tax is to be determined by the Argentine government within a term of 90 business days.

In May 2004 Resolution No. 645/2004 of the Ministry of Economy and Production established an export duty on natural gas and natural gas liquids at a rate of 20%. The export duty on natural gas was increased again in July 2006 to 45% and the Customs General Administration was instructed to apply the price fixed by the Framework Agreement between Argentina and Bolivia as the base price to apply the new tax rate, irrespective of the actual sales price.

Resolution No. 127/2008 of the Ministry of Economy and Production increased export duties applicable to natural gas exports from 45% to 100%, mandating a valuation basis for the calculation of the duty as the highest price established in any contract of any Argentine importer for the import of gas (abandoning the previously applicable reference price set by the Framework Agreement between Argentina and Bolivia mentioned above).

Through Resolution No. 1,077/14, which repealed Resolution No. 394/2007 and came into effect on January 1, 2015, a withholding rate was established based on the international price of crude oil, which, if lower than U.S.$71/bbl, will be 1% and applying a fixed formula in case the international price of crude price is higher than U.S.$71/bbl.

With respect to LPG products (including butane, propane and blends thereof), Resolution No. 36/2015 modified the formula to calculate the export duty, effective April 1, 2015, which, in some cases, generated an increase in commercial prices in the local market.

We cannot assure you that these taxes will not continue or be increased in the future or that other new taxes will not be imposed.

***Argentine oil and gas production concessions and exploration permits are subject to certain conditions and may not be renewed or could be revoked.***

Law No. 17,319 the "Hydrocarbons Law" (as amended by Law No. 27,007) provides for oil and gas concessions to remain in effect for 25, 30 or 35 years, depending on the concession, as from the date of their award, and further provides for the concession term to be extended for periods of 10 additional years, subject to terms and conditions approved by the grantor at the time of the extension. The authority to extend the terms of current and new permits, concessions and contracts has been vested with the government of the province in which the relevant area is located (and the Argentine Government in respect of offshore areas beyond 12 nautical miles). In order to be eligible for the extension, any concessionaire and permit holder must (i) have complied with its obligations under the Hydrocarbons Law and the terms of the particular concession or permit, including evidence of payment of taxes and royalties, the supply of the necessary technology, equipment and labor force and compliance with various environmental, investment and development obligations, (ii) be producing hydrocarbons in the relevant concession and (iii) submit an investment plan for the development of the areas as requested by the relevant authorities at least one year prior to the expiration of the original concession. In addition, concessionaires that request extensions under Law No. 27,007 have to pay additional royalties ranging from 3% up to a maximum of 18%. Under the Hydrocarbons Law, non-compliance with these obligations and standards may also result in the imposition of fines and in the case of material breaches, following the expiration of applicable cure periods, the revocation of the concession or permit.

We cannot assure you that our concessions will be extended in the future as a result of the review by the relevant authorities of investment plans submitted for such purposes, or that additional requirements to obtain such concessions or permits will not be imposed. The termination or revocation of, or failure to obtain the extension of, a concession or permit for our projects could have a material adverse effect on our business and results of operations.

In April 2012, the Argentine Congress passed Law No. 26,741, expropriating 51% of the shares of YPF owned by the Spanish energy company, Repsol S.A. Under the terms of the law, out of the 51% of total shares to be expropriated, 51% of such shares are held by the Argentine Government and the remaining 49% are held by oil-producing Argentine provinces. Also, the law states that hydrocarbon activities (including, exploitation, industrialization, transportation and commercialization) in the territory of Argentina are deemed of "national public interest." The law, entitled "Hydrocarbon Sovereignty of Argentina," provides that the primary objective is to achieve Argentina's self-sufficiency in oil and gas supply. We cannot assure you that these or other measures that may be adopted by the Argentine Government will not have a material adverse effect on the Argentine economy and, as a consequence, adversely affect our financial condition, our results of operations and the market value of the Notes and our ability to repay our debts at maturity.

***Our company's results of operations are also dependent, to a significant extent, on its continued participation in two key government programs and its ability to collect payments under such programs.***

Our company's results of operations and financial condition also depend, to a significant extent, on its continued participation in two key programs established by the Argentine Government with the aim of generating higher levels of activity, investment and employment in the domestic natural gas sector.

We participate in the *Programa Gas Plus*, the *Programa Estímulo a la Inyección Excedente de Gas Natural para Empresas con Inyección Reducida* (Natural Gas Excess Injection Stimulus Program for Companies with Reduced Injection or the "Natural Gas Stimulus Program") and we request the addition to the *Programa de Estímulo a las Inversiones en Desarrollos de Producción de Gas Natural proveniente de Reservorios No Convencionales* (Program to Stimulate Investments in Natural Gas Production Developments from Non-conventional Reservoirs or the "Resolution 46-E Stimulus Program"), created by Resolution No. 46-E/2017 to stimulate investments for the production of natural gas from non-conventional reservoirs in the Neuquina basin. In general, the program establishes a scheme of compensations to be paid over natural gas prices, which is applied in a gradual and progressive manner depending on the surplus production of each company over its adjusted base injection (base injection = injection from July to December 13, 2013). The compensation values vary from U.S.$4/MMBTU to U.S.$7.5/MMBTU depending on the level of injection over the average base injection. The federal government pays this compensation quarterly and in pesos. The companies that enter such program assume the commitment to either inject at least the adjusted base injection, or to pay the federal government the import price of the missing volume which is calculated based on the import price of liquefied natural gas during the previous six months. The abovementioned program finishes on December 31, 2017.

Resolution 46-E Stimulus Program, which will be in place from January 1, 2018 until December 31, 2021, and applies to companies located in the Neuquina basin which have non-conventional production permits, are registered with the National Oil Company Register and provide a specific investment plan which needs to be approved by the applicable provincial authority and the federal Secretariat of Hydrocarbons, establishes compensation calculated over the production of non-conventional gas to be marketed, that is, the natural gas already conditioned for it to be in commercial condition, excluding the internal consumption in the field and taking into account the difference between the minimum guaranteed price and the price effectively perceived (weighted average price of the sales of natural gas from each company in the domestic market) and the minimum price. The minimum guaranteed price shall be: (i) U.S.$7.50/MMBTU for the calendar year 2018, (ii) U.S.$7.00/MMBTU for the calendar year 2019, (iii) U.S.$6.50/MMBTU for the calendar year 2020 and (iv) U.S.$6.00/MMBTU for the calendar year 2021. On November 8, 2017, we were notified that the Argentine Government formally accepted our enrollment in the Resolution 46-E Stimulus Program in respect of our project in Fortín de Piedra.

On November 2, 2017, Resolution No. 419-E/2017 of the Ministry of Energy and Mining ("Resolution MINEM 419-E/17") was published in the Official Gazette, partially modifying the terms of the Resolution 46-E Stimulus Program. Among other modifications, Resolution MINEM 419/17-E/17 clarified the possibility that non-conventional gas production permits from conventional reservoirs in the Neuquina Basin that are in the development stage may also fall within the Resolution 46-E Stimulus Program, provided they demonstrate an increase in production compared to current production levels, and result in committed investments comparable to those of projects in the pilot or pre-development stage. Therefore, Resolution MINEM 419-E/17 distinguishes between exploitation permits with production – measured between June 2016 and June 2017 – lower or higher than 500,000m3/d. The Resolution clarifies that for production permits with production equal to or higher than 500,000m3/d, the benefits of the Resolution 46-E Stimulus Program will only apply to production volumes greater than the initial production of the production permit. In addition, Resolution MINEM 419-E 17 specifies that no benefit will be granted to production permits that do not reach an average production higher than 500,000 m3/d during any consecutive twelve month-period before December 2019.

In addition, Resolution MINEM 419-E/17 stipulates that the benefit of the Resolution 46-E Stimulus Program will be calculated as the difference between the guaranteed minimum price (set at: (i) U.S.$7.50/MMBTU for calendar year 2018, (ii) U.S.$7.00/MMBTU for calendar year 2019, (iii) U.S.$ 6.50/MMBTU for calendar year 2020, and (iv) U.S.$ 6.00/MMBTU for calendar year 2021) and the weighted average monthly price by volume of total natural gas sales in Argentina published by the Secretary of Hydrocarbon Resources. Resolution MINEM 419-E/17 defines the guidelines considered by the Secretariat of Hydrocarbon Resources to determine the weighted average monthly price by volume of total sales of natural gas in Argentina. Thus, the potential termination events for eligibility to the Resolution 46-E Stimulus Program have been adjusted to the new mechanisms and criteria set forth.

88% of the compensation to be received under the Resolution 46-E Stimulus Program will be paid by the regulatory authority to the companies which have enrolled in the Resolution 46-E Stimulus Program and the remaining 12% will be paid to the provinces where the non-conventional production areas which are part of the program are located. Likewise, the Resolution 46-E Stimulus Program foresees provisional payments equivalent to 85% of the corresponding compensation, based on projections made by the participating company. The first interim payment shall be made before the last business day of the month following approval of the company into the Resolution 46-E Stimulus Program (or of approval of a new production permit into the Resolution 46-E Stimulus Program) or the month of February 2018, whichever applicable. Said provisional amount will be adjusted based on affidavits from the relevant company.

On November 2, 2017, we filed a ratification to our application under the Resolution No. 46-E Stimulus Program, including the additional information required by Resolution MINEM 419-E/17. On November 8, 2017, we were notified of the passing of Resolution RESOL-2017-271-APN-SECRH # MEM of the Secretariat of Hydrocarbon Resources under the Ministry of Energy and Mining, which approved admitting us, in our capacity as production concession holder in the *Fortín de Piedra* area, located in the Province of Neuquén, to the *Programa de Estímulo a las Inversiones en Desarrollos de Producción de Gas Natural proveniente de Reservorios No Convencionales* (Program to Stimulate Investments in Natural Gas Production Developments from Non-conventional Reservoirs), instituted by Resolution No. 46/2017 of the Ministry of Energy and Mining dated March 2, 2017, and modified by Resolution MINEM 419-E/2017.

As of the date of this offering memorandum, pursuant to the Natural Gas Stimulous Program we have only collected payments from the Argentine Government for an equivalent amount of Ps. 5.1 million corresponding to the fiscal year ended on December 31, 2014. During the fiscal years ending on December 31, 2015 and 2016, we did not receive any compensation, as the effective price was higher than the Base Price, and compensation for 2017 is subject to determination by the Argentine Government. Although the compensation is denominated in U.S. Dollars, it is billed in pesos and converted at the prevailing exchange rate during the month in which the payment is made, thereby leaving our company exposed to an exchange rate risk between the billing date and the collection date. If we do not collect the Natural Gas Stimulus Program compensation in a timely manner or if total compensation decreases as a result of exchange rate fluctuations, we may face liquidity restraints that could negatively affect our financial condition and results of operations and ability to pay our debts.

In addition, if we are unable to fulfill our commitments under the Natural Gas Stimulus Program, we may not receive any compensation for Surplus Injection and be removed from the program or pay fines, among other potential consequences. The Argentine Government may also not be obligated to pay such compensation if certain conditions are met, such as LNG import prices remaining below U.S.$7.50 per mmBtu for a continued period of six months. We believe that we are not currently obligated to pay royalties on the compensation we receive from the Argentine Government in connection with the Natural Gas Stimulus Program. We cannot, however, guarantee that we will not be required to pay royalties or other charges for the amounts we receive in the future or the amounts we have received in the past, which, in turn, could affect our results of operations.

Additionally, we face the risk of the Argentine Government suspending the Gas Plus Program and/or the Natural Gas Stimulus Program and/or the Resolution 46-E Stimulus Program (modified by Resolution MINEM 419-E/2017), as was the case when the *Ministerio de Planificación Federal, Inversión Pública y Servicios* (Ministry of Federal Planning, Public Investment and Services) suspended the implementation of the "Oil Plus" program in February 2012 in response to market conditions. If the same were to occur to either of these key programs, our ability to generate revenues could be substantially impaired, which, in turn, would negatively affect our financial condition and results of operations.

***Our relationship with federal and provincial authorities is important to our business.***

Due to the nature of our businesses, we have an extensive relationship with federal and provincial authorities in places where we conduct our businesses. Although we consider our relationships with relevant authorities to be good, these relationships could be adversely affected in the future, which could negatively affect our business and our results of operations. For example, provincial authorities could reject or delay our current or future term-extensions requests, or seek to impose unexpectedly or disproportionately high upfront fees or significant additional obligations upon us when negotiating our concessions or permits renewals or otherwise.

***We may not be able to attract or retain certain key personnel.***

Our business is dependent upon the contributions of our senior management and our highly skilled team of engineers and other employees. It is also dependent on our ability to attract, train, motivate and retain key management and commercial and technical personnel with the necessary skills and experience. There can be no guarantee that we will be successful in retaining and attracting key personnel, and the replacement of any key personnel who were to leave could be difficult and time consuming. The loss of the experience and services of key personnel or the inability to recruit suitable replacements or additional staff could have a material adverse effect on our business, financial condition and/or results of operations.

***We may not be able to obtain adequate insurance coverage.***

Although we have purchased insurance for our assets under reasonable conditions consistent with business practices, any significant damage to, accident or other production stoppage at our facilities or fields could materially and adversely affect our production capabilities, financial condition and results of operations.

***We and the Parent Guarantor face risks relating to certain legal proceedings.***

We and the Parent Guarantor are party to a number of labor, commercial, civil, tax, criminal, environmental and administrative proceedings that, either alone or in combination with other proceedings, could, if resolved in whole or in part adversely to us, result in the imposition of material costs, fines, judgments or other losses. While we and the Parent Guarantor believe that we and the Parent Guarantor have provisioned such risks appropriately based on the opinions and advice of our external legal advisors and in accordance with applicable accounting rules, certain loss contingencies, particularly those relating to environmental matters, are subject to change as new information develops and it is possible that losses resulting from such risks, if proceedings are decided in whole or in part adversely to us, could significantly exceed any accruals we and the Parent Guarantor have provided.

In addition, we and the Parent Guarantor may be subject to undisclosed liabilities related to labor, commercial, civil, tax, criminal or environmental contingencies incurred by businesses we and the Parent Guarantor acquire as part of our growth strategy, that we and the Parent Guarantor may not be able to identify or that may not be adequately indemnified under our acquisition agreements with the sellers of such businesses, in which case our business, financial condition and results of operation may be materially and adversely affected.

***Our controlling company's interests may be different from ours and may conflict with yours.***

San Faustin (as defined in "Principal Shareholders of the Company") is our and the Parent Guarantor's controlling shareholder and has full power to direct our business by adopting decisions that require the vote of a majority of shareholders or directors. Our controlling shareholder may elect to pursue business opportunities, withdraw from current businesses, adopt new strategies, undertake mergers and acquisitions, diversify its business or otherwise promote new initiatives that may differ to our interests. We cannot assure you that our controlling shareholder will at all times act in a manner that is consistent with our interests or those of holders of the Notes. See "Principal Shareholders" and "Related Party Transactions."

***Our business plan includes future drilling activities for non-conventional oil and gas reserves, such as shale oil and gas extraction, and if we are unable to successfully acquire and use the necessary new technologies and other support as well as obtain financing and venture partners, our business may be adversely affected.***

Our ability to execute and carry out our business plan depends upon our ability to obtain financing at a reasonable cost and on reasonable terms. We have identified drilling locations and prospects for future drilling opportunities of non-conventional oil and gas reserves, such as the shale oil and gas in *Fortín de Piedra* within the *Vaca Muerta* formation. These drilling locations and prospects represent a part of our future drilling plans. Our ability to drill and develop these locations depends on a number of factors, including seasonal conditions, regulatory approvals, negotiation of agreements with third parties, commodity prices, costs, access to and availability of equipment, services and personnel and drilling results. In addition, as we do not have extensive experience in drilling and exploiting non-conventional oil and gas reserves, the drilling and exploitation of such non-conventional oil and gas reserves depends on our ability to acquire the necessary technology and hire personnel and other support needed for extraction or obtain financing and venture partners to develop such activities. Furthermore, in order to implement our business plan, including the development of our oil and natural gas exploration activities, we will need to raise significant amounts of debt capital in the financial and capital markets. We cannot guarantee that we will be able to obtain the necessary financing or obtain financing in the international or local financial markets at reasonable cost and on reasonable terms to implement our new business plan or that we would be able to successfully develop our oil and natural gas reserves and resources (mainly those related to our non-conventional oil and gas business plan). Because of these uncertainties, we cannot give any assurance as to the timing of these activities or that they will ultimately result in the realization of proven reserves or meet our expectations for success, which could adversely affect our production levels, financial condition and results of operations.

***We may incur significant labor obligations with respect to outsourced activities.***

We outsource a number of activities by outsourcing contractors to maintain a flexible cost base that makes it possible to maintain a lower cost base and at the same time respond more quickly to the changing market. While we have very strict policies regarding labor and social security obligations by our contractors, we are not in a position to ensure that contractor employees will not initiate legal action seeking compensation from us, relying on certain judgments by Argentine courts that recognize joint responsibility between the contractor and the entity to which services are provided, under certain circumstances. If we were unable to obtain a favorable ruling on any such claims, our financial condition and results of operations and our ability to pay our debts, including the Notes, may be adversely affected.

***We could be subject to organized labor action.***

Although we consider our current relations with our workforce to be good, we have experienced organized work disruptions and stoppages in the past and we cannot assure you that we will not experience them in the future. Labor demands are commonplace in Argentina's energy sector and unionized workers have blocked access to and damaged our plants in the recent past.

***A cyber-attack could adversely affect our business, financial condition and results of operation.***

Information security risks have generally increased in recent years as a result of the proliferation of new technologies and the increased sophistication and activities of cyber-attacks. We have increasingly connected equipment and systems to the Internet. Because of the critical nature of our infrastructure and the increased accessibility enabled through connection to the Internet, we may face a heightened risk of cyber-attack. In the event of such an attack, we could have our business operations disrupted, property damaged and customer information stolen; experience substantial loss of revenues, response costs and other financial loss; and be subject to increased litigation and damage to our reputation. A cyber-attack could adversely affect our business, results of operations and financial condition.

***Our operations are subject to social risks.***

Our activities are subject to social risks, including protests by communities surrounding certain of our operations. Despite of the fact that we are committed to operating in a socially responsible manner, we may face opposition from local communities with respect to our current and future projects in the jurisdictions in which we operate, which could adversely affect our business, results of operations and financial condition.

## Risks Relating to the Notes and the Note Guarantee

***Risk relating to the volatility and events in other countries with emerging markets.***

The market for securities issued by Argentine companies is influenced by economic, political and market conditions in Argentina and, to varying degrees, market conditions in other emerging markets. Even though the economic conditions are different in each country, the value of the Notes may also be adversely affected by economic, political and market events occurring in one or more of the other countries with emerging markets. We cannot assure you that the financial and capital markets will not be adversely affected by events occurring in Argentina and/or in other countries with emerging markets, or whether such effects will not adversely affect the value of the Notes.

***There is no established trading market for the Notes and the market value of the Notes is uncertain.***

Although we have applied to list the Notes on BYMA, through BASE and to have the Notes listed on the Official List of the Luxembourg Stock Exchange for trading on its Euro MTF Market, the Notes will be new issues of securities with no established trading market or prior trading history. We cannot assure you that any such applications would be approved. In addition, we cannot assure you that a market for the Notes will develop or, if one does develop, that it will be maintained. If a trading market does not develop or is not maintained, you may experience difficulty in reselling the Notes or may be unable to sell them at an attractive price or at all. Further, even if a market develops, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Furthermore, the market value and liquidity of, and trading markets for, the Notes may be materially and adversely affected by changes in interest rates and declines and volatility in the markets for similar securities and in the overall economy, as well as by any changes in our financial condition or results of operations. We cannot assure you that the Notes will not trade at a discount from their initial trading price, whether for reasons related or unrelated to us.

***The Notes are not registered securities in the United States, and they will be subject to transfer restrictions that may adversely affect the value of the Notes and limit your ability to resell the Notes.***

The Notes have not been registered under the Securities Act or any state securities laws, and we are not required to and currently do not plan on making any such registration in the immediate future. The Notes may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Such exemptions include offers and sales that occur outside the United States for non-U.S. persons in compliance with Regulation S and in accordance with any applicable securities laws of any other jurisdiction, and sales to U.S. qualified institutional buyers as defined under Rule 144A. You should be aware that investors may be required to bear the financial risks of this investment for an indefinite period of time. See “Transfer Restrictions” for a more detailed explanation of such restrictions.

***The obligations under the Notes are effectively subordinated to the obligations of our subsidiaries.***

The Notes are our unsubordinated obligations, and shall enjoy equal priority of payment, without priority, consistent with our other present or future unsecured and unsubordinated indebtedness, present and future. The Notes are not secured by our assets. Future claims of secured creditors, whose loans are secured against our assets will have priority for payment against any claim of the holders of the Notes with respect to such assets.

The Notes will be effectively subordinated to any of our secured indebtedness to the extent of the value of the assets securing such obligations. The Notes will be structurally subordinated to the indebtedness of our subsidiaries.

Also, any payment of dividends, loans or advances by our subsidiaries may be subject to legal or contractual restrictions. Payments to us by our subsidiaries will also depend on their earnings and business considerations. We have the right to receive assets of any of our subsidiaries in the event of bankruptcy, contest or settlement, and therefore, the right of the holders of the Notes to participate in such assets will be effectively subordinated to the claims of creditors of that subsidiary, including trade creditors.

***Our credit ratings do not reflect all risks of investing in the Notes and downgrades in our credit ratings could have negative effects on our funding costs and business operations.***

Our credit ratings are an assessment by the rating companies on our ability to pay our debts as they mature. Consequently, actual or anticipated changes in our credit ratings generally affect the market value of the Notes. These credit ratings may not reflect the potential impact of risks related to the structuring and marketing of the Notes. The ratings do not constitute a recommendation to buy, sell or hold securities and may be revised or withdrawn at any time by the rating agency. The rating of each company should be evaluated independently of any other company grade rating.

Additionally, credit ratings are subject to revision, suspension or withdrawal by the credit rating agencies at any time. A downgrade, suspension or withdrawal in our credit ratings could result in, among other things, the following: (i) increased funding costs and other difficulties in raising funds; (ii) the need to provide additional collateral in connection with financial market transactions; and (iii) the termination or cancellation of existing agreements. As a result, our business, financial condition and results of operations could be materially and adversely affected.

***We could redeem the Notes before maturity.***

We may redeem the Notes, in whole or in part in certain circumstances described under "Description of the Notes." An investor may not be able to reinvest the redemption proceeds in other securities with yields similar to those of the Notes redeemed.

***Holders of Notes may find it difficult to enforce civil liabilities against us, the Parent Guarantor or our or the Parent Guarantor's directors, officers and controlling persons.***

We and the Parent Guarantor are organized under the laws of Argentina and the Kingdom of Spain, respectively, and our principal place of business (*domicilio social*) is located in Argentina and Spain, respectively. All of our and the Parent Guarantor's directors, officers and controlling persons reside outside of the United States. In addition, all or a substantial portion of our and the Parent Guarantor's assets and the assets of our and the Parent Guarantor's directors, officers and controlling persons are located outside of the United States. As a result, it may be difficult for holders of Notes to effect service of process within the United States on such persons or to enforce judgments against us, the Parent Guarantor or them, including any action based on civil liabilities under the Securities Act. Based on the opinion of our Argentine and Spanish counsel, there is doubt as to the enforceability against us and such persons in Argentina or Spain, as the case maybe, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

***Failure to comply with restrictive covenants in our agreements could accelerate our repayment obligations under our debt.***

Our outstanding credit facilities and debt securities contain a number of restrictive covenants and any additional financing arrangements we enter into (including the Notes) may contain additional restrictive covenants, such as, but not limited to, certain financial covenants which require us to maintain specified financial ratios. These covenants restrict or prohibit many actions, including, but not limited to, our ability to incur debt, create or suffer to exist liens, make repayments of particular debt, pay dividends, make investments, engage in transactions with stockholders and affiliates, issue capital stock, sell certain assets, and engage in mergers and consolidations or in sale-leaseback transactions.

As a result of the covenants and restrictions contained in our outstanding indebtedness, we are limited in how we conduct our business and we may be unable to compete effectively or to take advantage of new business opportunities. Any breach of these covenants could result in a default under such indebtedness.

We cannot assure you that we will be able to remain in compliance with the covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the appropriate parties and/or amend the covenants. At the same time, there are exceptions to many of these covenants, and we cannot assure you that the limitations referred to above will protect you in all circumstances.

***If we experience a change of control, we may be unable to repurchase the Notes as required under the Indenture.***

In the event of a change of control, we will be required under certain circumstances to make an offer to repurchase the Notes at a purchase price equal to 101% of the principal amount thereof, plus any accrued and unpaid interest thereon through the purchase date. See "Description of the Notes—Change of Control." The terms of our existing credit facilities and other financing arrangements may require repayment of amounts outstanding in the event of a change of control and limit our ability to fund the repurchase of the Notes in certain circumstances. If we experience a change of control triggering event, there can be no assurance that we would have sufficient financial resources available to satisfy our obligations to repurchase the Notes. If a change of control occurs and we fail to repurchase the Notes, our failure to do so would constitute a default under the Indenture, which could in turn be a default under our other financing agreements, and could have a material adverse effect on our financial condition and results of operations.

***In the event of reorganization proceedings or an out-of-court reorganization agreement, holders of the Notes may vote differently from other creditors.***

In the event we are subject to judicial reorganization proceedings, out-of-court reorganization agreements (*acuerdo preventivo extrajudicial*) and/or similar proceedings, current Argentine regulations applicable to the Notes (including, without limitation, the provisions of the Argentine Negotiable Obligations Law) will be subject to the provisions of Argentine Law No. 24,522 (the "Argentine Bankruptcy Law"), as amended, and other regulations applicable to business restructuring proceedings and, consequently, certain terms and conditions of the Notes may not apply.

The Argentine Bankruptcy Law establishes a different voting procedure for holders of Notes from that used by other unsecured creditors for purposes of calculating the majorities required by the Argentine Bankruptcy Law (which requires the absolute majority of creditors representing two-thirds of the unsecured debt). Under this system, holders of Notes may have significantly less bargaining power than our other financial creditors in the event of reorganization.

Moreover, Argentine case law has provided that holders of Notes who fail to attend a meeting at which a vote is held in order to vote or who abstain from voting are not to be counted for purposes of calculating whether the majorities required to approve a restructuring proposal have been formed. As a result, the bargaining power of holders of Notes may be lessened vis-á-vis our other financial and trade creditors.

***The obligations under the Notes and the Note Guarantee will be subordinated to certain statutory liabilities.***

Under Argentine Bankruptcy Law, the obligations under the Notes are subordinated to certain statutory preferences including claims for salaries, wages, secured obligations, social security, taxes and court fees and expenses. If we are subject to bankruptcy, judicial or non-judicial reorganization proceedings or the equivalent, the rights of the holders of the Notes will rank junior to the above statutory preferences and as a result, our ability to pay the amounts outstanding under the Notes may be undermined.

***Judgments of Argentine courts enforcing obligations denominated in foreign currency may order payment in Argentine pesos.***

If proceedings were brought in the courts of Argentina seeking to enforce our obligations under the Notes, these obligations may be payable in pesos in an amount equal to the amount of Argentine pesos required to settle the obligation denominated in foreign currency under the agreed terms and subject to applicable law or, alternatively, according to the exchange rate between the peso and the U.S. dollar in force at the time of payment. We cannot assure you that such rates of exchange will afford investors full compensation of the amount invested in the Notes plus accrued interest.

***The Note Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability.***

The Parent Guarantor will guarantee the payment of the Notes on a senior basis. The Note Guarantee will provide the holders of the Notes with a direct claim against the Parent Guarantor. However, the Indenture will include language to the effect that the Note Guarantee will be limited so as to ensure compliance with Spanish law. Spanish law limits the guarantee amount under a Spanish guarantee granted by a Spanish private limited liability company (*sociedad de responsabilidad limitada*). The Note Guarantee will also be subject to applicable corporate and other laws. In general, these laws prohibit companies from providing financial assistance to anyone for the purpose of acquiring their shares and limit the circumstances in which companies can transfer economic benefits to their shareholders outside the payment of properly declared dividends. They also provide for limitations that affect the rights of creditors generally in case an entity becomes insolvent.

***Insolvency laws and other limitations on the Note Guarantee may adversely affect its validity and enforceability.***

Our obligations under the Notes will be guaranteed by the Parent Guarantor. The Parent Guarantor is organized or incorporated under the laws of Spain. In general, applicable maintenance of share capital, corporate benefit, fraudulent transfer and conveyance laws, equitable principles and insolvency laws and limitations on the enforceability of judgments obtained in New York courts in Spain could limit the enforceability of the Note Guarantee against the Parent Guarantor. Some of these limitations arise under various provisions or principles of corporate law which include corporate benefit or interest restrictions, rules governing capital maintenance or rules related to corporate benefit, under which, among others, the risks associated with a guarantee on account of a subsidiary company's debt need to be reasonable and economically and operationally justified from the guarantor's perspective, as well as thin capitalization, unlawful financial assistance and fraudulent transfer principles. If these limitations were not observed, the Note Guarantee could be subject to legal challenge. The following discussion of fraudulent transfer, conveyance and insolvency law, although an overview, describes generally applicable terms and principles, which are defined under the relevant jurisdiction's fraudulent transfer and insolvency statutes. See "Enforcement of Civil Liabilities" for more information.

In insolvency proceedings, it is possible that creditors of the Parent Guarantor or the appointed insolvency administrator may challenge the Note Guarantee, and intercompany obligations generally, as fraudulent transfers or conveyances or on other grounds. If so, such laws may permit a court, if it makes certain findings, to:

- avoid or invalidate all or a portion of the Parent Guarantor's obligations under the Note Guarantee;
- direct that we and/or the holders of the Notes return any amounts paid under the Note Guarantee to the Parent Guarantor or to a fund for the benefit of the Parent Guarantor's creditors; and
- take other action that is detrimental to holders of the Notes.

If we cannot satisfy our obligations under the Notes and the Note Guarantee is found to be a fraudulent transfer or conveyance or is otherwise set aside, we cannot assure the holders of the Notes that we can ever repay in full any amounts outstanding under the Notes. In addition, the liability of the Parent Guarantor under the Note Guarantee will be limited to the amount that will result in the Note Guarantee not constituting a fraudulent conveyance or otherwise being set aside. The amount recoverable from the Parent Guarantor will also be limited. However, there can be no assurance as to what methodology a court would apply in making a determination of the maximum liability of the Parent Guarantor and whether a court would give effect to such attempted limitation. Also, there is a possibility that the entire Note Guarantee may be set aside, in which case, the Parent Guarantor entire liability may be extinguished.

## USE OF PROCEEDS

We will apply the net proceeds of the issuance of the Notes under this offering memorandum in compliance with the requirements of Article 36 of the Argentine Negotiable Obligations Law, and other applicable Argentine regulations, in effect in Argentina, for investment in fixed assets in the *Fortín de Piedra* area in the *Vaca Muerta* formation, in the Province of Neuquén, Argentina, in order to perform drilling activities and to complete in existing oil and gas wells in such area (being understood by completions the set of works that is carried out at a well after drilling or during a repair, to leave the well in a condition where it can efficiently produce formation fluids or to allocate them to other uses, such as water or gas injection and the works can include lining the production reservoir with a smooth or grooved pipe, packing it with gravel or the perforating the lining and, finally, installing the production pipeline) as well as for oil and gas processing and transportation facilities in the area.

We may use the balance of the proceeds for (a) productive investments for the acquisition of fixed assets to be used in the hydrocarbon industry (including, without limitation, the acquisition of hydrocarbon areas) or in the conventional or renewable energy industry; and (b) working capital purposes in Argentina, it being understood that "working capital" shall be deemed to include current assets less current liabilities, including, payment to suppliers for inputs and / or services rendered and the payment of other current operating liabilities or impairment of other current liabilities.

The use and allocation of the net proceeds derived from the placement and issuance of the Notes are subject to market conditions. Therefore, we may modify the order of the aforementioned uses based on our business strategy.

## ARGENTINE EXCHANGE RATES AND EXCHANGE CONTROLS

### Argentine Peso – U.S. Dollar Exchange Rate

#### *Exchange Rates*

From April 1, 1991 until the end of 2001, Law No. 23,928 (the "Convertibility Law") established a regime under which the Central Bank was obliged to sell U.S. dollars at a fixed rate of one peso per U.S. dollar. On January 6, 2002, the Argentine Congress enacted the Public Emergency Law, formally ending the regime of the Convertibility Law, abandoning over ten years of U.S. dollar-peso parity and eliminating the requirement that the Argentine Central Bank's reserves in gold, foreign currency and foreign currency denominated debt be at all times equivalent to 100% of the monetary base.

The Public Emergency Law, which has been extended on an annual basis as is in effect until December 31, 2017, granted the Argentine government the power to set the exchange rate between the peso and foreign currencies and to issue regulations related to the foreign exchange market. Following a brief period during which the Argentine government established a temporary dual exchange rate system, pursuant to the Public Emergency Law, the peso has been allowed to float freely against other currencies since February 2002. However, the Argentine Central Bank has had the power to intervene in the exchange rate market by buying and selling foreign currency for its own account, a practice in which it engaged on a regular basis. Between 2011 and December 2015, the Argentine government increased controls on exchange rates and the transfer of funds into and out of Argentina.

With the tightening of exchange controls beginning in late 2011, in particular with the introduction of measures that allowed limited access to foreign currency by private companies and individuals (such as requiring an authorization of tax authorities to access the foreign currency exchange market), the implied exchange rate, as reflected in the quotations for Argentine securities that trade in foreign markets, compared to the corresponding quotations in the local market, increased significantly over the official exchange rate. Most of the foreign exchange restrictions were gradually lifted in since December 2015, and finally on August 9, 2016 the Argentine Central Bank issued Communication "A" 6037, which substantially modified the applicable foreign exchange regulations and eliminated the set of restrictions for accessing the MULC. As a result of the elimination of the limit amount for the purchase of foreign currency without specific allocation or need of prior approval the substantial spread between the official exchange rate and the implicit exchange rate derived from securities transactions has substantially decreased.

After several years of moderate variations in the nominal exchange rate, in 2012 the peso lost approximately 14.27% of its value with respect to the U.S. dollar. This was followed in 2013 and 2014 by a devaluation of the peso with respect to the U.S. dollar that exceeded 30.00%, including a loss of approximately 23.00% in January 2014. In 2015, the peso lost approximately 52.43% of its value with respect to the U.S. dollar, including a 10.13% devaluation from January 1, 2015 to September 30, 2015 and a 38.00% devaluation during the last quarter of the year, mainly concentrated after December 16, 2015 when most exchange controls were lifted.

The following table sets forth the high, low, average and period-end reference exchange rates for the periods indicated, expressed in pesos per Dollar at the selling exchange rate published by Banco Nación.

| | Argentine Peso Exchange Rates | | | |
|---|---|---|---|---|
| | **High[(1)]** | **Low** | **Average** | **Period-end** |
| **Year ended December 31,** | | | | |
| 2014 | 8.56 | 6.52 | 8.11 | 8.55 |
| 2015 | 13.38 | 8.55 | 9.25 | 13.04 |
| 2016 | 16.03 | 13.20 | 14.78 | 15.89 |
| **Month** | | | | |
| May 2017 | 16.14 | 15.27 | 15.70 | 16.14 |

| | Argentine Peso Exchange Rates | | | |
|---|---|---|---|---|
| | High[(1)] | Low | Average | Period-end |
| June 2017 | 16.60 | 15.85 | 16.12 | 16.60 |
| July 2017 | 17.79 | 16.80 | 17.20 | 17.65 |
| August 2017 | 17.70 | 17.05 | 17.42 | 17.30 |
| September 2017 | 17.60 | 17.05 | 17.25 | 17.31 |
| October 2017 | 17.70 | 17.34 | 17.46 | 17.66 |
| November 2017 | 17.65 | 17.32 | 17.48 | 17.30 |
| December 2017 (through December 4) | 17.36 | 17.23 | 17.29 | 17.36 |

Source: Banco Nación

*Note:—*

(1) Represents the high, low and average of the exchange rates on the last day of each month during the period. For the months in 2017, the average is calculated using the daily exchange rates of each respective month.

For your convenience, this offering memorandum contains translations of peso amounts to U.S. dollars. Unless otherwise indicated, we have translated U.S. dollar amounts in this offering memorandum at the exchange rate of Ps.17.31 to U.S.$1.00, which was the selling rate published by Banco Nación, on September 30, 2017. These translations should not be construed as representations that the amounts actually represent such U.S. dollar amounts or could be or have been converted into U.S. dollars at the rates indicated or at any other rates.

As of December 4, 2017, the peso-U.S. dollar reference exchange rate was Ps.17.36 to U.S.$1.00.

**Exchange Controls**

The enactment of the Public Emergency Law in 2002, among other things, authorized the Argentine government to implement a foreign exchange system and to enact foreign exchange regulations. Within this context, on February 8, 2002, under Decree No. 260/2002, the Argentine government (i) created the MULC through which all transactions involving the exchange of foreign currency must be conducted, and (ii) established that all foreign exchange transactions shall be made at the freely agreed exchange rate and in compliance with the requirements and regulations of the Argentine Central Bank (the main aspects of which are described below).

On June 9, 2005, by means of Decree No. 616/2005, the Argentine government, established that (i) all inflows of funds into the domestic foreign exchange market arising from foreign debts incurred by Argentine residents, both individuals or legal entities of the private financial and non-financial sector, excluding export-import financings, and primary issues of debt securities sold through public offering and traded in authorized markets; and (ii) currency remittances made by non-Argentine-residents into the domestic foreign exchange market for the following purposes: holdings of Argentine currency, purchases of any kind of financial assets or liabilities of the financial or non-financial private sector, excluding direct foreign investments and primary issues of debt securities and shares sold through public offering and traded in self-regulated markets; and investments in public sector securities purchased in secondary markets, shall meet the following requirements: (a) currency remittances into the domestic foreign currency market shall only be transferred abroad upon the lapse of 365 calendar days computed as from the date of settlement of such funds into pesos; (b) the proceeds of the exchange of the funds so remitted shall be deposited into an account in the local banking system; (c) an amount equal to 30.0% of the relevant amount shall be deposited in a registered and non-transferable and non-interest bearing account for a period of 365 calendar days, under the conditions established in the applicable regulation (the “Deposit”); and (d) such Deposit shall be made in U.S. dollars with Argentine financial institutions, it shall not accrue any interest or other profit and shall not be used as security or collateral for any kind of credit transaction. It should be noted that there were several exemptions to the requirements of Decree No. 616/2005, including, without limitation, those described below.

Any breach of the provisions of Executive Decree No. 616/05 or any other foreign exchange regulation is subject to criminal sanctions.

On December 18, 2015, through Resolution No. 3/2015, the Ministry of Treasury and Public Finance amended Executive Decree No. 616/2005, reducing (i) the Deposit percentage to 0% and (ii) the required period that the proceeds of any new financial indebtedness incurred by residents, held by foreign creditors and transferred through MULC must be kept in Argentina from 365 calendar days to 120 calendar days from the date of the transfer of the relevant amount. Such term was reduced to 0 through Resolution 1/2017, issued by the Ministry of Finance. The following is a description of the main aspects of the Argentine Central Bank regulations relating to inflows and outflow of funds into and from Argentina that are in force as of the date of this offering memorandum.

On August 8, 2016, the Argentine Central Bank introduced material changes to the foreign exchange regime and established a new foreign exchange regime by means of Communication "A" 6,037 that significantly eases access to the MULC.

In January 2017, the Ministry of Finance issued Resolution No. 1/2017, which reduced to zero days the minimum stay period for currency inflows. Since the term was reduced to zero but not eliminated, nothing prevents the increase of the term if macroeconomic circumstances change in Argentina.

In line with Resolution No. 1/2017, the Argentine Central Bank issued Communication "A" 6,150, by which the 120-day stay period for the payment of financial debt abroad was eliminated for debts which had been entered into the country by means of the MULC, and for the repatriation of portfolio investments of nonresidents.

Furthermore, pursuant to Communication "A" 6,244, the Argentine Central Bank made an integral reform to foreign exchange regulations in order to simplify the access to the MULC, by eliminating all restrictions for transfers from and to foreign countries in any currency. Said rearrangement came into effect on July 1, 2017.

The following is a description of the main aspects of Argentine Central Bank regulations concerning inflows and outflows of funds in Argentina.

### Inflow of Capital

#### *Foreign Financial Indebtedness*

*Inflow and settlement through the MULC:* Foreign financial indebtedness incurred by the private non-financial sector, the financial sector and Argentine local governments are not subject to the requirement of having the proceeds from such indebtedness transferred and settled through the MULC (Communication "A" 6,037).

Whether funds are being entered into the MULC or not, in transactions involving the private non-financial sector and the financial sector, it is mandatory to register such debt in the "Survey of external liabilities and securities issuance" (Communication "A" 3,602 as amended and restated) in accordance with Section 1 of Decree 616/05.

Until recently, in the case of financial indebtedness with foreign creditors entered into the MULC, a minimum term of 120 days had to elapse before repayment of principal (in full or in part), regardless of the payment method used. Given the issuance of Resolution 1/2017 by the Ministry of Finance, which reduced the minimum term of permanence to 0 days, and the issuance of Communication "A" 6,150 by the Argentine Central Bank, Argentine residents no longer have to wait for 120 days to repay principal on offshore financial debt through the specific channel (by wire transfer from Argentina under the concept code applicable to such transactions).

There is also no obligation to convert into pesos (through the MULC) the disbursements received under offshore financial indebtedness. As a consequence, if the funds are brought into Argentina, they can be credited into a bank account in pesos or foreign currency, even in different foreign currency from the one that of the transferred funds (e.g., U.S. dollars-euros).

## Outflow of Capital

### *Payment of Principal and Interest of Foreign Financial Indebtedness*

Access to the MULC in order to pay principal and interest accrued as from the disbursement of the funds is subject to the filing before the intervening entity of an affidavit stating the concept code for the transaction and informing the compliance with, as applicable, the statement of debt required by Communication "A" 3602, as amended from time to time, and the statement of direct investments provided by Communication "A" 4237, as amended from time to time.

Foreign financial indebtedness can also be repaid by using freely disposable funds deposited abroad. There is no limitation established to pre-cancel principal before the agreed maturity date. Additionally, there is no restriction to refinance (or extend the agreed maturity of) offshore debts, even if the disbursed funds were entered into the MULC.

## Repatriations by Non-residents

Non-Argentine residents may access the MULC to perform what is commonly known as repatriation transactions.

To that purpose, they must file an affidavit before the intervening financial entity, stating that the funds correspond to:

(i) Financial indebtedness originated in foreign loans from non-residents;

(ii) Collection of credits under a reorganization proceeding and collection of debts under a reorganization or insolvency proceedings to the extent that the non-resident client has been recognized as a creditor by a non-appealable decision of the competent court of such proceedings;

(iii) Services, royalties and other current transfers to abroad;

(iv) Repatriations of foreign direct investments in the non-financial private sector, in companies that are not controllers of local financial entities, and/or in real estate properties, to the extent that the beneficiary from abroad is a human or legal person residing or incorporated in countries or territories considered as collaborative for fiscal transparency (as determined by section 1 of Decree 589/13 and its supplementary).

(v) Regulations provide that a holding by a non-resident in equity of a local company equal or superior to 10% (of the equity or votes) is considered a foreign direct investment. The repatriation of such investments includes: the sale of direct investment; final settlement of the investment; reduction of capital decided by the local company; and devolution of irrevocable contributions made by the local company.

(vi) Collection of services or sales of portfolio investments (and their results), provided that the beneficiary from abroad is a human or legal person who resides or has been incorporated and established in countries or territories considered as collaborative for fiscal transparency (as determined by section 1 of Decree 589/13 and its supplementary). These repatriations of portfolio investments include, but are not limited to, portfolio investments in shares and stakes in local companies, investments in mutual funds and local trusts, purchase of portfolios of loans granted to residents by local banks, purchase of invoices and Promissory notes for local commercial transactions, investments in local bonds issued in pesos and in foreign currency payable locally, as well as purchases of other internal credits;

(vii) Compensation granted by local courts in favor of non-residents; or

(viii) Argentine import payments.

The transfer of funds abroad may be performed by debiting from accounts in pesos or accounts in foreign currency.

In foreign exchange transactions to non-Argentine resident clients, when the amount of the operations is over the equivalent of U.S.$10.000, the credit/debit of the pesos in the local account of the non-resident or attorney in fact that performs the transactions in the name and on behalf of the non-resident is needed.

**Formation of Foreign Assets**

Argentine resident natural persons, private legal persons incorporated in Argentina, assets and other rights incorporated in the country (e.g., trusts) and local governments, except entities authorized to operate in foreign exchange, may access the MULC without requesting prior approval from the Argentine Central Bank under the set of concepts that make up the "*formation of foreign assets*" channel, with no limit. Such concepts are: "*direct investments by residents*", "*portfolio investments abroad by residents*", "*purchase of foreign currency bills*", "*residents' loans to non-argentine residents*", "*residents' travelers checks*" and "*purchase of foreign currency for personal holding or related to transfers between residents*."

Under the concept of "*portfolio investments*" Argentine residents may transfer funds to their own accounts opened abroad, without limitations, as long as such accounts are opened in countries or territories considered as collaborative for fiscal transparency (as determined by section 1 of Decree 589/13 and its supplementary), and that are not flagged as non-collaborative by the Financial Action Task Force ("FATF"). As funds transferred under this concept are considered "*freely disposable funds*", they may be used abroad to cancel any type of debt.

**Capital Markets**

Securities transactions carried out in authorized securities markets shall be paid by one of the following mechanisms: (a) in pesos using the different modalities allowed by the payments system, (b) in foreign currency through wire transfer from and to accounts opened at local financial entities, and (c) through wire to foreign accounts. The settlement of these securities trading transactions by payment in foreign currency bills, or by deposit in custody accounts or in third party accounts (Communication "A" 4,308) is not permitted.

Since the issuance of Communication "A" 5,812, on October 2, 2015, the funds received by natural persons in local custody accounts for payments of securities services in foreign currency may be used for settlement of new trading transactions of the beneficiary of the funds. This will have effects to the extent that the reinvestment of funds from the custody account by the beneficiary is neutral in tax matters with respect to the accreditation of the services in an account opened by the beneficiary in a financial entity and its subsequent debt for the purchase of securities.

## CAPITALIZATION

The table below sets forth our current and non-current financial liabilities, as well as our capitalization as of September 30, 2017, both on an actual basis and as adjusted to reflect the Notes offering but not the application of the proceeds therefrom. This table should be read alongside with "Management's Discussion and Analysis of Financial Conditions and Results of Operations—The Company" of this offering memorandum, as well as the Unaudited Interim Financial Statements also included in this offering memorandum.

| | As of September 30, 2017 | | | |
|---|---|---|---|---|
| | **Actual** | **As Adjusted** | **Actual** | **As Adjusted** |
| | **(in thousands of pesos)** | | **(in thousands of U.S.$)**[1] | |
| Current liabilities - Borrowings [5] | 42,717 | 42,717 | 2,468 | 2,468 |
| Non-current liabilities - Borrowings | 3,046,317[2] | 3,046,317 | 175,986 | 175,986 |
| Notes offered hereby[3] | — | 8,568,450 | — | 495,000 |
| Total financial liabilities[5] | 3,089,034 | 11,657,484 | 178,454 | 673,454 |
| Total Equity attributable to Company Shareholders | 4,262,163 | 4,262,163 | 246,225 | 246,225 |
| **Total capitalization**[4] | **7,351,197** | **15,919,647** | **424,679** | **919,679** |

*Notes:—*

(1) U.S.$1.00 = Ps.17.31, the selling rate published by Banco Nación on September 30, 2017.

(2) Refers to non-current financial liabilities as set forth in note 23 of our Unaudited Interim Financial Statements as of September 30, 2017.

(3) U.S.$500 million principal amount of Notes less fees and expenses of approximately U.S.$5 million in connection with this offering.

(4) Total capitalization represents total financial liabilities plus total equity attributable to Company Shareholders.

(5) All Current and Non-current financial liabilities are unsecured debts.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present our and the Parent Guarantor's selected historical financial information as of and for each of the periods indicated. Financial information as of and for the years ended December 31, 2016 and 2015 is derived from and should be read together with our 2016 Audited Annual Financial Statements and the 2016 and 2015 Parent Guarantor's audited annual financial statements, each of them included in this offering memorandum. Financial information as of and for the year ended December 31, 2014 is derived from and should be read together with our 2015 Audited Annual Financial Statements and the 2015 Parent Guarantor's audited annual financial statements, each of them included in this offering memorandum. Financial information as of September 30, 2017 and for the nine-month periods ended September 30, 2017 and 2016 is derived from and should be read together with our Unaudited Interim Financial Statements and the Parent Guarantor's Unaudited Interim Financial Statements, each of them included in this offering memorandum.

Our Audited Annual Financial Statements have been prepared in accordance with Argentine GAAP. Our Unaudited Interim Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting." We have applied IFRS for the first time for the six-month period ended June 30, 2017 with a transition date of January 1, 2016.

The Parent Guarantor's Audited Annual Financial Statements have been prepared in accordance with IFRS-EU and the Unaudited Parent Guarantor's Unaudited Interim Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting."

Our Financial Statements and other financial information included in this offering memorandum, unless specified otherwise, are stated in Argentine pesos. The Parent Guarantor's financial statements and other financial information included in this offering memorandum, unless otherwise specified, are stated in euros.

The U.S. dollar amounts provided below in relation to our selected historical financial information are conversions from the Argentine peso amounts, solely for the convenience of the reader. These conversions should not be construed as representations that the Argentine peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate. Unless otherwise indicated, we have translated U.S. dollar amounts in this offering memorandum, as of September 30, 2017 and for the nine-month period then ended, at the exchange rate of Ps.17.31 to U.S.$1.00, which was the selling rate published by Banco Nación on September 30, 2017 and U.S. dollar amounts as of December 31, 2016 and for the year then ended at the exchange rate of Ps.15.89 to U.S.$1.00, which was the selling rate published by Banco Nación on December 31, 2016. Investors should be aware that the methodology used in this offering memorandum for foreign exchange conversion may differ from the one recommended by the SEC. See "Exchange Rates and Exchange Controls" for information regarding the rates of exchange between the peso and the U.S. dollar.

The U.S. dollar amounts in relation to the Parent Guarantor's selected historical financial information provided below are conversions from the euro amounts, solely for the convenience of the reader. These conversions should not be construed as representations that the euro amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate. Unless otherwise indicated, we have translated U.S. dollar amounts in this offering memorandum, as of September 30, 2017 and for the nine-month period then ended, at the exchange rate of euro 0.847 to U.S.$1.00, which was the noon buying rate published by the U.S. Federal Reserve Board on September 30, 2017 and U.S. dollar amounts as of December 31, 2016 and for the year then ended at the exchange rate of euro 0.9487 to U.S.$1.00, which was the noon buying rate published by the U.S. Federal Reserve Board on December 31, 2016. Investors should be aware that the methodology used in this offering memorandum for foreign exchange conversion may differ from the one recommended by the SEC. See "Exchange Rates and Exchange Controls" for information regarding the rates of exchange between the euro and the U.S. dollar.

For additional information regarding financial information presented in this offering memorandum, see "Presentation of Financial and Other Information."

TECPETROL S.A.

**Consolidated Income Statement**

| | Pursuant to Argentine GAAP For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | **2016** | **2016** | **2015** | **2014** |
| | **(in thousands of U.S.$)** | **(in thousands of pesos)** | | |
| Net sales | 237,677 | 3,776,688 | 2,884,458 | 3,443,396 |
| Export duties and other export costs | (762) | (12,103) | (3,846) | (391,639) |
| Operating costs | (186,738) | (2,967,264) | (2,315,368) | (1,986,752) |
| **Gross profit** | **50,178** | **797,322** | **565,243** | **1,065,005** |
| Result from valuation of inventories at net realizable value | 5,148 | 81,801 | 64,149 | 51,068 |
| Selling expenses | (12,204) | (193,919) | (93,786) | (88,562) |
| Administrative expenses | (37,339) | (593,312) | (420,841) | (463,602) |
| Exploration costs | (3,623) | (57,575) | (23,286) | (24,999) |
| Other taxes | (5,104) | (81,107) | (64,483) | (51,386) |
| Other income and expenses, net | 607 | 9,646 | 23,804 | 101,200 |
| **Operating Result** | **(2,338)** | **(37,145)** | **50,801** | **588,722** |
| Result from investments in subsidiaries under significant influence and other related parties | (88) | (1,396) | 188,351 | (105,954) |
| Net financial and holding results | (46,489) | (738,710) | (670,497) | (257,788) |
| **(Loss)/Income before income tax** | **(48,914)** | **(777,252)** | **(431,346)** | **224,980** |
| Income tax | 14,082 | 223,757 | 239,453 | (116,611) |
| Minority interest in controlled companies | 191 | 3,038 | (668) | (361) |
| **(Loss)/Income for the year** | **(34,642)** | **(550,457)** | **(192,561)** | **108,007** |
| Company Adjusted EBITDA, considering Argentina GAAP Financial Statements(2) (unaudited) | 68,026 | 1,080,940 | 834,904 | 816,999 |

*Notes:—*

(1) We have translated U.S. dollar amounts at the selling rate at December, 2016, of Ps.15.89 per U.S. dollar, published by Banco Nación.

(2) We calculate Company Adjusted EBITDA considering Argentine GAAP Financial Statements as, for any year, the sum (without duplication), determined on a consolidated basis in accordance with Argentine GAAP for such period, of (i) our consolidated (Loss)/Income for the year (after income tax and minority interest in controlled companies); plus (ii) the sum of each of the following, to the extent that it would be necessary or applicable under Argentine GAAP to deduct them for purposes of determining our consolidated (Loss)/Income for the year, (a) the consolidated income tax, (b) the minority interest in controlled companies, (c) the consolidated financial and holding results generated by assets and liabilities, (d) consolidated depreciation of fixed assets and amortization of other assets, and (e) consolidated charges and recoveries of allowance variation and other liabilities.

**Condensed Consolidated Interim Income Statement**

| | Pursuant to IAS 34 For the Nine-month Periods Ended September 30, | | |
|---|---|---|---|
| | (unaudited) | | |
| | 2017[(1)] | 2017 | 2016 |
| | (in thousands of U.S.$) | (in thousands of pesos) | |
| **Continuing operations** | | | |
| Net sales | 192,414 | 3,330,687 | 2,827,050 |
| Operating costs | (186,541) | (3,229,029) | (2,156,457) |
| **Gross margin** | **5,873** | **101,658** | **670,593** |
| Selling expenses | (7,995) | (138,390) | (173,467) |
| Administrative expenses | (35,008) | (605,980) | (483,828) |
| Exploration costs | (45) | (784) | (35,239) |
| Other operating income | 1,110 | 19,222 | 2,352 |
| Other operating expenses | (169) | (2,930) | (14,703) |
| **Operating result** | **(36,234)** | **(627,204)** | **(34,292)** |
| Financial income | 888 | 15,371 | 34,219 |
| Financial costs | (9,181) | (158,930) | (188,218) |
| Other financial results, net | (3,076) | (53,254) | (7,399) |
| **Loss before result of equity-accounted investments and before income tax** | **(47,604)** | **(824,017)** | **(195,690)** |
| Result of equity accounted investments | (3) | (60) | (2) |
| **Loss before income tax** | **(47,607)** | **(824,077)** | **(195,692)** |
| Income tax | 3,935 | 68,123 | 77,963 |
| **Loss for the period from continuing operations** | **(43,672)** | **(755,954)** | **(117,729)** |
| **Discontinued operations** | | | |
| Loss for the period from discontinued operations | (9,484) | (164,172) | (188,934) |
| **Loss for the period** | **(53,156)** | **(920,126)** | **(306,663)** |
| **Loss attributable to:** | | | |
| Owners of the parent | (52,929) | (916,203) | (302,679) |
| Non-controlling interest | (227) | (3,923) | (3,984) |
| Company Adjusted EBITDA, considering IAS 34 Financial Statements[(2)] (unaudited) | 40,411 | 699,517 | 797,200 |

*Notes:—*

(1) We have translated U.S. dollar amounts at the selling rate at September 30, 2017, of Ps.17.31 per U.S. dollar, published by Banco Nación.

(2) We calculate Company Adjusted EBITDA considering IFRS/IAS 34 Financial Statements as, for any year/period, the sum (without duplication), determined on a consolidated basis in accordance with IFRS/IAS 34 for such period, of (i) our consolidated Result for the year/period (after income tax); plus (ii) the sum of each of the following, to the extent that it would be necessary or applicable under IFRS/IAS 34 to deduct them for purposes of determining our consolidated Result for the year/period, (a) the income tax from both continuing and discontinued operations, (b)

consolidated net financial results, from both continuing and discontinued operations, including consolidated interest cost, interest income and other financial results, net (including net result from exchange differences), (c) all amounts in respect of depreciation of property, plant and equipment and impairment of property, plant and equipment from both continuing and discontinued operations, and (d) all charges and reversal of provisions in respect of continuing and discontinued operations related to allowance for doubtful accounts and allowance for legal claims and contingencies.

The following table presents, for the periods indicated, our reconciliation of Company Adjusted EBITDA, considering Argentine GAAP Financial Statements to Loss/Profit for the year:

| | **Pursuant to Argentine GAAP For the Years Ended December 31,** | | | |
|---|---|---|---|---|
| **Income Statement** | **2016[1]** | **2016** | **2015** | **2014** |
| | **(in thousands of U.S.$)** | **(in thousands of Ps.)** | | |
| (Loss) / Profit for the year | (34,642) | (550,457) | (192,561) | 108,007 |
| Depreciation of fixed assets and amortization of other assets | 63,616 | 1,010,855 | 583,664 | 396,711 |
| Minority interest in controlled companies | (191) | (3,038) | 668 | 361 |
| Income Tax | (14,082) | (223,757) | (239,453) | 116,611 |
| Financial and holding results generated by liabilities / assets | 46,489 | 738,710 | 670,497 | 257,788 |
| Allowance variation and other liabilities | 6,836 | 108,626 | 12,089 | (62,480) |
| **Company Adjusted EBITDA considering Argentine GAAP Financial Statements (unaudited)** | **68,026** | **1,080,940** | **834,904** | **816,999** |

*Note:—*

(1) We have translated U.S. dollar amounts at the selling rate at December 2016, of Ps.15.89 per U.S. dollar, published by Banco Nación.

The following table presents, for the periods indicated, our reconciliation of Company Adjusted EBITDA, considering IAS 34 Financial Statements to (Loss) for the period:

| Condensed Consolidated Interim Income Statement | Pursuant to IAS 34 For the Nine-month period ended September 30, (unaudited) 2017[(1)] | 2017 | 2016 |
|---|---|---|---|
| | (in thousands of U.S.$) | (in thousands of Ps.) | |
| Loss for the period | (53,156) | (920,126) | (306,663) |
| Depreciation of property, plant and equipment and impairment of Property, Plant and Equipment | 80,495 | 1,393,372 | 789,916 |
| Income Tax | (3,935) | (68,123) | (77,963) |
| Financial result, net | 17,614 | 304,891 | 312,642 |
| Allowance for doubtful accounts and allowance for legal claims and contingencies | (606) | (10,497) | 79,268 |
| **Company Adjusted EBITDA considering IAS 34 Financial Statements (unaudited)** | **40,411** | **699,517** | **797,200** |

*Note:—*

(1) We have translated U.S. dollar amounts at the selling rate at September 30, 2017, of Ps.17.31 per U.S. dollar, published by Banco Nación.

### Consolidated Balance Sheet

| | Pursuant to Argentine GAAP As of December 31, 2016[(1)] | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| | (in thousands of U.S.$, except for ratios) | (in thousands of pesos, except for ratios) | | |
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and banks | 1,866 | 29,654 | 42,497 | 92,361 |
| Other investments | 11,894 | 188,991 | 153,643 | 61,924 |
| Trade receivables | 39,781 | 632,122 | 282,331 | 319,230 |
| Other receivables | 51,958 | 825,610 | 832,964 | 225,489 |
| Inventories | 14,849 | 235,953 | 171,279 | 150,278 |
| **Total current assets** | **120,348** | **1,912,331** | **1,482,714** | **849,281** |
| **Non-current assets** | | | | |
| Other receivables | 43,908 | 697,691 | 516,963 | 215,193 |
| Deferred Tax | 8,962 | 142,407 | 278,368 | 246,907 |
| Investments | 682 | 10,837 | 10,560 | 16,120 |
| Fixed assets | 611,602 | 9,718,353 | 6,628,097 | 3,360,667 |
| Other assets | 20,619 | 327,635 | 262,839 | 290,173 |
| **Total non-current assets** | **685,772** | **10,896,923** | **7,696,827** | **4,129,060** |
| **Total assets** | **806,120** | **12,809,253** | **9,179,541** | **4,978,342** |

| | Pursuant to Argentine GAAP As of December 31, | | | |
|---|---|---|---|---|
| | 2016[1] | 2016 | 2015 | 2014 |
| | (in thousands of U.S.$, except for ratios) | (in thousands of pesos, except for ratios) | | |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Debts | | | | |
| Trade payables | 73,030 | 1,160,447 | 697,701 | 847,809 |
| Borrowings | 218,057 | 3,464,918 | 1,342,152 | 564,798 |
| Social security and tax payables | 8,970 | 142,539 | 124,089 | 189,885 |
| Other liabilities | 156 | 2,474 | 3,659 | 264,393 |
| Total debts | 300,213 | 4,770,379 | 2,167,601 | 1,866,885 |
| Allowances and provisions | 313 | 4,980 | 6,111 | 22,721 |
| **Total current liabilities** | **300,526** | **4,775,359** | **2,173,712** | **1,889,605** |
| **Non-current liabilities** | | | | |
| Debts | | | | |
| Borrowings | 321,126 | 5,102,686 | 4,686,006 | 1,976,816 |
| Social security and tax payables | 22,621 | 359,449 | 286,519 | 227,898 |
| Other liabilities | 69,955 | 1,111,590 | 680,023 | 406,018 |
| Total debts | 413,702 | 6,573,725 | 5,652,549 | 2,610,732 |
| Allowance and provisions | 2,598 | 41,283 | 39,922 | 35,874 |
| **Total non-current liabilities** | **416,300** | **6,615,007** | **5,692,470** | **2,646,606** |
| **Total liabilities** | **716,826** | **11,390,366** | **7,866,183** | **4,536,211** |
| **MINORITY INTEREST IN SUBSIDIARIES** | **(126)** | **(2,000)** | **1,278** | **1,304** |
| **SHAREHOLDERS' EQUITY** | | | | |
| **As per related statement** | **89,420** | **1,420,887** | **1,312,081** | **440,826** |
| **Total liabilities plus shareholders' equity** | **806,120** | **12,809,253** | **9,179,541** | **4,978,342** |
| Current liquidity ratio[2] (unaudited) | 0.40 | 0.40 | 0.68 | 0.45 |
| Solvency ratio[3] (unaudited) | 0.12 | 0.12 | 0.17 | 0.10 |
| Capital immobilization ratio[4] (unaudited) | 0.85 | 0.85 | 0.84 | 0.83 |

*Notes:—*

(1) We have translated U.S. dollar amounts at the selling rate at December 31, 2016, of Ps.15.89 per U.S. dollar, published by Banco Nación.

(2) Current Assets/Current Liabilities.

(3) Shareholders' Equity/Total Liabilities.

(4) Non-Current Assets/Total Assets.

**Condensed Consolidated Interim Statement of Financial Position**

| | Pursuant to IAS 34 As of September 30, (unaudited) | |
|---|---|---|
| | 2017[(1)] | 2017 |
| | (in thousands of U.S.$) | (in thousands of pesos) |
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment. Exploration, evaluation and development assets | 519,357 | 8,990,063 |
| Investments in entities accounted for using the equity method | 71 | 1,232 |
| Available-for-sale financial assets | 14,409 | 249,418 |
| Deferred tax asset | 11,298 | 195,575 |
| Other receivables and prepayments | 44,414 | 768,802 |
| Income tax credit | 4,841 | 83,794 |
| **Total Non-current assets** | **594,390** | **10,288,884** |
| **Current assets** | | |
| Inventories | 11,192 | 193,741 |
| Other receivables and prepayments | 24,888 | 430,819 |
| Income tax credit | 206 | 3,568 |
| Trade receivables | 41,832 | 724,116 |
| Cash and cash equivalents | 14,151 | 244,960 |
| **Total Current assets** | **92,271** | **1,597,204** |
| **Total assets** | **686,660** | **11,886,088** |
| **EQUITY AND LIABILITIES** | | |
| **Equity** | | |
| Share capital | 219,526 | 3,800,000 |
| Capital contributions | 51,874 | 897,941 |
| Special reserve | 25,173 | 435,751 |
| Other reserves | 41,012 | 709,913 |
| Retained earnings | (91,360) | (1,581,442) |
| **Total equity attributable to Company Shareholders** | **246,225** | **4,262,163** |
| Non-controlling interest | (20) | (351) |
| **Total Equity** | **246,205** | **4,261,812** |
| **Non-current liabilities** | | |
| Borrowings | 175,986 | 3,046,317 |
| Employee benefits programs | 19,556 | 338,513 |
| Provisions | 73,531 | 1,272,823 |
| Trade and other payables | 45 | 784 |
| **Total Non-current liabilities** | 269,118 | 4,658,437 |

| | Pursuant to IAS 34 As of September 30, (unaudited) | |
|---|---|---|
| | 2017[1] | 2017 |
| | (in thousands of U.S.$) | (in thousands of pesos) |
| **Current liabilities** | | |
| Borrowings | 2,468 | 42,717 |
| Provisions | 2,809 | 48,622 |
| Trade and other payables | 166,060 | 2,874,500 |
| **Total Current liabilities** | **171,337** | **2,965,839** |
| **Total liabilities** | **440,455** | **7,624,276** |
| **Total equity and liabilities** | **686,660** | **11,886,088** |
| Current liquidity ratio[2] (unaudited) | 0.54 | 0.54 |
| Solvency ratio[3] (unaudited) | 0.56 | 0.56 |
| Capital immobilization ratio[4] (unaudited) | 0.87 | 0.87 |

*Notes:—*

(1) We have translated U.S. dollar amounts at the selling rate at September 30, 2017, of Ps.17.31 per U.S. dollar, published by Banco Nación.

(2) Current Assets/Current Liabilities.

(3) Shareholders' Equity/Total Liabilities.

(4) Non-Current Assets/Total Assets.

TECPETROL INTERNACIONAL, S.L.U.

## Consolidated Income Statements

| | Pursuant to IAS 34 For the Nine-Month Periods Ended September 30, (unaudited) | | | Pursuant to IFRS For the Years Ended December 31, | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2017 | 2016 | 2016 | 2016 | 2015 | 2014 |
| | (in U.S.$)[2] | (in euros, except percentages or ratios) | | (in U.S.$)[1] | (in euros, except percentages or ratios) | | |
| **Continuing Operations** | | | | | | | |
| Net sales | 571,188,715 | 483,796,842 | 438,372,863 | 631,964,153 | 599,544,392 | 663,196,663 | 758,223,492 |
| Operating costs | (440,065,016) | (372,735,069) | (311,016,627) | (449,697,030) | (426,627,572) | (519,079,749) | (433,229,209) |
| **Gross profit** | **131,123,699** | 111,061,773 | 127,356,236 | **182,267,123** | **172,916,820** | **144,116,914** | **324,994,283** |
| Selling expenses | (24,422,765) | (20,686,082) | (64,024,208) | (10,190,424) | (9,667,655) | (31,074,401) | (48,367,912) |
| Administrative expenses | (52,376,898) | (44,363,233) | (38,869,878) | (50,400,334) | (47,814,797) | (58,486,592) | (61,910,669) |
| Exploration costs | (8,752,302) | (7,413,200) | (2,150,743) | (2,990,207) | (2,836,809) | (11,469,957) | (2,490,020) |
| Other operating income | 5,755,459 | 4,874,874 | 419,147 | 1,175,456 | 1,115,155 | 6,277,773 | 11,626,441 |
| Other operating expenses | (353,081) | (299,059) | (1,552,929) | (9,301,245) | (8,824,092) | (10,086,515) | (17,574,411) |
| **Operating income** | **50,974,112** | 43,175,073 | 21,177,625 | **110,560,369** | **104,888,622** | **39,277,222** | **206,277,712** |
| Interest income | 7,278,739 | 6,165,092 | 3,609,573 | 5,400,281 | 5,123,247 | 2,675,927 | 3,869,951 |
| Interest expense | (24,583,282) | (20,822,040) | (27,884,869) | (38,607,460) | (36,626,897) | (48,573,422) | (28,574,061) |
| Other financial results, net | (621,767) | (526,637) | (534,976) | (1,584,248) | (1,502,977) | 41,819,441 | 1,830,732 |

| | Pursuant to IAS 34 For the Nine-Month Periods Ended September 30, | | | Pursuant to IFRS For the Years Ended December 31, | | | |
|---|---|---|---|---|---|---|---|
| | (unaudited) | | | | | | |
| | **2017** | **2017** | **2016** | **2016** | **2016** | **2015** | **2014** |
| | **(in U.S.$)[(2)]** | **(in euros, except percentages or ratios)** | | **(in U.S.$)[(1)]** | **(in euros, except percentages or ratios)** | | |
| **Income before equity in earnings of investments accounted for using the equity method and income tax** | **33,047,802** | **27,991,488** | **(3,632,647)** | **75,768,942** | **71,881,995** | **35,199,168** | **183,404,334** |
| Equity in earnings of investments accounted for using the equity method | 63,798,990 | 54,037,745 | 21,618,590 | 12,837,153 | 12,178,607 | 32,758,134 | 56,515,797 |
| **Income before tax** | **96,846,792** | **82,029,233** | **17,985,943** | **88,606,095** | **84,060,602** | **67,957,302** | **239,920,131** |
| Income tax | (25,544,310) | (21,636,031) | (9,361,394) | (35,364,521) | (33,550,321) | (28,761,100) | (71,424,062) |
| **Income for the period/ year from continuing operations** | **71,302,482** | **60,393,202** | **8,624,549** | **53,241,574** | **50,510,281** | **39,196,202** | **168,496,069** |
| **Discontinued operations** | | | | | | | |
| Result for the period/year from discontinued operations | — | — | — | — | — | (46,928,504) | (55,066,265) |
| **Result for the period/year** | **71,302,482** | **60,393,202** | **8,624,549** | **53,242,887** | **50,510,281** | **(7,732,302)** | **113,429,804** |
| **Attributable to:** | | | | | | | |
| Owners of the parent | 67,240,363 | 56,952,587 | 24,777,764 | 41,870,154 | 39,722,215 | (10,234,387) | 102,226,458 |
| Non-controlling interests | 4,062,119 | 3,440,615 | (16,153,215) | 11,371,420 | 10,788,066 | 2,502,085 | 11,203,346 |
| Parent Guarantor Adjusted EBITDA[(3)] (unaudited) | 277,616,947 | 235,141,554 | 206,681,527 | 277,310,971 | 263,084,918 | 268,854,326 | 352,883,654 |

*Notes:—*

(1) We have translated U.S. dollar amounts at the noon buying at September 30, 2017, of euro 0.847 per U.S. dollar, published by the Federal Reserve Board.

(2) We have translated U.S. dollar amounts at the noon buying rate at December 31, 2016, of euro 0.9487 per U.S. dollar, published by the Federal Reserve Board.

(3) The Parent Guarantor calculates Parent Guarantor Adjusted EBITDA as, for any year/period, the sum (without duplication), determined on a consolidated basis in accordance with IFRS-EU for such period, of (i) the consolidated Result for the year/period of the Parent Guarantor (after income tax); plus (ii) the sum of each of the following, to the extent that it would be necessary or applicable under IFRS-EU to deduct them for purposes of determining the consolidated Result for the year/period of the Parent Guarantor, (a) the Income tax from both continuing and discontinued operations, (b) consolidated Net Financial Results, from both continuing and discontinued operations, including consolidated Interest expense, Interest income and Other financial results, net (including foreign exchange differences), (c) all amounts in respect of Depreciation of property, plant and equipment, Amortization of intangible assets and Impairments of property, plant and equipment and intangible assets from both continuing and discontinued operations, and (d) all charges for provisions in respect of both continuing and discontinued operations, including charges of Allowance for doubtful accounts, Provisions for legal claims and contingencies and Reversal of provisions, in each case, for the Parent Guarantor for such period.

The following table presents, for the years/periods indicated, the reconciliation of Parent Guarantor Adjusted EBITDA, considering IFRS/IAS 34 Financial Statements to Result for the year/period:

| | For the Nine-Month Period Ended September 30, | | | For the Years Ended December 31, | | | |
|---|---|---|---|---|---|---|---|
| | (unaudited) | | | | | | |
| **Consolidated Income Statement** | **2017** | **2017** | **2016** | **2016** | **2016** | **2015** | **2014** |
| | (in U.S.$)[1] | (in euros) | | (in U.S.$)[2] | (in euros) | | |
| Result for the period / year | 71,302,482 | 60,393,202 | 8,624,549 | 53,241,574 | 50,510,281 | (7,732,302) | 113,429,804 |
| Depreciation of property, plant and equipment, Amortization of intangible assets and Impairment of property, plant and equipment | 150,877,843 | 127,793,533 | 106,246,033 | 152,439,014 | 144,618,893 | 219,787,386 | 137,121,087 |
| Income Tax | 25,544,311 | 21,636,031 | 9,361,394 | 35,364,521 | 33,550,321 | 28,761,100 | 71,424,062 |
| Interest income, Interest expense and Other financial results, net | 17,926,310 | 15,183,585 | 24,810,272 | 34,791,427 | 33,006,627 | 10,925,023 | 28,074,344 |
| Allowances for doubtful accounts, Provisions for legal claims and contingencies and Reversal of Provisions | 11,966,001 | 10,135,203 | 57,639,279 | 1,474,435 | 1,398,796 | 17,113,119 | 2,834,357 |
| **Parent Guarantor Adjusted EBITDA (unaudited)** | **277,616,947** | **235,141,554** | **206,681,527** | **277,310,971** | **263,084,918** | **268,854,326** | **352,883,654** |

*Notes:—*

(1) We have translated U.S. dollar amounts at the noon buying rate at September 30, 2017, of euro 0.847 per U.S. dollar, published by the Federal Reserve Board.

(2) We have translated U.S. dollar amounts at the noon buying rate at December 31, 2016, of euro 0.9487 per U.S. dollar, published by the Federal Reserve Board.

## Consolidated Statement of Financial Position

| | As of September 30, | | As of December 31, | | | |
|---|---|---|---|---|---|---|
| | (unaudited) | | | | | |
| | **2017** | **2017** | **2016** | **2016** | **2015** | **2014** |
| | (in U.S.$)[1] | (in euros) | (in U.S.$)[2] | (in euros) | | |
| **ASSETS** | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 1,190,514,089 | 1,008,365,433 | 961,734,782 | 912,397,788 | 828,242,402 | 713,216,645 |
| Intangible assets | 95,647,280 | 81,013,246 | 118,995,757 | 112,891,275 | 154,470,782 | 161,696,334 |
| Investments in entities accounted for using the equity method | 281,206,228 | 238,181,675 | 222,655,208 | 211,232,996 | 198,088,634 | 152,817,107 |
| Available-for-sale financial assets | 2,654,721 | 2,248,549 | 2,164,257 | 2,053,231 | 1,920,367 | 21,816,957 |
| Deferred tax assets | 25,360,911 | 21,480,692 | 18,125,035 | 17,195,221 | 15,723,037 | 19,600,241 |
| Other investments | 24,512,713 | 20,762,268 | — | — | — | — |
| Other receivables and prepayments | 158,027,000 | 133,848,869 | 104,977,616 | 99,592,264 | 49,061,514 | 28,502,127 |
| Income tax credit | 4,840,968 | 4,100,300 | 9,181,947 | 8,710,913 | 1,622,368 | 2,283,476 |
| Trade receivables | — | — | 58,826,569 | 55,808,765 | — | — |

| | As of September 30, | | As of December 31, | | | |
|---|---|---|---|---|---|---|
| | (unaudited) | | | | | |
| | 2017 | 2017 | 2016 | 2016 | 2015 | 2014 |
| | (in U.S.$)[1] | (in euros) | (in U.S.$)[2] | | (in euros) | |
| **Total non-current assets** | **1,782,763,910** | **1,510,001,032** | **1,496,661,171** | **1,419,882,453** | **1,249,129,104** | **1,099,932,887** |
| **Current assets** | | | | | | |
| Inventories | 26,340,316 | 22,310,248 | 36,474,345 | 34,603,211 | 34,363,081 | 26,847,920 |
| Other receivables and prepayments | 44,920,633 | 38,047,776 | 47,541,984 | 45,103,080 | 45,961,302 | 45,762,417 |
| Income tax credit | 14,370,018 | 12,171,405 | 2,449,007 | 2,323,373 | 15,434,919 | 4,386,459 |
| Trade receivables | 138,245,548 | 117,093,979 | 156,011,462 | 148,008,074 | 120,675,234 | 99,115,015 |
| Other investments | 36,625,566 | 31,021,854 | — | — | — | — |
| Cash and cash equivalents | 226,929,485 | 192,209,274 | 111,766,674 | 106,033,044 | 72,918,059 | 220,840,792 |
| **Total current assets** | **487,431,566** | **412,854,536** | **354,243,472** | **336,070,782** | **289,352,595** | **396,952,603** |
| Assets of disposal group classified as held for sale | — | — | — | — | 26,057,895 | 43,194,976 |
| **Total assets** | **2,270,195,476** | **1,922,855,568** | **1,850,904,643** | **1,755,953,235** | **1,564,539,594** | **1,540,080,466** |
| **EQUITY** | | | | | | |
| **Capital and reserves attributable to owners of the parent** | | | | | | |
| Share capital | 118,063,754 | 100,000,000 | 13,460,525 | 12,770,000 | 12,770,000 | 12,770,000 |
| Share premium | 988,273,783 | 837,067,894 | 197,198,103 | 187,081,840 | 233,831,372 | 233,831,372 |
| Other shareholders contributions | 39,657,995 | 33,590,322 | 1,084,927 | 1,029,270 | — | — |
| Legal reserve | 3,015,348 | 2,554,000 | 2,692,105 | 2,554,000 | 2,554,000 | 2,554,000 |
| Currency translation differences and revaluation reserve | (210,786,164) | (178,535,881) | (69,977,830) | (66,387,967) | (86,821,889) | (94,009,274) |
| Retained earnings and other reserves | 657,752,598 | 557,116,450 | 529,354,761 | 502,198,862 | 415,727,115 | 286,836,192 |
| **Total equity attributable to owners of the parent** | **1,595,977,314** | **1,351,792,785** | **673,812,591** | **639,246,005** | **578,060,598** | **441,982,290** |
| Non-controlling interests | 62,639,743 | 53,055,862 | 49,558,407 | 47,016,061 | 33,657,346 | 23,276,310 |
| **Total equity** | **1,658,617,057** | **1,404,848,647** | **723,370,998** | **686,262,066** | **611,717,944** | **465,258,600** |
| **LIABILITIES** | | | | | | |
| **Non-current liabilities** | | | | | | |
| Borrowings | 132,099,749 | 111,888,487 | 586,164,244 | 556,094,018 | 462,178,316 | 637,090,564 |
| Deferred tax liabilities | 49,325,011 | 41,778,284 | 49,596,300 | 47,052,010 | 47,899,015 | 44,523,052 |
| Employee benefits | 21,358,615 | 18,090,747 | 21,043,201 | 19,963,685 | 18,922,408 | 20,198,453 |
| Provisions | 90,632,055 | 76,765,351 | 76,492,665 | 72,568,591 | 56,679,700 | 53,247,613 |
| Trade and other payables | 52,001 | 44,045 | 51,931 | 49,267 | 159,015 | 271,051 |
| **Total non-current liabilities** | **293,467,431** | **248,566,914** | **733,348,341** | **695,727,571** | **585,838,454** | **755,330,733** |
| **Current liabilities** | | | | | | |
| Borrowings | 65,707,704 | 55,654,425 | 216,290,861 | 205,195,140 | 205,375,923 | 97,887,391 |

| | As of September 30, (unaudited) | | As of December 31, | | | |
|---|---|---|---|---|---|---|
| | **2017** | **2017** | **2016** | **2016** | **2015** | **2014** |
| | **(in U.S.$)[1]** | **(in euros)** | **(in U.S.$)[2]** | | **(in euros)** | |
| Provisions | 2,809,000 | 2,379,223 | 313,385 | 297,308 | 430,450 | 2,756,852 |
| Income tax liabilities | 14,931,328 | 12,646,835 | 13,675,032 | 12,973,503 | 4,240,889 | 16,764,128 |
| Trade and other payables | 234,662,956 | 198,759,524 | 163,906,026 | 155,497,647 | 145,071,478 | 194,305,166 |
| **Total current liabilities** | **318,110,988** | **269,440,007** | **394,185,304** | **373,963,598** | **355,118,740** | **311,713,537** |
| Liabilities of disposal group classified as held for sale | — | — | — | — | **11,864,456** | **7,777,596** |
| **Total liabilities** | **611,578,419** | **518,006,921** | **1,127,533,645** | **1,069,691,169** | **952,821,650** | **1,074,821,866** |
| **Total equity and liabilities** | **2,270,195,476** | **1,922,855,568** | **1,850,904,643** | **1,755,953,235** | **1,564,539,594** | **1,540,080,466** |
| Current liquidity ratio[3] (unaudited) | 1.53 | 1.53 | 0.90 | 0.90 | 0.81 | 1.27 |
| Solvency ratio[4] (unaudited) | 2.61 | 2.61 | 0.60 | 0.60 | 0.61 | 0.41 |
| Capital immobilization ratio[5] (unaudited) | 0.79 | 0.79 | 0.81 | 0.81 | 0.80 | 0.71 |

*Notes:—*

(1) We have translated U.S. dollar amounts at the noon buying rate at September 30, 2017, of euro 0.847 per U.S. dollar, published by the Federal Reserve Board.

(2) We have translated U.S. dollar amounts at the noon buying rate at December 31, 2016, of euro 0.9487 per U.S. dollar, published by the Federal Reserve Board.

(3) Current Assets/Current Liabilities.

(4) Total equity attributable to owners of the parent /Total Liabilities.

(5) Non-Current Assets/Total Assets.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – THE COMPANY

*The following discussion should be read in conjunction with our Audited Annual Financial Statements and our Unaudited Interim Financial Statements and their accompanying notes, as well as our selected financial information, included elsewhere herein. This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in "Forward-looking Statements" and "Risk Factors."*

### Overview

We are a leading participant in the oil and gas market in Argentina with our activities including exploration, exploitation and transport of hydrocarbons. As of December 31, 2016, we held concessions or permits in 14 areas in the *Neuquina*, *Noroeste* and *Golfo San Jorge* basins. In particular, we are the second largest holder of wet gas acreage in the *Vaca Muerta* formation in the *Neuquina* basin, one of the largest shale areas in the world, where we are focusing our development efforts.

In the year ended December 31, 2016 the production in the areas operated by us was 2,574 m3d of oil and 3,532 Mm3d of gas. In the year ended December 31, 2016, our own deliveries represented 1,399 m3d of oil and 1,466 Mm3d of gas. During the nine-month period ended September 30, 2017, the production in the areas operated by us was 1,994 m3d of oil and 4,084 Mm3d of gas. During the nine-month period ended September 30, 2017 our own deliveries represented 1,131 m3d of oil and 2,174 Mm3d gas. According to information from the Ministry of Energy, during the twelve month-period ended September 30, 2017 the production in the areas operated by us represented 2.8% of Argentina's total oil production and 3.3% of Argentina's total natural gas production, resulting in us being the fifth largest oil operator in Argentina after YPF, Pan American Energy LLC Sucursal Argentina, Pluspetrol Energy S.A. and Sinopec Argentina Exploration and Production Inc. and the sixth natural gas operator in the industrial sector.

Our fiscal year ends on December 31 of each year. We prepared our Audited Annual Financial Statements included in this offering memorandum in accordance with Argentine GAAP. Our Unaudited Interim Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting."

We have determined that the U.S. dollar is our functional currency. Our Financial Statements are presented in Argentine pesos, which is our presentation currency.

### Factors Affecting our Operations

Our results of operations are principally affected by economic conditions in Argentina, changes in government regulations, changes in prices and demand for oil and gas and derivative products, and fluctuations in our costs of sales and operating expenses.

### Argentine Economic Conditions

#### *General*

Given that our operations, facilities and customers are located in Argentina, we are materially affected by the macroeconomic conditions in the country, including inflation, exchange controls and exchange rate fluctuations. The volatility of Argentina's economy and the measures adopted by Argentina's government have had, and are expected to continue to have, a significant impact on our business. The Macri administration has begun to implement reforms that are expected to improve the long-term foundations of the oil and gas sector, making the sector more sustainable and geared toward the demands of the market. Moreover, the Macri administration has taken measures aimed at correcting existing macroeconomic imbalances and reinsert Argentina into the international financial markets (see "Risk Factors—Risks Related to Argentina.").

The following table sets forth key economic indicators in Argentina during the periods indicated:

| | As of and for the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| GDP (billions of Ps.) | 704.7 | 720.9 | 702.3 |
| Real GDP growth (%) | (2.3) | 2.6 | (2.5) |
| GDP per capita (in thousands of U.S. dollars) | 12.2 | 13.5 | 12.5 |
| Private consumption growth (%) | (1.4) | 3.5 | (4.4) |
| Average Ps./U.S. dollar exchange rate[(1)] | 14.8 | 9.27 | 8.12 |
| CPI inflation (%)[(2)] | 38.0 | 29.6 | 34.3 |
| Private sector salary growth (%) | 33.0 | 30.1[(3)] | 31.5 |
| Unemployment rate (%)[(4)] | 7.6 | 5.9[(3)] | 6.9 |

Source: Argentine Central Bank, IDB, INDEC and *Índice de Precios al Consumidor de la Ciudad de Buenos Aires (IPCBA)*.

*Notes:—*

(1) The average rate is calculated by using the average of the Argentine Central Bank's reported exchange rates on a daily basis.

(2) In October 2015 INDEC changed its calculation methodology. For comparability purposes, we are including the Consumer Price Index published by *Ciudad de Buenos Aires (IPCBA)*.

(3) As of September 30, 2015.

(4) As a percentage of Argentina's economically active population.

Argentina faces significant challenges, including the need to attract investments in capital goods that will permit sustainable growth and reduce inflationary pressures, as well as renegotiate utility contracts and resolve the current energy demand crisis. While the country's new administration has begun implementing reforms that we believe will improve the long-term fundamentals of the electricity sector, making the sector more market-driven and sustainable, the macroeconomic context and the imbalances (including high inflation, fiscal deficit, trade restrictions) deriving from policies adopted during recent years represent substantial obstacles to the policy shifts announced by the Macri administration. See "Risk Factors—Risks Relating to Argentina."

In light of these uncertainties, the long-term evolution of the Argentine economy remains uncertain, and forecasts for 2017 and beyond are characterized by caution. Argentine GDP experienced a decrease of 2.2% during the year ended December 31, 2016 compared to the year ended December 31, 2015. Is expected to grow in 2017 by 2.7%, with the World Bank anticipating a positive outlook for the country after several economic and regulatory reforms implemented by the Macri administration.

### *Inflation*

Argentina has faced and continues to face inflationary pressures. From 2011 through the first half 2016, Argentina experienced increases in inflation as measured by CPI and WPI that reflected the growth in the levels of private consumption and economic activity, which applied upward pressure on the demand for goods and services, and/or corresponded to the depreciation of the Argentine peso. For Argentina's inflation rates from 2012 to 2016, see "—Argentine Economic Conditions." The increase in inflationary risk may erode macroeconomic growth and further limit the availability of financing. See "Risk Factors—Risks Relating to Argentina—Continuing high inflation could have a negative effect on the Argentine economy and on our financial performance." The accuracy of the measurements of inflation by INDEC has been called into question, and the actual inflation for 2015 and previous years could be substantially higher than that indicated by INDEC. In addition, despite recent reforms, there remains uncertainty as to whether official data and measurement procedures sufficiently reflect inflation in the country.

Inflation increases in Argentina have a negative impact on our cost of sales and in our, selling expenses and administrative expenses, in particular our payroll and social security charges. We cannot give any assurance that increased costs as a result of inflation will be offset in whole or in part with increases in prices for the energy we produce and sell.

### ***Oil and Gas Prices***

Price of Oil

The operating results and cash flows of our business are susceptible to risks relating to the volatility of international oil prices. Due to regulatory, economic and government policy factors, oil prices in Argentina in the past have lagged far behind the prevailing prices in the international market. Furthermore, in order to ensure the internal supply and increase government revenue, Argentina's government has imposed high export duties and other restrictions on exports in the past that have prevented companies from benefiting from significant increases in international oil prices. Even after the change in national administration, oil exports remain subject to authorization from the Ministry of Energy and Mining, which requires producers to demonstrate that local demand has been met or that an offer to sell oil to the local buyer has been made and rejected.

To partially compensate for these limitations, Argentina's government created stimulus programs in the past, such as the Oil Plus program, which is no longer in effect, and the Oil Stimulus Plan to encourage oil exploration and production. On January 11, 2017, within the context of conversations with Argentina's Government, certain producers and refineries signed the "Agreement for the Transition of Argentina's Hydrocarbon Industry to International Prices," establishing a pricing plan so that the price of a barrel of oil produced in Argentina would follow international prices, which was expected to come into force on January 1, 2018. However, on September 22, 2017 the Ministry of Energy and Mining notified that certain conditions under the agreement had already been fulfilled and therefore, since October 2017 the commitments under the agreement are suspended (for a description of these programs, see "Regulatory Framework").

During Mr. Macri's presidential campaign and since he took office, President Macri announced some plans for significant reforms of the country's energy sector that, in general terms, are aimed at bringing the sector closer to market conditions. Although we believe that these changes will be beneficial to our business, generally, we cannot predict if, when or what measures will be implemented or maintained, nor what effects such measures will have, particularly on oil prices in Argentina. See "Risk Factors—Risks Relating to the Oil and Gas Business."

Gas Prices and Subsidies

The price of natural gas in Argentina has been limited by a series of government measures intended to ensure internal supply at affordable prices. Pursuant to Argentina's regulations, gas producers must sell to distributors the gas necessary to meet the needs of the regulated internal market, also known as priority demand, at prices established by the competent authorities. In turn, gas producers can only sell their surplus gas production on the deregulated market, either in Argentina or potentially, and subject to meeting certain requirements, through exports. Historically, gas prices in the regulated market have lagged far behind prices in the deregulated and regional markets.

In line with its strategy to ensure internal demand, in the last fifteen years, the government of Argentina has adopted a series of measures that have resulted in restrictions on the exportation of Argentina's natural gas. Gas exports are currently subject to authorization form the Ministry of Energy and Mining, and they will be authorized solely in cases where it is necessary to address emergency situations and/or to make possible the utilization of the infrastructure of neighboring countries to facilitate the transport of natural gas to Argentina's internal market, thereby increasing local production. As a result of these restrictions, natural gas prices in Argentina's deregulated market have also lagged far behind the import parity price. The high taxes on exports and other restrictions have hindered companies from benefitting from higher regional gas prices (for more information on the regulatory framework of natural gas, see "Regulatory Framework-Specific Oil, Gas and LPG Specific Market Regulations").

Since 2004, due to price fixing and restrictions on exports, Argentina has faced a significant energy deficit and has relied to a great extent on gas imports to satisfy its internal supply. As a result of this deficit and the gap between regional prices and local tariffs in Argentina's regulated and deregulated gas markets, Argentina's government has created certain stimulus programs (see "Regulatory Framework—Natural Gas"). Given that gas prices and the stimulus are tied to U.S. dollars but payable in pesos at the average exchange rate of the month in which the compensation is calculated, any delay in the payments subjects us to the risks of inflation and currency devaluation. Furthermore, subsidy payments subject us to the risk that the government may decide to make non-monetary payments, such as payments with government bonds.

On April 1, 2016, the Ministry of Energy and Mining substantially increased natural gas prices in the regulated market, particularly in the residential and power generation markets, where prices vary depending on the end user and the location of the consumption. However, these measures were declared null and void by the La Plata Federal Court of Appeals, which was confirmed by the Supreme Court on August 16, 2016, arguing that the increase in tariffs could not be established without public hearings. As a result, on October 7, 2016, in accordance with Directive No. 212-E/2016, the Ministry of Energy and Mining determined an increase in gas prices in U.S. dollars as of October 1, 2016, the adjustments of which will be made every six months through 2019 when market prices are expected to be reached (and, in the case of Patagonia, *Malargüe* and *La Puna*, until 2022, when market prices are expected to be reached).

On February 15, 2017, the Ministry of Energy and Mining issued Directive No. 29-E/2017, calling for public hearings on March 10, 2017, to consider the new prices of natural gas at the Transport System Point of Entry, and of propane gas intended for distribution of undiluted propane gas by networks, with a six-month validity period envisaged as of April 1, 2017, based on the path of gradual reduction of subsidies considered in Directive No. 212 dated October 6, 2016 (RESOL-2016-212-E-APN-MEM) of the Ministry of Energy and Mining. Between March 30, and April 4, 2017, ENARGAS issued the corresponding resolutions updating the tariffs applicable to licensee companies, both for the public transport of natural gas and for the distribution segments. The new tariff plan will be applied gradually in the following manner: 30% for April 1, 2017, 40% for December 1, 2017, and 30% for April 1, 2018.

On March 2, 2017, the Ministry of Energy and Mining issued Directive No. 46-E/2017, creating the "Stimulus Program for Investments Production Developments of Natural Gas from Non-conventional Reservoirs," with the aim of encouraging investment or production of natural gas in non-conventional reservoirs in the Neuquina basin, such as the area of *Fortín de Piedra* in the *Vaca Muerta* reservoir. Within the framework of the program, which will be in effect from January 1, 2018 through December 31, 2021, companies that are located in the Neuquina basin, have non-conventional production permits, are registered with the National Oil Registry, and have a specific investment plan that must be approved by the applicable provincial authority and the Hydrocarbon Secretariat, will receive the following prices for the non-conventional gas that they sell: (i) U.S.$7.50/MMBTU for the 2018 calendar year, (ii) U.S.$7.00/MMBTU for the 2019 calendar year, (iii) U.S.$6.50/MMBTU for the 2020 calendar year, and (iv) U.S.$6.00/MMBTU for the 2021 calendar year.

On November 2, 2017, Resolution No. 419-E/2017 was published in the Official Gazette, partially modifying the terms of the Resolution 46-E Stimulus Program. Among other modifications, Resolution MINEM 419/17-E/17 clarified the possibility that non-conventional gas production permits from conventional reservoirs in the Neuquina Basin that are in the development stage may also fall within the Resolution 46-E Stimulus Program, provided they demonstrate an increase in production compared to current production levels, and result in committed investments comparable to those of projects in the development stage. Therefore, Resolution MINEM 419-E/17 distinguishes between exploitation permits with production – measured between July 2017 and June 2017 – lower or higher than 500,000m3/d. The Resolution clarifies that that for production permits with production equal to or higher than 500,000m3/d, the benefits of the Resolution 46-E Stimulus Program will only apply to production volumes greater than the initial production of the production permit. In addition, Resolution MINEM 419-E 17 specifies that no benefit will be granted to production permits that do not reach an average production higher than 500,000 m3/d during any consecutive twelve month-period before December 2019.

In addition, Resolution MINEM 419-E/17 stipulates that the benefit of the Resolution 46-E Stimulus Program, will be calculated as the difference between the guaranteed minimum price (set at: (i) U.S.$7.50/MMBTU for calendar year 2018, (ii) U.S.$7.00/Mmbtu for calendar year 2019, (iii) U.S.$ 6.50/MMBTU for calendar year 2020, and (iv) U.S.$ 6.00/MMBTU for calendar year 2021) and the weighted average monthly price by volume of total natural gas sales in Argentina published by the Secretary of Hydrocarbon Resources. Resolution MINEM 419-E/17 defines the guidelines considered by the Secretariat of Hydrocarbon Resources to determine the weighted average monthly price by volume of total sales of natural gas in Argentina. Thus, the potential termination events for eligibility to the Resolution 46-E Stimulus Program have been adjusted to the new mechanisms and criteria set forth.

88% of the compensation to be received under the Resolution 46-E Stimulus Program will be paid by the regulatory authority to the companies which have enrolled in the Resolution 46-E Stimulus Program and the remaining 12% will be paid to the provinces where the non-conventional production areas which are part of the program are located. Likewise, the Resolution 46-E Stimulus Program foresees provisional payments equivalent to 85% of the corresponding compensation, based on projections made by the participating company. The first interim payment shall be made before the last business day of the month following approval of the company into the Resolution 46-E Stimulus Program (or of approval of a new production permit into the Resolution 46-E Stimulus Program) or the month of February 2018, whichever applicable. Said provisional amount will be adjusted based on affidavits from the relevant company.

On November 8, 2017, we were notified that the Argentine government formally accepted our enrollment in the Resolution 46-E Stimulus Program in respect of our project in *Fortín de Piedra*.

### *Exchange Rates*

Our functional curency for IFRS purposes is the U.S. dollar so our results of operations are exposed to the variations in the foreign exchange rates between the U.S. dollar and other currencies, in particular the peso.

In December 2015, Argentina's economic context was affected by a devaluation of the peso of approximately 34.5%, a circumstance that impacted our results of operations as 88.8% of our financial liabilities are denominated in U.S. dollars.

We do not hedge the risk of changes in the exchange rate through derivative financial instruments.

### *Exploration and Development Program*

We are committed to the sustained growth of our business, investing in exploration and development activities within the areas in which we operate, some of them significantly underdeveloped. In that regard, in July 2016, the concession was obtained for exploitation of the *Fortín de Piedra* area within the *Vaca Muerta* reservoir in the Neuquina basin. Argentina is the world's third-largest reservoir of non-conventional gas. Our board of directors has approved an investment plan for exploration and production of non-conventional hydrocarbons in the area of *Fortín de Piedra*, in the amount of U.S.$2.3 billion, which includes the drilling of approximately 150 wells, as well as the construction of transport and treatment facilities.

During the year ended December 31, 2016, we drilled one vertical well and another two wells at a depth of approximately 4,750 meters with approximately 1,500 meter of horizontal branch drilling therein. The initial tests of the horizontal wells show positive results with a constant flow and good pressure at the wellhead. In addition, during the year ended December 31, 2016, an investment was also made in the construction of a gas treatment and transport plant.

### *Seasonality*

Demand for natural gas in the Argentine residential market is inherently seasonal: high during the winter months and lower during the summer months. Due to this seasonality and bearing in mind that, historically, gas prices in the regulated market have lagged far behind prices in the deregulated market, for the hydrocarbon industry in general, the average selling price of gas has been lower during the winter months, since the largest volumes were deliver to the regulated market, on account of the requirement to satisfy firstly the supply needs of the domestic regulated market. As a result, with the exception of prices from long-term gas supply contracts, the deregulated price of gas has also followed this seasonal dynamic and normally increased in the winter due to the lack of surplus gas available for distribution in the deregulated market and fell in the summer due to the surplus gas production. Recent substantial increases in natural gas prices in the regulated market, particularly residential and power generation markets, can affect the seasonality of average gas prices.

***Royalties***

Under the Hydrocarbons Law, the holders of exploitation concessions are required to pay royalties to the province where it is produced. Royalties are paid on the value of crude oil production at the wellhead and the volumes of natural gas sold, 12% in royalties and an additional 3% in certain concessions that have been extended. The wellhead price is calculated on the basis of the volume and the selling price of the crude and gas produced, less treatment, transport and storage costs and other deductions. Moreover, in accordance with Directive SE No. 435/2004, if a concessionaire assigns crude oil production for industrialization process in its plants, the concessionaire must agree upon a reference price with the provincial authorities or the former SE, as appropriate, to be used to calculate the overriding royalties.

Furthermore, the Public Emergency Law, which introduced export duties, established that such duties should not be deducted from the export price for purposes of calculating the 12% royalties. The royalties expense incurred in Argentina is accounted for as a production cost. In accordance with the Hydrocarbons Law, all oil and gas produced by the holder of an exploration permit prior to the granting of an exploitation concession is subject to payment of a 15% royalty.

***Summary of Significant Accounting Policies***

For a description of our and the Parent Guarantor's significant accounting policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—The Parent Guarantor—Summary of Critical Accounting Estimates".

***Results of Operations for the Nine-Month Periods ended September 30, 2017 and 2016 pursuant to IAS 34***

The following table presents a breakdown of our results of operation for the nine-month periods ended September 30, 2017 and 2016:

| | **Nine-month period ended September 30,** | | **Variation** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017/2016** | |
| | **(in thousands of pesos and percentages)** | | | |
| **Continuing operations** | | | | |
| Net sales | 3,330,687 | 2,827,050 | 503,637 | 18%% |
| Operating costs | (3,229,029) | (2,156,457) | (1,072,572) | 50%% |
| **Gross margin** | **101,658** | **670,593** | **(568,935)** | **(85%** |
| Selling expenses | (138,390) | (173,467) | 35,077 | (20)% |
| Administrative expenses | (605,980) | (483,828) | (122,152) | 25% |
| Exploration costs | (784) | (35,239) | 34,455 | (98)% |
| Other operating income and expenses, net | 16,292 | (12,351) | 28,643 | (232)% |
| **Operating loss** | **(627,204)** | **(34,292)** | **(592,912)** | **1,729%** |
| Financial results, net | (196,813) | (161,398) | (35,415) | 22% |
| Result of equity accounted investments | (60) | (2) | (58) | 2,900% |
| **Loss before income tax** | **(824,077)** | **(195,692)** | **(628,385)** | **321%** |
| Income tax | 68,123 | 77,963 | (9,840) | (13)% |
| **Loss for the period from continuing operations** | **(755,954)** | **(117,729)** | **(638,225)** | **542%** |
| ***Discontinued operations*** | | | | |
| Loss for the period from discontinued operations | (164,172) | (188,934) | 24,762 | (13)% |
| **Loss for the period** | **(920,126)** | **(306,663)** | **(613,463)** | **200%** |

The following table shows our total gas and oil production and average sales prices in Argentina for the nine-month periods ended September 30, 2017 and 2016:

| | Nine-month period ended September 30, | | Variation | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017/2016** | |
| **Production volume** | | | | |
| Total production in equivalent units[(1)] (thousands of m3 of oil and gas) | 914 | 841 | 73 | 9% |
| **Production allocated to:** | | | | |
| Domestic market | 854 | 684 | 170 | 25% |
| Exports | 60 | 157 | (97) | (62)% |
| Oil production | 295 | 396 | (101) | (26)% |
| Gas production | 619 | 445 | 174 | 39% |
| *Average sales prices* | | | | |
| Escalante crude (USD/bbl) | 49 | 46 | 3 | 7% |
| Medanito crude (USD/bbl) | 55 | 66 | (11) | (17)% |
| Gas (USD/Mscf) | 5 | 4 | 1 | 25% |

*Note:—*

(1) Caloric equivalence (1,000 $m^3$ of gas = 1 $m^3$ of oil)

**Net Sales**

The following table shows a breakdown of our net sales for the nine-month periods ended September 30, 2017 and 2016:

| | Nine-month period ended September 30, | | Variation | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017/2016** | |
| | (in thousands of pesos and percentages) | | | |
| Gas | 1,890,789 | 929,776 | 961,013 | 103% |
| Oil | 1,676,712 | 1,922,491 | (245,779) | (13)% |
| Other services | 10,000 | 802 | 9,198 | 1,147% |
| Continuing operations | **3,577,501** | **2,853,069** | **724,432** | **25%** |
| Of discontinued operations | (246,814) | (26,019) | (220,795) | 849% |
| | **3,330,687** | **2,827,050** | **503,637** | **18%** |

Net sales for the nine-month period ended September 30, 2017, totaled Ps.3,330.7 million, which represented an 18% increase with respect to the same period in 2016, primarily due to an increase in gas sales revenue and the effect of the devaluation of the Argentine peso against the U.S. dollar, which was partially offset by a decrease in net sales associated with Escalante crude.

The increase in net sales associated with the sale of gas was due primarily to the significant increase in production, largely from the area of *Fortín de Piedra* in the *Neuquina* basin as a result of the development of non-conventional reserves in the area, and to an 11% increase in the average selling price compared to the same period in 2016. Our gas production for the period was allocated entirely to the domestic market.

During the nine-month period endedn September 30, 2017, our crude oil production volume totaled 295,000 $m^3$ (62% corresponding to Escalante crude and the remaining 38% corresponding to Medanito crude), which represents a 26% decrease with respect to our crude oil production in the same period in 2016. In the nine-month period ended September 30, 2017, 20% of our crude oil production was allocated to exports, in comparison with 40% in the same period of 2016.

The decrease in net sales associated with the sale of Escalante crude is primarily due to a decrease in production in the *Golfo San Jorge* basin, while the average selling price of Escalante crude remained in line with the average prices prevailing in the same period in 2016.

With respect to Medanito crude, the increase in production offset the effect of the decrease in selling prices on the domestic market, going from an average of U.S.$66.00 per barrel in the nine-month period ended September 30, 2016 to U.S.$55.00 per barrel in the same period in 2017. This downward trend in selling prices has been observed since the second half of 2016, as a result of an increase in stocks and over-supply of crude that exerted downward pressure on selling prices in the domestic market.

***Operating Costs***

The following table shows the main components of our operating costs for the nine-month periods ended September 30, 2017 and 2016:

| | Nine-month period ended September 30, | | Variation | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017/2016** | |
| | (in thousands of pesos and percentages) | | | |
| Labor costs | 285,036 | 172,319 | 112,717 | 65% |
| Fees and services | 115,668 | 81,081 | 34,587 | 43% |
| Maintenance and service costs | 917,009 | 666,072 | 250,937 | 38% |
| Depreciation of property, plant and equipment | 1,263,981 | 779,363 | 484,618 | 62% |
| Impairment of property, plant and equipment | 106,941 | — | 106,941 | 100% |
| Treatment, storage and loading | 90,251 | 79,099 | 11,152 | 14% |
| Royalties and other taxes | 491,654 | 399,629 | 92,025 | 23% |
| Other | 136,210 | 31,745 | 104,465 | 329% |
| **Continuing operations** | **3,406,750** | **2,209,308** | **1,197,442** | **54%** |
| Of discontinued operations | (177,721) | (52,851) | (124,870) | 236% |
| **Operating costs** | **3,229,029** | **2,156,457** | **1,072,572** | **50%** |

Operating costs for the nine-month period ended September 2017 totaled Ps.3,229.0 million, compared with Ps.2,156.5 million for the same period in 2016, which represented an increase of Ps.1,072.6 million (or 50%) primarily as a result of the following reasons:

- Ps.484.6 million was due to an increase in the depreciation of property, plant and equipment, which represented a 62% increase with respect to the same period in 2016. This variation is explained primarily by the major investments during the period, primarily related to the development of the *Fortín de Piedra* area which increased our depreciation charge during the period;
- Ps.106.9 million for the recognition of an impairment of production and development equipment and assets in the area of El Tordillo in the *Golfo San Jorge* basin, caused primarily by lower international crude oil prices;
- Ps.250.9 million for maintenance, well service and other operations, primarily in the areas of Agua Salada, *Fortín de Piedra* and El Tordillo; and
- Ps.112.7 million for an increase in wages and social security contributions, as a result of adjusting them for inflation and a re-alignment of the structure.

**Selling Expenses**

The following table shows our selling expenses for the nine-month periods ended September 30, 2017 and 2016:

| | **Nine-month period ended September 30,** | | **Variation** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017/2016** | |
| | **(in thousands of pesos and percentages)** | | | |
| Taxes | 89,339 | 62,258 | 27,081 | 43% |
| Treatment, storage and loading | 51,241 | 32,126 | 19,115 | 60% |
| Allowance for doubtful accounts | 1,752 | 78,522 | (76,770) | (98)% |
| Other | 1,469 | 561 | 908 | 162% |
| | **143,801** | **173,467** | **(29,666)** | **(17)%** |
| Of discontinued operations | (5,411) | — | (5,411) | (100)% |
| | **138,390** | **173,467** | **(35,077)** | **(20)%** |

Selling expenses for the nine-month period ended September 30, 2017 totaled Ps.138.4 million, in comparison with Ps.173.5 million for the same period in 2016, which represented a decrease of 20%, basically due to a decrease in the allowance for doubtful accounts with respect to the charges recognized in 2016, which resulted from uncollectible receivables from a client undergoing financial difficulties.

### Administrative Expenses

The following table shows the main components of our administrative expenses for the nine-month periods ended September 30, 2017 and 2016:

| | Nine-month period ended September 30, | | Variation | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017/2016** | |
| | (in thousands of pesos and percentages) | | | |
| Labor costs | 479,263 | 401,618 | 77,645 | 19% |
| Fees and services | 123,966 | 89,963 | 34,003 | 38% |
| Depreciation of property, plant and equipment | 22,450 | 10,553 | 11,897 | 113% |
| Taxes | 96,019 | 87,125 | 8,894 | 10% |
| Office expenses | 84,941 | 100,004 | (15,063) | (15)% |
| Reimbursement of expenses | (193,850) | (192,838) | (1,012) | 1% |
| | **612,789** | **496,425** | **116,364** | **23**% |
| Of discontinued operations | (6,809) | (12,597) | 5,788 | (46)% |
| | **605,980** | **483,828** | **122,152** | **25**% |

Administrative expenses totaled Ps.606.0 million in the nine-month period ended September 30, 2017, compared with a total of Ps.483.8 million for the same period in 2016, which represented an increase of Ps.122.2 million (or 25%). This increase was due primarily to an increase in labor costs as a result of increases in wages and social security contributions in line with inflation.

Recovered expenses include the charges we billed for technical assistance and overhead primarily in the areas of Argentina, and that are not subject to proration with respect to each item detailed above, but rather with the set of tasks that constitute the operator's duty.

### Exploration Costs

The costs of exploring and evaluating an area and the costs of drilling exploratory wells are recorded as a work in progress until it is determined whether there are proven reserves that justify their commercial development. In the case of exclusively exploratory areas, these costs include geological studies and all other costs directly attributable to the activity. Subsequently, if it is determined that the results are unsuccessful, these costs are charged to the income statement.

Exploration costs totaled Ps.0.8 million in the nine-month period ended September 30, 2017, which represented a decrease of Ps.34.5 million or 98% with respect to the same period in the nine-month period ended September 30, 2016, as a result of the costs recognized in 2016 associated with the development of *Fortín de Piedra* and investments in the Rio Atuel area that did not recur in the same period in 2017.

### Other operating income and expenses, net

Other income and expenses totaled a net gain of Ps.16.3 million in the nine-month period ended September 30, 2017, in comparison with a net loss of Ps.12.4 million in the same period in 2016, which represents a gain of 28.6 million generated primarily by a recovery in the allowance for legal claims.

### Financial results, net

The following table shows the main components of our financial results for the nine-month periods ended September 30, 2017 and 2016:

| | Nine-month period ended September 30, | | Variation | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017/2016** | |
| | (in thousands of pesos and percentages) | | | |
| Dividends income | 641 | 3,242 | (2,601) | (80)%)% |
| Interest income | 14,754 | 30,977 | (16,223) | (52)%)% |
| **Financial income** | **15,395** | **34,219** | **(18,824)** | **(55))%** |
| Interest cost | (266,260) | (339,006) | 72,746 | (21)% |
| **Financial costs** | **(266,260)** | **(339,006)** | **72,746** | **(21)%** |
| Net result from exchange differences – (Loss)/Profit | (51,167) | 203 | (51,370) | (25,305)% |
| Other financial results, net – (Loss) | (2,859) | (8,058) | 5,199 | (65)% |
| **Other financial results, net – (Loss)** | **(54,026)** | **(7,855)** | **(46,171)** | **588%** |
| | **(304,891)** | **(312,642)** | **7,751** | **(2)%** |
| Of discontinued operations – (Loss) | 108,078 | 151,244 | (43,166) | (29)% |
| **Financial results, net** | **(196,813)** | **(161,398)** | **(35,415)** | **22**% |

The net financial results for the nine-month period ended September 30, 2017, totaled a net loss of Ps.196.8 million, compared to a net loss of Ps.161.4 million for the same period in 2016. This variation was due primarily to foreign exchange differences (loss) generated by the devaluation of the Argentine peso against the U.S. dollar, which was partially offset by a lower charge of interest costs, as a result of a decrease in borrowings.

### Income Tax

Income tax amounted to Ps.68.1 million (gain) for the nine-month period ended September 30, 2017, compared with Ps.78.0 million (gain) for the nine-month period ended September 30, 2016.

### Net Results for the Period

The net result of the nine-month period ended September 30, 2017 was a loss of Ps.920.1 million, which is 200% higher than the Ps.306.7 million (loss) recorded in the same period in 2016 primarily due to an increase in operating costs and administrative expenses, as a result of increased labor costs, increased maintenance and service costs, and an increase in the depreciation of property, plant and equipment.

The net result for the nine-month period ended September 30, 2017 and 2016 includes the result of discontinued operations in the amount of (loss) Ps.164.2 million and Ps.188.9 million (loss), respectively, generated primarily by the operations that we had in Bolivia through May 2017 and which we then transferred to the Parent Guarantor.

***Results of Operations for the Years Ended December 31, 2016, 2015 and 2014 pursuant to Argentine GAAP***

The following table presents a breakdown of our results of operation for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| | (in thousands of pesos) | | |
| Net sales | 3,776,688 | 2,884,458 | 3,443,396 |
| Export duties and other export costs | (12,103) | (3,846) | (391,639) |
| Operating costs | (2,967,264) | (2,315,368) | (1,986,752) |
| **Gross profit** | **797,322** | **565,243** | **1,065,005** |
| Result from valuation of inventories at net realizable value | 81,801 | 64,149 | 51,068 |
| Selling expenses | (193,919) | (93,786) | (88,562) |
| Administrative expenses | (593,312) | (420,841) | (463,602) |
| Exploration costs | (57,575) | (23,286) | (24,999) |
| Other taxes | (81,107) | (64,483) | (51,386) |
| Other, net income and expenses | 9,646 | 23,804 | 101,200 |
| **Operating results** | **(37,145)** | **50,801** | **588,722** |
| Results from investment in subsidiaries under significant influence and other related parties | (1,396) | 188,351 | (105,954) |
| Financial and holding results generated by assets/liabilities | (738,710) | (670,497) | (257,788) |
| **(Loss)/Income before taxes** | **(777,252)** | **(431,346)** | **224,980** |
| Income tax | 223,757 | 239,453 | (116,611) |
| Minority interest in controlled companies | 3,038 | (668) | (361) |
| **(Loss)/Income for the year** | **(550,457)** | **(192,561)** | **108,007** |

The following table shows our total gas and oil production and average sales prices in Argentina for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | **2016** | **2015** | **2014** | **2016/2015** | | **2015/2014** | |
| Production in equivalent units[(1)] | 1,114 | 1,282 | 1,271 | (168) | (13)% | 11 | 1% |
| (thousands of cubic meters of oil and gas) | | | | | | | |
| Domestic market | 869 | 996 | 966 | (127) | (13)% | 30 | 3% |
| Exports | 245 | 286 | 305 | (41) | (14)% | (19) | (6)% |
| Oil production | 515 | 642 | 652 | (127) | (20)% | (10) | (2)% |
| Gas production | 599 | 640 | 619 | (41) | (6)% | 21 | 3%% |
| Average sales prices | | | | | | | |
| Escalante crude (U.S.$/bbl) | 46.17 | 51.86 | 81.99 | (6) | (11)% | (30) | (37)% |
| Medanito crude (U.S.$/bbl) | 62.02 | 74.59 | 78.67 | (13) | (17)% | (4) | (5)% |
| Gas (U.S.$/Mscf) | 4.34 | 3.62 | 3.22 | 1 | 20% | — | 12 % |

*Note:—*

(1) Caloric equivalence (1,000 m3 of gas = 1 m3 of oil).

## Net sales

The following table shows our net sales by type of product and country:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016/2015 | | 2015/2014 | |
| | (in thousands of pesos and percentages) | | | | | | |
| **Argentina** | | | | | | | |
| Escalante Crude | 1,617,274 | 1,516,381 | 2,207,663 | 100,893 | 7% | (691,282) | (31)% |
| Medanito Crude | 793,131 | 663,706 | 697,982 | 129,425 | 20% | (34,276) | (5)% |
| Gas | 1,247,115 | 696,234 | 530,899 | 550,881 | 79% | 165,335 | 31% |
| Services | 11,530 | 8,137 | 6,852 | 3,393 | 42% | 1,285 | 19% |
| **Bolivia** | | | | | | | |
| Crude | 26,634 | — | — | 26,634 | 100% | — | — |
| Gas | 81,004 | — | — | 81,004 | 100% | — | — |
| **Net sales** | **3,776,688** | **2,884,458** | **3,443,396** | **892,230** | **31%** | **(558,938)** | **(16)%** |

In Argentina, our net sales derive from the sale of Escalante crude primarily from the areas we hold in the *Golfo San Jorge* basin, Medanito crude from the areas we hold in the *Neuquina* basin, and gas primarily from the areas we hold in the *Noroeste* and *Neuquina* basins.

Net sales from sale of Escalante crude are subject to fluctuations in international crude prices, due to the fact that domestic demand is not sufficient, and so part of the production is exported to other markets.

In turn, Medanito crude is sold in the domestic market at prices agreed upon with customers.

In order to promote oil and gas exploration and production activities, the Argentine government, through incentives for oil exporters and agreements between hydrocarbon producers and refineries, encouraged the selling prices of fuel and crude oil in the domestic market to remain above the international values during the years 2015 and 2016.

Likewise, our net sales in the reported periods include benefits granted by the Argentine government through the following programs:

- *Stimulus Program for Crude Oil Production*, created in February 2015 through Directive No. 14/2015 of the Strategic Planning and Coordination Commission of the National Hydrocarbon Investment Plan, whereby hydrocarbon-producing companies would obtain economic compensation in the amount of U.S.$3 per barrel produced, and up to U.S.$3 per barrel exported. During 2015, we applied to this program in the first, second and fourth quarter. This program ended on December 31, 2015.
- *Stimulus Program for the Export of Escalante Crude Oil* from the *Golfo San Jorge* basin, for U.S.$7.50 per barrel, created through Directive No. 21/2016 of the Ministry of Energy and Mining in March 2016. This stimulus was in effect through December 31, 2016, and was applicable insofar as the reference selling price (Brent) did not exceed U.S.$47.50 per barrel. During 2016, we applied to this program in respect of four shipments, for an aggregate volume of 987,419 bbl.
- *"Gas Plus" Incentive Program for Natural Gas Production*, through which we, in addition to the projects approved through 2014, presented four gas projects during 2015 and 2014 to the National Energy Secretariat for purposes of being classified as "Gas Plus" (See "Regulatory Framework").
- *Stimulus Program for Natural Gas Injection for Companies with Reduced Injection*. In March 2014, our accession to this program was approved, and in December 2014, we received compensation in the amount of Ps.5.1 million. In 2015 and 2016, we received no compensation, given that our average selling price was higher than the price established by such program.

In Bolivia, through May 2017, when we sold our participation to the Parent Guarantor, we held a 20% ownership interest in the *Ipati* and *Aquío* areas through our subsidiary *Tecpetrol de Bolivia S.A.*, in which we maintain a role as a non-operator. During 2016, commercial production began in both areas, achieving a production flow of 6.5 MMm3d.

***2016/2015***

In 2016, net sales totaled Ps.3,776.7 million, an increase of 31% with respect to 2015. This increase was due primarily to the effect of the devaluation of the Argentine peso with respect to the U.S. dollar.

During 2016, 52% of our crude oil production was sold to refineries in the domestic market, and the remaining 48% was exported primarily to the Bahamas, China and the United States, given the seasonal drop in refinement in the domestic market.

In the case of Escalante crude, the devaluation of the peso against the U.S. dollar offset the decrease in the average selling price (from an average of U.S.$52 per barrel in 2015 to U.S.$46 per barrel in 2016) and the 26% drop in production.

With respect to Medanito crude, our 2016 production remained in line with 2015, however, prices in the domestic market decreased by 17% on average with respect to 2015. As a result of the seasonal drop in fuel demand and the possibility of importing high-quality crude oil and byproducts at lower prices than those prevailing in the domestic market, Argentina's refineries reduced the level of processing of domestically-sourced crude. This led to an increase in stock and an over-supply of crude that exerted downward pressure on selling prices in the domestic market in the second half of 2016.

With respect to natural gas, our production decreased by 6%, primarily in the *Los Bastos* area in the Neuquina basin, while average prices rose by 20%. During 2016, 89% of our natural gas sales corresponded to industrial users, 2% to gas distribution companies and 9% to electricity generators.

***2015/2014***

In 2015, our net sales totaled Ps.2,884.5 million, a decrease of 16% from 2014, primarily as a result of the change in trend of the international price of crude, which began in November 2014, affecting revenue associated with the sale of Escalante crude in particular. The reduction in revenue was offset in part by the effect of the devaluation of the peso against the U.S. dollar.

In 2015, 55% of our crude oil production was sold to refineries in the domestic market, and the remaining 45% was exported primarily to Brazil, China and the United States, given the seasonal drop in refinement capacity in the domestic market.

Our production of Medanito crude in 2015 dropped by 15% with respect to 2014, while the domestic market fell by 5% on average, due to the Argentine government decreasing retail gasoline prices, through Decree 2579/14, given the fall in the international price of crude in 2014, which entailed lower selling prices for us in the domestic market in 2015.

With respect to natural gas, our production remained at 2014 levels, and average prices rose by 12%. 89% of our natural gas sales corresponded to industrial users, 7% to distribution companies and 4% to electricity generators.

## Operating Costs

The following table shows main components of our operating costs for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016/2015 | | 2015/2014 | |
| | (in thousands of pesos and percentages) | | | | | | |
| Salaries, social security contributions and other personnel expenses | 221,603 | 182,467 | 141,764 | 39,136 | 21% | 40,703 | 29% |
| Royalties, rates, contributions and stamp tax | 541,569 | 447,677 | 496,571 | 93,892 | 21% | (48,894) | (10)% |
| Third-party services | 107,552 | 86,660 | 60,788 | 20,892 | 24% | 25,873 | 43% |
| Insurance | 12,226 | 8,984 | 8,595 | 3,242 | 36% | 389 | 5% |
| Chemical supplies and materials | 36,771 | 28,918 | 23,716 | 7,853 | 27% | 5,202 | 22% |
| Electric, fuel and lubricants | 127,491 | 112,276 | 94,764 | 15,215 | 14% | 17,512 | 18% |
| Well service, maintenance and other operations | 784,585 | 747,545 | 665,605 | 37,040 | 5% | 81,940 | 12% |
| Treatment, storage and loading | 105,206 | 87,778 | 73,621 | 17,428 | 20% | 14,157 | 19% |
| Travel expenses | 18,076 | 14,536 | 13,329 | 3,540 | 24% | 1,207 | 9% |
| Fees and easement | 25,797 | 21,204 | 15,552 | 4,593 | 22% | 5,652 | 36% |
| Amortization of other assets and depreciation of fixed assets | 986,388 | 577,323 | 392,447 | 409,065 | 71% | 184,876 | 47% |
| **Operating costs** | **2,967,264** | **2,315,368** | **1,986,752** | **651,895** | **28%** | **328,617** | **17%** |

### *2016/2015*

Operating costs for 2016 totaled Ps.2,967.3 million, compared to Ps.2,315.4 million for 2015, which represented an increase of Ps.651.9 million or 28%, primarily as a result of the following reasons:

(i) Ps.409.0 million was due to an increase in the depreciation of fixed assets and other assets, which represented a 71% increase with respect to the Ps.577.3 million recorded in 2015. This variation is explained primarily by the capital investments made during 2016;

(ii) Ps.93.9 million was due to royalties and other taxes, which represented an increase of 21% with respect to 2015. This increase corresponded to Ps.22.0 million in oil royalties, primarily as a result of the effect of the devaluation of the Argentine peso against the U.S. dollar, partially offset by the reduced price of crude; Ps.69.9 million in natural gas royalties due to increased natural gas prices and the effect of exchange rate devaluation; and Ps.3.0 million to other taxes. Royalties range between 12% and 16% of production, depending on the area of exploitation; and

(iii) Ps.39.1 million was due to salary increases, social security contributions and other personnel expenses, as a result of agreed salary increases in line with the industry.

### *2015/2014*

Operating costs for 2015 increased by 17% with respect to 2014, from Ps.1,986.8 million to Ps.2,315.4 million, for the following reasons:

(i) Ps.184.9 million resulted from an increase in the depreciation of property, plant and equipment and other assets, primarily as a result of increased investments during the year;

(ii) Ps.40.7 million resulted from salary increases, social security contributions and other personnel expenses, as a result of agreed salary increases in line with the industry;

(iii) Ps.81.9 million for increased operating and maintenance costs, primarily at the *Golfo San Jorge* basin; and

(iv) the above increases were partially offset by a Ps.48.9 million net reduction in royalties and other taxes with respect to 2014. This is explained by a decrease in oil royalties of Ps.85.4 million, primarily as a result of the drop in the price of crude, partially offset by the effect of the devaluation of the peso against the U.S. dollar; and by an increase in natural gas royalties of Ps.36.7 due to the increased price of natural gas and the effect of fluctuations in the exchange rate.

**Selling Expenses**

The following table shows our selling expenses for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | **2016** | **2015** | **2014** | **2016/2015** | | **2015/2014** | |
| | (in thousands of pesos and percentages) | | | | | | |
| Royalties, rates, contributions and stamp tax | 72,280 | 67,739 | 62,698 | 4,541 | 7% | 5,041 | 8% |
| Transportation | 17,357 | 12,392 | 12,448 | 4,965 | 40% | (56) | 0% |
| Treatment, storage and loading | 22,330 | 13,962 | 13,989 | 8,368 | 60% | (27) | 0% |
| Allowance for doubtful accounts | 81,952 | (307) | (572) | 82,259 | (26,764)% | 265 | (46)% |
| **Selling expenses** | **193,919** | **93,786** | **88,562** | **100,133** | **107%** | **5,224** | **6%** |

***2016/2015***

Selling expenses for 2016 totaled Ps.193.9 million, in comparison with the Ps.93.8 million recorded in 2015, which represented an increase of 107%, basically resulting from an increase in the allowance for doubtful accounts recognized during the year, which resulted from uncollectable receivables from a client undergoing financial difficulties.

***2015/2014***

Selling expenses for 2015 remained in line with 2014, representing 3% of our operating revenue on average in both periods.

### Administrative Expenses

The following table shows the main components of our administrative expenses for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31 | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016/2015 | | 2015/2014 | |
| | (in thousands of pesos and percentages) | | | | | | |
| Remuneration to Directors and Surveillance Committee | 2,184 | 2,692 | 3,744 | (509) | (19)% | (1,052) | (28)% |
| Salaries, social contributions and other personnel expenses | 544,982 | 404,926 | 392,804 | 140,057 | 35% | 12,122 | 3% |
| Royalties, rates, contributions and stamps | 28,244 | 6,237 | 12,232 | 22,006 | 353% | (5,995) | (49)% |
| Third-party services | 118,930 | 108,339 | 104,036 | 10,590 | 10% | 4,303 | 4% |
| Travel expenses | 11,834 | 9,867 | 13,222 | 1,967 | 20% | (3,355) | (25)% |
| Amortization of other assets and depreciation of fixed assets | 17,324 | 6,965 | 4,264 | 10,359 | 149% | 2,701 | 63% |
| Others | 108,510 | 89,699 | 103,836 | 18,810 | 21% | (14,137) | (14)% |
| Reimbursement of expenses | (238,694) | (207,884) | (170,537) | (30,810) | 15% | (37,348) | 22% |
| **Administrative expenses** | **593,312** | **420,841** | **463,602** | **172,471** | **41%** | **(42,761)** | **(9)%** |

***2016/2015***

Administrative expenses for 2016 totaled Ps.593.3 million, compared to Ps.420.8 million recorded in 2015, which represented an increase of Ps.172.5 million, or 41%. This increase was due primarily to an increase in wages, social security contributions and other personnel expenses (Ps.140 million), as a result of agreed salary increases in line with the market.

Recovered expenses include the charges we billed for technical assistance and overhead primarily in the areas we operate in Argentina, and they are not subject to proration with respect to each item detailed above, but rather with the set of tasks that constitute the operator’s duty, focusing on the efficiency and the increase in productivity in administrative processes.

***2015/2014***

Administrative expenses for 2015 decreased by 9% with respect to 2014, due primarily to the reduction and optimization of expenses in light of the reduced international price of crude oil.

### Exploration Costs

The costs of exploring and evaluating an area and the costs of drilling exploratory wells are initially recorded as a work in progress until it is determined whether there are proven reserves that justify their commercial development. In the case of exclusively exploratory areas, these costs include geological studies and all other costs directly attributable to the activity. Subsequently, if it is determined that the results are unsuccessful, these costs are charged to the income statement.

***2016/2015***

Exploration costs totaled Ps.57.6 million in 2016, representing an increase of Ps.34.3 million, or 147.2%, with respect to 2015, which increase was due primarily to higher costs associated with the development of *Fortín de Piedra* (Ps.9.5 million) and investments in the *Rio Atuel* area (Ps.24.9 million).

***2015/2014***

In 2015, exploration costs totaled Ps.23.3 million, corresponding primarily to activity in the Neuquina basin, while in 2014 these costs totaled Ps.25 million, corresponding primarily to exploratory activities in the *Golfo San Jorge* basin.

**Other Income and Expenses, Net**

Other income and expenses, net, represented a Ps.9.6 million gain in 2016, Ps.8.2 million of which gain corresponds to the results generated by gains on the sale of property, plant and equipment as well as materials.

In 2015, we recorded a gain of Ps.23.8 million primarily resulting from the net recovery of contingencies and dividends earned from our minority ownership interests in Peru and Mexico in the amount of Ps.11.3 million.

In 2014, other income and expenses represented a Ps.101.2 gain, which includes a Ps.74.9 million gain for the offsetting of tax credit certificates, obtained through the "Oil Plus" program, against payments of export duties that year, and Ps.17.3 million for dividends earned from our minority ownership interests in Peru and Mexico.

**Result from investments in subsidiaries under significant influence and other related parties**

The following table shows the results of investments in affiliated companies for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | **2016** | **2015** | **2014** | **2016/2015** | | **2015/2014** | |
| | (in thousands of pesos and percentages) | | | | | | |
| Tecpetrol Colombia SAS | (1,393) | 188,354 | (105,953) | (189,747) | (101)% | 294,307 | (278)% |
| Parque Eolico Pampa[1] | (3) | (3) | (1) | — | 12% | (2) | 110% |
| **Result of investments in affiliated companies** | **(1,396)** | **188,351** | **(105,954)** | | | | |

*Note:—*

(1) Our participation in Parque Eolico Pampa was disposed of in October 2017.

Until December 2015, we held a 25.5% ownership interest in Tecpetrol Colombia S.A.S., which engages in the exploration, exploitation and sale of hydrocarbons, and it shares in two exploratory areas in *Llanos Orientales* basin. In December 2015, Tecpetrol Colombia S.A.S. decided to make a capital increase and, as we did not exercise our preemptive rights regarding such contribution, our ownership interest decreased, from 25.5% to 0.24% at that date. As a result of the above, a gain of Ps.188.3 million was recognized in 2015. Currently, our percentage of ownership interest in Tecpetrol Colombia S.A.S. is 0.16%.

### Financial and holding results, net

The following table shows main components of our financial results for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016/2015 | | 2015/2014 | |
| | (in thousands of pesos and percentages) | | | | | | |
| **Financial and holding results generated by assets** | | | | | | | |
| Interest net of bank commissions and charges .......... | 46,188 | 17,385 | 22,108 | 28,802 | 166% | (4,722) | (21)% |
| Exchange differences................ | 92,673 | 100,567 | 100,348 | (7,894) | (8)% | 219 | —% |
| Results on securities holdings.... | 958 | 30,527 | (16,732) | (29,569) | (97)% | 47,259 | (282)% |
| **Financial and holding results generated by liabilities** | | | | | | | |
| Interest...................................... | (466,424) | (382,952) | (165,184) | (83,472) | 22% | (217,768) | 132% |
| Bank commissions and charges. | (7,181) | (7,471) | (4,144) | 290 | (4)% | (3,327) | 80% |
| Exchange differences................ | (404,924) | (428,554) | (194,184) | 23,630 | (6)% | (234,370) | 121% |
| **Financial results and gain/loss on holdings, net**........................ | **(738,710)** | **(670,497)** | **(257,788)** | **(68,213)** | **10%** | **(412,710)** | **160%** |

The net financial results for 2016 totaled a net loss of Ps.738.7 million, compared to a net loss of Ps.670.5 million in 2015. This variation was due primarily to higher interest expense generated by the increase in bank and financial loans during the year.

In 2015, we had a net loss of Ps.670.5 million compared to a net loss of Ps.257.8 million in the previous year, which corresponded primarily to the devaluation of the peso against the U.S. dollar and the expense interest generated by the increase in bank and financial loans.

### Income Tax

***2016/2015***

Income tax amounted to Ps.223.8 million (gain) for the year ended December 31, 2016, a 7% decrease from the Ps.239.5 million (gain) recorded for the year ended December 31, 2015.

***2015/2014***

Income tax amounted to Ps.239.5 million (gain) for the year ended December 31, 2015, compared with a loss of Ps.116.6 million for the year ended December 31, 2014.

### Net results

***2016/2015***

For the reasons set out above, we experienced a net loss for the year ended December 31, 2016 of Ps.550.5 million, compared to net loss of Ps.192.6 million for the year ended December 31, 2015.

***2015/2014***

For the reasons set out above, net loss for the year ended December 31, 2015 was Ps.192.6 million, compared to a net gain of Ps.108.0 million for the year ended December 31, 2014.

## Cash Flows

***Nine-Month Periods Ended September 30, 2017 and 2016 – IAS 34***

The following table shows our cash flow movements for the nine-month periods ended September 30, 2017 and 2016:

| | Nine-month period ended September 30, | |
|---|---|---|
| | **2017** | **2016** |
| | **(in thousands of pesos)** | |
| Cash and cash equivalents (banks overdraft) at the beginning of the period | 216,288 | (210,270) |
| Deconsolidation of subsidiaries | (20,531) | — |
| Currency translation adjustment | 20,405 | 31,438 |
| Cash and cash equivalents at period-end | 244,960 | 156,971 |
| **Increase in cash and cash equivalents** | **28,798** | **335,803** |
| Cash generated by operating activities | 1,237,761 | 590,999 |
| Cash used in investing activities | (4,535,402) | (1,185,881) |
| Cash generated by financing activities | 3,326,439 | 930,685 |
| **Increase in cash and cash equivalents** | **28,798** | **335,803** |

During the nine-month periods ended September 30, 2017 and 2016, we had net inflows from bank financings. The bank financings were obtained at interest rates similar to other companies in the Argentine market, considering comparable characteristics of solvency, solidity, generation of funds and risk.

Likewise, we have relied on capital contributions from our shareholders to strengthen our financial position and provide us with a better financial structure that should allow us to develop our operations.

Investments in property, plant and equipment in the nine-month periods ended September 30, 2017 and 2016, totaled Ps.4,575.5 million and Ps.1,190.9 million, respectively.

***Years Ended December 31, 2016, 2015 and 2014 – Argentine GAAP***

The following table shows our cash flow movements for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| | **(in thousands of pesos)** | | |
| Cash at the beginning of the year | 196,141 | 154,285 | 179,016 |
| Cash at year end | 218,645 | 196,141 | 154,285 |
| **Increase/(decrease) in Cash** | **22,505** | **41,856** | **(24,732)** |
| Total cash total generated by (applied to) operations | 588,917 | (393,008) | 953,389 |
| Total cash applied to investment activities | (2,889,569) | (3,055,954) | (2,249,934) |
| Total cash generated by financing activities | 2,241,817 | 3,428,809 | 1,238,719 |
| Increase in cash and banks generated by financial and holding results | 81,340 | 62,009 | 33,094 |
| **Increase/(decrease) in Cash** | **22,505** | **41,856** | **(24,732)** |

During 2016, 2015 and 2014, we had net inflows from bank financing and loans granted by our shareholders to finance our operations. The bank financing was obtained at interest rates similar to other companies in Argentina's market, considering comparable characteristics of solvency and risk.

Likewise, we have relied on capital contributions from our shareholders to strengthen our financial position and endow us with a better financial structure that allows us to carry out our operations.

Investments in property, plant and equipment in 2016, 2015 and 2014 totaled Ps.2,790.8 million, Ps.3,052.2 million and Ps.2,054.5 million, respectively.

We distributed no dividends in 2016 and 2015, and in 2014 we distributed Ps.156.9 million in dividends.

### Description of Indebtedness

The following table summarizes the principal terms and conditions of our outstanding bank and financial debts as of September 30, 2017:

| Loans | Outstanding principal as of September 30, 2017 (in millions of U.S.$ or Ps.) | Interest Rate | Date | Maturity |
|---|---|---|---|---|
| Banco de la Provincia de Buenos Aires S.A. Loan I .... | Ps.4.2 | BADLAR plus 2% | December 17, 2014 | December 17, 2017 |
| Banco de la Provincia de Buenos Aires S.A. Loan II... | Ps.105.6 | BADLAR plus 2% | May 15, 2015 | November 15, 2020 |
| Citibank N.A., Sucursal Argentina ............................ | Ps.0.6 | 26.50% | December 16, 2014 | December 18, 2017 |
| HSBC Bank Argentina S.A..... | U.S.$15.0 | 3.5% | July 20, 2017 | July 20, 2020 |
| Banco Santander Río S.A. Loan I ................................. | U.S.$30.0 | 3.5% | July 3, 2017 | July 3, 2020 |
| Banco Santander Río S.A. Loan II ................................ | U.S.$5.0 | 3.5% | July 20, 2017 | July 3, 2020 |
| Tecpetrol Libertador BV I....... | U.S.$3.1 | 5.92% | December 13, 2016 | December 31, 2019 |
| Parent Guarantor Loan........... | U.S.$120.1 | LIBOR 12M + 1.13% | August 8, 2017 | August 9, 2020 |

#### *Banco de la Provincia de Buenos Aires Loan I*

On December 17, 2014, we entered into a loan agreement with *Banco de la Provincia de Buenos Aires S.A.* for the amount of Ps.50 million. Principal and interest are payable monthly and the maturity date is December 17, 2017. The loan bears interest at a rate of BADLAR plus 2% per annum.

#### *Banco de la Provincia de Buenos Aires Loan II*

On May 15, 2015, we entered into a loan agreement with *Banco de la Provincia de Buenos Aires S.A.* for the amount of Ps.150 million. Principal and interest are payable monthly (with a grace period of one year for the payment of principal) and the maturity date is November 15, 2020. The loan bears interest at a rate of BADLAR plus 2% per annum.

The loan agreement contemplates certain covenants preventing us from, or requiring us to, take certain actions. As of the date of this offering memorandum we are in compliance with the covenants of the loan agreement.

#### *Citibank N.A., Sucursal Argentina*

On December 16, 2014, we entered into a loan agreement with Citibank N.A., Sucursal Argentina, for the amount of Ps.5 million. Principal and interest are payable quarterly (with a grace period of nine months for the payment of principal) and the maturity date is December 18, 2017. The loan bears interest at a rate of 26,5% per annum.

The loan agreement contemplates certain covenants preventing us from, or requiring us to, take certain actions. As of the date of this offering memorandum we are in full compliance with the covenants of the loan agreement.

***HSBC Bank Argentina S.A. Loan***

On July 20, 2017, we entered into a loan agreement with HSBC Bank Argentina S.A. for the amount of U.S.$15 million. Interest is payable semiannually and the loan bears interest at a rate of 3.5% per annum. Principal of this loan is payable in one installment on the maturity date which is July 20, 2020.

The loan agreement contemplates certain covenants preventing us from, or requiring us to, take certain actions. As of the date of this offering memorandum we are in compliance with the covenants of the loan agreement.

***Banco Santander Río S.A. Loan I***

On July 3, 2017, we entered into a loan agreement with *Banco Santander Río S.A.* for the amount of U.S.$30 million. Interest is payable quarterly and the loan bears interest at a rate of 3.5% per annum. Principal is payable in two equal installments on January 3 and July 3, 2020, respectively.

The loan agreement contemplates certain covenants preventing us from, or requiring us to, take certain actions. As of the date of this offering memorandum we are in compliance with the covenants of the loan agreement.

***Banco Santander Río S.A. Loan II***

On July 20, 2017, we entered into a loan agreement with *Banco Santander Río S.A.* for the amount of U.S.$5 million. Interest is payable quarterly and the loan bears interest at a rate of 3.5% per annum. Principal is payable in two equal installments on January 3 and July 3, 2020.

The loan agreement contemplates certain covenants preventing us from, or requiring us to, take certain actions. As of the date of this offering memorandum we are in compliance with the covenants of the loan agreement.

***Club Facility Agreement***

On September 18, 2017 we, together with Tecpetrol del Perú SAC and Tecpetrol Bloque 56 SAC, as co-borrowers, entered into a club facility agreement for up to U.S.$200 million with *Banco de Crédito del Perú S.A.*, BBVA Banco Continental, Citibank N.A. and J.P. Morgan Chase Bank, N.A., as lenders ("Club Facility"). Amounts borrowed under that facility will bear interest at a rate per annum of LIBOR plus a margin of 150 bps and will be repaid in 13 instalments commencing on September 18, 2019. As of the date of this offering memorandum there have not been any disbursements under this facility.

The club facility agreement contemplates certain covenants preventing us from, or requiring us to, take certain actions. As of the date of this offering memorandum we are in compliance with the covenants of the loan agreement.

***Tecpetrol Libertador BV Loan I***

On December 13, 2016, we entered into a loan agreement with Tecpetrol Libertador BV in principal amount of U.S.$3.1 million. Interest is payable annually and the loan bears interest at a rate of 5.92% per annum. Principal is payable in one instalment on December 31, 2019.

***Parent Guarantor Loan***

On August 8, 2017, we entered into a credit facility with the Parent Guarantor for up to U.S.$325 million. Interest and principal are payable in one instalment on August 9, 2020. Amounts borrowed under that facility will bear interest at a rate per annum of LIBOR plus a margin of 113 bps. As of September 30, 2017, the amount of U.S.$120.1 million was disbursed under this facility.

### *Banco Santander Río S.A. Loan III*

On November 7, 2017, we entered into a loan agreement with Banco Santander Río S.A. for the amount of U.S.$15 million. Interest is payable quarterly and the loan bears interest at a rate of 4.25% per annum. Principal is payable in two equal installments on May 9 and November 7, 2022.

### *Tecpetrol Libertador BV Loan II*

On November 17, 2017, we entered into a loan agreement with Tecpetrol Libertador BV in principal amount of U.S.$.5 million. The loan bears interest at a rate of 2.19% per annum. Principal and Interest are payable in one instalment on April 30, 2018.

### *Banco de la Provincia de Buenos Aires Loan III*

On November 21, 2017, we entered into a loan agreement with *Banco de la Provincia de Buenos Aires S.A.* for the amount of U.S.$7 million. Interest is payable quarterly and the loan bears interest at a rate of 3.50% per annum. Principal is payable in one installment on November 23, 2020.

The loan agreement contemplates certain covenants preventing us from, or requiring us to, take certain actions. As of the date of this offering memorandum we are in compliance with the covenants of the loan agreement.

## Contractual Obligations

The following table sets forth the maturities of our outstanding debt obligations related to financial liabilities, excluding intercompany debt, as of September 30, 2017:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | **Outstanding Principal as of September 30, 2017** | **Less than 1 year (1)** | **1 to 3 years (1)** | **3 to 5 years (1)** | **More than 5 years (1)** |
| | (in millions of U.S.$) | | | | |
| Banco de la Provincia de Buenos Aires S.A. Loan I | 0.2 | 0.2 | — | — | — |
| Banco de la Provincia de Buenos Aires S.A. Loan II | 6.1 | 1.9 | 3.9 | 0.3 | — |
| Citibank N.A., Sucursal Argentina | 0.0 | — | — | — | — |
| HSBC Bank Argentina S.A. | 15.0 | — | 15.0 | — | — |
| Banco Santander Rio S.A. Loan I | 30.0 | — | 30.0 | — | — |
| Banco Santander Rio S.A. Loan II | 5.0 | — | 5.0 | — | — |
| **Total** | 56.33 | 2.1 | 53.9 | 0.3 | — |

*Note:—*

(1) The amounts presented only include schedule debt payments and are gross and undiscounted, and exclude contractual interest payments and the impact of derivative contracts.

## Off-Balance Sheet Arrangements

We are not party to any off-balance sheet arrangements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – THE PARENT GUARANTOR

*The following discussion should be read in conjunction with the Parent Guarantor's Financial Statements and their accompanying notes included elsewhere herein.*

### Overview

The Parent Guarantor, through its subsidiaries, develops, invests in and operates businesses in the Latin American energy markets, through the exploration and production of oil and gas, the transport and distribution of gas and the generation of electricity. In Argentina, the Parent Guarantor's activities comprise the sale by us of Escalante crude primarily from the areas we hold in the *Golfo San Jorge* basin, Medanito crude from the areas we hold in the Neuquina basin, and gas primarily from the areas we hold in the Noroeste and Neuquina basins.

#### *Peru*

In Peru, the Parent Guarantor has two subsidiaries, *Tecpetrol del Perú S.A.C.* and Tecpetrol Bloque 56 S.A.C., each of which maintains a 10% interest (as non-operators) in the license agreements for the exploration and exploitation of hydrocarbons of Block 88 and Block 56 of the *Camisea* field, respectively.

The Parent Guarantor's net sales comprise the sale of the extracted hydrocarbons, primarily natural gas and gas liquids, intended for the domestic market and export.

#### *Ecuador*

In Ecuador, the Parent Guarantor has the following interests:

- its subsidiary Tecpecuador S.A. ("Tecpecuador") was awarded the contract for the provision of services for the exploration and exploitation of hydrocarbons (crude oil) in the Bermejo Field. Tecpecuador has the right to charge a tariff for the fields in production for each net barrel produced and delivered to the control center. This tariff includes an estimate of the amortization of investments, costs and expenses, as well as a profit component that takes into account the risk incurred;
- its subsidiary Pardaliservices S.A. ("Pardaliservices"), through a contract signed with Ecuador's state-owned oil company, Petroamazonas E.P. ("PAM"), provides specific services (which include the financing of the same) in the Libertador-Atacapi oilfields. In exchange for its services, Pardaliservices receives a tariff per incremental barrel of oil delivered resulting from the investments, measured as the difference between the deliveries from the field and a base decline curve established in the contract. The field operator is PAM, which maintains its personnel and is responsible for the field's operating costs; and
- its subsidiary Tecpeservices S.A. provides various technical services specialized for the oil industry (such as engineering, construction and general consulting) to Pardaliservices, Consorcio Shushufindi S.A. and Kamana Services S.A.

#### *Mexico*

In Mexico, the Parent Guarantor's subsidiary Norpower S.A. de C.V. ("Norpower") provides Pemex Exploración y Producción S.A. de C.V. ("Pemex Exploración y Producción") with services to ensure the integrity and reliability of the pipelines comprising System 3, which is a network of over 600 km of pipelines and various facilities located in the states of Chiapas, Tabasco and Campeche. The contract contemplates the maintenance of pipelines, rights of way and measurement points, the provision of technical assistance to Pemex Exploración y Producción regarding pipeline operation and maintenance and the performance of specific tasks to replace, modify, lower, cover and dismantle sections of pipeline, among other things.

***Bolivia***

In Bolivia, the Parent Guarantor holds a 20% ownership interest in the Ipati and Aquío areas through its subsidiary *Tecpetrol de Bolivia S.A.*, in which it maintains a role as a non-operator.

The operating contracts for both areas signed with Yacimientos Petrolíferos Fiscales Bolivianos ("YPFB") stipulate that the private partners are responsible for carrying out the oil operations (exploration, evaluation, development, exploitation and abandonment) at their own expense and risk, in exchange for receiving compensation from YPFB in keeping with the production obtained and delivered to YPFB, the latter assuming no risk or responsibility whatsoever with respect to the operations or their results. In this context, *Tecpetrol de Bolivia S.A.* has no property rights over the hydrocarbon fields or the hydrocarbons produced, which remain the sole property of YPFB.

During 2016, commercial production began in both areas, achieving a production flow of 6.5 MMm3d.

**Presentation of Financial Information**

The Parent Guarantor's fiscal year ends on December 31 of each year. The Parent Guarantor's Audited Annual Financial Statements have been prepared in accordance with IFRS-EU and the Parent Guarantor's Unaudited Interim Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting."

The Parent Guarantor's functional currency is the U.S. dollar and the Parent Guarantor's Financial Statements are presented in euros.

**Factors Affecting Operations**

The Parent Guarantor's results of operations are principally affected by economic conditions in the countries in which it operates, changes in prices and demand for oil and gas and derivative products, development of hydrocarbon reserves, and delays in payments from third party customers.

*Price of Oil and Impact of Domestic Conditions and Regulations*

The operating results and cash flows of the Parent Guarantor's business are largely derived from the sale of its oil and natural gas production, and are consequently susceptible to risks relating to the volatility of international oil prices. The prices that the Parent Guarantor is able to obtain for its hydrocarbon products is further affected by domestic regulations and which may have an adverse impact on the Parent Guarantor's ability to make investments in new exploration and developments. The Parent Guarantor budgets capital expenditures related to exploration, development and operation activities by taking into account, among other things, market prices for hydrocarbon products. In the event that domestic prices for certain products decrease further and export limitations in the different countries where the Parent Guarantor has operations remain in place or are imposed, the Parent Guarantor's ability to improve hydrocarbon recovery rates, find new reserves and carry out certain other capital expenditure plans may be adversely affected

*Exploration and Development Program*

The amount, timing and allocation of capital expenditures is largely discretionary and within the Parent Guarantor's control, if oil and natural gas prices decline or costs increase significantly, in which case the Parent Guarantor could defer a significant portion of its budget or expected capital expenditures until later periods to prioritize capital projects that the Parent Guarantor believes have the highest expected returns. The Parent Guarantor routinely monitors and adjusts its capital expenditures in response to changes in prices, availability of financing, drilling and acquisition costs, industry conditions, the timing of regulatory approvals, the availability of rigs, success or lack of success in drilling activities, contractual obligations, internally generated cash flows and other factors both within and outside the Parent Guarantor's control.

*Customer Payment Delays*

The Parent Guarantor provides services to government-controlled entities in Ecuador and Mexico. Such circumstance exposes the Parent Guarantor to delays in payments by such third party of the relevant account receivable, which in turn may result in the need to record impairments to such receivables on the Parent

Guarantor's Financial Statements. Any such impairment would cause fluctuations in the Parent Guarantor's income statement.

**Summary of Critical Accounting Estimates**

The Parent Guarantor makes estimates and assumptions concerning the future when preparing the consolidated annual financial statements. Estimates and judgments are periodically reviewed, and are based on past experience and other factors, including expectations over future events that are believed to be reasonable under the circumstances.

Actual results may differ from those estimated under different variables, assumptions or conditions. The most significant estimates and assumptions are addressed below:

(a) *Hydrocarbon reserves*

Reserves refer to the volumes of oil and gas (in oil-equivalent cubic meters) which generates or are associated with revenues in the fields where each subsidiary operates or has a direct or indirect share interest and over which the Parent Guarantor owns exploitation rights. This includes hydrocarbons volumes related to the services contracts in which the Parent Guarantor does not have the ownership either of the reserves or of the hydrocarbons extracted and those which are expected to be produced for the contracting party under the works contracts.

There are several factors which generate uncertainty with respect to the estimation of proved reserves, future production profiles, development costs and prices, including diverse factors which are beyond the producer's control. This is a subjective process used to estimate crude oil and natural gas to be recovered from the ground, which cannot be accurately measured and is carried out based on the quality of geological and engineering data available and its interpretation.

Reserves estimates are based on the technological and economic conditions in force at the relevant date, taking into account the economic evaluation over the term of the respective contracts or concessions, for the purpose of determining the terms of their recovery. Reserves estimations are adjusted whenever justified by changes in the key assumptions or at least once a year.

(b) *Provision for asset retirement obligations*

The liability provision related to asset retirement obligations implies that management makes estimates concerning the long-term abandonment costs and the period of time until abandonment. Technologies and costs are constantly changing, as well as political, environmental and safety considerations. These changes can lead to differences between estimates and actual costs.

(c) *Contingencies*

The Parent Guarantor and its subsidiaries are subject to various claims, lawsuits and other legal proceedings in the normal course of its business. Liabilities with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty.

The Parent Guarantor reviews the status of each significant matter and assesses the potential financial exposure. If the potential loss from the claim or proceedings is considered to be probable and the amount can be reasonably estimated, a provision is recorded. Management estimates the amount of these provisions based on the information available and the assumptions and methods it considers appropriate. These estimates are primarily constructed with the assistance of legal counsels. The Parent Guarantor periodically reviews and adjusts its estimates, as additional information becomes available.

(d) *Recoverable amounts of non-financial assets*

In order to evaluate the recoverability of non-financial assets, these are grouped at the lowest levels for which there are individually identifiable cash flows (cash generating units).

Estimates and key assumptions used in the impairment tests of non-financial assets are disclosed in note 16 to the 2016 Parent Guarantor's Audited Annual Financial Statements.

(e) *Fair value of available-for-sale financial assets*

Estimates and key assumptions used in the determination of fair value of available-for-sale financial assets are disclosed in note 17 to the 2016 Parent Guarantor's audited annual financial statements.

**Results of Operations for the Nine-Months Periods Ended September 30, 2017 and 2016**

The following table presents a breakdown of the Parent Guarantor's results of operation for the nine-month periods ended September 30, 2016 and 2017:

| | Nine-month period ended September 30, | | Variation | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017/2016** | |
| | (unaudited) (in euros and percentages) | | | |
| Continuing operations | | | | |
| Net sales | 483,796,842 | 438,372,863 | 45,423,979 | 10% |
| Operating costs | (372,735,069) | (311,016,627) | (61,718,442) | 20% |
| **Gross profit** | **111,061,773** | **127,356,236** | **(16,294,463)** | **(13)%** |
| Selling expenses | (20,686,082) | (64,024,208) | 43,338,126 | (68% |
| Administrative expenses | (44,363,233) | (38,869,878) | (5,493,355) | 14% |
| Exploration costs | (7,413,200) | (2,150,743) | (5,262,457) | 245% |
| Other operating income/expenses, net | 4,575,815 | (1,133,782) | 5,709,597 | (504% |
| **Operating income** | **43,175,073** | **21,177,625** | **21,997,448** | **104%** |
| Financial results, net | (15,183,585) | (24,810,272) | 9,626,687 | (39)% |
| Equity in earnings of investments accounted for using the equity method | 54,037,745 | 21,618,590 | 32,419,155 | 150% |
| **Income before income tax** | **82,029,233** | **17,985,943** | **64,043,290** | **356%** |
| Income tax | (21,636,031) | (9,361,394) | (12,274,637) | 131% |
| **Result for the period** | **60,393,202** | **8,624,549** | **51,768,653** | **600**% |

**Net Sales**

The following table shows the Parent Guarantor's net sales from the main countries where it operates for the nine-month periods ended September 30, 2017 and 2016:

| | For the nine-month period ended September 30, | | Variation | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017/2016 | |
| | (unaudited) | | | |
| | (in euros and percentages) | | | |
| Argentina | 192,620,918 | 180,497,758 | 12,123,160 | 7% |
| Peru | 148,570,391 | 122,418,195 | 26,152,196 | 21% |
| Ecuador | 78,945,906 | 90,732,926 | (11,787,020) | (13)% |
| Bolivia | 27,845,813 | 1,539,973 | 26,305,840 | 1708% |
| Mexico | 25,395,580 | 42,877,713 | (17,482,133) | (41)% |
| Colombia | 10,403,964 | — | 10,403,964 | 100% |
| Other | 14,270 | 306,298 | (292,028) | (95)% |
| **Net sales** | **483,796,842** | **438,372,863** | **45,423,979** | **10**% |

For the nine-month period ended September 30, 2017, net sales totaled euro 483.8 million, a 10% increase with respect to the same period in 2016.

With respect to Argentina, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—The Company—Results of Operations for the Nine-Month Periods Ended September 30, 2017 and 2016 pursuant to IAS 34—Net Sales."

In Peru, the increase in net sales for the nine-month period ended September 30, 2017 in the amount of euro 26.2 million was due primarily to the increase in international oil and gas prices, while production levels remained virtually in line with the production registered in the same period in 2016.

In Bolivia, net sales increased by euro 26.3 million in the nine-month period ended September 30, 2017 with respect to the same period in 2016, which was due to commercial production only starting in the Ipati and Aquio areas during the third quarter of 2016. For the nine-month period ended September 30, 2017, a production flow of 8.1 $MMm^3/d$ of gas and 1,160 $m^3/d$ of oil was achieved compared with 5.2 $MMm^3/d$ of gas and 708 $m^3/d$ of oil for the nine-month period ended September 30, 2016.

The euro 11.8 million decrease in net sales in Ecuador in the nine-month period ended September 30, 2017, with respect to the same period in 2016, was due primarily to lower volumes produced by subsidiaries Pardaliservices and Tecpecuador.

In Mexico, the activity of subsidiary Norpower S.A. de C.V. decreased by euro 17.5 million in the nine-month period ended September 30, 2017 due primarily to PEMEX's budgetary restrictions as a result of the context of the lower hydrocarbon prices.

The increase in net sales in Colombia was due to the fact that, in May 2017, the Parent Guarantor's sole shareholder contributed its 100% shareholding stake in Tecpetrol Colombia S.A.S. into the Parent Guarantor, resulting in the incorporation of the operations at Blocks CPO-13 and CPO-7 as of that date.

### Operating Costs

The following table shows the main components of the Parent Guarantor's operating costs for the nine-month periods ended September 30, 2017 and 2016:

| | Nine-month period ended September 30, | | Variation | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017/2016 | |
| | (unaudited) | | | |
| | (in euros and percentages) | | | |
| Services and fees | 8,226,123 | 6,329,696 | 1,896,427 | 30% |
| Labor costs | 33,564,533 | 28,153,553 | 5,410,980 | 19% |
| Depreciation of Property, plant and equipment, Amortization of intangible assets and Impairment of property, plant and equipment | 126,347,419 | 105,556,707 | 20,790,712 | 20% |
| Service costs | 51,919,846 | 44,654,531 | 7,265,315 | 16% |
| Maintenance costs | 49,925,212 | 41,692,926 | 8,232,286 | 20% |
| Treatment, storage and loading | 20,893,424 | 20,686,084 | 207,340 | 1% |
| Royalties and other taxes | 74,043,900 | 59,329,458 | 14,714,442 | 25% |
| Others | 7,814,612 | 4,613,672 | 3,200,940 | 69% |
| | **372,735,069** | **311,016,627** | **61,718,442** | **20**% |

Operating costs for the nine-month period ended September 30, 2017, totaled euro 372.7 million, compared to euro 311.0 million for the same period in 2016, which represented an increase of euro 61.7 million (or 20%), primarily as a result of: i) an increase in depreciation and impairment, including for the nine-month period ended September 30, 2017 due to the recognition of an impairment in the amount of euro 6.2 million with respect to the production and development equipment and assets in the area of El Tordillo, caused primarily by the lower international prices of crude oil, which rendered some activities inviable as it is a mature reservoir; ii) an increase in royalties and other taxes in the amount of euro 14.7 million, primarily as a result of the increase in income for Argentina, Peru and Colombia; and iii) an increase in labor costs, service costs and maintenance costs, primarily due to the increased level of operations in Argentina, Bolivia and Colombia.

### Selling Expenses

The following table shows the Parent Guarantor's selling expenses for the nine-month periods ended September 30, 2017 and 2016:

| | Nine-month period ended September 30, | | Variation | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017/2016 | |
| | (unaudited) | | | |
| | (in euros and percentages) | | | |
| Treatment, storage and loading | 3,986,604 | 2,092,325 | 1,894,279 | 91% |
| Allowance for doubtful accounts | 10,853,541 | 57,741,318 | (46,887,777) | (81)% |
| Taxes | 5,760,104 | 4,157,218 | 1,602,886 | 39% |
| Others | 85,833 | 33,347 | 52,486 | 157% |
| | **20,686,082** | **64,024,208** | **(43,338,126)** | **(68)**% |

Selling expenses for the nine-month period ended September 30, 2017 totaled euro 20.7 million, in comparison with euro 64.0 million registered in the same period in 2016, which represented a decrease of 68%, basically resulting from changes in the allowance for doubtful accounts. This decrease corresponds primarily to lower charges in the Ecuador operation, followed by the collection of significant past-due balances in early 2017.

**Administrative Expenses**

The following table shows the main components of the Parent Guarantor's administrative expenses for the nine-month periods ended September 30, 2017 and 2016:

| | **Nine-month period ended September 30,** | | **Variation** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017/2016** | |
| | **(unaudited)** | | | |
| | **(in euros and percentages)** | | | |
| Fees and Services | 9,748,528 | 8,454,463 | 1,294,065 | 15% |
| Labor costs | 28,592,817 | 26,651,058 | 1,941,759 | 7% |
| Depreciation of property, plant and equipment | 1,446,114 | 689,326 | 756,788 | 110% |
| Taxes | 6,505,880 | 5,992,591 | 513,289 | 9% |
| Other administrative expenses | 6,235,458 | 6,957,537 | (722,079) | (10)% |
| Reimbursements | (8,165,564) | (9,875,097) | 1,709,533 | (17)% |
| | **44,363,233** | **38,869,878** | **5,493,355** | **14**% |

Administrative expenses for the nine-month period ended September 30, 2017 increased by 14% on average with respect to the same period in 2016, primarily due to our operations in Argentina increasing with respect to the previous period.

**Exploration Costs**

Exploration costs totaled euro 7.4 million in the nine-month period ended September 30, 2017, and euro 2.2 million in the same period in 2016. The increase in exploration costs in 2017 was generated primarily by the exploration costs in Colombian operations.

**Other Operating Income and Expenses**

The following table shows the main components of the Parent Guarantor's other operating income and expenses for the nine-month period ended September 30, 2017 and 2016:

| | **Nine-month period ended September 30,** | | **Variation** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017/2016** | |
| | **(unaudited)** | | | |
| | **(in euros and percentages)** | | | |
| **Other operating income** | | | | |
| Income from other sales | 2,558,897 | 47,853 | 2,511,044 | 5,247% |
| Reimbursements from third parties | 199,991 | 32,897 | 167,094 | 508% |
| Reversal of provisions | 846,125 | 147,451 | 698,674 | 474% |
| Other | 1,269,861 | 190,946 | 1,078,915 | 565% |
| **Other operating income** | **4,874,874** | **419,147** | **4,455,727** | **1,063%** |

| | Nine-month period ended September 30, | | Variation | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017/2016 | |
| | (unaudited) | | | |
| | (in euros and percentages) | | | |
| **Other operating expenses** | | | | |
| Provision for legal claims and contingencies | (127,787) | (45,412) | (82,375) | 181% |
| Services and fees | — | (182,224) | 182,224 | (100)% |
| Other | (171,272) | (1,325,293) | 1,154,021 | (87)% |
| **Other operating expenses** | **(299,059)** | **(1,552,929)** | **1,253,870** | **(81)%** |
| **Other operating income/(expenses), net** | **4,575,815** | **(1,133,782)** | **5,709,597** | **(504)**% |

Other operating income and expenses totaled a net profit of euro 4.6 million for the nine-month period ended September 30, 2017, compared to a net loss of euro 1.1 million for the same period in 2016, which represented an increase of euro 5.7 million. This variation was caused primarily by contractual income of operations in Peru.

### Equity in earnings of investments accounted for using the equity method

The equity in earnings of investments accounted for using the equity method totaled euro 54.0 million and euro 21.6 million for the nine-month periods ended September 30, 2017 and 2016, respectively, and includes the result of investments in companies where the Parent Guarantor has significant influence and joint ventures.

The variation of euro 32.4 million with respect to the previous period corresponds primarily to the results of operations of Consorcio Shushufindi S.A. and the increase in investments in Litoral Gas S.A. and in TGN, generated primarily by the temporary average tariff increase agreements entered into with the Argentine Government. These increases were partially offset by a decrease in the income generated by our investment in SMB as a result of decreased activity in anticipation of the Pemex Exploración y Producción contract migration.

### Financial Results, Net

The following table shows the main components of the Parent Guarantor's financial results, net for the nine-month periods ended September 30, 2017 and 2016:

| | Nine-month period ended September 30, | | Variation | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017/2016 | |
| | (unaudited) | | | |
| | (in euros and percentages) | | | |
| Interest income | 6,165,092 | 3,609,573 | 2,555,519 | 71% |
| Interest expense | (20,822,040) | (27,884,869) | 7,062,829 | (25)% |
| Net foreign exchange transactions results | (734,526) | 1,495,906 | (2,230,432) | (149)% |
| Other net financial results | 207,889 | (2,030,882) | 2,238,771 | (110)% |
| **Financial results, net – Gain/(Loss)** | **(15,183,585)** | **(24,810,272)** | **9,626,687** | **(39)**% |

Net financial results totaled a net loss of euro 15.2 million and euro 24.8 million for the nine-month period ended September 30, 2017 and 2016, respectively. The variation of euro 9.6 million (decrease in loss) was due primarily to a decrease in interest expense as a result of decreased bank and financial loans.

### Income Tax

Income tax amounted to an expense of euro 21.6 million for the nine-month period ended September 30, 2017, compared with an expense of euro 9.4 million for the nine-month period ended September 30, 2016.

### Results for the Period

For the reasons stated above, the net result of the period ended September 30, 2017, showed a net profit of euro 60.4 million, compared with euro 8.6 million corresponding to the same period in 2016.

### Results of Operations for the Years Ended December 31, 2016, 2015 and 2014

The following table presents the results of operations of the Parent Guarantor for the years ended December 31, 2016, 2015 and 2014.

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | **2016** | **2015** | **2014** | **2016/2015** | | **2015/2014** | |
| | (in euros and percentages) | | | | | | |
| **Continuing operations** | | | | | | | |
| Net sales | 599,544,392 | 663,196,663 | 758,223,492 | (63,652,271) | (10)% | (95,026,829) | (13)% |
| Operating costs | (426,627,572) | (519,079,749) | (433,229,209) | 92,452,177 | (18)% | (85,850,540) | 20% |
| **Gross profit** | **172,916,820** | **144,116,914** | **324,994,283** | **28,799,906** | **20%** | **(180,877,369)** | **(56)%** |
| Selling expenses | (9,667,655) | (31,074,401) | (48,367,912) | 21,406,746 | (69)% | 17,293,511 | (36)% |
| Administrative expenses | (47,814,797) | (58,486,592) | (61,910,669) | 10,671,795 | (18)% | 3,424,077 | (6)% |
| Exploration costs | (2,836,809) | (11,469,957) | (2,490,020) | 8,633,148 | (75)% | (8,979,937) | 361% |
| Other operating income/expenses, net | (7,708,937) | (3,808,742) | (5,947,970) | (3,900,195) | 102% | 2,139,228 | (36)% |
| **Operating Income** | **104,888,622** | **39,277,222** | **206,277,712** | **65,611,400** | **167%** | **(167,000,490)** | **(81)%** |
| Financial results, net | (33,006,627) | (4,078,054) | (22,873,378) | (28,928,573) | 709% | 18,795,324 | (82)% |
| Equity in earnings of investments accounted for using the equity method | 12,178,607 | 32,758,134 | 56,515,797 | (20,579,527) | (63)% | (23,757,663) | (42)% |
| **Income before tax** | **84,060,602** | **67,957,302** | **239,920,131** | **16,103,300** | **24%** | **(171,962,829)** | **(72)%** |
| Income tax | (33,550,321) | (28,761,100) | (71,424,062) | (4,789,221) | 17% | 42,662,962 | (60)% |
| **Income for the year from continuing operations** | **50,510,281** | **39,196,202** | **168,496,069** | **11,314,079** | **29%** | **(129,299,867)** | **(77)%** |
| **Discontinued operations** | | | | | | | |
| Result for the year from discontinued operations | — | (46,928,504) | (55,066,265) | 46,928,504 | (100)% | 8,137,761 | (15)% |
| **Result for the year** | **50,510,281** | **(7,732,302)** | **113,429,804** | **58,242,583** | **(753)%** | **(121,162,106)** | **(107)%** |

## Net Sales

The following table shows the Parent Guarantor's net sales from the main countries where it operates for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016/2015 | | 2015/2014 | |
| | (in euros and percentages) | | | | | | |
| Argentina | 236,347,129 | 280,118,633 | 316,415,741 | (43,771,504) | (16)% | (36,297,108) | (11)% |
| Peru | 181,303,764 | 199,294,351 | 263,387,324 | (17,990,587) | (9)% | (64,092,973) | (24)% |
| Ecuador | 120,186,754 | 135,385,011 | 117,681,615 | (15,198,257) | (11)% | 17,703,396 | 15% |
| Mexico | 54,986,742 | 48,396,056 | 60,711,428 | 6,590,686 | 14% | (12,315,372) | (20)% |
| Bolivia | 6,410,949 | — | — | 6,410,949 | — | — | — |
| Other | 309,054 | 2,612 | 27,384 | 306,442 | 11,732% | (24,772) | (90)% |
| **Net sales** | **599,544,392** | **663,196,663** | **758,223,492** | **(63,652,271)** | **(10)%** | **(95,026,829)** | **(13)%** |

### *2016/2015*

In 2016, net sales amounted to euro 599.5 million, a 10% decrease with respect to the euro 663.2 million recorded in 2015, primarily as a result of the fall in international crude oil prices, which decreased by 11% on average.

With respect to our operations in Argentina, see "Management's Discussion and Analysis of Financial Conditions and Results of Operation—The Company—Results of Operations for the Years Ended December 31, 2016, 2015, 2014, pursuant to Argentine GAAP—Net Sales."

In Peru the reduction in net sales for 2016 in the amount of euro 18.0 million was due primarily to the drop in international prices, while the production levels remained virtually in line with 2015.

Ecuador's reduction in net sales in 2016 with respect to 2015 is explained basically by a reduction in the volumes produced by Pardaliservices and Tecpecuador.

### *2015/2014*

Net sales for the year ended December 31, 2015, amounted to euro 663.2 million, decreasing by 13% with respect to 2014 net sales of euro 758.2 million, primarily as a result of the significant drop in the international price of crude oil that began in late 2014 (48% on average). This effect was partially offset by changes in the exchange rate between the euro and the U.S. dollar.

With respect to our operations in Argentina, see "Management's Discussion and Analysis of Financial Conditions and Results of Operation—The Company—Results of Operations for the Years Ended December 31, 2016, 2015, 2014 pursuant Argentine GAAP—Net Sales."

In Peru, the reduction in net sales for 2015 in the amount of euro 64.1 million was due primarily to a reduction in production and the significant drop in international oil prices.

## Operating Costs

The following table shows the main components of the Parent Guarantor's operating costs for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016/2015 | | 2015/2014 | |
| | (in euros and percentages) | | | | | | |
| Services and fees | 8,501,224 | 10,731,326 | 8,382,046 | (2,230,102) | (21)% | 2,349,280 | 28% |
| Labor costs | 37,611,513 | 47,718,909 | 38,487,516 | (10,107,396) | (21)% | 9,231,393 | 24% |
| Depreciation of property, plant and equipment, Amortization of intangible assets and Impairment of property, plant and equipment | 143,546,984 | 180,907,939 | 99,946,336 | (37,360,955) | (21)% | 80,961,603 | 81% |
| Service costs | 61,449,975 | 59,159,884 | 62,972,923 | 2,290,091 | 4% | (3,813,039) | (6)% |
| Maintenance costs | 56,776,570 | 83,506,483 | 64,026,996 | (26,729,913) | (32)% | 19,479,487 | 30% |
| Treatment, storage and loading | 27,705,921 | 29,258,712 | 25,300,913 | (1,552,791) | (5)% | 3,957,799 | 16% |
| Royalties and other taxes | 83,876,300 | 97,733,604 | 126,441,313 | (13,857,304) | (14)% | (28,707,709) | (23)% |
| Others | 7,159,085 | 10,062, 892 | 7,671,166 | (2,903,807) | (29)% | 2,391,726 | 31% |
| | **426,627,572** | **519,079,749** | **433,229,209** | **(92,452,177)** | **(18)%** | **85,850,540** | **20%** |

***2016/2015***

Operating costs for 2016 amounted to euro 426.6 million, compared to euro 519.1 million for 2015, which represented a decrease of euro 92.5 million or 18%, primarily as a result of the optimization of processes and other cost reduction measures adopted by the Parent Guarantor and its subsidiaries in response to falling international oil prices, focusing on efficiency and increasing productivity, as well as the effect of the devaluation of the Argentine peso against the U.S. dollar in respect of operations in Argentina.

***2015/2014***

Operating costs for 2015 increased by 20% with respect to 2014, from euro 433.2 million to euro 519.1 million for the following reasons:

- euro 81.0 million due to an increase in depreciation of property, plant and equipment ("PPE"), impairment of PPE and amortization of intangible assets as a result of the rollout of investments and the recognition in 2015 of an impairment in the amount of euro 26.2 million for the Argentine operations, arising from falling international crude oil prices;
- euro 19.5 million due to an increase in the operation's maintenance costs, primarily as a result of the adjustment of operations to the lower prevailing oil prices; and
- the above increases were partially offset by a euro 28.7 million cost reduction due to a decrease in royalties and other taxes accrued with respect to 2014. This is explained by a decrease in operations in Argentina and Peru primarily as a result of falling crude oil prices.

### Selling Expenses

The following table shows the Parent Guarantor's selling expenses for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016/2015 | | 2015/2014 | |
| | (in euros and percentages) | | | | | | |
| Treatment, storage and loading | 2,637,475 | 2,661,170 | 2,423,550 | (23,695) | (1)% | 237,620 | 10% |
| Allowance for doubtful accounts | 1,465,293 | 21,316,497 | 3,338,679 | (19,851,204) | (93)% | 17,977,818 | 538% |
| Taxes | 5,564,887 | 7,096,734 | 42,605,683 | (1,531,847) | (22)% | (35,508,949) | (83)% |
| **Total** | **9,667,655** | **31,074,401** | **48,367,912** | **(21,406,746)** | **(69)%** | **(17,293,511)** | **(36)%** |

#### *2016/2015*

Selling expenses for 2016 amounted to euro 9.7 million, in comparison with euro 31.1 million recorded in 2015, which represented a decrease of 69%, mainly resulting from changes in the allowance for doubtful accounts.

#### *2015/2014*

Selling expenses for 2015 decreased by 36% with respect to 2014 from euro 48.4 million to euro 31.1 million, primarily due to lower export duties generated by operations in Argentina, partially offset by an increase in the allowance for doubtful accounts, primarily for operations in Peru and Mexico.

### Administrative Expenses

The following table shows the main components of the Parent Guarantor's administrative expenses for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016/2015 | | 2015/2014 | |
| | (in euros and percentages) | | | | | | |
| Fees and services | 11,371,461 | 17,037,777 | 14,387,999 | (5,666,316) | (33)% | 2,649,778 | 18% |
| Labor costs | 36,081,485 | 42,942,321 | 40,985,426 | (6,860,836) | (16)% | 1,956,895 | 5% |
| Depreciation | 1,071,909 | 743,707 | 754,464 | 328,202 | 44% | (10,757) | (1)% |
| Taxes | 2,298,093 | 720,510 | 1,152,095 | 1,577,583 | 219% | (431,585) | (37)% |
| Other administrative expenses | 9,329,766 | 11,764,299 | 13,394,846 | (2,434,533) | (21)% | (1,630,547) | (12)% |
| Reimbursements | (12,337,917) | (14,722,022) | (8,764,161) | 2,384,105 | (16)% | (5,957,861) | 68% |
| **Total** | **47,814,797** | **58,486,592** | **61,910,669** | **(10,671,795)** | **(18)%** | **(3,424,077)** | **(6)%** |

#### *2016/2015*

Administrative expenses for 2016 decreased by 18% with respect to 2015 from euro 58.5 million to euro 47.8 million, primarily due to the reduction and optimization of expenses in light of the reduced international price of crude oil, focusing on efficiency and increasing productivity in administrative processes.

*2015/2014*

Administrative expenses for 2015 amounted to euro 58.5 million, compared to euro 61.9 million for 2014, which represented a decrease of euro 3.4 million or 6%. This decrease was due primarily to an increase in reimbursements in 2015, which was slightly offset by increases in fees and services and labor costs.

Reimbursements include the charges that are billed for technical assistance and overhead, and they are not subject to proration with respect to each item detailed above, but rather with the set of tasks that constitute the operator's duty.

## Exploration Costs

The costs of exploring and evaluating an area and the costs of drilling exploratory wells are recorded as a work in progress until it is determined whether there are proven reserves that justify their commercial development. In the case of exclusively exploratory areas, these costs include geological studies and all other costs directly attributable to the activity. Subsequently, if it is determined that the results are unsuccessful, these costs are charged to the income statement.

Exploration costs totaled euro 2.8 million in 2016, euro 11.5 million in 2015, and euro 2.5 million in 2014. The increase in exploration costs in 2015 was due primarily to higher operating costs in Peru.

## Other Operating Income and Expenses

The following table shows the main components of the Parent Guarantor's other operating income and expenses for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | **2016** | **2015** | **2014** | **2016/2015** | | **2015/2014** | |
| | | | | (in euros and percentages) | | | |
| ***Other income*** | | | | | | | |
| Income from other sales | 105,051 | 756,609 | 3,067,106 | (651,558) | (86)% | (2,310,497) | (75)% |
| Reimbursements from third parties | 393,656 | 1,426 | 7,118,462 | 392,230 | 27,506.% | (7,117,036) | (100)% |
| Reversal of provisions | 148,729 | 4,613,482 | 976,090 | (4,464,753) | (97)% | 3,637,392 | 373% |
| Dividends received | — | — | 269,442 | — | — | (269,442) | (100)% |
| Other | 467,719 | 906,256 | 195,341 | (438,537) | (48)% | 710,915 | 364% |
| **Other operation income** | **1,115,155** | **6,277,773** | **11,626,441** | **(5,162,618)** | **(82)%** | **(5,348,668)** | **(46)%** |
| ***Other expenses*** | | | | | | | |
| Impairment charges | — | (1,110,838) | (10,857,456) | 1,110,838 | (100)% | 9,746,618 | (90)% |
| Bank transactions taxes | (5,837,724) | (6,906,528) | (5,122,171) | 1,068,804 | (15)% | (1,784,357) | 35% |
| Provisions for legal claims and contingencies | (82,232) | (405,125) | (457,023) | 322,893 | (80)% | 51,898 | (11)% |
| Fees and services | (183,804) | (1,044,624) | (154,475) | 860,820 | (82)% | (890,149) | 576% |
| Other | (2,720,332) | (619,400) | (983,286) | (2,100,932) | 339% | 363,886 | (37)% |
| **Other operation expenses** | **(8,824,092)** | **(10,086,515)** | **(17,574,411)** | **1,262,423** | **(13)%** | **7,487,896** | **(43)%** |
| **Other operating income/expenses, net** | **(7,708,937)** | **(3,808,742)** | **(5,947,970)** | **(3,900,195)** | **102%** | **2,139,228** | **(36)%** |

Other operating income and expenses represented a net expense of euro 7.7 million in 2016, compared with a net expense of euro 3.8 million in 2015, which represented an increase in the net expense of euro 3.9 million, or 102%; this variation was generated mainly by the recovery of contingencies in Argentina and

Ecuador in the amount of euro 4.6 million in 2015 that did not reoccur in 2016, net of the impairment charges recognized that same year for the Parent Guarantor's operations in Venezuela in the amount of euro 1.1 million.

In 2014, other operating income and expenses represented a net expense of euro 5.9 million, which included a gain of euro 7.1 million from the use of tax credit certificates in Argentina (obtained through the "Oil Plus" program) to offset payments of export duties that year, and an impairment charge recognized for the Parent Guarantor's operations in Venezuela in the amount of euro 10.9 million.

### Equity in earnings of investments accounted for using the equity method

The equity in earnings of investments accounted for using the equity method amounted to euro 12.2 million, euro 32.8 million and euro 56.5 million in 2016, 2015 and 2014, respectively, and includes the result of investments in companies where the Parent Guarantor has significant influence or is a joint venture member. The investments in which the Parent Guarantor has an ownership interest are detailed below, along with the corresponding percentage on the indicated dates:

| | | % Ownership Interest | | |
|---|---|---|---|---|
| **Company** | **Country** | **December 31, 2016** | **December 31, 2015** | **December 31, 2014** |
| Servicios Múltiples de Burgos S.A. de C.V.[1] | Mexico | 50.00 | 50.00 | 50.00 |
| Consorcio Shushufindi S.A.[2] | Ecuador | 25.00 | 25.00 | 25.00 |
| Kamana Services S.A.[2] | Ecuador | 40.00 | 40.00 | 40.00 |
| Litoral Gas S.A.[3] | Argentina | 27.50 | 25.50 | 27.50 |
| Energy Consulting Services S.A. | Argentina | 29.17 | 29.17 | 29.17 |
| Transportadora de Gas del Mercosur S.A. | Argentina | 21.79 | 21.79 | 21.79 |
| Transportadora de Gas del Norte S.A.[4] | Argentina | 23.07 | 15.38 | 15.38 |
| Techgen S.A. de C.V.[5] | Mexico | 30.00 | 30.00 | 30.00 |
| Parque Eólico Pampa S.A. [6] | Argentina | 20.00 | 20.00 | 20.00 |

*Notes:—*

(1) "SMB provides services to PEMEX Exploración y Producción in relation to development, infrastructure and maintenance of gas fields in the Misión Block in Mexico.

(2) Consorcio Shushufindi S.A. and Kamana Services S.A. provide specific hydrocarbon production optimization services, advising and other services relating to hydrocarbon activities for the operation or maintenance of oil fields in Ecuador.

(3) Through *Tibsa Inversora S.A.*, the Parent Guarantor has an indirect holding of 27.5% in Litoral Gas S.A., which provides natural gas distribution service in the provinces of Santa Fe and Buenos Aires in Argentina.

(4) The Parent Guarantor has a direct participation of 0.05% and an indirect interest of 23.02% (through Gasinvest S.A.) in TGN, which provides natural gas transport service in the Northern and Central-West regions of Argentina.

(5) *Techgen S.A. de C.V.* aims to ensure electric power self-sufficiency for its shareholders (all affiliates of the Techint Group) by means of a natural gas-fired combined-cycle thermoelectric power plant in Pesquería, Mexico which began operations in late 2016.

(6) The participation in Parque Eolico Pampa was disposed of in October, 2017.

The operations of SMB, *Consorcio Shushufindi S.A.* and Kamana Services S.A. in 2015 and 2016 were affected by the reduction in international crude oil prices, generating a reduction in equity in earnings of euro 22 million in 2016 with respect to 2015 and euro 16 million in 2015 in comparison with 2014.

The following table shows selected financial information for the Parent Guarantor's main investments for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Consorcio Shushufindi | Kamana | Tibsa Inversora | TGN | SMB |
| | (in thousands of euros) | | | | |
| Net sales | 544,731 | 39,557 | 115,694 | 111,181 | 37,771 |
| Result for the year | 88,311 | (21,963) | 9,849 | (15,680) | 10,338 |
| Paid dividends | — | — | — | — | (31,639) |

| | For the Years Ended December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Consorcio Shushufindi | Kamana | Tibsa Inversora | TGN | SMB |
| | (in thousands of euros) | | | | |
| Net sales | 418,674 | 7,434 | 38,525 | 73,046 | 80,553 |
| Result for the year | 141,814 | (19,118) | 8,383 | (50,362) | 27,931 |
| Paid dividends | — | — | — | — | (54,941) |

| | For the Years Ended December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Consorcio Shushufindi | Kamana | Tibsa Inversora | TGN | SMB |
| | (in thousands of euros) | | | | |
| Net sales | 350,731 | — | 38,835 | 50,432 | 142,070 |
| Result for the year | 118,618 | (2,620) | (2,067) | (22,628) | 52,534 |
| Paid dividends | — | — | — | — | (42,662) |

### Financial Results, Net

The following table shows the main components of the Parent Guarantor's financial results for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016/2015 | | 2015/2014 | |
| | (in euros and percentages) | | | | | | |
| Interest income | 5,123,247 | 2,675,927 | 3,869,951 | 2,447,320 | 91% | (1,194,024) | (31)% |
| Interest expense | (36,626,897) | (48,573,422) | (28,574,061) | 11,946,525 | (25)% | (19,999,361) | 70% |
| Net foreign exchange transactions results | 852,770 | 35,285,555 | 2,896,176 | (34,432,785) | (98)% | 32,389,379 | 1,118% |
| Other net financial results | (2,355,747) | 6,533,886 | (1,065,444) | (8,889,633) | (136)% | 7,599,330 | (713)% |
| | **(33,006,627)** | **(4,078,054)** | **(22,873,378)** | **(28,928,573)** | **709**% | **18,795,324** | **(82)**% |

Net financial results totaled a net expense of euro 33.0 million, euro 4.1 million and euro 22.9 million for 2016, 2015 and 2014, respectively.

The variations of euro 28.9 million and euro 18.8 million were due primarily to exchange differences generated in 2015 as a result of the devaluation of the Argentine peso against the U.S. dollar with respect to the operations in Argentina (gain) and an increase in interest expense in 2015, primarily from the operations in Argentina.

### Income Tax

***2016/2015***

Income tax amounted to an expense of euro 33.6 million for the year ended December 31, 2016, compared with income tax expense of euro 28.8 million for the year ended December 31, 2015.

***2015/2014***

Income tax amounted to an expense of euro 28.8 million for the year ended December 31, 2015, compared with income tax expense of euro 71.4 million for the year ended December 31, 2014.

### Results for the year

***2016/2015***

For the reasons discussed above, result for the year ended December 31, 2016 amounted to a net gain of euro 50.5 million, compared to a net loss of euro 7.7 million for the year ended December 31, 2015.

***2015/2014***

For the reasons discussed above, result for the year ended December 31, 2015 was a net loss of euro 7.7 million, compared to a net gain of euro 113.4 million for the year ended December 31, 2014.

### Cash Flows

***Nine-Month Periods Ended September 30, 2017 and 2016***

The following table shows the Parent Guarantor's cash flow movements for the nine-month periods ended September 30, 2017 and 2016:

| | **Nine-month period ended September 30,** | | **Variation** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017/2016** | |
| | **(unaudited)** | | | |
| | **(in euros and percentages)** | | | |
| Net cash provided by operating activities | 230,067,238 | 113,972,654 | 116,094,584 | 102% |
| Net cash used in investing activities | (278,175,160) | (137,882,282) | (140,292,878) | 102% |
| Net cash provided by financing activities | 150,288,714 | 69,675,100 | 80,613,614 | 116% |
| **Net increase in cash and cash equivalents** | **102,180,792** | **45,765,472** | **56,415,320** | **123**% |

During both periods, the Parent Guarantor had net inflows from operations, as well as bank financing to finance its operations. The bank financing was obtained at interest rates similar to other companies in the market, considering comparable characteristics of solvency and risk.

Likewise, the Parent Guarantor relied on capital contributions from its shareholder to strengthen its financial position and financial structure, which should allow it to carry out its operations.

In May 2017, the sole shareholder of the Parent Guarantor made a contribution in kind to the Parent Guarantor in the amount of euro 32.6 million through the contribution of its stake in Tecpetrol Colombia S.A.S. In addition, in June 2017, the sole shareholder of the Parent Guarantor made a capital contribution of euro 87.2 million, which was issued with an issue premium of euro 650.0 million. This capital increase involved the contribution of certain loans and investments held by the sole shareholder of the Parent Guarantor and the capitalization of the debt that it had maintained up to that date with such shareholder.

Investments in property, plant and equipment and intangible assets in the nine-month periods ended September 30, 2017 and 2016, totaled euro 271.5 million and euro 91.6 million, respectively.

The Parent Guarantor distributed no dividends in the nine-month periods ended September 30, 2017 or 2016.

***Years Ended December 31, 2016, 2015 and 2014***

The following table shows the Parent Guarantor's cash flow movements for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (in euros) | |
| Net cash provided by operating activities | 147,458,397 | 80,796,136 | 267,084,381 |
| Net cash used in investing activities | (185,217,554) | (284,823,244) | (313,764,596) |
| Net cash provided by financing activities | 95,524,182 | 24,177,077 | 85,825,941 |
| **Net increase (decrease) in cash and cash equivalents** | **57,765,025** | **(179,850,031)** | **39,145,726** |

During 2016, 2015 and 2014, the Parent Guarantor had net inflows from its operations, as well as from bank financing and loans granted by its shareholder to finance its operations.

The bank financing was obtained at interest rates similar to other companies in the market, considering comparable characteristics of solvency and risk.

Investments in property, plant and equipment and intangible assets in 2016, 2015 and 2014 amounted to euro 149.8 million, euro 234.1 million and euro 330.1 million, respectively.

The Parent Guarantor distributed no dividends in 2016, 2015 or 2014.

## Description of Indebtedness

***Argentina***

For a description of our indebtedness as of September 30, 2017, see "Management's Discussion and Analysis of Financial Condition and Results of Operations pursuant IAS 34—Description of Indebtedness."

***Ecuador***

Banco Pichincha Loan Agreement I

On January 31, 2013, Pardaliservices, as borrower, entered into a loan agreement (as refinanced and evidenced in a promissory note dated January 4, 2016) with Banco Pichincha, as lender, pursuant to which the lender granted Pardaliservices a U.S.$20.0 million loan. Interest is payable semiannually at a rate of 6.5% per annum. Principal of the loan is payable in one installment at maturity on January 4, 2019.

The loan contemplates certain covenants, including, among others, compliance with certain financial ratios and certain restrictions to the payment of dividends.

As of the date of this offering memorandum, Pardaliservices is in compliance with the covenants under this loan.

As of September 30, 2017, the principal amount outstanding under this loan with Banco Pichincha was U.S.$20.0 million.

*Itau Loan Agreement I*

On July 29, 2013, Pardaliservices entered into a loan agreement with Banco Itau BBA S.A., Sucursal Nassau, as lender, pursuant to which the lender granted Pardaliservices a U.S.$100 million loan. Interest on the loan is payable semiannually at a rate per annum of LIBOR plus a margin of 3.125%. Principal on the loan is payable in four installments on (i) July 2017 (20%); (ii) January 2018 (20%); (iii) July, 2018 (20%); and (iv) July 2019 (40%).

The loan agreement provides for certain covenants, including, among others, (i) certain restrictions to the incurrence of indebtedness, the creation of liens and the carrying out of investments and acquisitions, (ii) certain restrictions to the making of dividend payments and (iii) an obligation to comply with certain financial ratios.

As of the date of this offering memorandum, Pardaliservices is in compliance with the covenants under the loan agreement.

As of September 30, 2017, the principal amount outstanding under the loan was U.S.$80 million.

*Sertecpet Loan Agreement*

On July 26, 2013, Pardaliservices, as borrower, entered into a loan agreement (as further amended and restated on January 31, 2015, and July 12, 2016) with Sertecpet S.A. ("Sertecpet"), as lender, pursuant to which the lender granted the borrower a U.S.$7.5 million loan. Interest is payable semiannually at a rate per annum of LIBOR plus a margin of 3.125%. Principal of the loan is payable in four installments on (i) July 26, 2017, in an amount equal to U.S.$1.5 million; (ii) January 26, 2018, in an amount equal to U.S.$1.5 million; (iii) July 26, 2018, in an amount equal to U.S.$1.5 million; and (iv) July 29, 2019, in an amount equal to U.S.$3 million.

As of September 30, 2017, the principal amount outstanding under this loan with Sertecpet was U.S.$6.0 million.

*Itau Unibanco loan Agreement II*

On October 15, 2013, Pardaliservices entered into a loan agreement with Banco Itau BBA S.A., Sucursal Nassau, as lender, pursuant to which the lender granted Pardaliservices a U.S.$20.9 million loan. Interest on the loan is payable semiannually at a rate per annum of LIBOR plus a margin of 3.125%. Principal on the loan is payable in four installments on (i) July 2017 (20%); (ii) January 2018 (20%); (iii) July, 2018 (20%); and (iv) July 2019 (40%).

The loan agreement provides for certain covenants, including, among others, (i) certain restrictions to the incurrence of indebtedness, the creation of liens and the carrying out of investments and acquisitions, (ii) certain restrictions to the making of dividend payments and (iii) an obligation to comply with certain financial ratios.

As of the date of this offering memorandum, Pardaliservices is in compliance with the covenants under the loan agreement.

As of September 30, 2017, the principal amount outstanding under the loan was U.S.$16.72 million.

*Banco Pichincha Loan Agreement II*

On January 21, 2014, Pardaliservices, as borrower, entered into a loan agreement (as refinanced and evidenced in a promissory note dated July 29, 2016) with Banco Pichincha C.A., Miami Agency ("Banco Pichincha"), as lender, pursuant to which the lender granted Pardaliservices a U.S.$10.4 million loan. Interest is payable semiannually at a rate of 5.7% per annum. Principal on the loan is payable in four installments on (i) July 28, 2017, in an amount equal to U.S.$2.1 million; (ii) January 29, 2018, in an amount equal to U.S.$2.1 million; (iii) July 27, 2018, in an amount equal to U.S.$2.1 million; and (iv) July 29, 2019, in an amount equal to U.S.$4.1 million.

The loan contemplates certain covenants, including, among others, compliance with certain financial ratios and certain restrictions to the payment of dividends.

As of the date of this offering memorandum, Pardaliservices is in compliance with the covenants under this loan.

As of September 30, 2017, the principal amount outstanding under this loan with Banco Pichincha was U.S.$8.3 million.

*Banco Pichincha Loan Agreement III*

On May 20, 2014, Pardaliservices, as borrower, entered into a loan agreement (as refinanced and evidenced in a promissory note dated July 29, 2016) with Banco Pichincha, as lender, pursuant to which the lender granted the borrower a U.S.$10.4 million loan. Interest is payable semiannually at a rate of 5.7% per annum. Principal of the loan is payable in four installments on (i) July 28, 2017, in an amount equal to U.S.$2.1 million; (ii) January 29, 2018, in an amount equal to U.S.$2.1 million; (iii) July 27, 2018, in an amount equal to U.S.$2.1 million; and (iv) July 29, 2019, in an amount equal to U.S.$4.2 million.

The loan contemplates certain covenants, including, among others, compliance with certain financial ratios and certain restrictions to the payment of dividends.

As of the date of this offering memorandum, Pardaliservices is in compliance with the covenants under this loan.

As of September 30, 2017, the principal amount outstanding under this loan with Banco Pichincha was U.S.$8.3 million.

*Banco de la Producción Loan Agreement*

On March 9, 2017, Pardaliservices, as borrower, entered into a loan agreement with Banco de la Producción S.A., as lender, pursuant to which the lender granted Pardaliservices a U.S.$5.0 million loan. Interest and principal are payable quarterly in four equal installments at a rate of 6% per annum.

As of September 30, 2017, the principal amount outstanding under this loan with Produbanco was U.S.$2.5 million.

*Canacol Energy Loan Agreement*

On November 15, 2017, Pardaliservices, as borrower, entered into a loan agreement with Canacol Energy Ltd, as lender, pursuant to which the lender granted Pardaliservices a U.S.$5.6 million loan. Interest is payable annually at a rate of 4.02%. Principal is payable on November 15, 2019.

*Tecpetrol International Loan Agreement*

On November 17, 2017, Tecpetrol Libertador B.V, as borrower, entered into a loan agreement with Tecpetrol International S.A., as lender, pursuant to which Tecpetrol International S.A. granted Tecpetrol Libertador B.V. a U.S.$5 million loan. Interest is payable at a rate of 0.98% per annum. Principal and interest are payable on April 30, 2018.

***Netherlands***

On November 15, 2017, the Parent Guarantor, as borrower, entered into a loan agreement with Tecpetrol International S.A., as lender, pursuant to which the lender granted the Parent Guarantor a U.S.$20 million loan. Interest is payable at a rate of 1.68% per annum. Principal and interest are payable on April 30, 2018.

## Capital expenditures

The investment plan of the Parent Guarantor for the next two years mainly focuses in the development through us of non-conventional resources in the Fortín de Piedra area in Argentina. The plan contemplates the investment of U.S.$2.3 billion by 2019 in the first development phase of the area, which includes drilling approximately 150 wells and constructing facilities for gas treatment and transportation. These investments will be financed through a combination of internally generated funds and debt and equity financing.

## Contractual Obligations

The following table sets forth the maturities of the Parent Guarantor's outstanding debt contractual obligations related to financial liabilities as of September 30, 2017:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | **Outstanding principal as of September 30, 2017** | **Less than 1 year [(1)]** | **1 to 3 years [(1)]** | **3 to 5 years [(1)]** | **More than 5 years [(1)]** |
| | | | **(unaudited)** **(in millions of U.S.$)** | | |
| Itau Unibanco Loan Agreement I | | | | | |
| Itau Unibanco Loan Agreement II | | | | | |
| Banco Pichincha Loan Agreement I | 20.0 | — | 20.0 | — | — |
| Banco Pichincha Loan Agreement II | 8.3 | 4.1 | 4.1 | — | — |
| Banco Pichincha Loan Agreement III | 8.3 | 4.2 | 4.2 | — | — |
| Sertecpet | 6.0 | 3.0 | 3.0 | — | — |
| Banco de la Producción Loan Agreement | 2.5 | 2.5 | — | — | — |
| **Total** | 141.8 | 62.2 | 79.7 | — | — |

*Note:—*

(1) The amounts presented only include schedule debt payments and are gross and undiscounted, and exclude contractual interest payments and the impact of derivative contracts.

### *Guarantees*

As of September 30, 2017, the Parent Guarantor had granted the following guarantees to secure the obligations of its subsidiaries:

### *Natixis Credit Agreement I*

On September 26, 2014 (the "Initial Funding Date"), Techgen, as borrower, entered into a credit agreement with Natixis, New York Branch, as administrative agent, and the lenders referred thereto, pursuant to which the lender granted the borrower a U.S.$800 million loan. Interest on the loan is payable semiannually at a rate per annum of LIBOR plus a margin of 1.5%. Principal on the loan is payable in five installments as of the following dates: (i) 30 months after the Initial Funding Date, in an amount equal to 5% of the loans; (ii) 36 months after the Initial Funding Date, in an amount equal to 5% of the loans; (iii) 42 months after the Initial Funding Date, in an amount equal to 5% of the loans; (iv) 48 months after the Initial Funding Date, in an amount equal to 10% of the loans, (v) 54 months after the Initial Funding Date, in an amount equal to 10% of the loans, (v) 54 months after the Initial Funding Date, in an amount equal to 10% of the loans, and (vi) 60 months after the Initial Funding Date, in an amount equal to 65% of the loans. The Parent Guarantor irrevocably, unconditionally and severally guaranteed 30% of the obligations of Techgen under this credit agreement. Under the guaranty agreement the Parent Guarantor has committed to comply with several negative and financial covenants, which includes, among others, certain (i) restrictions to incur investments and mergers, (ii) make dividend payments and (iii) to comply with certain financial ratios.

The loan agreement provides for certain covenants, including, among others, (i) certain restrictions to the incurrence of indebtedness, the creation of liens and the carrying out of investments and mergers, (ii) certain restrictions to the making of dividend payments and (iii) an obligation to comply with certain financial ratios.

As of the date of this offering memorandum, Techgen is in compliance with the covenants under the credit agreement.

As of September 30, 2017, the principal amount outstanding under the loan was U.S.$720 million.

### *Natixis Credit Agreement II*

On April 22, 2015, Consorcio Shushufindi S.A. ("CSSFD"), as borrower, entered into a credit agreement with Banco Natixis ("Natixis"), as administrative agent, and Natixis, New York Branch, as lender, pursuant to which the lender granted CSSFD a U.S.$80 million loan. Interest on the loan is payable semiannually at a rate per annum of LIBOR plus a margin of 2.0%. Principal on the loan is payable in five installments, on the date corresponding to: (i) 36 months after the April 2015, in an amount equal to U.S.$16.0 million; (ii) 42 months after April 2015, in an amount equal to U.S.$16 million; (iii) 48 months after the April 2015, in an amount equal to U.S.$16 million; (iv) 54 months after April 2015, in an amount equal to U.S.$16 million; and (v) 60 months after the April 2015, in an amount equal to U.S.$16 million. The Parent Guarantor irrevocably, unconditionally and severally guaranteed 25% of the obligations of CSSFD under this loan agreement.

The loan agreement provides for certain covenants, including, among others, (i) certain restrictions to the incurrence of indebtedness, the creation of liens and the carrying out of investments and acquisitions, (ii) certain restrictions to the making of dividend payments and (iii) an obligation to comply with certain financial ratios.

As of the date of this offering memorandum, CSSFD is in compliance with the covenants under this loan agreement.

As of September 30, 2017, the principal amount outstanding under the loan was U.S.$80 million.

### *Société Générale facility agreement*

On January 15, 2015, CSSFD, as borrower, entered into an uncommitted term facility agreement with Société Générale, as lender, pursuant to which the lender granted the borrower a U.S.$100.0 million loan. Interest on the loans is payable semiannually at a rate per annum 3.4%. Principal on the loan is payable in six semi-annual installments (up to an aggregate of principal of U.S.$16.5 million per instalment within a minimum final instalment of U.S.$ 17.5) on each interest payment dates commencing in April 5, 2017. The Parent Guarantor irrevocably, unconditionally and severally guaranteed 25.0% of the obligations of CSSFD under this facility agreement.

The facility agreement provides for certain covenants, including, among others, (i) certain restrictions to the incurrence of indebtedness, (ii) certain restrictions to the making of dividend payments and (iii) restrictions to mergers.

As of the date of this offering memorandum, CSSFD is in compliance with the covenants under this facility agreement.

As of September 30, 2017, the principal amount outstanding under the loan was U.S.$83.5 million.

## Off-Balance Sheet Arrangements

The Parent Guarantor is not party to any off-balance sheet arrangements.

## BUSINESS OF THE COMPANY

### Overview

We are a leading participant in the oil and gas market in Argentina with our activities including exploration and exploitation of hydrocarbons. As of December 31, 2016, we held concessions or permits in 14 areas in the *Neuquina*, *Noroeste* and *Golfo San Jorge* basins. In particular, we are the second largest holder of wet gas acreage in the *Vaca Muerta* formation in the *Neuquina* basin, one of the largest shale areas in the world, where we are focusing our development efforts.

In the year ended December 31, 2016 the production in the areas operated by us was 2,574 m3d of oil and 3,532 Mm3d of gas. In the year ended December 31, 2016, our own deliveries represented 1,399 m3d of oil and 1,466 Mm3d of gas. During the nine-month period ended September 30, 2017, the production in the areas operated by us was 1,994 m3d of oil and 4,084 Mm3d of gas. During the nine-month period ended September 30, 2017 our own deliveries represented 1,131 m3d of oil and 2,174 Mm3d gas. According to information from the Ministry of Energy, during the twelve month-period ended September 30, 2017 the production in the areas operated by us represented 2.8% of Argentina's total oil production and 3.3% of Argentina's total natural gas production, resulting in us being the fifth largest oil operator in Argentina after YPF, Pan American Energy LLC Sucursal Argentina, Pluspetrol Energy S.A. and Sinopec Argentina Exploration and Production Inc. and the sixth natural gas operator in the industrial sector.

### History

We began our activities in 1981 with the purchase of interests in three areas owned by YPF, the then State-owned dominant operator in the oil industry. We had different degrees of success with those areas and in 1989, as private sector participation in the oil and gas industry began to be promoted in Argentina, we examined various opportunities for acquiring oil and gas properties and to make bids for exploration areas in the first round of the called Houston Plan promoted by YPF. In September 1990, we acquired a private company that held a concession in perpetuity on the José Segundo Area.

We were also successful in September 1990 with proposals submitted to obtain concessions for three marginal areas (*Atamisqui*, *Atuel Norte* and *Agua Salada*) from YPF. Since then, we acquired holdings in other areas, among those, *El Tordillo* in the *Golfo San Jorge* basin (initially acquired in July 1991), *Aguaragüe* in the Noroeste basin (acquired in December 1992) and *Los Bastos* in the Neuquina basin (acquired in 1991).

In 1994 we began expanding our business to various Latin American countries. We created subsidiaries for the operation of various oil services contracts involving exploitation and exploration in Venezuela as well as in Peru, Ecuador, Brazil, Bolivia and Colombia.

In Peru, in 2000 and 2004, respectively, in a consortium formed with other oil companies and with a participation of 10% in each of them, we entered into an agreement with Perupetro S.A. ("Perupetro") for the exploitation of hydrocarbons in blocks 88 and 56 of the *Camisea* field.

In Bolivia, through our subsidiary *Tecpetrol Bolivia*, in September 1997 we were awarded two exploration areas tendered by Yacimientos Petrolíferos Fiscales Bolivianos ("YPFB"): *Campero Oeste* and the *Ipati* area. In 2000, Tecpetrol Bolivia, as operator of the *Campero Oeste* area, notified YPFB of the decision to return all of the area after having complied with the investment commitment of U.S.$2.1 million. In addition, in December 2002, Tecpetrol Bolivia, operator of the Ipati area and holder of 100% of the respective Shared Risk Contract, signed a farmout agreement assigning 80% of its holdings and its position as operator to Total Exploration & Production Bolivia Sucursal Bolivia ("Total"), and Total assigned to Tecpetrol Bolivia 20% of the holding in the *Aquio* area, both in the exploratory phase. In 2013 Total assigned a 20% holding in both areas to GP *Exploracion y Producción S.L. Sucursal Bolivia* and in 2014 assigned a 10% holding to YPFB *Chaco S.A.* During 2016 commercial production began in both areas, reaching production flow of 6.5 MMm3d.

In 2004, we restructured our operations, creating the Parent Guarantor as a holding company based in Spain, with all operations outside of Argentina, except for operations in Bolivia, which we kept under our control until May 22, 2017.

Currently, we provide consulting services to these affiliated companies that operate in Latin America.

Between 2013 and 2016, we negotiated with the respective provinces the extension of the term of concessions in various areas in which we participate. Concessions were extended until 2047 for areas in the *Golfo San Jorge* basin (with the exception of *Estancia La Mariposa*, *Lomita de la Costa* and *Cerro Mangrullo*, which were extended until 2033), and the concession of the Agua Salada area until 2025, as well as the *Fortín de Piedra* and *Punta Senillosa* concessions in Neuquina basin until 2051.

In addition, in December 2014, we were awarded the *Loma Ancha* area, located in the *Vaca Muerta* formation in the Province of Neuquén, with a four-year exploratory permit in which we have a holding of 95% and are the operator of the area, with our partner, Gas y Petróleo de Neuquén SA ("G&P"), holding the remaining 5%.

In April 2017, our Board of Directors approved the *Fortín de Piedra* 2017–2019 Development Plan, under which investment is estimated to reach, through 2019, U.S.$1.6 billion in development of non-conventional natural gas wells and U.S.$700 million in facilities for treatment and transportation of natural gas.

### Business Strategy

Since the start of our operations in Argentina, we have focused on acquiring and developing hydrocarbon producing areas and reserves, either independently or with local and international partners. As part of the Techint Group of companies, we have had access to resources and technology that have allowed us to achieve relatively high levels of efficiency in our operations and an adequate level of rotation of reserves while increasing production.

In the short- to medium-term, our strategy is centered around the development of non-conventional gas in the *Vaca Muerta* formation in the Province of Neuquén. To that end, we have acquired approximately 96,000 acres in such formation, and have become the second largest acreage holder in the wet gas window.

We have announced an investment program of up to U.S.$2.3 billion in the *Fortín de Piedra* area until 2019, which program includes the drilling of 150 wells and the construction of facilities for gas treatment and transportation.

We believe the new framework for the development of non-conventional resources agreed by the National and Provincial Governments as well as oil companies and labor unions combined with the new gas price regime announced by the Argentine government provide a unique opportunity to develop shale resources in the world-class *Vaca Muerta* formation.

### Competitive Strengths

We believe our business strategy is underpinned by the following strengths:

- *Integration*: We participate in the exploration and exploitation of oil and gas in Argentina and, through the Parent Guarantor, we also have non-controlling interest in the transportation and distribution business of the same (i.e., TGN, TGM, and Litoral Gas S.A. in Argentina).
- *Increase of productivity in mature fields*: Using the most efficient technologies, we have been able to increase productivity in the areas we operate, achieving greater recovery of reserves in mature fields.
- *Exploration efficiency*: Since taking over operation in various areas, we have invested continuously in the exploration and study of reservoirs to incorporate new reserves while controlling costs and minimizing environmental impact of operations.
- *Optimization of processes*: Using modern technology in communications and information systems, we continuously aim to improve processes, increasing reliability and reducing costs and environmental impact.

- *Safety, Environment and Health*: We are strongly committed to the environment, social development, preservation of the environment, and the safety of personnel, all of which are fundamental in day to day activities.
- *Development of human resources*: It is our priority to consolidate growth by means of training employees who are qualified, committed and experienced in the various businesses in which we operate. Robust investment in training is a distinct example of our commitment in this direction.
- *Community commitment*: In consideration of the welfare of communities surrounding our operations, we carry out a sustainable development program to foster autonomy and decision-making, creating networks with the government, nongovernmental organizations, and other institutions.
- *Experienced management*: Our management is made up of stable, committed personnel with experience in the industry. In exploration and production, we have a group of highly qualified professionals in geosciences who evaluate projects, exploration strategies, location selection, drilling proposals, and workovers and make risk decisions involving risk. This team of professionals has wide experience in the petroleum basins of Latin America and in work methodology for operating in any area.
- *Member of the Techint Group*: We are part of the Techint Group of companies, with revenues of U.S.$15.2 billion for the year ended December 31, 2016 and approximately 48,500 permanent employees worldwide. As a result, we are able to take advantage of its state-of-the art technology, modern management systems and global presence.
- *Strategic positioning in Vaca Muerta*: We believe the non-conventional resources in the *Vaca Muerta* formation presents a unique investment opportunity and we believe we are well placed to benefit from it due to our acreage holding, experience and presence in the area and strong commitment to its development.

**Vaca Muerta**

With over 300 trillion cubic feet of gas resources, according to the EIA/ARI report dated May 17, 2013, *Vaca Muerta* is one of the largest shale areas (shale oil and shale gas) in the world, with technical characteristics similar to the most productive fields already developed in the United States. Their location in the Province of Neuquén, with abundant water and far away from urban areas, provides exploitation conditions that should promote development.

The Southern Cone of South America (composed by Chile, Argentina, Uruguay and Brazil) is a region that has an increasing energy deficit, and natural gas is the ideal fuel to make up that deficit. Imported as liquefied natural gas (LNG) from various sources, it has a relatively high market price which provides feasibility for initial investment of the area development, which could become the solution for reversing this deficit. Given the quality of the resource, it is possible that in the medium term the potential of *Vaca Muerta* could be developed at prices that are internationally competitive. Argentina faces the same conditions as the rest of the region.

So far, the investment in *Vaca Muerta* effort was concentrated on conventional exploitation and on low permeability gas or tight sands, but their potential is limited. Significant gas resources are located in *Vaca Muerta*. Until now, only YPF, Total and ourselves have initiated pilot plans in this formation.

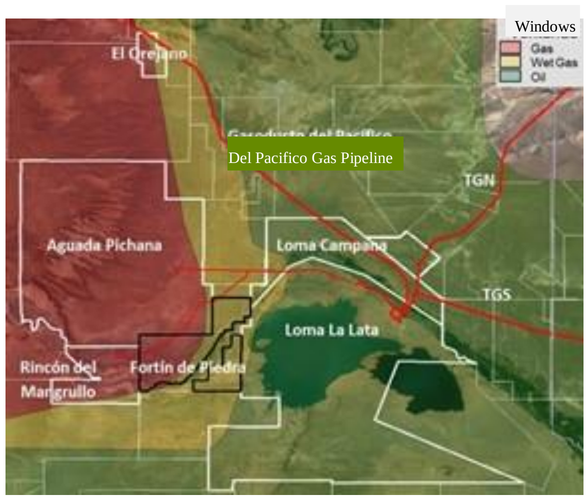
According to recorded experience in shale basins of the United States, which have various windows of opportunity in fluids, we believe the most attractive areas are in the wet gas window.

In recent years, we positioned ourselves as one of the principal holders of acreages in the wet gas and dry gas windows in this formation, totaling 96,000 acres. The most promising area is *Fortín de Piedra*, for which in July 2016 we obtained a concession for non-conventional exploitation until 2051.

The new framework established in conjunction with the agreement with the labor unions and the announcement by the Argentine government of a new gas price regime, both of which occurred at the beginning of 2017, along with the availability of equipment and qualified labor, persuaded us to commit to the most important investment plan in our history. On March 23, 2017, we announced investments of U.S.$2.3 billion by 2019 in the first development phase of the *Fortín de Piedra* area, which includes drilling approximately 150 wells and facilities for gas treatment and transportation in a project that is technically very complex and requires the coordination of several parties.

Development of *Vaca Muerta* is expected to generate activity throughout the value chain of goods and services associated with hydrocarbons production and to provide energy under competitive conditions to support the economic and industrial development of Argentina and achieve energy self-sufficiency.

The location of the *Fortín de Piedra* area (see map) only 40 kilometers from the Loma La Lata power plant in the gas center of the basin, provides full access to available transportation infrastructure TGN and TGS. Moreover, it is situated on the Neuquén river, which provides water for fracturing.




During 2016, in the *Fortín de Piedra* area one vertical well and two wells nearly 4,750 meters deep were drilled, with 1,500-meter horizontal branches, and investments were made in a gas treatment plant and connecting pipelines to transport production in the area. The first horizontal well tests show good flow and wellhead pressure with satisfactory production prospects.

In early 2017, we drilled three wells in the *Fortín de Piedra* area, with 1,500-meter horizontal branches aimed at the *Vaca Muerta* formation. These wells were completed and are currently undergoing production testing, with gas and pressure volumes in line with expectations. Together with the four wells drilled in previous years - two horizontal and two vertical - daily production at the *Fortín de Piedra* now totals 750,000 m3d of gas, restricted by surface processing capacity. Additionally, between the months of May and August of 2017 four drilling rigs were added, totaling five currently in operation in that area, which are drilling 20 horizontal wells with branches that are 2,000-meters long. At the same time, progress continues on infrastructure projects in the *Fortín de Piedra* area, including erecting sites, constructing batteries, constructing and expanding treatment and dehydration plants, laying flow lines, and laying and connecting transport pipelines, among others things, with the objective of bringing gas treatment and delivery capacity in the area to 1.5 MMm3d by Septermber 2017 and to 5 MMm3d by the beginning of 2018.

On October 6, 2017, Ryder Scott delivered to us the Ryder Scott Reserves Report setting out an estimate of the proved, probable and possible gas and liquid hydrocarbon reserves in Fortín de Piedra, future production and income attributable to our 100% working interest in this area as of August 31, 2017, based on the definitions and disclosure guidelines contained in the SPE, the WPC, American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers Petroleum Resources Management System, based on varying gas prices. The report estimates that, as of August 31, 2017, there were 674,981 MM cubic feet of proven gas reserves and 7,578 Mbbl of proven reserves of oil. See "Reserves."

## The Techint Group

We are member of a group of companies known as the Techint Group (the "Techint Group"), comprising a set of operating companies distributed around the world. The activities of these companies include the production of steel tubes (Tenaris), flat steel products (Ternium), the provision of engineering, construction and project management services (Techint Engineering & Construction), oil and gas (us) and other types of service and manufacturing (Humanitas and Tenova). As of December 31, 2016, these companies had approximately 48,500 employees, and during the year ended on that date, they had total revenue of approximately U.S.$15.2 billion.

With more than 70 years of experience, the Techint Group has evolved, taking advantage of the vast experience acquired in areas such as the iron and steel industries, construction of complex infrastructures, design and construction of industrial machinery and plants, metal and mining industries, technology, the exploration and production of oil and gas, and research-oriented health facilities.

At all times, the companies have remained thoroughly committed to efficiency, quality, integrity and respect for people, promoting health and safety among employees, caring for the environmental impact of their operations, establishing transparent and constructive relationships with the local communities, and establishing long-term relationships with customers and suppliers. Today, the companies in the Techint Group are active in a small number of clearly-limited industries, where they have a global or regional importance:

- *Tenaris* is a leading supplier of steel tubes and related services, primarily for the energy industry, as well as for certain other industrial applications;
- *Ternium* is a leading supplier of flat steel products in Latin America, with steel processing and manufacturing facilities, as well as service and distributions centers across the Americas;
- *Techint Engineering & Construction* develops high complexity products, from design to execution in the sectors of oil and gas, energy, industrial plans, refineries, petrochemical plants, mining and infrastructure and construction;
- *Tenova* is a worldwide partner for innovative, reliable and sustainable solutions in the metal and mining industries, designing and developing technologies and services to reduce costs, save energy, limit environmental impact and improve working conditions;
- *Tecpetrol* is active in the exploration, production, transport and distribution of hydrocarbons, as well as the generation of power in several Latin American countries; and
- *Humanitas* promotes, implements and manages health care initiatives, research and teaching.

Additionally, Exiros is a company of the Techint Group that offers a wide range of supply services to many of its companies, with annual revenues of U.S.$5 billion in purchases of industrial commodities, goods and services for its customers.

The table below presents the main figures for the Techint Group:

| | TECHINT GROUP – Consolidated data | | | | |
|---|---|---|---|---|---|
| | For the Years Ended December 31, | | | | |
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| | (in millions of U.S. dollars and number of employees) | | | | |
| Income | 25,477 | 25,378 | 23,826 | 19,108 | 15,238 |
| Investments | 2,282 | 2,085 | 2,455 | 2,405 | 1,708 |
| Total Assets | 33,755 | 33,226 | 34,026 | 29,928 | 29,096 |
| Permanent Employees | 59,196 | 59,429 | 58,257 | 51,191 | 48,530 |

Other than the Parent Guarantor in respect of the Notes, no other entity of the Techint Group guarantees our obligations, commitments or undertakings.

**Oil and Gas Production Areas**

The following is a map of the oil and gas production areas in which we hold interest, grouped by basin:

The following table contains certain information on the oil and gas areas operated by us and also areas in which we participate as non-operating partner, broken down into two segments (i) Neuquina basin and (ii) Noroeste and *Golfo San Jorge* basins, indicating the surface area of each, the respective holdings, type of concession, and expiration date of the same (if any).

| | | | | | | | Proven Certified Reserves at December 31, 2016 | | Daily Average Production in 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Area** | **Type of Concession** | **Surface Area (in Square km)** | **Province** | **Expiration Date** | **Partners** | **Holding** | **Oil (Mm3)** | **Gas (MMm3)** | **Oil (m3/d)** | **Gas Deliveries (Mm3/d)** |
| **NEUQUINA BASIN** | | | | | | | | | | |
| *Fortín de Piedra* | Non-conventional Exploitation Concession | 249.45 | Neuquén | 06/30/2051 | Tecpetrol S.A. | 100.00% | 9 | 78 | 1 | 30 |
| *Punta Senillosa* | Non-conventional Exploitation Concession | 24.39 | Neuquén | 06/30/2051 | Tecpetrol S.A. | 100.00% | 7 | 351 | — | — |
| *Loma Ancha* | Exploration Permit | 142.74 | Neuquén | 12/15/2018(1) | Tecpetrol S.A. (Operator) | 95.00% | — | — | — | — |
| | | | | | GyP de Neuquén | 5.00% | | | | |
| *Los Bastos* | Exploitation Concession | 367.86 | Neuquén | 01/10/2026 | Tecpetrol S.A. | 100.00% | 128 | 201 | 135 | 231 |
| *Agua Salada* | Exploitation Concession | 650.60 | Río Negro | 09/06/2025 | Tecpetrol S.A. (Operator) | 70.00% | 182 | 417 | 186 | 486 |
| | | | | | YSUR Argentina S.A. | 30.00% | | | | |
| **NOROESTE BASIN/GOLFO SAN JORGE BASIN** | | | | | | | | | | |
| *Aguaragüe* | Exploitation Concession | 2585.67 | Salta | 11/14/2027 | Tecpetrol S.A. (Operator) | 23.00% | 155 | 464 | 75 | 216 |
| | | | | | YPF S.A. | 53.00% | | | | |
| | | | | | *Petrobras Energía S.A.* | 15.00% | | | | |
| | | | | | *Compañía General de Combustibles S.A.* | 5.00% | | | | |
| | | | | | Ledesma S.A. | 4.00% | | | | |
| *Ramos* | Exploitation Concession | 135.2 | Salta | 01/21/2026 | Pluspetrol Energy S.A. (Operator) | 33.00% | 48 | 573 | 29 | 366 |
| | | | | | Tecpetrol S.A. | 25.00% | | | | |
| | | | | | YPF S.A. | 15.00% | | | | |
| | | | | | YPF Energía | 27.00% | | | | |
| *El Tordillo* | Exploitation Concession | 117.32 | Chubut | 11/14/2027(3) | Tecpetrol S.A. (Operator) | 52.13% | 3,148 | 321 | 912 | 19 |
| | | | | | *Petrobras Energía S.A.* | 35.67% | | | | |
| | | | | | YPF S.A. | 7.20% | | | | |
| | | | | | *Petrominera S.E.* | 5.00% | | | | |
| *La Tapera-Puesto Quiroga* | Exploitation Concession | 341.21 | Chubut | 08/05/2027(3) | Tecpetrol S.A. (Operator) | 52.13% | 87 | 20 | 21 | — |
| | | | | | *Petrobras Energía S.A.* | 35.67% | | | | |
| | | | | | YPF S.A. | 7.20% | | | | |
| | | | | | *Petrominera S.E.* | 5.00% | | | | |
| *Estancia La Mariposa* | Exploitation Concession | 27.9736 | Santa Cruz | 11/25/2033 | Tecpetrol S.A. (Operator) | 74.62% | 27 | 469 | 9 | 124 |
| | | | | | *Alianza Petrolera S.A.* | 16.38% | | | | |
| | | | | | *Fomento Minero de Sta. Cruz S.E.* | 9.00% | | | | |
| *Lomita de la Costa* | Exploitation Concession | 10.22 | Santa Cruz | 11/25/2033 | Tecpetrol S.A. (Operator) | 74.62% | 3 | 63 | 0 | 5 |
| | | | | | *Alianza Petrolera S.A.* | 16.38% | | | | |
| | | | | | *Fomento Minero de Sta. Cruz S.E.* | 9.00% | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Cerro Mangrullo* | Exploitation Concession | 49.32 | Santa Cruz | 11/25/2033 | Tecpetrol S.A. (Operator) | 74.62% | 1 | 25 | — | — |
| | | | | | *Alianza Petrolera S.A.* | 16.38% | | | | |
| | | | | | *Fomento Minero de Sta. Cruz S.E.* | 9.00% | | | | |
| *José Segundo* | Mining Concession | 4.84 | Chubut | In perpetuity | Dapetrol S.A. | 100.00% | 47 | — | 31 | — |

*Notes:—*

(1) Finalizes the first period of the basic exploration period.

(2) Finalizes the second exploration period.

(3) On September 14, we and our partners signed an agreement with Petrominera Chubut SE for the operation of these areas for another 20 years beginning in 2027.

## Neuquina Basin

Operations in the Neuquina basin include the provinces of Río Negro and Neuquén. Exploration and exploitation of conventional hydrocarbons are carried out in the areas of *Agua Salada* and *Los Bastos*, and non-conventional hydrocarbons are found in the *Fortín de Piedra*, *Punta Senillosa* and *Loma Ancha* areas, all of which cover a total of over 1,400 square kilometers and are operated by us. Medanito crude oil is extracted from this basin and is marketed on the domestic market.

The following table shows areas operated by us in this basin, indicating wells in production as of December 31, 2016, as well as the evolution of net average daily production in the three years ended December 31, 2016, 2015 and 2014.

| | | Net Average Daily Production | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2016 | | | 2015 | | | 2014 | | |
| Area | Wells in Production as of December 31, 2016 | Petroleum Oil (m3d) | Gas Deliveries (Mm3d) | Average Total (m3eqd) | Petroleum Oil (m3d) | Gas Deliveries (Mm3d) | Average Total (m3eqd) | Petroleum Oil (m3d) | Gas Deliveries (Mm3d) | Average Total (m3eqd) |
| **NEUQUINA BASIN** | | | | | | | | | | |
| *Fortín de Piedra* | 2 | 1 | 30 | 31 | 1 | 29 | 31 | — | — | — |
| *Loma Ancha* | — | — | — | — | — | — | — | — | — | — |
| *Los Bastos*[(1)] | 71 | 135 | 231 | 366 | 165 | 316 | 481 | 205 | 277 | 482 |
| *Agua Salada* | 72 | 186 | 486 | 672 | 156 | 472 | 628 | 187 | 539 | 727 |

*Note*:—

(1) Includes Punta Senillosa.

Currently the main area in this basin in which we are concentrating our investments is *Fortín de Piedra*, located in the wet gas window of the *Vaca Muerta* formation. In March 2017, we made a public announcement of investments in this area for U.S.$2.3 billion, to be completed before 2019, including 150 non-conventional gas wells and the construction of facilities for the production, treatment and transportation of natural gas and associated liquids.

## Conventional Hydrocarbons

### *Agua Salada*

We are the holder, along with YSUR Argentina S.A., of the rights and obligations associated with the exploitation concession of the *Agua Salada* area, located in the Province of Rio Negro. We are the operator and representative of the consortium made up of companies that are the holders of the exploitation concession. The concession was granted by National Executive Power Decree No. 1,759/1990.

The exploitation concession was extended by Provincial Decree No. 1,707/2014 and Provincial Law No. 5,027 until 2025.

In the *Agua Salada* area, as part of commitments assumed in the extension of the concession in 2014, during 2016 three new wells were drilled in the *Aguada del Indio Sur* zone and two new exploratory wells, the *Jagüel del Moro* and *Loma Azul Norte*. In addition, we carried out well repairs.

***Los Bastos***

We are the holder of all of the rights and obligations under the concession for the exploitation of conventional hydrocarbons over the *Los Bastos* area located in the Province of Neuquén. This exploitation concession was granted by National Executive Power Decree No. 42/1991 and extended by the Provincial Executive Power Decree of Neuquén No. 834/2010, until 2026.

In the area of *Los Bastos* we made well repairs and in July 2016 the concession for non-conventional exploration was obtained for the *Punta Senillosa* area (*Punta Senillosa* and *Las Chivas*), in which a well was drilled with good results.

**Non-conventional Hydrocarbons**

***Fortín de Piedra***

We are the holder of all of the rights and obligations under the concession for the exploitation of non-conventional hydrocarbons over the *Fortín de Piedra* area located in the Province of Neuquén. This concession was granted by Provincial Executive Power Decree No. 1,055/2016. Before the nonconventional concession was granted, our rights over the *Fortín de Piedra* area were under the terms of a concession for the exploitation of hydrocarbons, originally granted by Provincial National Executive Power Decree No. 1,283/92 and extended by the Provincial Executive Power Decree No. 834/2010.

Pursuant to Article 35 of Law No. 17,319, the concession for the exploitation of non-conventional hydrocarbons was granted for a 35-year term beginning in 2016.

During 2016, in the *Fortín de Piedra* area we drilled a vertical well and two wells at depths of nearly 4,750 meters, with horizontal branches of 1,500 meters, and we made investments in a gas treatment plant and connecting pipelines for transporting production from the area. The first horizontal well tests show good evolution of flow and wellhead pressure and good production prospects.

As of the date of this offering memorandum, five drilling rigs are operating in such area, and civil works associated with the same are being carried out, as well as the rest of the infrastructure construction projects, which are progressing as expected.

***Punta Senillosa***

We are the holder of all rights and obligations under the concession for the exploitation of non-conventional hydrocarbons over the *Punta Senillosa* area, located in the Province of Neuquén. The referenced concession was granted by Provincial Executive Power Decree No. 1,054/2016. This exploitation concession over the *Punta Senillosa* area was granted pursuant to Articles 27, 27 bis, and 35 of Law No. 17,319 (modified according to Law No. 27,007), over a portion of the *Los Bastos* hydrocarbons area. Prior to such concession for the exploitation of non-conventional hydrocarbons we held a concession for the exploitation of conventional hydrocarbons originally granted pursuant to a National Executive Power Decree No. 1,283/92 and extended by the Provincial Executive Power Decree No. 834/2010.

According to the provisions of Article 35 bis of Law No. 17,319, the concession for exploitation of non-conventional hydrocarbons was granted for a 35-year term from 2016.

As of the date of this offering memorandum, one drilling rig was operating in this area, and the associated civil works projects were underway as well as the remaining infrastructure construction projects, which were progressing according to schedule.

### *Loma Ancha*

We hold 95% of the rights and obligations in the "Gas y Petróleo del Neuquén SA joint venture – Tecpetrol S.A. 'Loma Ancha Area' joint venture," set up for the exploration and subsequent exploitation of hydrocarbons in the *Loma Ancha* area, located in the Province of Neuquén. The rights for the exploration and subsequent exploitation over the *Loma Ancha* area were awarded by the Provincial Executive Power Decree No. 2,791/2014, in the context of public tender No. 01/2014 Fourth Round, announced by *Gas y Petróleo del Neuquén S.A.*

*Gas y Petróleo del Neuquén S.A.* holds the remaining 5% of rights and obligations in such joint venture. *Gas y Petróleo del Neuquén S.A.* also holds exploration and exploitation rights over the *Loma Ancha* area.

The full term of the exploration period is seven (7) years from 2014, divided into a first period of four (4) years, a second period of three (3) years, and a possible extension of one (1) year.

In 2016, 3D seismic reprocessing was carried out in compliance with the commitments, with only one well still to be drilled.

## Golfo San Jorge and Noroeste Basins

This segment is divided into the *Golfo San Jorge* basin and the Noroeste basin.

### *Golfo San Jorge basin*

Located in the Provinces of Chubut and Santa Cruz, currently most of our conventional hydrocarbon production and proven reserves are concentrated in this basin, where we operate the areas of *El Tordillo*, *La Tapera*, *Estancia La Mariposa*, *Puesto Quiroga*, *Lomita de la Costa*, *Cerro Mangrullo* and *José Segundo*.

Crude oil extracted from this basin, which is Escalante crude, is marketed on the domestic market as well as exported to other markets.

The following table shows areas operated by us in this basin, indicating wells in production as of December 31, 2016, as well as evolution of net average daily production in the three years ended December 2016, 2015 and 2014.

| | | Net Average Daily Production | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2016 | | | 2015 | | | 2014 | | |
| Area | Wells in Production as of December 31, 2016 | Petroleum Oil (m3d) | Gas Deliveries (Mm3d) | Average Total (m3eqd) | Petroleum Oil (m3d) | Gas Deliveries (Mm3d) | Average Total (m3eqd) | Petroleum Oil (m3d) | Gas Deliveries (Mm3d) | Average Total (m3eqd) |
| ***GOLFO SAN JORGE* BASIN** | | | | | | | | | | |
| *El Tordillo* | 442 | 912 | 19 | 931 | 1,191 | 3 | 1,194 | 1,269 | — | 1,269 |
| *La Tapera-Puesto Quiroga* | 9 | 21 | — | 21 | 28 | — | 28 | 26 | — | 26 |
| *Estancia La Mariposa* | 10 | 9 | 124 | 132 | 15 | 189 | 205 | 8 | 157 | 166 |
| *Lomita de la Costa* | — | — | 5 | 5 | — | 1 | 1 | — | 1 | 1 |
| *Cerro Mangrullo* | — | — | — | — | — | — | — | — | — | — |
| *José Segundo* | 14 | 31 | — | 31 | 44 | — | 44 | 47 | — | 47 |

### *El Tordillo, La Tapera and Puesto Quiroga*

Our principal area in this basin is *El Tordillo*, which is located approximately 22 kilometers from the city of Comodoro Rivadavia in the Province of Chubut and has a surface area of 117.2 square kilometers. Total wells in production in this area as of December 31, 2016 were 442. Net average production for 2016 was 931 m3eqd.

We are co-holder of rights and obligations under the exploitation concessions over the *El Tordillo*, *La Tapera* and *Puesto Quiroga* areas, all located in the Province of Chubut. We are also the representative and operator of the "Tecpetrol S.A. – *Pampa Energia* (previously *Petrobras Argentina S.A.*) – YPF S.A. – *Petrominera Chubut S.E. El Tordillo Joint Venture*," and the "Tecpetrol S.A. – *Pampa Energia* (previously, *Petrobras Argentina S.A.*) – YPF S.A. – *Petrominera Chubut S.E. La Tapera y Puesto Quiroga* Joint Venture."

The exploitation concession of the *El Tordillo* area was granted by National Executive Power Decree No. 1,211/1991, and amended by National Decree No. 2,135/1991. In addition, our ownership of the rights and obligations in the exploitation concessions for the *La Tapera* and *Puesto Quiroga* areas was granted by National Executive Power Decree No. 1,954/1994.

The original terms of the exploitation concessions for the *El Tordillo*, *La Tapera* and *Puesto Quiroga* areas were extended until 2027, under the Agreement for the Implementation of a Commitment of Activity and Investments in Hydrocarbon-Bearing Areas of the Province of Chubut dated August 21, 2013, ratified by Provincial Law VII No. 65, published in the Official Bulletin of the Province of Chubut on October 2, 2013. The extension entailed the payment of an initial amount and then monthly payments equivalent to 4% of the value of wellhead production. Commitments were additionally assumed for drilling of development wells, exploratory wells and expenditures for costs, expenses and investments related to environmental maintenance and protection. After the extension period, subject to compliance with certain conditions, exploitation will continue in the area for an additional 20 years until 2047 under a partnership agreement with YPF and Petrominera Chubut.

#### *Estancia La Mariposa, Lomita de la Costa and Cerro Mangrullo*

We are co-holder of the rights and obligations under the exploitation concessions over the *Estancia La Mariposa*, *Lomita de la Costa* and *Cerro Mangrullo* areas, all located in the Province of Santa Cruz. We are also the representative and operator of the *Lago Argentino* joint venture, made up of Tecpetrol, *Alianza Petrolera Argentina S.A.*, and Fomento *Minero de Santa Cruz S.E.*, through which exploitation of such area is carried out.

Concessions for the exploitation of hydrocarbons in these areas were granted under the following laws: (i) concession for the *Estancia La Mariposa* area, under Provincial Decrees No. 373/2008 and 1,171/2008, (ii) concession for the *Lomita de la Costa* area, under Provincial Decree No. 1,181/2008, and (iii) concession for the *Cerro Mangrullo* area, under Provincial Decrees No. 165/2012 and No. 512/2015.

### Transportation Concessions

For purposes of transportation of the production from the areas of *El Tordillo*, *La Tapera* and *Puesto Quiroga*, we are co-holder of hydrocarbons transportation concessions granted under Administrative Decisions of the Head of the Ministers' Cabinet No. 538/1998 (Crude Oil Transportation Concession from the *El Tordillo* area to the *Caleta Cordova* maritime terminal, both in the Province of Chubut), No. 112/1996 (Natural Gas Transportation Concession from the *El Tordillo* to *Rada-Tilly*, both in the Province of Chubut) and No. 374/1999 (Natural Gas Transportation Concession from *El Tordillo* area to the General San Martin Gas Pipeline, both in the Province of Chubut), under Decree No. 3,124/2011 (Natural Gas Transportation Concession from the *Estancia La Mariposa* area to the General San Martin Gas Pipeline, both in the Province of Santa Cruz), and under Provincial Law VII, No. 65 (Natural Gas Transportation Concession from the *Puesto Quiroga* area to the *El Tordillo* area, both in the Province of Chubut).

The term of the transportation concessions is 35 years, which was extended for a 10-year term each as of their respective expiration dates, under the Agreement for Implementation of a Commitment of Activity and Investments in Hydrocarbon-Bearing Areas of the Province of Chubut, dated August 21, 2013, ratified also by Provincial Law VII No. 65, published in the Official Bulletin of the Province of Chubut dated October 2, 2013.

### Noroeste Basin

Located in the provinces of Salta and Jujuy, we participate in two areas in this basin: *Aguaragüe*, operated by us, and *Ramos*, operated by Pluspetrol Energy S.A.

We also have an exploration permit on the Oran area, granted by the Provincial Executive Power Decree No. 2,924/2010 in public tender No. 001/09. The term of the exploration permit has expired, and we have not requested an extension or applied for an exploitation concession.

We are also co-holder with Pluspetrol S.A. and Pampa Energía S.A. (previously Petrobras Argentina S.A.) of the rights and obligations over the exploration permit granted for the Rio Colorado area. The permit was awarded by the Provincial Decree No. 2,690/2007 dated October 3, 2007. The exploration permit has expired and certain commitments must still be met, although we have not requested an exploitation concession.

The following table shows areas where we participate in this basin, indicating wells in production as of December 31, 2016, as well as the evolution of net average daily production in the three years ended December 31, 2016, 2015 and 2014:

| | | Net Average Daily Production | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2016 | | | 2015 | | | 2014 | | |
| Area | Wells in Production at December 31, 2016 | Petroleum Oil (m3d) | Gas Deliveries (Mm3d) | Average Total (m3eqd) | Petroleum Oil (m3d) | Gas Deliveries (Mm3d) | Average Total (m3eqd) | Petroleum Oil (m3d) | Gas Deliveries (Mm3d) | Average Total (m3eqd) |
| **NOROESTE BASIN** | | | | | | | | | | |
| *Aguaragüe* .................... | 32 | 75 | 216 | 291 | 69 | 139 | 208 | 65 | 70 | 135 |
| *Ramos*........................... | 14 | 29 | 366 | 402 | 85 | 408 | 493 | 64 | 512 | 576 |

***Aguaragüe (and San Antonio Sur area).***

We are the operator and representative of the "YPF S.A. – *Pampa Energia S.A.* (previously *Petrobras Argentina S.A.*) – Tecpetrol S.A – *Compañía General De Combustibles S.A. – Ledesma S.A.A.I. – Aguaragüe* joint venture" organized under the terms of international public tender No. 14-280/92 for partnership with YPF S.A. in the exploration, exploitation and development of the *Aguaragüe* area. The terms of the partnership with YPF S.A. as concessionaire, including the approval of the terms of the joint venture, were approved by National Executive Power Decree No. 2446/1992.

Within the exploration tasks carried out in the *Aguaragüe* area, by Administrative Decision of the Head of the Ministers' Cabinet No. 81/1998 as part of the activities of the Aguaragüe Joint Venture, an exploitation concession over the *San Antonio Sur* area was granted to YPF S.A. The exploitation concession for the *Aguaragüe* area was extended for an additional 10 years as from its original expiration in 2017, by Provincial Decree No. 3,694/2012.

With a surface area of 2,585.67 square kilometers, the total wells producing in this area as of December 2016 were 32. Average net production for 2016 was 291 m3eqd. The wells in this area are the deepest and most complex in Argentina with a depth of 5,200 meters. Last generation technology, such as branch drilling, is used to optimize production.

In 2016 a CD-1011 well was again put into production, which increased gas sales by 25%, from 180 mm3d to 240 mm3d. Additionally, beginning in August 2016 a planned pulling and workover campaign began. In August 2017, a drilling plan began in *Aguaragüe* at a cost of U.S.$30 million (100%), consisting of two deep wells and a third more shallow exploratory well.

***Ramos***

We hold a minority percentage in the rights and obligations under the concession for the hydrocarbons exploitation in the *Ramos* area under National Executive Power Decree No. 90/1991, awarded to Pluspetrol Energy S.A., YPF S.A. and us.

The term of the exploitation concession for the *Ramos* area was extended for ten years by Administrative Decision of the Head of the Ministers' Cabinet No. 92/1996, upon its expiration in 2016.

**Transportation Concessions**

For the transportation of the production from the *Aguaragüe*, *San Antonio Sur*, and *Ramos* areas, we are co-holder of a hydrocarbon transportation concession granted by Administrative Decision of the Head of the Cabinet of Ministers No. 424/1999 (Crude Oil Transportation Concession from the *San Antonio Sur* area to Balbuena, both in the Province of Salta) and by a National Executive Power Decree No. 90/1991 (Transportation Concession of the Oil Pipeline from the *Ramos* area to *Balbuena*, both in the Province of Salta).

The transportation concession term is 35 years, extendible for additional 10-year periods prior to its expiration. The original term of this concession expires in 2034.

***Potential Merger with América Petrogas Argentina S.A.***

According to information provided by the Parent Guarantor, it intends to merge us with *Américas Petrogas Argentina S.A.* ("APASA"), which is also controlled by the Parent Guarantor.

If the merger occurs, which we believe would be carried out using the financial statements of each of the companies as of December 31, 2017, we would absorb APASA, which would be dissolved without being liquidated, consolidating as one – and consequently as a single operating unit – the activities that each company is able to carry out, which would allow for reductions of administrative costs as well as economies of scale in all developments, which is essential given current economic circumstances.

Following is a brief summary of the areas in which APASA participates and its activities:

| UT/Area | Province | Participation | Operator | Category |
|---|---|---|---|---|
| *MEDANITO SOUTH*............. | LA PAMPA | 60% | APASA | Exploitation concession |
| *LOS TOLDOS I SOUTH*......... | NEUQUÉN | 10% | EXXONMOBIL EXPLORATION ARGENTINA S.R.L. | Non-conventional Exploitation concession |
| *LOS TOLDOS I NORTH* ........ | NEUQUÉN | 90% | APASA | Evaluation block |
| *LOS TOLDOS II EAST* ........... | NEUQUÉN | 90% | APASA | Evaluation block |
| *LOS TOLDOS III and IV* ........ | NEUQUÉN | 90% | APASA | Evaluation block |
| *LOMA RANQUELES*............. | NEUQUÉN | 65% | APASA | Exploratory permit |

The Medanito South area is an area of exploitation of conventional hydrocarbons, while *Los Toldos* I South, *Los Toldos* I North, *Los Toldos* II East, *Los Toldos* III and IV and *Loma Ranqueles* are areas of exploration and exploitation of non-conventional hydrocarbons.

### Investment Commitments

The table below contains our investment commitments in the areas in which we participate:

| Area | Pending investment commitments and term |
|---|---|
| *Tordillo and La Tapera-Puesto Quiroga* ... | • 30 months of drilling rig activity until December 2021<br>• Drilling of three P2/P3 wells until December 2021<br>• Maintain active three workover teams and three pulling (or workover) teams until March 2019 |
| *Aguaragüe* ... | • Drilling of two development wells in the amount of U.S.$26 million and one exploratory well for U.S.$4 million before July 2018 |
| *Agua Salada* ... | • Development investments for U.S.$13.6 million to be executed before 2025, consisting of facilities and five workovers and well conversions<br>• Exploratory investments for U.S.$51.1 million to be executed before 2025, consisting of drilling four exploratory wells and ten extension wells |
| *Los Bastos* ... | • Exploratory investments for U.S.$7.9 million to be made until 2026 outside the exploitation block |
| *Fortín de Piedra* ... | • Investments for U.S.$83.3 million consisting of a pilot plan to be carried out before June 2021 |
| *Loma Ancha* ... | • Drilling of a vertical well 3,000 meters deep and a horizontal branch of 1,500 meters, with non-conventional termination to be carried out within the first half of 2018 |
| *Cerro Mangrullo* ... | • Realization of one workover before May 2018 |

### Reserves

Our total reserves of oil and natural gas audited by an independent third party based on information provided by us, and provided annually to the competent authority (Ministry of Energy and Mining) as of December 31, 2016, 2015 and 2014, are provided below:

| | At December 31, 2016 | | | At December 31, 2015 | | | At December 31, 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Oil mm3 | Natural Gas MMm3 | Total mm3eq | Oil mm3 | Natural Gas MMm3 | Total mm3eq | Oil mm3 | Natural Gas MMm3 | Total mm3eq |
| *El Tordillo* ... | 3,148 | 321 | **3,468** | 3,736 | 303 | **4,039** | 3,611 | 266 | **3,877** |
| *La Tapera* ... | 9 | — | **9** | 16 | — | **16** | 8 | — | **8** |
| *Puesto Quiroga* ... | 77 | 20 | **97** | 80 | 5 | **84** | 67 | 4 | **71** |
| *José Segundo* ... | 47 | — | **47** | 79 | — | **79** | 89 | — | **89** |
| *Estancia La Mariposa* ... | 27 | 469 | **495** | 31 | 598 | **629** | 31 | 778 | **808** |
| *Lomita de la Costa* ... | 3 | 63 | **66** | 3 | 64 | **67** | 3 | 62 | **65** |
| *Aguaragüe* ... | 155 | 464 | **619** | 175 | 521 | **696** | 170 | 339 | **509** |
| *Ramos* ... | 48 | 573 | **621** | 49 | 678 | **727** | 58 | 828 | **886** |
| *Agua Salada* ... | 182 | 417 | **599** | 179 | 378 | **556** | 186 | 414 | **600** |
| *Los Bastos* ... | 128 | 201 | **329** | 109 | 394 | **503** | 155 | 344 | **499** |
| *Punto Senillosa* ... | 7 | 351 | **358** | — | — | **—** | — | — | **—** |
| *Fortín de Piedra*[(1)] ... | 9 | 78 | **87** | 1 | 42 | **43** | — | — | **—** |

| | At December 31, 2016 | | | At December 31, 2015 | | | At December 31, 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Oil mm3 | Natural Gas MMm3 | Total mm3eq | Oil mm3 | Natural Gas MMm3 | Total mm3eq | Oil mm3 | Natural Gas MMm3 | Total mm3eq |
| **Total Reserves** | **3,840** | **2,956** | **6,796** | **4,457** | **2,982** | **7,440** | **4,377** | **3,035** | **7,412** |

*Note*:—

(1) Exclusively non-conventional reserves.

Proven reserves include reserves in exploitation as well as unexploited reserves.

Reserves are classified according to the methodologies used by the SPE and the WPC. All estimates of reserves made by the independent third-party auditor are prepared based on information provided by engineers, geologists and geophysicists of Tecpetrol. On some occasions our internal estimates are in turn validated by other independent certifying companies.

The process of estimation of volume of existing reserves of petroleum and natural gas is necessarily inexact due to geological, geophysical and other types of unknowns. The process entails ongoing review of estimates usually on an annual basis (except for cases when an immediate revision is necessary), based on additional information obtained from drillings, well tests and reserves studies.

For the calculation of our reserve volumes of oil and natural gas, estimates are used, and quantities of oil and natural gas that are actually recovered may vary considerably.

On October 6, 2017, Ryder Scott Company, L.P. delivered to us the Ryder Scott Reserves Report, setting out an estimate of the proved, probable and possible gas and liquid hydrocarbon reserves, future production and income attributable to our 100% working interest in the *Fortín de Piedra* area as of August 31, 2017, based on the definitions and disclosure guidelines contained in the SPE, the WPC, American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers Petroleum Resources Management System, based on varying gas prices. The report estimates that, as of August 31, 2017, there is 674,981 MM cubic feet of proved gas reserves and 7,578 Mbbl of proven reserves of oil.

The following methodology is applicable to non-conventional hydrocarbons:

(i) In a first phase, vertical pilot wells are drilled to obtain data to typify the Vaca Muerta formation in the area and to select potential levels of navigation with horizontal wells (fractured horizontal wells are required for commercial development of a shale area).

(ii) In the following phase, horizontal evaluation wells are drilled (at the selected navigation level(s)) to validate productivity and marketability of the resources in the area. If results are positive for these wells, undeveloped proven reserves in nearby locations will be incorporated (as well as proven reserves in production pertaining to continuity of operations of the same).

(iii) The final phase is the development phase with horizontal wells (incorporating reserves of drilled wells and increasing the area of undeveloped proven reserves).

## Royalties

We pay royalties on hydrocarbons and natural gas production each month to provincial administrators. Payments are made in pesos. Royalties are calculated based on the hydrocarbons and natural gas production of each area with the rate according to the wellhead price. It is determined by the market price of production, net of deductions for expenses and quality adjustments authorized by law. In certain areas, we pay additional percentages (generally 3% or 4%) as a result of agreements reached with provinces for the extension of the concessions, among other things.

The following table shows royalty rates and additional percentages by area:

| Province | Area | Item | Rate | |
|---|---|---|---|---|
| | | | Crude, Condensate, and Gasoline | Gas |
| NEUQUINA BASIN | | | | |
| Neuquén | *Los Bastos* | Royalties | 12.0% | 12.0% |
| Neuquén | *Los Bastos* | Overriding royalty | 3.0% | 3.0% |
| Neuquén | *Punta Senillosa* | Royalties | 12.0% | 12.0% |
| Neuquén | *Punta Senillosa* | Overriding royalty | 3.0% | 3.0% |
| Neuquén | *Fortín de Piedra* | Royalties | 12.0% | 12.0% |
| Neuquén | *Fortín de Piedra* | Overriding royalty | 3.0% | 3.0% |
| Río Negro | *Agua Salada* | Royalties | 12.0% | 12.0% |
| Río Negro | *Agua Salada* | Overriding royalty | 3.0% | 3.0% |
| *NOROESTE BASIN/GOLFO SAN JORGE BASIN* | | | | |
| Salta | *Aguaragüe* | Royalties | 12.0% | 12.0% |
| Salta | *Aguaragüe* | Overriding royalty | 3.0% | 3.0% |
| Salta | *Ramos* | Royalties | 12.0% | 12.0% |
| Chubut | *El Tordillo* | Royalties | 12.0% | 12.0% |
| Chubut | *El Tordillo* | Special Contribution | 4.0% | 4.0% |
| Chubut | *El Tordillo* | Petrominera | 0.5% | 0.5% |
| Chubut | *La Tapera* | Royalties | 12.0% | —% |
| Chubut | *La Tapera* | Special Contribution | 4.0% | —% |
| Chubut | *La Tapera* | Petrominera | 0.5% | —% |
| Chubut | *Puesto Quiroga* | Royalties | 12.0% | 12.0% |
| Chubut | *Puesto Quiroga* | Special Contribution | 4.0% | 4.0% |
| Chubut | *Puesto Quiroga* | Petrominera | 0.5% | 0.5% |
| Santa Cruz | *Estancia La Mariposa* | Royalties | 12.0% | 12.0% |
| Santa Cruz | *Lomita de la Costa* | Royalties | 12.0% | 12.0% |
| Santa Cruz | *José Segundo* | Royalties | 10.0% | —% |

### Oil and Natural Gas Sales

The following table shows our total natural gas and oil production and average sales prices in Argentina for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended December 31, | | | Variation | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016/2015 | | 2015/2014 | |
| Production in equivalent units[(1)] | 1,114 | 1,282 | 1,271 | (168) | (13)% | 11 | 1% |
| (thousands of cubic meters of oil and gas) | | | | | | | |
| Domestic market | 869 | 996 | 966 | (127) | (13)% | 30 | 3% |
| Exports | 245 | 286 | 305 | (41) | (14)% | (19) | (6)% |
| Oil production (thousands of cubic meters) | 515 | 642 | 652 | (127) | (20)% | (10) | (2)% |
| Gas production (millions of cubic meters) | 599 | 640 | 619 | (41) | (6)% | 21 | 3% |
| Average sales prices | | | | | | | |
| Escalante crude (U.S.$/bbl) | 46.17 | 51.86 | 81.99 | (6) | (11)% | (30) | (37)% |
| Medanito crude (U.S.$/bbl) | 62.02 | 74.59 | 78.67 | (13) | (17) | (4) | (5)% |
| Gas (U.S.$/Mscf) | 4.34 | 3.62 | 3.22 | 1 | 20% | — | 12% |

*Note:—*

(1) Caloric equivalence (1,000 m3 of gas = 1 m3 of oil)

### *Oil*

Currently we sell most of our oil in the domestic market under different sales agreements. At certain times of the year there are production surpluses on the domestic market, and such surpluses are exported.

In 2016, 52% of our oil production went to refineries of the domestic market, and 48% was exported, primarily to the Bahamas, China and the United States due to the temporary decrease in refining on the domestic market. During the first half of 2017, this trend was reversed, and only one spot exports contract of Escalante crude oil was made, which represented 30% of the oil volume marketed during that period. Oil sales to the domestic market were made under term contracts for Escalante crude petroleum from the *Golfo San Jorge* basin and condensate from the Noroeste basin and for periods ranging from one to four months for Medanito crude petroleum from the Neuquina Basin.

The principal clients of our oil are Shell C.A.P.S.A, YPF S.A. and Refinor S.A. Generally, prices for Medanito oil and condensate on the domestic market are set in a U.S. dollars amount that is updated on a monthly basis. The price of Escalante crude petroleum is determined by a formula that reflects export parity prices or a fixed higher price. Since December 2014, with the significant decrease in international oil prices, domestic prices of oil have been higher than reference prices on the international markets, although the difference has been recently reduced to a minimum with local crude oil prices coming near to international oil prices. In furtherance of the Government's objectives stated in the "*Agreement for the Transition to International Prices of the Argentine Hydrocarbons Industry*" signed among certain refining companies and producers of oil, the Ministry of Energy and Mining announced the intention to free the price of domestic oil as of January 1, 2018, in order to align internal prices with international prices, although at this time no laws implementing it have been enacted. However, on September 22, 2017 the Ministry of Energy and Mining notified that certain conditions under the agreement had been fulfilled and therefore, since October 2017 the commitments under the agreement are suspended.

Sales in the domestic market are paid in U.S. dollars or in pesos at the selling exchange rate published by Banco Nación on the business day prior to the payment date. Export sales are paid abroad in U.S. dollars.

We continuously evaluate sales alternatives and logistical alternatives so as to optimize net oil sales.

In the first half of 2017, 59% of our oil sales and 32% of our total net sales were to YPF S.A. and Shell C.A.P.S.A., respectively.

***Natural Gas***

Natural gas production comes from the following areas:

(i) areas in the *Noroeste* basin: *Aguaragüe* and *Ramos*;

(ii) areas in the *Neuquina* basin: *Agua Salada*, *Los Bastos*, *Punta Senillosa* and *Fortín de Piedra*; and

(iii) areas in the *Golfo San Jorge* basin: *El Tordillo* and *Estancia La Mariposa*.

We market all of the natural gas we produce on the domestic market to the following demand segments:

(i) Gas Distribution Companies: for the supply of priority demand made up of residential and commercial users in two ways: a) in compliance with rules and regulations of the Argentine government under directives of the ENARGAS and the SE, and b) under discretionary gas supply agreements for priority demand signed between the parties;

(ii) Generation of Electrical Power: supply to thermoelectric power plants marketed through CAMMESA under interruptible sales agreements;

(iii) Compressed Natural Gas (*gas natural comprimido*) ("GNC") Stations: to GNC stations marketed under discretionary gas supply agreements signed with gas traders; and

(iv) Industrial: to industrial demand marketed under one- or two-year gas supply agreements with gas traders.

Given that since the 2001/2002 crisis natural gas prices in Argentina had been set at below market prices, in January 2013, in order to increase local natural gas production, the Argentine government created the "Program for Excess Injection Gas Stimulus" (Gas Plan), under which it committed to pay beneficiary companies a compensation based on the incremental production level adjusted according to a defined baseline injection level. In November 2013, the National Government enacted the "Program for Companies with Reduced Injection" (Gas Plan II). In March 2014, our participation in such program was approved. In 2015 and 2016, we received no compensation, given that our average price of sales exceeded the price established by the program.

In the last few years, due to the price disparity between gas demand at regulated and deregulated prices (industrial segment), wellhead gas prices required adjustment. In April 2016, the Ministry of Energy and Mining published directives for the purpose of resetting residential segment prices. In addition, new prices were published for the point of entry to the transportation system for natural gas for generation of electricity to be marketed on the WEM. Currently wellhead prices for priority demand are those established in Directives No. 212/16 and No. 74/17, prices for GNC stations are established in Directive No. 74/17, and prices for electricity generation are established in Directive No. 41/16.

Our principal clients are the Techint Group (Siderca S.A.I.C. and Siderar S.A.I.C.), and others such as Refinor S.A., Ledesma S.A.A.I., and PBB Polisur and gas traders such as Energy Consulting Services S.A., Energy Traders S.A., Natural Energy S.A., Metroenergía S.A., Gas Meridional S.A. and Gas Patagonia S.A., among others. We also market gas for electricity generation through CAMMESA. Moreover, in the Neuquina basin an agreement was entered into with Gas Natural BAN S.A. for delivery of the gas volumes required by current regulations.

During 2016, our natural gas sales were 89% to natural gas industrial users and traders, as to 2% to gas distribution companies, and as to 9% to electricity generators.

## Transportation

### *Oil*

Crude oil from the country's largest production basin (the Neuquina basin) is transported mainly by oil pipelines and by ship. The oil pipeline system consists of four main interconnected pipelines connecting such basin with the maritime terminal in Puerto Rosales, with the Lujan de Cuyo refinery and with the port of Concepcion in Chile, and from Puerto Rosales also by oil pipelines with the refineries of Puerto Galvan, La Plata, Dock Sud and Campana. The oil pipeline to Chile is not currently operating as there tend to be no surpluses for export.

There are six maritime terminals for the transportation of crude oil from other producing basins, which are located in Rio Cullen, San Sebastian (both in the Province of Tierra del Fuego), Caleta Olivia, Punta Loyola (both in the Province of Santa Cruz), and Caleta Córdova (Province of Chubut). In addition, at Puerto Rosales (Province of Buenos Aires), oil received from the Southern basins is unloaded, as well as from the Neuquina basin, for storage and shipment to ships for export, transportation to other terminals, or to any of the domestic refineries.

Current regulations allow companies that require access to any of the oil pipelines networks to build and operate oil pipelines to access such network.

In the Neuquina basin, we deliver oil to the *La Escondida* and *Challaco* pumping stations, which is then transported to Puerto Rosales by oil pipelines for subsequent transportation to domestic refineries or for export. Oil from the Northern basins is also delivered through oil pipelines to the Campo Durán refinery. *Golfo San Jorge* basin petroleum is taken by oil pipelines to the Caleta Cordova maritime terminal for shipment in tanker ships, either for transportation to another terminal, to domestic refineries or for export.

Like other private sector producers, we aim to keep storage capacity in each area sufficient to store two to five days of production, which should be sufficient to continue oil extraction operations without cutting back production (such as when oil pipelines are not available due to maintenance or temporary contingencies). We do not own any shuttle tankers or tanker vehicles but we participate in various oil and natural gas pipeline concessions as concessionaire and producer of hydrocarbons.

In *Terminales Marítimas Patagónicas S.A.*, a company that operates the maritime terminals of Caleta Cordova and Caleta Olivia, we participate through our controlled company Dapetrol S.A. with 4.2% in the consortium that operates these maritime terminals. The other concessionaires and their holdings are the following: Pan American Energy Holdings Ltd. (31.71%), YPF S.A. (33.15%), Sociedad Internacional Petrolera (13.79%), Total Austral S.A. (7.35%) and other producers. Crude shipping and storage rates are regulated according to law and are adjusted every five years.

The 1,200 kilometers long, oil pipeline system of *Oleoductos del Valle S.A.* ("Oldelval"), transports crude oil from the Neuquina basin (Challaco-Puesto Hernandez-Medanito) to Puerto Rosales and to the refinery of Plaza Huincul. We currently have a 2.1% interest in the consortium. Other producers in the basin who participate in this oil pipeline system are: *Pampa Energía S.A.* (previously *Petrobras Argentina S.A.*), Pluspetrol S.A., Pan American Energy Holdings Ltd., Chevron-San Jorge S.R.L. and YPF S.A. The transportation rates on this system that are in effect are regulated and are adjusted every five years according to regulations.

### *Gas*

There are five principal gas pipelines in Argentina: The North gas pipeline (Campo Durán, Salta to Buenos Aires), the South or San Martin gas pipeline (Province of Tierra del Fuego to the Province of Buenos Aires) and three gas pipelines from Neuquén to Buenos Aires (the NEUBA I, the NEUBA II, and the Centro Oeste). Gas pipeline systems in Argentina were owned by Gas del Estado ("GdeE") prior to its privatization in 1992.

We market natural gas at entry points to the gas pipelines of TGN and TGS, and transportation capacity is paid for by customers. Production from the *Aguaragüe* and *Ramos* areas of the Noroeste basin enters through the North Pipeline; gas from the *Los Bastos*, *Agua Salada*, and *Punta Senillosa* areas of the Neuquina Basin through the NEUBA I pipeline; gas produced in the *Fortín de Piedra* area, also from the Neuquina Basin, can enter in the Centro Oeste Pipeline (TGN) as well as the NEUBA II (TGS) pipeline under transportation agreements entered into with YPF and Total Austral; and gas produced in the *El Tordillo* and *Estancia La Mariposa* areas from the *Golfo San Jorge* basin are injected into the San Martin Pipeline.

Currently, we are building a gas pipeline that will link the *Fortín de Piedra* area with the Centro Oeste and NEUBA II pipelines. Estimated cost of this pipeline is U.S.$95 million, and startup is projected for May 2018.

Transportation capacities in trunk pipelines of the Neuquina basin are: 44.4 MMm3d in the NEUBA I and II pipelines in the section between Neuquén and Bahia Blanca, and 32.5 MMm3d in the Centro Oeste in the first section up to the line to Chile. Given that this transportation capacity is not used in full, we estimate that idle transportation capacity (around 13 MMm3d in winter) could be used to ship new production of shale gas from the Neuquina basin.

Natural gas transportation is provided on an open and non-discriminatory basis to any gas user that has adequate facilities that are technically suitable for receiving it and meets minimum volume requirements. Rates under these contracts are regulated and have mechanisms for updates managed by the regulatory authority, ENARGAS.

**Environmental Matters**

Our operations are subject to a wide variety of laws and regulations relative to the potential impact that our industrial operations have on the environment, the elimination or remediation of soil or water contaminated with hazardous or toxic waste, specifications with which gas emissions and industrial effluent dumping must comply, and the effect of the environment on occupational health and safety. Thus, we carry out and will continue to carry out activities to comply with applicable regulations. In Argentina, local, provincial and national authorities are adopting a more rigorous attitude when it comes to upholding and enforcing the applicable environmental regulatory compendium. Likewise, since 1997, Argentina has been implementing regulations to require our operations to be compliant with stricter environmental standards. These regulations establish the general framework of the environmental protection requirements, including fines and criminal penalties for non-compliance.

The promulgation of Articles 41 and 43 of the National Constitution, with their respective amendments introduced in 1994, as well as new federal, provincial and municipal laws, had the effect of reinforcing the legal framework on matters of environmental damage. Legislative and governmental bodies have adopted a more rigorous attitude by requiring compliance with environmental regulations, increasing the penalties for violations thereof.

Pursuant to Articles 41 and 43 of the current version of the National Constitution, all inhabitants of Argentina's soil have both a right to a damage-free environment and the duty to protect it. The principal obligation of anyone who has caused environmental damage is to rectify that damage, in accordance with applicable regulations. The Government of Argentina establishes the minimum standards for environmental protection, and the provinces and municipalities establish specific standards and regulations.

Our operations are affected by federal, provincial and municipal laws and regulations governing matters of environmental quality in Argentina. These laws and regulations define standards that govern certain aspects of environmental quality, stipulate penalties and other liabilities for violation of the applicable regulations and establish obligations to rectify in certain circumstances.

Generally, we are subject to the following federal laws on environmental matters (including their respective regulations):

- National Constitution (Articles 41 and 43);
- General Law No. 25,675 on the Environment;
- Law No. 25,612 on Comprehensive Management of Waste of Industrial Origin and from Service Activities;
- Law No. 24,051 on Hazardous Waste;
- Law No. 20,284 on Preservation of Air Resources;
- Law No. 25,688 on Environmental Water Management;
- Law No. 25,670 on Management and Elimination of Polychlorinated Biphenyls;
- Criminal Code;
- Civil and Commercial Code, which establishes the general standards of tort law; and
- National Law No. 27,007 on Hydrocarbons.

These standards cover environmental matters, including limits on hydrocarbon operations, investigation and cleaning of hazardous substances, safety and hygiene in the workplace, claims of compensation for damage to natural resources and liability for potential acts in violation of the regulations in question. Likewise, these laws generally require compliance with regulations, records, registrations, and associated permits, and in case of failure to comply, they provide for the imposition of warnings, penalties and/or fines.

Likewise, we are subject to many other provincial and municipal standards and regulations, including those relative to gas venting, oil spills, abandonment of wells, etc.

We are committed to preserve the environment in all areas in which we operate. This commitment also extends to the neighboring communities directly affected by our activities.

We consider this policy to be an integral part of our activities and therefore strive to demand compliance with it at all levels of the organization.

Prior to any new project, the corresponding environmental impact assessments are carried out, in compliance with current legislation, and fulfillment in the field of the environmental management measures stipulated therein are strictly monitored.

During 2016, we continued with the implementation of the Safety, Occupational Health and Environmental Management System, as well as the standardization of the Corporate Standards and Procedure, with the notable issuance of the “Environmental Conservation” Procedures, a tool that provides Operations with a clearer, systematic and novel approach to environmental issues, and “SOHE Management System Audit” Procedures. In addition, there was a new review of safe work analysis procedures, waste management, emergency response and new advances in process safety were implemented.

**Social Development**

We actively collaborate with the communities living near our operations, contributing to the sustainable development of the population and their institutions in the areas of education, health, sports, culture and social promotion. With that spirit, we carry out and support social development programs in low-income rural and urban sectors, communities and schools neighboring its areas, its personnel and the local population both committing to their development.

Primarily, the social management plan includes various programs for education, sustainable development, cultural appreciation, job training and health. All of these programs are planned on the basis of a precise diagnosis of the situation to be improved and a clear and efficient technical development.

Some of the social development and social business management programs carried out by us between July 2014 and June 2017 are mentioned below, grouped according to the area of action. The amounts are stated in U.S. dollars at our percentage of ownership interest.

| Area of Action | Name of Program | Activity | Total Amount as of June 30, 2017 (in U.S.$) |
|---|---|---|---|
| Education | Extra Class | Extra Class | 103,944 |
| Education | *Gen Técnico* | *Gen Técnico and Merit-Based Scholarships* | 409,342 |
| Culture | Cultural Programs | Photo Archive and Cinema | 137,758 |
| Social Inclusion and Sustainability | Community Projects | Community Projects and Training | 226,839 |
| Social Business Management | N/A | Scholarships, Social Infrastructure, Waterworks, etc. | 250,807 |

### *Planning*

We carry out a process of short-, medium- and long-term planning. We formulate an annual economic, financial and asset-based budget, which is used for purposes of tracking investments, operating costs, structural costs and production levels. At the same time, there are budgets structured by areas in which we act as operator, in order to reflect the objectives formulated by each consortium or joint venture, in which the various partners comprising each of them are represented. These budgets are integrated, in the common periods, with our general budget.

In addition, there is a detailed control, for which a project leader is responsible, for each of the investments in exploration wells, productions wells and facilities in general. In this way, we track changes in the investment program over time in detail, as well as compliance with completion deadlines.

Meetings for monitoring costs, production levels, inventories, structural costs and investments are held alternatively in the central offices or at each area, with participation from our executive officers.

### *Insurance*

It is our policy to cover insurable risks relating to the business, following the customary industry parameters and other general parameters in response to legal or contractual obligations in the market. In this regard, we take out insurance with first-rate insurance companies that, if necessary, reinsures the risks with reinsurers with a credit rating of at least A- from S&P/Fitch and Aa3 from Moody's,

Among our most important optional insurance policies, we can mention the third-party civil liability policies (including civil liability resulting from our responsibility as an employer), material damage, machinery breakdown and uncontrolled wells. For the material damage policy, our assets (personal and real property) or third parties for which we have contractual liability are considered covered, acting as a supplement to more specific insurance policies if available.

Although the terms and conditions of the insurance policies have a one-year validity period, given market opportunities, we could opt for longer-term contracts.

We consider the contracted coverage to be adequate, in line with the risk policies of the other companies of the sector that operate in the country, both with respect to risk transfer schemes and control of contractors.

### *Supply Policy*

Our Supply area is in charge of purchasing materials and equipment and contracting construction projects and services for the various operating areas. With a main department based in Buenos Aires and local offices in the operating areas, we have implemented a policy of decentralization, managing in Buenos Aires most of the contracting, and delegating to local offices daily relations with providers. Although management of activities is distributed, management of supply is handled in all our offices in keeping with procedures stipulated by our management and is audited periodically by internal auditors of the Techint Group and by external auditors.

Our principal providers include: Helmerich & Payne, Halliburton, Tenaris, Schlumberger, Techint *Compañía Técnica Internacional S.A.C.I.*, San Antonio, DLS Archer Ltd. S.A., General Electric, Secco, Exterran, and others.

Our policy is to optimize the cost/quality ratio in purchases and contracts, establish long-term relationships with strategic providers and ensure development of local providers in the areas in which we operate. During the last few years, we were able to reduce costs of materials, equipment and services, and contracts with providers have generally been renewed with prices and/or conditions more favorable for us.

Supply management consists of entering into contracts with providers of materials, equipment, and services that are more explicit for a specific job or with effective terms that vary from six months to five years according to the case in question.

### *Human Resources*

Our vision of being a sustainable and growing company requires a committed and responsible culture. Above all, our objective is to find, train, and retain the best talent on the local market. For this challenge, our purpose is to provide jobs as an opportunity to analyze the market, evaluate the most efficient means, and to promote our company in order to be selected as an excellent place to work and to grow in experience. The substantial investment in training that characterizes us is a clear sign of our commitment in this regard.

We focus our strategy on the growth of our reserves. In exploration and reservoirs, we have a group of professionals highly qualified in geosciences experienced in projects evaluation, exploration strategies, location selection, and proposals of wells for drilling and workovers for making decisions involving risk.

The team of professionals has extensive experience in the petroleum industry in Latin America and the work methodology for any environment.

Work is performed in accordance with the following principles:

- Responsibility in the operation
- Professional level of personnel
- Reliable and safe operation in compliance with national standards
- Efficient use of resources
- Compliance of contract obligations
- Permanent commitment to safety of personnel, the environment, and the community in general

The following two tables show information regarding our personnel over the past three years, grouped by operating area, and the number of labor union affiliated employees.

| Function | Dec 16 | | Dec 15 | | Dec 14 | |
|---|---|---|---|---|---|---|
| | Number of Employees | % of Total Employees | Number of Employees | % of Total Employees | Number of Employees | % of Total Employees |
| **Directors/Presidency** | | | | | | |
| Company or Business Leadership | 3 | 1% | 3 | 1% | 3 | 1% |
| **Staff Areas** | | | | | | |
| Supply | 20 | 5% | 21 | 5% | 27 | 6% |
| Administration and Finance | 51 | 14% | 52 | 13% | 57 | 12% |
| Assistance | 14 | 4% | 18 | 4% | 21 | 5% |
| Systems | 26 | 7% | 29 | 7% | 29 | 6% |
| Human Resources | 23 | 6% | 26 | 6 | 29 | 6% |
| **Business Development/Commercial/Planning** | | | | | | |
| Business and Planning | 18 | 5% | 19 | 5% | 24 | 5% |
| Business Development | 7 | 2% | 11 | 3% | 11 | 2% |
| Commercial | 14 | 4% | 13 | 3% | 17 | 4% |
| **Core Business Areas** | | | | | | |
| Exploration and Development | 64 | 17% | 65 | 16% | 70 | 15% |
| Engineering and Facilities | 27 | 7% | 31 | 8% | 34 | 7% |
| Operations | 61 | 16% | 69 | 17% | 84 | 18% |
| Drilling and WO | 37 | 10% | 38 | 9% | 46 | 10% |
| Safety and Environment | 11 | 3% | 10 | 2% | 11 | 2% |
| **Total** | **376** | | **405** | | **463** | |

| Union Memberships | 2016 | 2015 | 2014 |
|---|---|---|---|
| Private Oil and Gas Union of Hierarchical and Professional Personnel of Austral Patagonia | 3 | 5 | 5 |
| Private Oil and Gas Union of Chubut | 1 | 4 | 5 |
| Private Oil and Gas Union of Cuyo | 1 | 1 | 1 |
| Private Oil and Gas Union of Hierarchical and Professional Personnel of Neuquén | 10 | 9 | 1 |
| **Total** | **15** | **19** | **12** |

We work together with the Argentine Government, Provinces, unions and contractors to responsibly seek out solutions that ensure the long-term sustainability of exploitation. Starting in 2010, within a context of high labor union conflict brought on, among other reasons, by the increased cost of living and intra- and inter-union conflicts, the claims of the unions for wage increases intensified, leading to the adoption of measures that in some cases involved strikes, which did not affect continuity of service. Between 2010 and 2016, we granted pay raises generally aligned with inflation. The wages of non-union personnel received equivalent adjustments.

Currently, 40% of our personnel in Argentina is covered by collective bargaining agreements and 15% are union members. Of the personnel covered, over 98% are covered by the Oil and Gas Union of Hierarchical and Professional Personnel in the various regions where we operate. The remainder corresponds to the Private Oil and Gas Union.

We require contractors to employ our best practices to ensure the safety of personnel and proper environmental protection, and they must act under the same principles of quality and stringency as we do. The number of contractors has fluctuated with the needs of the business. 2014 ended with 1,820 third parties involved in the operation; 2015, with 1,940; 2016, with 2,040; and currently more than 2,500 contractors work together on the development of our projects. The majority of contractor personnel is covered by collective bargaining agreements.

***Competition***

We compete with major international hydrocarbon companies and with other domestic hydrocarbon companies to acquire exploration permits and production concessions, as well as to form new joint ventures. Recent changes introduced in the Hydrocarbons Law through Law No. 27,007 limit the possibility of hydrocarbon companies formed by the provinces of Argentina to hold future exclusive rights in permits and concessions, which encourages competition in Argentina's oil and gas sector. Some measures have been approved in recent years, including the Natural Gas Stimulus Program, in pursuit of fostering the development of the industry, which increased competition in the sector.

We are also exposed to competition on drilling platforms and the availability of the associated equipment. Generally, when natural gas prices are high, the demand for drilling platforms, supplies, services, equipment and labor rises, which can generate scarcity or increased costs of drilling equipment, services and personnel. See "Risk Factors—Risks Relating to the Oil and Gas Business." Our inability to access the necessary equipment and infrastructure in a timely fashion could restrict our access to the oil and natural gas markets and generate significant incremental costs or delays in our production of oil and natural gas.

***Dividend Policy***

We do not have policy on dividends. The distribution of our dividends will depend, among other things, on our operating results, investment requirements, the possibilities and costs of financing investment projects, the settlement of obligations, existing legal and contractual restrictions, future outlooks and any other factor that our board of directors deems relevant.

Legally, dividends may only be declared and paid out of liquid and realized earnings. Pursuant to Article 20 of our Bylaws, our liquid and realized earnings are allocated as follows: a) 5%, until reaching 20% of our share capital, to a legal reserve fund; b) to compensation for the Board of Directors and Supervisory board, as appropriate; c) to the voluntary reserves or provisions that the general Shareholders' Meeting decides to establish; and d) the balance will be distributed as a dividend to shareholders, regardless of their class.

Our Board of Directors submits our financial statements corresponding to the previous year for the consideration and approval of the Annual Ordinary General Shareholders' Meeting, along with the report on them issued by our audit committee. Within a period of 72 days from year-end close, an Ordinary General Shareholders' Meeting must be held to approve the financial statements and determine how the earnings for the year will be allocated.

***Transparency Policy***

As part of a series of initiatives undertaken by us to strengthen our system of internal standards, which will allow for more open and transparent relations with our employees, customers, suppliers, collaborators and institutions with which we interact, we have decided to enact: (i) a Code of Conduct to which all employees must adhere, regardless of their hierarchical level or specialty, providing the means and instruments that will ensure the transparency and integrity of the issues and problems that may affect our proper management, aimed at an efficient operating structure; and (ii) a Code of Conduct in Business, which establishes the basic guidelines on behavioral commitments that our employees must make as regards their relations with third parties.

**Legal Proceedings**

We are party to various civil, tax, commercial and labor claims and lawsuits that were brought against us by reason of our activities. Although we can provide no guarantee as to how these matters will ultimately be resolved, based on the information available at this time and consultation with outside legal counsel, the opinion of our Board of Directors is that the outcomes of these lawsuits and legal actions, individually or as a whole, will not have a significant effect that would go beyond the scope of the provisions that we have established to cover any losses that these lawsuits could generate in our financial position, cash flows or operating results.

As of September 30, 2017, these provisions totaled Ps.101.6 million. We record provisions to deal with contingencies that could give rise to obligations for us, insofar as they are likely and can be reasonably quantified. We record a provision for contingencies when there is a high possibility of incurring future costs and such costs can be reasonably estimated. These provisions are based on the developments as of the date on which such accumulations are realized, the estimates of the outcomes of these matters and the experience of our attorneys in challenging, litigating or resolving other matters. As the progress of the claims becomes more defined, changes may arise in the estimates of future costs, which could have material effects on our financial position and operating results. Nevertheless, the outcome of these proceedings could differ considerably from the estimated amounts set aside.

Without prejudice to the legal proceedings mentioned in our Audited Annual Financial Statements, we are also subject to the following claims and legal actions none of which we believe may have a material adverse effect on our result of operations:

(i) *Lawsuit of the Asociación de Superficiarios de la Patagonia ("ASSUPA") v. BRASPETRO and Others for Miscellaneous damage – Noroeste Basin:*

This lawsuit was brought by an association of landowners against us, Braspetro, CGC, Dong Won, Mobil, O & Developments Ltd, Pan American Energy, Pluspetrol Exp y P, Pluspetrol S.A., YPF S.A. and Repsol S.A., notice of which was served to us on May 28, 2014. The lawsuit seeks to have the defendants condemned to (i) take the necessary actions to repair the collective environmental damage caused to the ecosystems by the activities of such companies in the Noroeste basin; (ii) take out insurance policies with sufficient coverage to guarantee financings for the repair of such damage; and (iii) subsequently adopting the necessary measures to prevent the damage caused to the environment.

The case is in process in Federal Court No. 1 of Salta. The procedural time frames for responding to the lawsuit are currently suspended.

As of the date of this offering memorandum we are collecting all applicable evidence necessary to file our response of the lawsuit once the procedural time frames are resumed. At this stage, we do not have the relevant information to foresee or forecast the possible outcome of this lawsuit.

(ii) *Lawsuit of the Asociación de Superficiarios de la Patagonia ("ASSUPA") v. COLHUE HUAPI and Others for Miscellaneous damage – Golfo San Jorge Basin:*

This is a lawsuit brought by the same civil association mentioned above, where, in addition to us and DAPETROL, the following defendants are involved: Colhue Huapi S.A., *Compañías Asociadas Petroleras*

*S.A.*, CRI Holding Inc. Sucursal Argentina, *ENAP Sipetrol Argentina S.A.*, EPSUR S.A., Ez Holdings S.A., Golden Oil Corporation Sucursal Argentina, *Ingeniería Alpa S.A.*, Interenergy Argentina S.A., Misahar Argentina S.A., OIL M&S S.A., Pan American Energy LLC Sucursal Argentina, *Petrolera Cerro Negro S.A.*, Roch S.A., Sinopec Argentina Exploration and Production Inc., Unitec Energy S.A., *Wintershall Energía S.A.*, YPF S.A., *Terminales Marítimas Patagónicas S.A.*, and *Transportadora del Gas del Sur S.A.* In addition, they requested that the lawsuit be addressed to the directors of each of the defendant companies as well.

The case is in process at the Federal Court of Caleta Olivia.

The claimant is seeking for the co-defendants to be condemned to the following: (i) to restore the environment to its state prior to the hydrocarbon exploration, exploitation, production, storage and transport work, and the prevention of future environmental damage in the Golfo San Jorge basin; (ii) to take the necessary actions to repair the invoked environmental damage and achieve (a) the total disappearance of the harmful substances found in the sea, the water, the soil and the air, and (b) restoration of the areas deforested as a result of the activities of the co-defendants to their previous state; (iii) to adopt the necessary measures to prevent the damage caused to the environment; and (iv) subsidiarily, if the measures of remediation cannot be implemented, they ask for compensation to be determined in lieu of remediation.

We appeared in due time and form in the case, making pleas on the basis of the legal defects contained in the lawsuit (generic accusations). Likewise, we asked for the deadlines to respond to the lawsuit to be suspended until a decision is reached as regards the pleas.

On June 7, 2017, the judge ordered the suspension of the deadlines for responding to the lawsuit, except for the co-defendant TGS (it did not raise a legal defect plea).

As of the date of this offering memorandum we are collecting all applicable evidence necessary to file our response of the lawsuit once the procedural time frames are resumed. At this stage, we do not have the relevant information to foresee or forecast the possible outcome of this lawsuit.

(iii) *Other lawsuits*

We are also a party to other lawsuits that are less significant than those indicated above, which are explained in the Notes to our financial statements. We could also be a party to other lawsuits within the normal course of our business, such as claims for material damage to third-party assets on which our reservoirs are located, personal injury claims or labor claims from past and present employees and contractors, and other claims from suppliers and third parties.

## BUSINESS OF THE PARENT GUARANTOR

### Description of the Business of the Parent Guarantor

The Parent Guarantor, through its subsidiaries, engages in exploration, development and production, transportation and distribution of hydrocarbons, as well as power generation in Latin America.

The map below shows the location of the various businesses of the Parent Guarantor in the countries where it operates:


### Competitive Strenghts of the Parent Guarantor

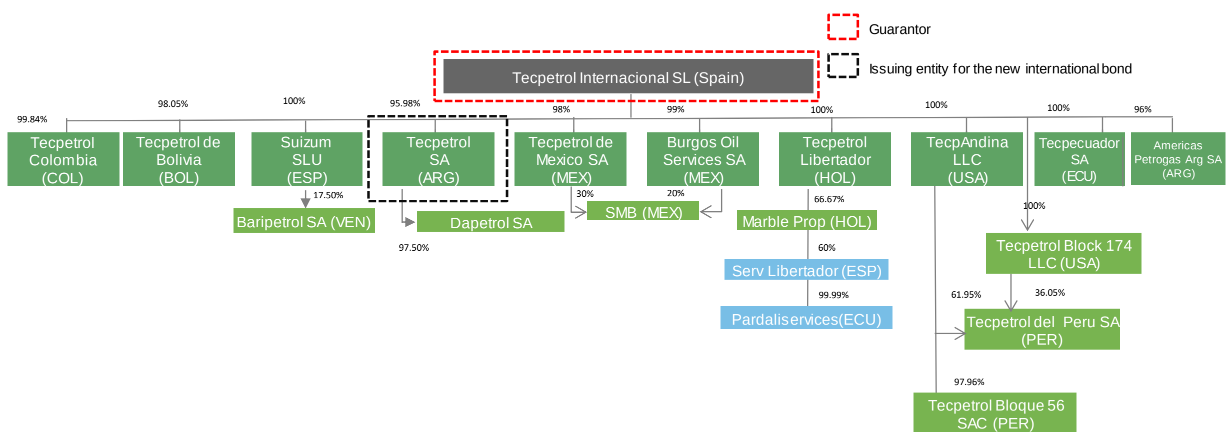
We believe the Parent Guarantor's business strategy is underpinned by the following strengths:

- *Increase of productivity in mature fields*: Using the most efficient technologies, it has been able to increase productivity in the areas it operates, achieving greater recovery of reserves in mature fields.
- *Exploration efficiency*: Since taking over operation in various areas, it has invested continuously in the exploration and study of reservoirs to incorporate new reserves while controlling costs and minimizing environmental impact of operations.

- *Safety, Environment, and Health*: It is strongly committed to the environment, social development, preservation of the environment, and the safety of personnel, all of which are fundamental in day to day activities.
- *Community commitment*: In consideration of the welfare of communities surrounding its operations, it carries out a sustainable development program to foster autonomy and decision-making, creating networks with the government, nongovernmental organizations, and other institutions.
- *Experienced management*: Its management is made up of stable, committed personnel with experience in the industry. In exploration and production, it has a group of highly qualified professionals in geosciences who evaluate projects, exploration strategies, location selection, drilling proposals, and workovers and make risk decisions involving risk. This team of professionals has wide experience in the petroleum basins of Latin America and in work methodology for operating in any area.
- *Member of the Techint Group*: The Parent Guarantor and its subsidiaries, including us, are part of the Techint Group of companies, with revenues of U.S.$15.2 billion for the year ended December 31, 2016 and approximately 48,500 permanent employees worldwide. As a result, we are able to take advantage of its state-of-the art technology, modern management systems and global presence.
- *Strategic Positioning in Vaca Muerta*: We believe the non-conventional resources in the *Vaca Muerta* formation present a unique opportunity and we believe we are well placed to benefit from it due to our acreage holding, experience and presence in the area and strong commitment to its development.

### Exploration and Production

The following chart sets out the corporate structure of the Parent Guarantor in relation to exploration and production:




The Parent Guarantor operates areas in Argentina's *Neuquina* basin (which includes four non-conventional areas), *Noroeste* basin and *Golfo San Jorge* basin. The Parent Guarantor also operates in the Oriental basin of Ecuador and in the Burgos basin in Mexico, and has a share in the Baripetrol mixed enterprise, which operates the Colon area in the Maracaibo basin in western Venezuela. In Colombia, the Parent Guarantor is exploring and operating two areas: CPO-7 and CPO-13, respectively. The Parent Guarantor also has the following interests in areas operated by third parties: a 25% holding in the Ramos area in the *Noroeste* basin in Argentina; a 25% holding in the Shushufindi area and a 40% holding in the Kamana area (Eden Yuturi and Pañacocha) in Ecuador; a 10% holding in Blocks 88 and 56 of the Camisea gas field in the Ucayali basin in Peru; and a 20% holding in the Ipati and Aquío areas and in the basin of Tarija, Bolivia.

Currently, the Parent Guarantor produces approximately 86,000 barrels of petroleum equivalent (BOE) per day, and has over 1,400 producing wells as of December 31, 2016 and plants and facilities for primary and secondary recovery of oil and gas, conditioning and processing, and for power generation.

**Argentina**

In Argentina, the Parent Guarantor carries out oil and gas exploration and production activities through the Company and *Americas Petrogas Argentina S.A.* ("APASA").

***Tecpetrol S.A.***

See "Business of the Company" for more information about the activities of the Company.

***Americas Petrogas Argentina S.A.***

On June 12, 2015, the Parent Guarantor and Tecpetrol International S.A. entered into a purchase and sale agreement with Americas Petrogas Inc. (former shareholder of APASA) and the rest of the minority shareholders of APASA, for the purpose of acquiring 96% and 4%, respectively, of the shares of APASA issued and in circulation. This agreement was entered into on August 28, 2015.

APASA operates the Medanito Sur concession, an exploitation concession in the Province of La Pampa, in which it has a 60% interest. In addition, in the Province of Neuquen, it operates the Los Toldos I Norte block, Los Toldos II Este block, Los Toldos III and IV blocks of the Los Toldos area, evaluation blocks of which it holds a 90% interest and the area of Loma Ranqueles, an exploratory permit in which it has a 65% interest. It participates with a 10% interest in the Los Toldos I Sur area, a non-conventional exploitation concession operated by Exxon Mobil Exploration Argentina SRL.

With the exception of Medanito Sur, which is an exploitation area of conventional hydrocarbons, the rest of the areas in which APASA has interests in exploration and exploitation areas are of non-conventional hydrocarbons and as a result, the Parent Guarantor intends to merge APASA into the Company. See "Business of the Company—Potential Merger with *América Petrogas Argentina S.A.*"

Below is the average annual production of APASA since its acquisition by the Parent Guarantor:

| | Net Average Daily Production | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 (9 months) | | | 2016 | | | 2015 | | |
| | Oil m3d | Natural Gas Deliveries Mm3d | Average Total M3eqd | Oil m3d | Natural Gas Deliveries Mm3d | Average Total M3eqd | Oil m3d | Natural Gas Deliveries Mm3d | Average Total M3eqd |
| APASA... | 96 | 2 | 98 | 56 | — | 56 | 19 | — | 19 |

**Peru**

In Peru, the Parent Guarantor participates through its subsidiaries *Tecpetrol Peru* and *Tecpetrol Bloque 56*, each of which hold a 10% interest (as non-operators) in the license agreements for the exploration and exploitation of hydrocarbons of Blocks 88 and 56, respectively.

***Tecpetrol Peru***

On February 16, 2000, in the selection process for the exploitation of Block 88, the Special Committee of the Camisea Project (CECAM) selected as winning bidder the consortiums formed by: Pluspetrol Resources Corp. (through subsidiary Pluspetrol Peru Corporation S.A.), an oil company technically pre-qualified and responsible for the operation, Hunt Oil Company of Peru L.L.C., Sucursal del Peru, and SK Innovation Sucursal Peruana (formerly, SK Corporation Sucursal Peruana), (the "Block 88 Consortium"). On November 8, 2000, the CECAM authorized the inclusion of Tecpetrol Peru in the license agreement for Block 88.

Tecpetrol Peru began commercial operations on Block 88 in June 2004.

Currently the holdings in the Block 88Consortium are as follows:

| | % |
|---|---|
| Hunt Oil Company of Peru L.L.C., Sucursal del Peru | 25.2 |
| Pluspetrol Camisea S.A. | 25.0 |
| SK Energy Sucursal Peruana | 17.6 |
| Tecpetrol Peru | 10.0 |
| Sonatrach Peru Corporation S.A.C. | 10.0 |
| Repsol Exploración Peru, Sucursal del Peru | 10.0 |
| Pluspetrol Peru Corporation S.A. | 2.2 |

The term for exploitation of non-associated natural gas and condensate is 40 years, from December 9, 2000.

The companies in the Block 88 Consortium have unrestricted right of use of the hydrocarbons and ownership rights over hydrocarbons extracted from the contract area. Moreover, in addition to sales to the domestic market, they are required to supply natural gas to meet domestic demand according to legal provisions in effect.

Supreme Decree No. 023-2014-EM dated July 26, 2014, approved modification of the Camisea Operating License Agreement of Block 88 to reflect the provisions of Supreme Decree No. 008-2012-EM, which established that all natural gas from Block 88 would be used exclusively to supply domestic demand.

Under the Camisea Operating License Agreement, the Block 88 Consortium is required to pay to the Peruvian State, through Perupetro, a royalty on audited production of hydrocarbons. The royalty percentage for gas and gas liquids is 37.24%, which applies to hydrocarbons audited according to the Camisea Operating License Agreement. The price of hydrocarbons is calculated, in the case of gas liquids, using the price of a basket of hydrocarbons as quoted by a source recognized in the oil industry. The price of natural gas is determined based on the sale price set forth in the agreements entered into regarding such hydrocarbons.

***Bloque 56***

On September 7, 2004, the consortium made up of Pluspetrol Peru Corporation S.A., Hunt Oil Company of Peru L.L.C., Sucursal del Peru, SK Innovation Sucursal Peruana (formerly SK Corporation Sucursal Peruana), *Tecpetrol Peru* and Sonatrach S.P.A. (the “Block 56 Consortium”) was awarded the license for exploitation of Block 56.

Tecpetrol Bloque 56 participates, under a license agreement signed with Perupetro, in such consortium as a result of the assignment of the contractual position effected by its affiliate, Tecpetrol Peru, in its favor on August 28, 2006.

Currently the percentage of participation of the companies that make up the Block 56 Consortium is as follows:

| | % |
|---|---|
| Hunt Oil Company of Peru L.L.C., Sucursal del Peru | 25.2 |
| Pluspetrol Camisea S.A. | 25.0 |
| SK Energy Sucursal Peruana | 17.6 |
| Tecpetrol Bloque 56 S.A.C. | 10.0 |
| Sonatrach Peru Corporation S.A.C. | 10.0 |
| Repsol Exploración Peru, Sucursal del Peru | 10.0 |
| Pluspetrol Peru Corporation S.A. | 2.2 |

The term for the exploitation phase of non-associated natural gas and condensate is 40 years, from September 7, 2004.

On September 10, 2008, the Block 56 Consortium began commercial production of the reservoirs located in Pagoreni, part of Block 56.

The companies in the Block 56 Consortium have unrestricted right of use of the hydrocarbons and ownership rights over hydrocarbons extracted from the contract area. Moreover, they are entitled to sell all audited natural gas from the contract area to the Peru LNG plant for export.

Under the Camisea Operating License Agreement, the Block 56 Consortium is required to pay to the Peruvian State, through Perupetro, a royalty on the audited production of hydrocarbons. The royalty for natural gas liquids is between 20% and 40%, depending on whether the price of the audited gas liquids ranges between U.S.$22 and U.S.$35 per barrel. The price of such liquids is calculated based on the price of the basket of liquids. In order to determine the royalty payment for audited natural gas, the final destination of the gas is considered. If it is for domestic consumption, the royalty percentage will be 37.24%. If the destination of the gas is the PERU LNG Plant, the royalty percentage will vary between 30% and 38%, according to whether the reference price of gas ranges between U.S.$4 and U.S.$5 per MMBtu.

The Peruvian State also guarantees to each company in the Block 88 Consortium and Block 56 Consortium the right of use, unrestricted possession, use and internal and external allocation of foreign currency, as well as unrestricted convertibility of national currency to foreign currency on the exchange market. Moreover, the companies of both Consortia enjoy the benefit of tax stability for the duration of the agreement, under which both Consortia will be subject to the tax regime in effect when the respective license agreements were signed.

All gas from Block 88 is marketed at the wellhead on the internal market to electrical power plants, industries and for distribution in Lima, at an average price of U.S.$2/MMBtu. Gas from Block 88 supplies approximately 45% of the energy mix of Peru. Gas from Block 56 is sold at the wellhead to the Peru LNG plant for export. Price is determined depending on final destination of the gas, based on the Henry Hub if the destination is the Repsol plant in Manzanillo, México, and based on the UK natural gas NBP spot price if the destination is Europe and based on the Platts Japan Korea Marker (JKM) liquefied natural gas benchmark price if the destination is Japan. In 2016, 30% of production was sent to the Manzanillo plant, 50% of production to Europe and the remaining 20% to Japan.

Gas liquids are shipped through the pipeline of Transportadora de Gas del Peru to the fractionation plant in Pisco. The plant fractionates and separates gas liquids, obtaining products for marketing such as propane, butane, condensates and naphtha. During 2016, with the exception of naphtha, (representing approximately 40% of liquid production) which was exported, the remaining liquids were marketed in Peru.

The average annual production of Blocks 88 and 56 is detailed below:

| | Net Daily Average Production | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 (9 months) | | | 2016 | | | 2015 | | | 2014 | | |
| | Oil m3d | Natural Gas Deliveries Mm3d | Average Total M3eqd | Oil m3d | Natural Gas Deliveries Mm3d | Average Total M3eqd | Oil m3d | Natural Gas Deliveries Mm3d | Average Total M3eqd | Oil m3d | Natural Gas Deliveries Mm3d | Average Total M3eqd |
| Block 88.... | 775 | 1,718 | 2,494 | 789 | 1,934 | 2,732 | 820 | 1,784 | 2,604 | 923 | 1,696 | 2,619 |
| Block 56.... | 472 | 1,128 | 1,600 | 529 | 1,244 | 1,773 | 512 | 1,170 | 1,683 | 597 | 1,471 | 2,068 |
| **Total Peru** | **1,247** | **2,847** | **4,094** | **1,327** | **3,177** | **4,505** | **1,332** | **2,954** | **4,286** | **1,520** | **3,167** | **4,687** |

## Ecuador

In Ecuador, the Parent Guarantor has holdings in different subsidiaries in the Bermejo, Libertador-Atacapi, Shushufindi-Aguarico and Eden Yuturi-Peñacocha areas, all located in the Ecuadorian Amazon region. The Parent Guarantor is the operator of the first two fields through its subsidiaries Tecpecuador S.A. and Pardaliservices S.A., with interests of 100% and 40%, respectively, while in the remaining fields the interests are 25% and 40%, through *Consorcio Shushufindi S.A.* (Shushufindi) and Kamana Services S.A. (Kamana), respectively, both operated by Schlumberger.

*Tecpecuador* was awarded the service agreement for the exploration and exploitation of hydrocarbons (crude oil) of the Bermejo marginal field, located in the Province of Sucumbios. Tecpecuador is entitled to collect a charge for producing fields for each net barrel of oil that is produced and delivered at the audit center. This charge includes an estimate of the amortization of investments, costs and expenses and earnings that includes a risk consideration.

Pardaliservices, under a contract signed with the Ecuadorian state-owned oil company, PAM, provides specific services including financing of the operator in the Libertador-Atacapi oil fields. Pardaliservices receives a charge for services per accumulated barrel of oil delivered as a result of investments, measured as the difference between deliveries from the field and a decline curve established in the agreement. Moreover, it receives a benefit on savings that are obtained as part of the assistance to the PAM operation. The field operator continues to be PAM, which maintains its personnel and is responsible for field operating costs.

Shushufindi and Kamana have contracts similar to that of Pardaliservices, and the Parent Guarantor participates indirectly as non-operator with an interest of 25% and 40%, respectively.

The agreements of Libertador, Shushufindi and Kamana have a duration of 15 years from their effective date (2012 for Libertador and Shushufindi and 2014 in the case of Kamana), which may be extended. The three fields produced over 130,000 barrels of oil per day during 2016.

The recent fall in the international oil price have caused the Ecuadorian government to postpone payments under the Libertador, Shushufindi and Kamana agreements, which required the parties to commence negotiations regarding time periods, collection, conditions and terms of the agreements.

Currently, the Parent Guarantor is in the process of reviewing its holdings in the Eden Yuturi-Pañacocha, Libertador-Atacapi and Shushufindi-Aguarico fields.

As a result, the subsidiary Tecpetrol Servicios S.L. as a shareholder of Kamana, entered into a stock sale agreement, through which, should all conditions agreed upon by parties be met, Tecpetrol Servicios S.L. will sell all of its shares in Kamana.

Also, the subsidiary Tecpetrol Libertador B.V. entered into a stock sale agreement through which, should all conditions agreed upon by parties be met, Tecpetrol Libertador B.V. will acquire the entire shareholding in Marble Properties B.V. In the event of the aforementioned acquisition being perfected, the shareholding of Tecpetrol Libertador B.V., through the dependent Marble Properties B.V, in Pardaliservices would increase to 60%.

Additionally, the subsidiary Tecpetrol Servicios S.L., as a shareholder of Shushufindi, entered into a stock sale agreement through which, should all conditions agreed upon by parties be met, Tecpetrol Servicios S.L. will acquire 3.56% of shares in addition to its current shares in Shushufindi (which would result in Tecpetrol Servicios S.L. holding 28.56% of Shushufindi).

As of the date of this offering memorandum, none of the stock sale agreements referred to in the preceding paragraphs have become effective. In addition, another subsidiary, Tecpeservices S.A., provides various specialized technical services in petroleum engineering, construction and general consulting to Pardaliservices, Shushufindi and Kamana.

The net daily average production, based on our percentage of participation, of each subsidiary in which the Parent Guarantor has holdings in Ecuador resulting from the respective service agreements is detailed below:

| | Net Daily Average Production | | | |
|---|---|---|---|---|
| | 2017 (9 months) | 2016 | 2015 | 2014 |
| | Oil m3d | Oil m3d | Oil m3d | Oil m3d |
| Bermejo | 350 | 388 | 428 | 474 |
| Libertador | 377 | 433 | 490 | 498 |
| Shushufindi | 1.475 | 2.192 | 1.811 | 1.614 |
| Kamana | 1.153 | 825 | 81 | 3 |
| **Total Ecuador** | **3.354** | **3.838** | **2.811** | **2.589** |

**Bolivia**

In Bolivia, the Parent Guarantor, through its subsidiary *Tecpetrol de Bolivia S.A.* ("Tecpetrol Bolivia"), has a 20% holding as non-operator in the Ipati and Aquío blocks located between the departments of Santa Cruz and Chuquisaca. Such blocks are operated by Total Exploration & Production Bolivié Sucursal Bolivia, which has a holding of 50%, and other partners are GP Exploración y Producción SL Sucursal Bolivia with 20% and YPFB Chaco SA with 10%.

The operating agreements of both blocks signed with YPFB, establish that the private companies are in charge of carrying out operations (exploration, evaluation, development, exploitation and abandonment) at their own cost and risk, in exchange for a payment from YPFB based on production obtained and delivered to YPFB. The payment will include recoverable costs, plus a percentage of profits, if any. Recoverable costs are costs included in budgets approved by YPFB.

YPFB does not assume risk or liability for operations or results. Tecpetrol Bolivia does not have ownership rights over oil reservoirs or over produced crude oil that remains under YPFB's ownership. Tecpetrol Bolivia's obligations under the operating agreement are 100% unconditionally and irrevocably guaranteed by the Parent Guarantor.

In August 2016 commercial production began, completing Phase I of the development project that included drilling 3 wells (2 in Ipati and 1 in Aquío), construction of surface facilities of wells, as well as the respective gathering lines and construction of a gas treatment plant with capacity for 6.5 million cubic meters per day. Pipelines for shipping gas and condensates for sale were built up to the YPFB point of dispatch, measuring approximately 103 kilometers and 16 kilometers, respectively. This phase involved a total accumulated investment of U.S.$1.5 billion (100%).

In September 2016, gas delivery agreements were signed, as well as for petroleum liquids, with YPFB. Agreement was reached that after allocations were made to the internal market, gas distribution for the export market would consist of 90% for Argentina (Enarsa) and 10% for Brazil (Petrobras) for the years 2016-2020. After 2021, 100% of export gas will be allocated to the Argentine market.

During 2016 commercial production began in both blocks, which reached a production flow of 6.5 MMm3d.

The annual production of Tecpetrol Bolivia in the Ipati and Aquío blocks is detailed below:

| | **Net Daily Average Production** | | | | | |
|---|---|---|---|---|---|---|
| | **2017 (9 months)** | | | **2016** | | |
| | **Oil m3d** | **Natural Gas Mm3d** | **Average Total M3eqd** | **Oil m3d** | **Natural Gas Mm3d** | **Average Total M3eqd** |
| Ipati | 133 | 993 | 1.127 | 387 | 303 | 341 |
| Aquio | 55 | 360 | 415 | 17 | 122 | 139 |
| **Total Bolivia** | **189** | **1.353** | **1.542** | **55** | **425** | **480** |

## Colombia

The Parent Guarantor, through its subsidiary *Tecpetrol Colombia S.A.S.*, holds 100% of the exploration and production agreements for Blocks CPO-7 and CPO-13 located in Llanos Orientales, Colombia, awarded by the National Hydrocarbons Agency (ANH) in a competitive bidding process of which Ronda Colombia 2008. The purpose of the agreements is to explore areas under contract and produce any oil owned by the State that is discovered in the aforesaid areas.

Activity in such blocks has been affected by low international oil prices. Investments were postponed, and a plan was implemented to reduce costs in operating structure. Extensive tests have been made on discoveries recorded in Atarraya (CPO-7) and Pendare (CPO-13), totaling average operating production for 2016 of 1,653 barrels of oil per day.

Below is the average annual net production of *Tecpetrol Colombia S.A.S.* in blocks CPO-7 and CPO-13:

| | **Net Daily Average Production** | | | |
|---|---|---|---|---|
| | **2017 (9 months)** | **2016** | **2015** | **2014** |
| **Area** | **Oil m3d** | **Oil m3d** | **Oil m3d** | **Oil m3d** |
| CPO-7 | 83 | 79 | 98 | 166 |
| CPO-13 | 183 | 134 | 127 | 62 |
| **Total Colombia** | **266** | **214** | **225** | **228** |

## Mexico

The Parent Guarantor, through its subsidiaries Burgos Oil Services S.A. de C.V. and *Tecpetrol de México S.A. de C.V.*, holds 50% of SMB, and is the operator of the Mision Block, an area of 1,972 square kilometers, where there are currently over 120 producing wells with total production of approximately 27 bcf of natural gas per year and 0.1 million barrels of oil.

In 2003, SMB signed a Financed Public Works agreement with PEMEX Exploración y Producción to implement the necessary construction projects related to the development, infrastructure and maintenance of non-associated gas in the Misión Block, located in the Burges basin in the states of Tamaulipas and Nuevo Leon, Mexico. The gas produced in this field is delivered to PEMEX Exploración y Producción, and SMB receives payment for maintenance projects and for investments made, based on a rate schedule. The agreement establishes minimum investment commitments established in work units, and as of the end of 2016, SMB carried out work units in excess of the minimum commitment. The Financed Public Works agreement expires on January 8, 2024.

As a result of the constitutional reforms in the energy sector and the new Hydrocarbons Law passed in 2014, PEMEX Exploración y Producción has initiated a process to transfer the framework found in current contracts to new exploration and extraction contracts, under which exploitation of the Misión Block would be shared between PEMEX Exploración y Producción and SMB acting as partners on one side and the National Hydrocarbons Commission (*Comisión Nacional de Hidrocarburos*) on the other.

As of the date of this offering memorandum, within the framework transfer process referred to in the preceding paragraph, PEMEX Exploración y Producción and SMB have accepted the fiscal and contractual terms required by the Secretary of Energy (*Secretaría de Energía*). The final terms of the partnership agreement between PEMEX Exploración y Producción and SMB, as well as the early termination of the contract with the Mexican government (*Contrato Obra Pública Financiada*, or "COPF"), as a prerequisite to signing the new exploration and extraction contract, are in their final negotiation period.

Currently, due to PEMEX Exploración y Producción's budgetary restrictions dating back to 2016, projects completed within the framework of the COPF by SMB reflect restricted activity in the block, limited to maintenance work (the program approved by PEMEX Exploración y Producción did not include drilling activities or major repairs).

The following is the net daily average production of the Parent Guarantor's holdings in the Misión Block resulting from the respective service agreements:

**Net Daily Average Production**

| | 2017 (9 months) | | | 2016 | | | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Oil m3d | Natural Gas Mm3d | Average Total M3eqd | Oil m3d | Natural Gas Mm3d | Average Total M3eqd | Oil m3d | Natural Gas Mm3d | Average Total M3eqd | Oil m3d | Natural Gas Mm3d | Average Total M3eqd |
| Misión | 21 | 924 | 945 | 31 | 1.101 | 1.132 | 47 | 1.362 | 1.409 | 59 | 1.478 | 1.537 |
| **Total Mexico** | **21** | **924** | **945** | **31** | **1.101** | **1.132** | **47** | **1.362** | **1.409** | **59** | **1.478** | **1.537** |

### Venezuela

The Parent Guarantor, through its subsidiary Suizum Servicios de Consultoría S.L., has a 17.5% interest in joint venture company Baripetrol, which operates the Colon block in the Maracaibo basin in western Venezuela. Such investment has been completely written off as of December 31, 2016.

The following is the net daily average production of the Parent Guarantor's holdings in the Colon block:

| | Net Daily Average Production | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 (9 months) | | | 2016 | | | 2015 | | | 2014 | | |
| | Oil m3d | Natural Gas Deliveries Mm3d | Average Total M3eqd | Oil m3d | Natural Gas Deliveries Mm3d | Average Total M3eqd | Oil m3d | Natural Gas Deliveries Mm3d | Average Total M3eqd | Oil m3d | Natural Gas Deliveries Mm3d | Average Total M3eqd |
| Colón | 27 | 12 | 39 | 91 | 14 | 105 | 121 | 14 | 135 | 130 | 17 | 147 |
| **Total Venezuela** | 27 | 12 | 39 | 91 | 14 | 105 | 121 | 14 | 135 | 130 | 17 | 147 |

### Reserves

The percentage holding of the Parent Guarantor in proven reserves certified by independent experts equaled 518.1 MMboe as of June 30, 2017 (including reserves under service contracts in which there is no ownership of production).

Certain of the following table sets out information on the total proven reserves of the Parent Guarantor as of June 30, 2017. The information provided below has been certified by independent third parties as indicated.

| | Proven Reserves of the Parent Guarantor as of June 30, 2017(1) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Oil (MMBbl) | | | Gas (bcf) | | | |
| | Developed | Undeveloped | Total | Developed | Undeveloped | Total | Total (MMboe) |
| **Argentina** | | | | | | | |
| El Tordillo(4) | 15.1 | 7.7 | 22.8 | 5.6 | 8.0 | 13.6 | 25.2 |
| Agua Salada(4) | 1.2 | 0.7 | 1.9 | 13.5 | 13.5 | 27.0 | 6.7 |
| Fortín de Piedra(6) | 0.5 | 7.1 | 7.6 | 35.0 | 667.1 | 702.0 | 132.6 |
| Aguaragüe(2)(4) | 0.8 | 0.2 | 0.9 | 13.7 | 3.8 | 17.5 | 4.0 |
| Ramos(4) | 0.3 | — | 0.3 | 17.8 | — | 17.8 | 3.5 |
| Otras | 1.1 | 0.5 | 1.7 | 19.6 | 14.1 | 33.7 | 7.7 |
| **Bolivia** | | | | | | | |
| Ipati(4) | 4.3 | — | 4.3 | 187.5 | — | 187.5 | 37.7 |
| Aquío(4) | 0.6 | — | 0.6 | 24.8 | — | 24.8 | 5.0 |
| **Peru** | | | | | | | |
| Bloque 88(3)(5) | 22.6 | 17.1 | 39.6 | 432.7 | 385.0 | 817.7 | 185.3 |
| Bloque 56(3)(5) | 6.1 | 6.3 | 12.3 | 92.6 | 102.2 | 194.8 | 47.0 |
| **Ecuador** | | | | | | | |
| Bermejo | 1.5 | — | 1.5 | — | — | — | 1.5 |
| Libertador | 1.9 | 4.6 | 6.5 | — | — | — | 6.5 |
| Shushufindi | 17.4 | 11.9 | 29.3 | — | — | — | 29.3 |
| Eden Yuturi | 1.7 | 2.8 | 4.5 | — | — | — | 4.5 |
| Pañacocha | — | 2.6 | 2.6 | — | — | — | 2.6 |
| **Venezuela** | | | | | | | |
| Colón | 1.9 | 0.1 | 2.0 | 1.4 | 0.1 | 1.5 | 2.3 |

**Proven Reserves of the Parent Guarantor as of June 30, 2017[1]**

| | Oil (MMBbl) | | | Gas (bcf) | | | |
|---|---|---|---|---|---|---|---|
| | **Developed** | **Undeveloped** | **Total** | **Developed** | **Undeveloped** | **Total** | **Total (MMboe)** |
| **Colombia** | | | | | | | |
| Bloque CPO-7 | 0.4 | — | 0.4 | — | — | — | 0.4 |
| Bloque CPO-13 | 2.3 | 7.2 | 9.5 | — | — | — | 9.5 |
| **Mexico** | | | | | | | |
| Misión[5] | 0.1 | 0.0 | 0.2 | 36.9 | 0.4 | 37.3 | 6.8 |
| **Total** | **79.8** | **68.7** | **148.5** | **881.1** | **1,194.3** | **2,075.4** | **518.1** |

*Notes:—*

(1) At economic limit or end of concession, whichever occurs first.

(2) Gas reserves of Aguaragüe are net of balancing with YPF for quality adjustment.

(3) Gas reserves of Camisea pertain to production available for sale.

(4) Reserves certified by independent expert as of June 30, 2017, 100%.

(5) Reserves certified by independent expert as of December 31, 2016, 100% less production during the period from January – June 2017.

(6) Reserves certified by independent expert as of August 31, 2017, 100% plus production during the period from July – August 2017.

Proven reserves include reserves in exploitation as well as unexploited reserves.

Reserves are classified according to the methodologies used by the SPE and by the WPC. All estimates of reserves made by any independent third-party expert are prepared based on information provided by engineers, geologists and geophysicists of the relevant operator. On some occasions internal estimates are in turn validated by other independent certifying companies.

The process of estimation of volume of existing reserves of petroleum and natural gas is necessarily inexact due to geological, geophysical and other types of unknowns. The process entails ongoing review of estimates usually on an annual basis (except for cases when an immediate revision is necessary), based on additional information obtained from drillings, well tests and reserves studies.

For the calculation of reserve volumes of oil and natural gas, estimates are used, and quantities of oil and natural gas that are actually recovered may vary considerably.

## Transportation and Distribution

The Parent Guarantor also has interests in and operates strategic energy companies in Argentina and Mexico. It has holdings in TGN, TGM and in Litoral Gas S.A., all in Argentina, and in Norpower S.A. de C.V. in Mexico (Sistema 3).

### *Transportadora de Gas del Norte*

The natural gas transportation system of TGN consists of two main gas pipelines that form a system supplying 14 provinces in Argentina and the City of Buenos Aires, which are: The *Norte Gas Pipeline*, which runs 1,454 kilometers between Campo Duran (in the province of Salta) and the San Jeronimo compressor plant (in the province of Santa Fe) and the *Centro Oeste Gas Pipeline*, which is 1,121 kilometers long and connects the reservoir of Loma La Lata (in the province of Neuquen) with San Jeronimo. These pipelines receive gas from the Noroeste and Neuquina Basins and are the longest gas pipelines in South America.

At the regional level, TGN ships gas to and from the center and north of Chile through the Gas Andes, del Pacífico and Nor Andino gas pipelines; to the province of Entre Ríos and the Uruguayan coast through the Entrerriano gas pipeline; and to southern Brazil, through the Gasoducto to Uruguayana.

The TGN transportation system is also connected to a regasification vessel in the port of Escobar, in the province of Buenos Aires, and receives regasified LNG from Chile through the Nor Andino and Gas Andes gas pipelines.

TGN currently operates a system of more than 6,800 km of gas pipelines, 20 compressor plants and 375,620 HP of installed power.

The Parent Guarantor holds 40.86% of Gasinvest S.A., the holding company that owns 56.4% of TGN.

According to the provisions of laws regulating the privatization of Gas del Estado, under the Technical Assistance Agreement provided in the Specifications of the TGN license, Tecpetrol provides technical assistance to TGN in: (i) replacement, repair and renovation of facilities and equipment to ensure that performance of the system is according to international industry standards of gas transportation; (ii) preparation of performance evaluations, operating cost analysis, evaluation of constructions and assessment related to budgetary oversight; (iii) safety, reliability and efficiency of operation of the system and services in the gas industry; (iv) compliance of legal provisions related to health, safety, contamination and protection of the environment; (v) preventive and routine maintenance of the system; (vi) training of personnel; (vii) design and instrumentation of necessary procedures for performance of the aforementioned services; and (viii) design and instrumentation of an information system for management and inspection of all important facets related to transportation of natural gas.

In December 2004, a new technical assistance and audit agreement (the "CATA") was signed with Total *Gas y Electricidad Argentina S.A.* ("Total"), Tecpetrol S.A. and *Compañía General de Combustibles S.A.* ("CGC"), for such services for a two-year period. Under the CATA, assistance with auditing was added in the following areas: (i) planning and performance of maintenance of assets used for transportation and compression; (ii) studies related to the integrity of gas pipelines; and (iii) compliance of purchasing procedures and suppliers. On February 1, 2006, the term of the CATA was extended to December 31, 2017.

Based on the Shareholders Agreement of Gasinvest, the Parent Guarantor is entitled to appoint four regular board members and their respective alternates. The Parent Guarantor, with CGC, is also entitled to appoint two statutory auditors and their respective alternates.

CGC and the Parent Guarantor are entitled, respectively, to appoint the following executive positions in TGN: The Chairman of the Board of Directors and Chief Executive Officer. The Chief Operations Officer and Chief Financial Officer are appointed by agreement between CGC and the Parent Guarantor.

During the year 2016, the volume of gas received by TGN reached a volume of 19,272 MMm3, or, on average, 52.7 Mm3d of which, 21.0 Mm3d corresponded to the *Centro Oeste Gas Pipeline*, 21.7 Mm3 corresponded to the *Norte Gas Pipeline*, and 10.0 Mm3d corresponded to gas received in the Province of Buenos Aires. The maximum injection values in headwaters were 25.3 Mm3d in the *Centro Oeste Gas Pipeline* and 28.9 Mm3d in the *Norte Gas Pipeline*.

In the case of the *Norte* pipeline, the average injection of local producers was 6.36 Mm3d and the injection of gas imported from Bolivia averaged 15.66 Mm3d with a daily peak of 21.88 Mm3d. Between May and July of 2016, 85.9 MMm3 of LNG were injected in the *Norte Gas Pipeline* which was unloaded in Chile and then transported to Argentina through the *Norte Gas Pipeline*.

In the *Centro Oeste Gas Pipeline*, in addition to domestic production, 274.1 MMm3 of LNG were transported from Chile to Argentina by the GasAndes gas pipeline between June and August of 2016.

With respect to the injection received in the Province of Buenos Aires, average values of 7.1 Mm3d of LNG were recorded in Escobar and 3.0 Mm3d from TGS, in General Rodríguez.

TGN's firm transport agreements from the head of the gas pipelines totaled 48.19 Mm3d in 2016, corresponding 23.23 Mm3d to the *Norte Gas Pipeline* and 24.96 Mm3d to the *Centro Oeste Gas Pipeline*.

On March 30, 2017, the Ministry of Energy and TGN entered into an adequation agreement for purposes of establishing the guidelines to be applied for the adjustment of tariffs (the "RTI"). The RTI has been approved by ENARGAS on March 30, 2017 pursuant to Resolution 4363/2017 and to Resolution 74/2016 of the

Argentine Ministry of Energy and Mining. However, the RTI is conditioned to the approval from the Argentine Congress and further ratification by the Executive Branch. As of the date of this offering memorandum, the RTI has not been ratified by the Argentine Congress.

### *Transportadora de Gas del Mercosur*

TGM is an export gas pipeline that connects Aldea Brasilera in the province of Entre Ríos with Paso de los Libres in the province of Corrientes, reaching the town of Uruguayana (Brazil), through the gas pipeline of Transportadora Sulbrasilera de Gas, for the purpose of shipping gas to a 600 MW combined cycle plant in Uruguayana, in southern Brazil. The TGM pipeline is 421 kilometers long and can ship approximately 99 million cubic feet per day (2.8 million cubic meters per day), with a diameter of 24 inches. The pipeline operator is TGN. The Parent Guarantor has an interest of 21.8% in TGM. At the time of this offering memorandum the pipeline is not being used due to the constraints in the production of gas in Argentina.

### *Litoral Gas*

Litoral Gas S.A. (originally *Distribuidora de Gas del Litoral S.A.*) was organized on November 24, 1992 as a result of Law No. 24,076, enacted on June 9, 1992, which declared Gas del Estado Sociedad del Estado open to full privatization. The aforesaid law provided the Regulatory Framework for transportation and distribution of natural gas in Argentina and created the Ente Nacional Regulador del Gas (ENARGAS) with comprehensive authority to ensure compliance of the objectives of the law and to issue regulatory provisions.

Decree No. 2,455/92 of the National Executive Branch granted to Litoral Gas S.A. a license to provide gas distribution service for a period of 35 years, extendible for 10 years, from December 28, 1992.

Pursuant to Resolution ENARGAS No. 4361/17 dated March 30, 2017, ENARGAS approved the adjusted tariff charts applicable to the services rendered by Litoral Gas along with certain investment commitments and the guidelines established therein to update, if applicable, such adjusted tariffs on a semi-annual basis.

Litoral Gas distributes gas in the area consisting of the province of Santa Fe and the following segments of the northern province of Buenos Aires: San Nicolas, Ramallo, Pergamino, Colon, Bartolome Mitre, San Pedro and Baradero. This geographical area includes over 719,000 residential customers, businesses, industrial concerns, power plants, wholesalers of compressed natural gas and sub-distributors, with 1,957 kilometers of gas pipeline and 10,380 kilometers of distribution networks. The geographical area served by Litoral Gas covers 136,387 square kilometers with a population of approximately 3.8 million inhabitants. Gas delivered by Litoral Gas to customers comes from the Noroeste, Neuquina and Austral basins, distributed to customers through the Norte, Centro Oeste and General San Martin pipelines. The aforementioned first two pipelines are operated by TGN, and the third by Transportadora de Gas del Sur.

The controlling shareholder of Litoral Gas S. A. is *TIBSA Inversora S.A.* ("TIBSA"), which owns 91.66% of the stock. The remaining 8.34% belongs to individual shareholders that include employees and former employees of the company. The current partners of TIBSA are the following companies: International Power S.A., a holding company based in Belgium, fully controlled by the ENGIE Group, with a holding of 70% in TIBSA, and the Parent Guarantor, which owns the remaining 30% of the shares of TIBSA. Based on the terms of the TIBSA Shareholders Agreement, the Parent Guarantor is indirectly involved in the management of Litoral Gas.

| | **2016** | |
|---|---|---|
| **Type of client** | **Number of Clients** | **Sales in thousands of m3** |
| Residential | 680,657 | 743,855 |
| Commercial/Industrial | 31,615 | 287,552 |

| Type of client | 2016 Number of Clients | 2016 Sales in thousands of m3 |
|---|---|---|
| Sub-distributors | 23 | 132,589 |
| GNC | 175 | 278,636 |
| Large Clients | 77 | 2,565,854 |
| Liquid Petroleum Gas | 7,249 | 10,629 |
| **Total** | **719,796** | **4,019,115** |

***System 3***

The Parent Guarantor, through its subsidiary Norpower S.A. de C.V., entered into a public works agreement with PEMEX Exploración y Producción in December 2009, under which it is responsible for the integrity and reliability assurance of the pipelines of System 3, located in the states of Chiapas, Tabasco and Campeche in southeastern Mexico, which is made up of 87 pipelines (1,325 kilometers) with diameters from 4 to 36 inches, 45 Rights of Way (618 kilometers) and 73 measuring points, a laboratory and a pipeline header. The agreement includes pipeline maintenance, rights of way and measuring points, provision of technical assistant to PEMEX Exploración y Producción in reference to operation and maintenance of pipelines and performance of specific work in replacement, modification, removal, shutdown and dismantling of pipe sections, etc. The contract term is for 10 years and may be extended by agreement entered into by the parties.

The Parent Guarantor has an interest of 60% in Norpower S.A. de C.V.

## Power Generation

***Pesquería Power Plant***

In January 2014, Ternium, Tenaris and the Parent Guarantor signed a sponsor agreement to build and operate jointly a combined cycle natural gas power plant in Mexico, to supply the industrial plants of Tenaris and Ternium in Mexico. In order to carry out the project, Techgen, S.A. de C.V. was created as a variable capital corporation owned directly or indirectly by Ternium with a 48% holding, the Parent Guarantor with 30% and Tenaris with 22%.

The power plant is located in the area of Pesqueria in the state of Nuevo Leon, in northeastern Mexico and has a capacity of 900 MW.

Construction began in June 2014, and operations began in December 2016 with a demonstrated net capacity of 900 MW.

Total capital expenses for this project were approximately U.S.$1.1 billion.

The offtakers of the plant are Ternium México (78%) and Tenaris Tamsa (22%).

The power generation of the plant since the beginning of its commercial operation is set out below:

| Power Generation | | Dec/16 | Jan/17 | Feb/27 | Mar/17 | Apr/17 | May/17 | Jun/17 | Jul/17 | Aug/17 | Sep/17 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Total Monthly Generation | MWh | 491.082 | 612.920 | 583.503 | 611.225 | 583.970 | 649.939 | 608.658 | 625.122 | 624.677 | 633.307 |
| Average Generation | **MW** | **660** | **824** | **868** | **822** | **811** | **874** | **845** | **840** | **840** | **880** |

## Human Resources

The following two tables show information regarding the personnel of the Parent Guarantor over the past three years and as of September 30, 2017, the first grouped by country and the second, by functional area.

| | As of | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2017 | | December 31, 2016 | | December 31, 2015 | | December 31, 2014 | |
| Country | Number of Employees | % of Total Employees | Number of Employees | % of Total Employees | Number of Employees | % of Total Employees | Number of Employees | % of Total Employees |
| Corporate (in Argentina) | 213 | 30% | 213 | 30 | 231 | 30% | 264 | 30% |
| Argentina[(1)] | 279 | 39% | 183 | 26% | 201 | 26% | 229 | 26% |
| Perú | 3 | — | 2 | — | 6 | 1% | 9 | 1% |
| Ecuador | 155 | 22% | 157 | 22% | 175 | 22% | 193 | 22% |
| Colombia | 21 | 3% | 20 | 3% | 28 | 4% | 46 | 5% |
| Venezuela | 2 | — | 2 | — | 3 | — | 3 | — |
| Mexico | 141 | 20% | 135 | 19% | 132 | 17% | 112 | 13%% |
| USA | — | — | — | — | 7 | 1% | 17 | 2% |
| **Total** | **814** | | **712** | | **783** | | **873** | |

*Note:—*

(1) Includes the Company and APASA.

| | As of | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2017 | | December 31, 2016 | | December 31, 2015 | | December 31, 2014 | |
| | Number of Employees | % of Total Employees | Number of Employees | % of Total Employees | Number of Employees | % of Total Employees | Number of Employees | % of Total Employees |
| **Directors/Presidency** | | | | | | | | |
| Company or Business Leadership | 4 | — | 4 | 1% | 4 | 1% | 4 | — |
| Supply | 35 | 30% | 31 | 31% | 34 | 31% | 47 | 33% |
| Administration and Finances | 96 | 30% | 84 | 31% | 91 | 31% | 108 | 33% |
| Assistance | 22 | 30% | 21 | 31% | 25 | 31% | 34 | 33% |
| Systems | 46 | 30% | 36 | 31% | 39 | 31% | 45 | 33% |
| Human Resources | 47 | 30% | 48 | 31% | 51 | 31% | 54 | 33% |
| **Business Development/Commercial Planning** | | | | | | | | |
| Business and Planning | 41 | 8% | 39 | 9% | 38 | 10% | 44 | 9% |
| Business Development | 7 | 8% | 7 | 9% | 17 | 10% | 11 | 9% |
| Commercial | 20 | 8% | 19 | 9% | 21 | 10% | 26 | 9% |
| **Core Business Areas** | | | | | | | | |
| Exploration and Development | 77 | 61% | 71 | 59% | 81 | 59% | 91 | 57% |
| Engineering and Facilities | 83 | 61% | 74 | 59% | 81 | 59% | 87 | 57% |
| Operations – Electric Generation | 47 | 61% | 47 | 59% | 29 | 59% | 3 | 57% |
| Operations – Deposits | 182 | 61% | 158 | 59% | 182 | 59% | 193 | 57% |
| Drilling and WO | 75 | 61% | 46 | 59% | 59 | 59% | 86 | 57% |
| Safety and Environment | 32 | 61% | 27 | 59% | 31 | 59% | 40 | 57% |
| **Total** | **814** | | **712** | | **764** | | **873** | |

## Contractual Arrangements

The following table sets out certain information on the main contractual arrangements the Parent Guarantor is a part of outside Argentina.

| Country | Area | Type of Concession/Contract | Expiration | Participating Subsidiary | Participation | Company | Operator |
|---|---|---|---|---|---|---|---|
| **MEXICO** | Misión | COPF [(1)] | Nov. 2023 | Tecpetrol de Mexico – Burgos Oil Services SA de CV | 50% | Industrial Perforadora de Campeche S.A. de C.V. – Tecpetrol de Mexico SA de CV – Burgos Oil Services SA de CV | Servicios Múltiples de Burgos SA de CV (Operador Tecpetrol de Mexico) |
| **ECUADOR** | Libertador-Atacapi | Contract for the Provision of Services with Financing | Jan. 2027 | Tecpetrol Libertador BV – Marble Properties BV | 40% | Ice Peak Investments – Sertecpet E&P SL – Marble Properties BV | Pardaliservices S.A. (Operador Tecpetrol) |
| | Shushufindi – Aguarico | Contract for the Provision of Services with Financing | Jan. 2027 | Tecpetrol Servicios SL | 25% | Tecpetrol Servicios SL – Shushufindi Holdings BV | Consorcio Shushufindi SA (Operador Schlumberger) |
| **PERU** | Bloque 88 | License | Dec 2030 Oil Dec 2040 GnA + C | Tecpetrol del Perú SAC | 10% | Hunt Oil Company of Peru– Pluspetrol Peru Corp – Pluspetrol Camisea – Sonatrach Peru Corp– Repsol Exploracion – Tecpetrol del Peru – SK Energy | Pluspetrol Peru Corp |
| | Bloque 56 | License | Sep. 2034 Oil Sep. 2044 GnA + C | Tecpetrol Bloque 56 SAC | 10% | Hunt Oil Company of Peru– PluspetrolPeru Corp– Pluspetrol Lote 56 – Sonatrach Peru Corp – Repsol Exploracion– Tecpetrol Bloque 56 – SK Energy | Pluspetrol Peru Corp |
| **COLOMBIA** | CPO-13 | Contract of Exploration and Production | Jun. 2018 Evaluation Program 2020 Exploratory Program | Tecpetrol Colombia SAS | 100% | Tecpetrol Colombia SAS | Tecpetrol Colombia SAS |
| | CPO-7 | Contract of Exploration and Production | Feb. 2041 | Tecpetrol Colombia SAS | 100% | Tecpetrol Colombia SAS | Tecpetrol Colombia SAS |
| **BOLIVIA** | Ipati | Operating Contract | Oct. 2037 | Tecpetrol de Bolivia SA | 20% | Total E&P Bolivie – YPFB Chaco SA – GP Exp y Producción – Tecpetrol de Bolivia SA | Total E&P Bolivie |
| | Aquío | Operating Contract | Oct. 2037 | Tecpetrol de Bolivia SA | 20% | Total E&P Bolivie – YPFB Chaco SA – GP Exp y Producción – Tecpetrol de Bolivia SA | Total E&P Bolivie |

*Note:—*

(1) Currently, in transition from the Mission Assignment phase to an Exploration and Extraction Contract, under the terms of Art. 28 transitory of the Mexican Hydrocarbons Law.

## REGULATORY FRAMEWORK

*The following section summarizes the material regulations applicable to our business and operations.*

### The Oil and Gas Industry in Argentina

#### *History*

*Former Oil and Gas Regulatory Framework*

From the 1920's to 1989, the Argentine public sector controlled the activities relating to oil and gas production and sales. The Argentine oil and gas industry is regulated by Law No. 17,319, referred to as the "Hydrocarbons Law," as amended by Laws No. 26,197 and No. 27,007, which establishes the general legal framework for the exploration, production and transportation of oil and gas. The executive branch of the Argentine government issues regulations complementing these laws.

The regulatory framework of the Hydrocarbons Law was established on the assumption that the reservoirs of hydrocarbons would be national property and YPF would lead the oil and gas industry and operate under a different framework than for private companies. Prior to 1989, however, private producers operated under service agreements with YPF, providing large volumes of oil extracted under this system, delivered oil to YPF and the former SE would distribute it to the refineries. The Argentine government would establish prices for oil and sub-products, which in many cases were below international prices.

In the late 1980s, the Argentine government amended the regulatory framework applicable to the oil and gas industry to create opportunities for private sector investment.

*Deregulation of the Argentine Oil and Gas Industry*

In August 1989, the Argentine Congress enacted Law No. 23,696 (the "State Reform Law") together with Law No. 23,697 (the "Public Emergency Law"), which ordered the de-regulation of the economy and the privatization of a number of state-owned enterprises. Decrees No. 1,055/1989, 1,212/1989 and 1,589/1989 (the "Oil De-regulation Decrees"), among others, declared the public priority for the development of plans for the increase of oil and gas production in order to achieve self-sufficiency of hydrocarbons and the development of the industries related thereto, established the need for submitting to a public bid process certain areas for the (i) assignment to private companies of exploration, exploitation and development of hydrocarbons rights and (ii) the association with YPF in certain areas for the exploration, exploitation and development of hydrocarbons, declared the free availability of hydrocarbons extracted in those areas by the concessionaires, eliminated all instructions and taxes over imports and exports of hydrocarbons, established the obligation of transport concessionaires to transport hydrocarbons from other producers, as long as they have availability in the transport facilities.

*YPF Privatization*

In September 1992, the Argentine Congress enacted Law No. 24,145 which provided for the privatization of YPF (the "YPF Privatization Law"). Pursuant to the terms of this law, in January 1999, REPSOL acquired an extra 14.99% share in YPF. In June 1999, REPSOL acquired 82.5% of shares of YPF, totalling 97.5 of all YPF shares. Further, on May 2012, the Argentine Government by means of Law No. 26,741, declared the hydrocarbons sovereignty of the Argentine Republic and in order to achieve such goals, declared subject to expropriation the 51% of certain shares of YPF S.A.

The YPF Privatization Law also provided for transfer of hydrocarbon reservoirs from the Argentine government to the provinces, subject to the issuance of a specific law regulating such transfer, and also subject to the existing rights of the holders of exploration permits and exploitation concessions. The transfer of hydrocarbons reserves from the Argentine government was also recognized by the amended Constitution of 1994, and later by National Decree 546/2003. It was until 2006, when Law No. 26,197 was enacted, that the transfer was materialized.

*Gas del Estado Privatization*

In June 1992, Law No. 24,076, referred to as the "Natural Gas Law," established the basis for deregulation of natural gas transportation and distribution industries. It ordered the privatization of Gas del Estado Sociedad del Estado and opened the transportation and distribution of natural gas to private investment. Law No. 24,076 also provided for the creation of ENARGAS to administer and enforce the newly adopted regulatory framework for the transportation, distribution and sale of natural gas in Argentina. The newly regulatory structure for the natural gas industry created an open-access system, under which gas producers had open access to future available capacity on transmission and distribution systems on a non-discriminatory basis.

Cross-border gas pipelines were built to interconnect Argentina, Chile, Brazil and Uruguay, and producers have been exporting natural gas to the Chilean and Brazilian markets, to the extent permitted by the Argentine government.

***Current Framework of Argentine Oil and Gas Regulation***

On January 6, 2002, the Argentine Congress enacted Law No. 25,561 (the "Public Emergency and Exchange Regime Reform Law") and thereafter ordered, among other measures, the imposition of customs duties on the export of hydrocarbons, enabling the executive branch to set the applicable rate thereof. During the period of time starting in 2002 the Argentine authorities have adopted a number of measures restricting exports of natural gas from Argentina, including issuing domestic supply instructions (which require exporters to supply natural gas to the Argentine domestic market), issuing express instructions to suspend exports, suspending the processing of natural gas and adopting restrictions on natural gas exports imposed through transportation companies and/or emergency committees created to address crisis situations. Such measures were adopted by Resolution No. 265/2004 and 659/2004 of the Secretary of Energy, and Regulation S.S.C. No. 27/2004 from the Undersecretariat of Fuels, and further regulation issued with the objective of restraining the exports of natural gas, and the achievement of self-sufficiency of natural gas for the Argentine market.

In August 2003, Executive Decree No. 546/03 transferred to the provinces the right to grant exploration permits, hydrocarbons exploitation and transportation concessions in certain locations designated as "transfer areas," as well as in other areas designated by the competent provincial authorities.

In October 2004, the Argentine Congress enacted Law No. 25,943 creating ENARSA. The corporate purpose of ENARSA is the exploration and exploitation of solid, liquid and gaseous hydrocarbons, the transport, storage, distribution, commercialization and industrialization of these products, as well as the transportation and distribution of natural gas, and the generation, transportation, distribution and sale of electricity. Moreover, Law No. 25,943 granted ENARSA all exploration permits in respect to offshore areas located beyond 12 nautical miles from the coast and within the continental shelf that were vacant at the time.

In December 2006, the Argentine Congress passed Law No. 26,197 to amend the Hydrocarbons Law and to transfer to the provinces and the City of Buenos Aires the ownership over all hydrocarbon reservoirs (including reservoirs to which concessions were granted prior to 1994) located within their territories and in the adjacent seas up to 12 nautical miles from the coast, in accordance with Article 124 of the Argentine Constitution as amended in 1994. Law No. 26,197 also provides that the hydrocarbon reservoirs located beyond 12 nautical miles and within the continental shelf remain within the ownership of the federal government.

Pursuant to Law No. 26,197, the Argentine Congress continues to enact laws and regulations to develop oil and gas resources existing within all of the Argentine territory (including its sea), but the governments of the provinces where the hydrocarbon reservoirs are located shall be responsible for the enforcement of these laws and regulations, the administration of the hydrocarbon fields and shall act as granting authorities for the exploration permits and exploitation concessions. However, the administrative powers granted to the provinces shall be exercised within the framework of the Hydrocarbons Law and its complementing regulations.

Consequently, even though Law No. 26,197 established that the provinces are responsible for administering the hydrocarbon fields, the Argentine Congress retained its power to issue rules and regulations regarding the oil and gas legal framework. Additionally, the Argentine government retained the power to determine the national energy policy.

Law No. 26,197 provides that the Argentine government shall retain the authority to grant transportation concessions for (i) transportation concessions located within two or more provinces' territory and (ii) transportation concessions directly connected to export pipelines for export purposes. Consequently, transportation concessions which are located within the territory of only one province and which are not connected to export facilities shall be transferred to the provinces.

The SE is the Argentine government's agency in charge of enforcing the Hydrocarbons Law. However, Law No. 26,197 grants the provinces the power to: supervise and control the exploration permits and exploitation concessions, enforce legal and contractual obligations and royalties payment, and all the other powers related to the hydrocarbon areas within their territories.

The Hydrocarbons Law limits to five the number of concessions that may be held by any one entity, and also limits the total area of exploration permits that may be granted to a single entity.

On July 2013, the Argentine government issued Decree No. 929/2013, which contemplated a promotional regime for the investment in the production of hydrocarbons. Such holder of exploration permits, or exploitation concessionaires of oil and gas which fulfilled the investment requirements, would benefit from a reduction in any customs duties on the export of hydrocarbons. Decree No. 929/2013 also provided for the granting of non-conventional exploitation concessions, for a period of 25 years to which an early and simultaneous 10-year extension would be granted to such concessionaires that would be enforcing the requirements of Hydrocarbons Law.

On October 31, 2014, the Argentine Congress passed Law No. 27,007, which further modifies the Hydrocarbons Law. Article 1 of Law No. 27,007 modifies Article 23 of the Hydrocarbons Law and provides for two permit terms of three years each for conventional exploration, extendable for up to five years, so that the maximum duration of the permit is 11 years, and two four-year periods, extendable for another five-year period in the case of non-conventional exploration for a total of 13 years and a total of 14 years for conventional offshore exploration. Each exploration unit covers 100 square kilometers and permits are limited to 100 units, for a total of up to 10,000 square kilometers, or 150 units in the case of offshore permits, for a total of up to 15,000 square kilometers. If holders of an exploration permit discover commercially exploitable quantities of oil or gas, such holders will be entitled to obtain an exclusive concession for the production and exploitation of such reserves.

With regard to operating concessions, article 27 et seq. provide the following periods:

- Conventional exploitation – 25 years.
- Non-conventional operation – 35 years, which includes a pilot plan period of up to five years.
- Operation on continental shelf and offshore – 30 years.

In all cases, successive extensions may be requested for a period of 10 years each. The law sets the different amounts to be paid by the concessionaires for the extension of their concessions. Hydrocarbon royalties have been set at 12% over the production of crude oil or natural gas. As in the previous regime, the rate can be reduced by up to 5% in exceptional cases, taking into account the productivity, location and other particularities of the deposits. In successive extensions, the original royalty rate may be increased by 3% to a maximum of 18%.

### Exploration and Production

#### *Permits and Concessions*

Under the Hydrocarbons Law, the federal and/or competent provincial authorities may grant exploration permits after submission of competitive bids. The holder of an exploration permit has the exclusive right to perform the operations necessary or appropriate for the exploration of oil and gas within the area specified by the permit. Each exploration permit may cover only unproved areas not to exceed 10,000 square kilometers

(15,000 square kilometers offshore), and may have a term of up to 11, 13 or 14 years, for conventional onshore exploration, non-conventional exploration and offshore exploration, respectively.

If the holder of an exploration permit discovers commercially exploitable quantities of oil or gas, the holder has the right to obtain an exclusive 25-year or 35-year exploitation concession for the production and development of this oil and gas (depending on whether such hydrocarbons are to be extracted by using conventional or non-conventional methods from hydrocarbons deposits with certain specific permeability characteristics). The Hydrocarbons Law further provides for the concession term to be extended for up to 10 additional years, subject to terms and conditions. Under Law No. 26,197, the authority to extend the terms of current and new permits and concessions has been vested with the governments of the provinces in which the relevant area is located (and the Argentine government in respect of offshore areas beyond 12 nautical miles). Upon the expiration of the extension period, the provinces are entitled to award new concessions or contracts in respect of the relevant areas. If commercially exploitable quantities of oil or gas are discovered prior to the expiration of the exploration permit, the remaining period of time of the exploration permit may be converted and added to the corresponding exploitation concession.

An exploitation concession also confers on the holder the right to conduct all activities necessary or appropriate for the production of oil and gas, provided that such activities do not interfere with the activities of other holders of exploration permits exploitation concessions. An exploitation concession entitles the holder to obtain a transportation concession for the oil and gas produced. See "Transportation of Liquid Hydrocarbons" below.

A number of different types of concessions and agreements are currently in place in Argentina:

- exploitation concessions granted under the Hydrocarbons Law by the Argentine government or the provinces, which (a) were re-negotiated from previous exploration or production agreements, (b) were granted by YPF on marginal areas under its control, or (c) were granted after commercially viable reserves were declared as a result of an exploration permit;
- joint ventures between private sector operators and/or with public sector operators;
- exploration agreements, the majority of which have been converted into exploration permits;
- exploration permits granted under the *Plan Argentina* initiative undertaken by the Argentine government in 1992;
- exploration permits granted by provincial authorities under Law No. 26,197; and
- service agreements with the provinces for exploration, development and production on marginal areas transferred by YPF. Former YPF exploration and production permits have been converted into concessions and permits subject to the Hydrocarbons Law.

Exploration permits and exploitation concessions generally require holders to carry out all necessary work to find or extract hydrocarbons, using appropriate techniques, and to make specified investments.

***Royalties***

Under the Hydrocarbons Law, holders of exploitation concessions, including us, are also required to pay royalties to the province where production occurs. A 12% royalty, and an additional 3% extraordinary royalty in certain concessions that have been extended is payable on the value at the wellhead of crude oil production and the natural gas volumes sold. The wellhead value is calculated based on the volume and the sale price of the crude oil and gas produced, minus treatment cost, costs of transportation, storage and other deductions.

In addition to the provisions contained in the Hydrocarbons Law related to royalties to be paid by the holders of exploration permits or exploitation concessions, the Argentine government further enacted specific regulation for the settlement and payment of hydrocarbons royalties. Decree No. 1671/1969 created the basic rules for payment in cash or in kind of royalties, and provided for the national authority to be the control authority.

Further regulation enacted, separating the applicable regimes for crude oil and natural gas settlement and payment of royalties.

In the natural gas market, such payment is regulated by Resolutions of the Secretary of Energy No. 188/1993 and 73/1994, which determined the deductible expenses, and determination of the well head price of natural gas.

Within the crude oil market, Resolutions of the Secretary of Energy No. 155/1992, No. 5/2004, among others, further regulated the calculation and approved deductions for the determination of the well head price of crude oil. In addition, pursuant to Resolution SE No. 435/2004, if a concession holder allots crude oil production for further industrialization processes at its plants, the concession holder is required to agree with the provincial authorities or the former SE, as applicable, on the reference price to be used for purposes of calculating royalties.

In addition to the above, the Public Emergency and Exchange Regime Reform Law, which introduced export duties, established that such duties were not to be deducted from the export price for purposes of calculating the 12% royalties. The royalty expense incurred in Argentina is accounted for as a production cost. According to the Hydrocarbons Law, any oil and gas produced by the holder of an exploration permit prior to the grant of an exploitation concession is subject to the payment of a 15% royalty.

*Reversals*

When an exploitation concession expires or terminates, all oil and gas wells, operating and maintenance equipment and facilities automatically revert to the province where the reservoir is located or to the Argentine government in the case of reservoirs under federal jurisdiction (i.e., located on the continental shelf beyond 12 nautical miles offshore), without compensation.

In March 2007, the former SE issued Resolution No. 407/2007 which approved new regulations concerning the Oil and Gas Exploration and Production Companies Registry.

***Transportation of Liquid Hydrocarbons***

The Hydrocarbons Law permits the executive branch of the Argentine government to award 35-year concessions for the transportation of oil, gas and petroleum products following submission of competitive bids. Pursuant to Law No. 26,197, the relevant provincial governments have the same powers. Holders of exploitation concessions are entitled to receive a transportation concession for the oil, gas and petroleum products that they produce. The term of a transportation concession may be extended for an additional ten-year term upon application to the executive branch. The holder of a transportation concession has the right to:

- transport oil, gas and petroleum products; and
- construct and operate oil, gas and products pipelines, storage facilities, pump stations, compressor plants, roads, railways and other facilities and equipment necessary for the efficient operation of a pipeline system.

The holder of a transportation concession must transport hydrocarbons for third parties on a non-discriminatory basis for a fee. This obligation, however, applies to producers of oil or gas only to the extent that the concession holder has surplus capacity available and is expressly subordinated to the transportation requirements of the holder of the transportation concession. Transportation tariffs are subject to approval by the Secretariat of Hydrocarbon resources for oil and petroleum pipelines and by ENARGAS for gas pipelines.

**Oil, Gas and LPG Specific Market Regulation**

***Oil***

*Oil Exports*

Since January 2003, the price of crude oil has been affected by local regulatory and market conditions. A combination of factors including export restrictions, the inability of producers to transfer any price increases to consumers, the volatility of oil prices and the prices of refined products affect the prices we are able to obtain for our crude oil production.

Resolution No 394/2007 of the Ministry of Economy and Production imposed further restrictions on exports of crude by fixing the price for the export duties purposes, determining an increasing aliquot for crude oil which international value exceeded certain reference value. Measures as such had the effect of leaving producers indifferent when deciding between serving the local or the international market as the Argentine government would capture any extraordinary revenue that the producer could earn on exports.

Resolution No. 394/2007 was later repealed by Resolution No. 1,077/2014 of the Ministry of Economy and Public Finances, which determined new reference values for crude oil and aliquots for the calculation of export duties.

*Oil Plus, Refining Plus and Oil Encouragement Programs*

In response to a continued downward trend in crude oil production, on November 25, 2008 the Argentine government issued Decree No. 2,014/2008 which created the *Petróleo Plus* ("Oil Plus") and *Refinación Plus* ("Refining Plus") programs, aimed at increasing reserves and production, respectively, through transferable tax credits which may be used to pay export duties on crude oil, natural gas and derivative products.

Pursuant to Decree No. 2,014/2008, works undertaken by hydrocarbon producers to (i) explore and develop new oil fields; (ii) increase production capacity; and (iii) incorporate new production and development technology in existing fields, may allow these producers to obtain tax breaks related to such projects or, alternatively, allow for accelerated amortization of works and equipment included in the project for the purpose of income tax determination.

In 2012, the Argentine government announced the suspension of its Oil Plus and Refining Plus programs, based on changes in the market conditions under which these programs were established in 2008. On July 13, 2015, the Argentine government, Through Decree No. 1,330/2015, declared the end of the "Oil Plus" program, establishing a compensation payable in bonds issued by the Argentine government (BONAR 2018 and BONAR 2024) for accrued tax credits not paid under said program.

In February 2015, the SE Resolution No. 14/2015 was published, creating the Programa de *Estímulo a la Produccion de Petróleo* (the "Oil Encouragement Program"). Companies that participate in the Oil Encouragement Program, agreed to a minimum production (the "Base Production") and could expect to receive U.S.$3.00/Bbl or U.S.$2.00/Bbl (depending if it was for the domestic market or for export) for any Bbl in excess of the Base Production up to a maximum price per Bbl of 70 U.S.$/Bbl for Escalante oil and U.S.$84.00/Bbl for Medanito oil.

Exports of crude oil were also subject to encouragement programs providing that the international prices for crude oil were significantly lower than those processes for local sales of crude oil within the Argentine market of consumption. The Ministry of Energy and Mining enacted Resolution No. 21/2016 by which, for certain international crude oil prices, any barrel of crude oil Escalante exported, which was produced from the *Golfo San Jorge* basin, would be granted an additional U.S.$7.50.

Certain Argentina provinces also created programs for the stimulus of exports as a measure to maintain oil production levels and compensate producers for the international prices compared to local prices of crude oil. The Province of Chubut, through Decree No. 442/2016, and subject to the negotiation and execution of a specific agreement with each concessionaire, agreed to grant an additional amount of U.S.$2.50/Bbl of crude oil exported from exploitation areas located in the Province of Chubut between January and December 2015.

***Recent Measures***

On January, 11, 2017 certain producers and refiners, within the scope of controllership of the Argentine Government signed the "Agreement for the Transition to International Prices of the Argentina Hydrocarbon Industry" establishing a price scheme in order for the price of the barrel of oil produced in Argentina to track international prices during 2017. However, on September 22, 2017 the Ministry of Energy and Mining notified that certain conditions under the agreement were fulfilled and therefore, since October 2017 the commitments under the agreement are suspended.

On March 20, 2017, the Argentine Government through Decree No. 192/2017, created the "Crude Oil and its Derivatives Registry" requiring a specific authorization of the Energy Secretariat to proceed with an importation of crude oil or of certain specific derivatives.

*Natural Gas*

The Natural Gas Law governs distribution and transportation of natural gas considering them public services and seeks to: (i) protect the interest of gas users; (ii) promote a competitive market; (iii) regulate the sale, transport and distribution of natural gas; (iv) ensure sufficient supply to the internal market; (v) establish fair tariffs; (vi) promote long-term investment; and (vii) ensure safe and efficient transport and distribution.

Furthermore, the Natural Gas Law forbids transport companies from purchasing or selling natural gas and prohibits certain forms of cross-ownership among transporters, distributors and retailers in a way which would allow them or their affiliates to control more than one type of such entities.

The restrictions imposed by the Argentine government after 2002 on the operation of the free market resulted in decreased investment in exploration and development while demand for natural gas picked up strongly as the economy recovered.

In February 2004, Executive Decree No. 180/2004 introduced substantial reforms to the regulatory framework. It (i) established a fiduciary fund for investments related with expanding natural gas transport and distribution facilities; (ii) created the *Mercado Electrónico del Gas* (MEG) (electronic gas trading market) for the trade of daily spot sales of gas; (iii) adopted measures to improve the natural gas market efficiency; (iv) approved a mechanism to interrupt supply when distribution companies observe certain restrictions in the system; (v) authorized the former SE to create categories of consumers requiring them to purchase gas directly from producers; and (vi) established information duties for buyers and sellers of natural gas in relation to their respective commercial operations, required as a condition to be authorized to inject into and transport through the transportation system any volume of natural gas. According to Executive Decree No. 180/04, all daily spot sales of natural gas must be traded within the MEG.

In February 2004, Executive Decree No. 181/04 authorized the former SE to negotiate with natural gas producers a pricing mechanism for natural gas supplied to industries and electric generation companies. On April 2, 2004, the former SE and gas producers signed an agreement which was ratified by Resolution No. 208/04 issued by the former Ministry of Federal Planning, Public Investment and Services. The aim of the agreement was to implement a scheme for the normalization of natural gas prices following the 2001 crisis. This agreement expired on December 31, 2006.

On June 14, 2007, Resolution No. 599/07 of the former SE approved an agreement with natural gas producers regarding the supply of natural gas to the domestic market for the period 2007 through 2011 (the "Propuesta de Acuerdo," or "Gas Agreement"). The Gas Agreement established domestic sale volumes and subordinated exports of natural gas to the prior satisfaction of internal demand.

The former Ministry of Federal Planning, Public Investment and Services, by its Resolution No. 459/07 of July 12, 2007, created the "Total Energy Program," which was designed to mitigate shortages of gas and electricity during the Argentine winter of 2007. The program encouraged industrial users to substitute natural gas and electricity use with diesel and fuel oil.

The former SE created, by its Resolution No. 24/2008 issued on March 6, 2008, a program named "Gas Plus" to encourage natural gas production resulting from new reserves discoveries, new fields and tight gas, among other factors. The natural gas produced under the Gas Plus program and sold to the domestic market will not be subject to the Gas Agreement and will not be subject to the price conditions established under such Agreement. Under this program, gas producers can put forward to the former SE proposals with a view to increase production and reserves in areas (i) not previously under production; (ii) currently under production, which have certain geological characteristics (i.e., tight gas); and/or (iii) which have not been under production since 2004 and on which new fields have been discovered after the issuance of Resolution No. 24/2008. Such proposals must be approved by the former SE and the former *Ministerio de Planificación Federal, Inversión Pública y Servicios*. Natural gas sold under these proposals must be sold internally, its price includes associated costs and a reasonable level of profit and it is not subject to the Gas Agreement.

In February 2013, the Hydrocarbons Commission published Resolution No. 1/2013, creating the Natural Gas Stimulus Program, the objective of which was to evaluate and approve projects that contribute to the national self-sufficiency of hydrocarbons, through the increase in the production and injection of gas in the national market, as well as projects that generate greater levels of activity, investment and employment in the sector.

In November 2013, the Planning and Strategic Coordination Commission of the National Hydrocarbon Investment Plan issued Res 60/13 (later amended by Resolutions N ° 22/2014 and N ° 139/2014), which created a new "*Programa de Estímulo a la Inyección de Gas Natural para Empresas de Inyección Reducida*" to which companies that had an average injection of less than 3.5 million m3d could apply. Access to the program has to be approved by that committee. In general, the program establishes a scheme of compensations to be paid over natural gas prices, which is applied in a gradual and progressive manner depending on the surplus production of each company over its adjusted base injection (base injection = injection from July to December 2013). The compensation values vary from U.S.$4.00/MMBTU to U.S.$7.50/MMBTU depending on the level of injection over the average base injection. The federal government pays this compensation quarterly and in pesos. The companies that enter such program assume the commitment to either inject at least the adjusted base injection, or to pay the federal government the import price of the missing volume which is calculated based on the import price of liquefied natural gas during the previous six months. This program has a term of four years with the possibility of a one-year extension subject to the authorization of the commission. The cut-off date to apply to participate in the plan was March 31, 2014. We were accepted as beneficiary of this program through Resolution N° 21/2014 of this commission.

We have obtained SE approval for Gas Plus projects to be developed in our *Aguaragüe* and *Ramos* areas in the Noroeste basin, *Agua Salada, Fortín de Piedra* and *Los Bastos* areas in the Neuquina basin, and in the *El Tordillo, Lomita de la Costa* and *Estancia La Mariposa* areas in the gulf of San Jorge. As of the date of this offering memorandum, the approved projects from which the Company extracts natural gas production are the following:

| Project | Res SE N° | File N° |
|---|---|---|
| ***Los Bastos*** | | |
| *Punta Senillosa*.......................................................... | 249/2010 | EXP-S01:0451987/2008 |
| *Las Chivas Profundo*................................................. | 253/2010 | EXP-S01:0451993/2008 |
| *Pampa del Tino* ........................................................ | 251/2010 | EXP-S01:0452000/2008 |
| *Puesto Parada*.......................................................... | 256/2010 | EXP-S01:0451959/2008 |
| *Puesto Auga del Sembrado* ...................................... | 259/2010 | EXP-S01:0451954/2008 |
| *Puesto La Miranda*................................................... | 161/2011 | EXP-S01:0004191/2011 |
| *Cañadon de la Polvareda*.......................................... | 211/2011 | EXP:S01:0004169/2011 |
| ***Agua Salada*** | | |
| *El Viejo Bombeo*....................................................... | 252/2010 | EXP-S01:0451985/2008 |
| *Aguada de los Indios*................................................. | 815/2010/200/2011 | EXP-S01:0037281/2010 |
| *Jaguel del Moro* ....................................................... | 953/2015 | EXP-S01:0046190/2015 |
| ***Fortín de Piedra*** | | |
| *Fortín de Piedra*....................................................... | 579/2015 | EXP-S01:0043396/2014 |
| ***Aguarague*** | | |
| *Side Track Ag.ap-1001*............................................. | 319/2010 | EXP-S01:0451944/2008 |
| *Campo Durán-1007* .................................................. | 85/2012 | EXP-S01:0327236/2011 |
| ***Ramos*** | | |
| *Ramos xp-1012*.......................................................... | 1104/2008 | EXP-S01:0440364/2010 |
| ***Estancia La Mariposa*** | | |
| *Estancia La Mariposa* ............................................... | 389/2014 | EXP-S01:0109912/2012 |

On May 20, 2016, through Decree No. 704/16, the issuance by the Argentine government of dollar denominated bonds, BONAR 2020, was authorized to cancel outstanding debts under the Natural Gas Stimulus Program and the Natural Gas Stimulus Program for Reduced Injection Companies as of December 31, 2015. Such decree also established certain restrictions on the transferability of such bonds until December 2017 and requires that certain information be submitted on a monthly basis.

In April 2016, the Ministry of Energy and Mining issued Resolution No. 41/2016, which established the new prices at the entry point for the natural gas transport system for each basin of origin, thus establishing a price of U.S.$5.53 MMbtu for the Neuquina basin, U.S.$4.93 MMbtu for the Noroeste basin and U.S.$4.84 MMbtu for the gulf of San Jorge basin for the acquisition of natural gas for the generation of energy to be commercialized within the scope of the WEM or, generally, for the provision of the public electricity distribution service.

Subsequently, on October 10, 2016, the Ministry of Energy and Mining through Resolution No. 212/E2016 updated the new rate tables of the natural gas service. To this end, ENARGAS was instructed to, based on the economic and financial situation of the licensing companies and the Integral Tariff Review, apply an adjustment of the current transition tariffs of the Gas Natural Public Transport and Distribution Services. In this sense, the ENARGAS published a series of resolutions through which it details the tariff tables for the different carriers and distributors of natural gas.

On February 15, 2017, the Ministry of Energy and Mining issued Resolution No. 29-E/2017, calling for public hearings on March 10, 2017. Between March 30, 2017 and April 4, 2017, ENARGAS issued the corresponding resolutions updating the tariffs applicable to the licensing companies, both for the natural gas public transport and distribution segments. The new tariff scheme will be applied gradually in the following way: 30% by April 1, 2017, 40% by December 1, 2017 and 30% by April 1, 2018.

***Natural Gas Export Restrictions and Domestic Supply Priorities***

According to Decree No. 893/2016, the Natural Gas Law subjects gas exports to the approval of the Ministry of Energy and Mining in order to ensure local supply is not affected.

In March 2004, the former SE issued Resolution No. 265/04 adopting measures intended to ensure the adequate supply of natural gas to the domestic market and regulate its consequences on electricity wholesale prices. Among the measures adopted were:

- the suspension of all exports of surpluses of natural gas;
- the suspension of automatic approvals of requests to export natural gas;
- the suspension of all applications for new authorizations to export natural gas filed or to be filed before the SE; and
- authorizing the Undersecretariat of Fuels to create a rationalization plan of gas exports and transportation capacity.

In March 2004, the Undersecretariat of Fuels, pursuant to the authority given to it under Resolution No. 265/04, issued Regulation S.S.C. No. 27/04 establishing a rationalization plan of gas exports and transportation capacity. Among other things, Regulation No. 27/04 established a limit on natural gas export authorizations, which, absent an express authorization by the Undersecretariat of Fuels, might not be executed for volumes exceeding exports registered during 2003.

In June 2004, the former SE issued Resolution No. 659/04, which established a new program to assure natural gas supply to the domestic market (which substitutes for the program created by Regulation No. S.S.C. 27/04). Under SE Resolution No. 659/04 (amended by Resolution No. 1,681/04), natural gas exports may be restricted due to shortages of natural gas in the domestic market, and exporting producers may be required to supply additional volumes of natural gas to the domestic market beyond those that they are contractually committed to supply. The export of natural gas under current export permits is conditioned on the fulfillment of additional supply requirements imposed on exporting producers by governmental authorities.

This program was further amended and supplemented by Resolution No. 752/05 issued by the former SE in May 2005, which further reduced the ability of producers to export natural gas, and created a mechanism under which the former SE may require exporting producers to supply additional volumes to domestic consumers during a seasonal period (Permanent Additional Supply), which volumes of natural gas are also not committed by the exporting producers.

Resolution No. 752/05 also establishes (i) a special market, open and anonymous, for compressed natural gas stations to purchase natural gas under regulated commercial conditions, with the demand being ensured by the former SE through Permanent Additional Supply required of exporting producers, and (ii) a mechanism of standardized irrevocable offers for electric power generators and industrial and commercial consumers to obtain supply of natural gas, with the demand being ensured by the former SE through the issuance of the Permanent Additional Supply mentioned above.

Pursuant to the standardized irrevocable offers procedure mentioned above, which operates at the MEG, any direct consumer may bid for a term gas purchase at the export average gas price net of withholdings by basin. The volume necessary to satisfy the standardized irrevocable offers which have not been satisfied will be required as a Permanent Additional Supply only until the end of the seasonal period during which the unsatisfied requests should be made (October–April or May–September). Such Permanent Additional Supply will be requested from the producers that export gas and that inject the natural gas from the basins that are able to supply those unsatisfied irrevocable offers. Resolution of the former SE No. 1,886/2006, published on

January 4, 2007, extended the term of effectiveness of this mechanism of standardized irrevocable offers until 2016, and empowered the Undersecretariat of Fuels to suspend its effectiveness subject to the satisfaction of internal demand of natural gas achieved by means of regulations, agreements or due to the discovery of reserves.

By means of Resolution No. 1,329/06, later supplemented by Note SSC No. 1,011/07, the former SE forced producers to give first priority in their injections of natural gas into the gas pipelines to certain preferential consumers and requires transportation companies to guarantee these priorities through the allocation of transportation capacity. In general, these regulations subordinate all exports of natural gas to the prior delivery of natural gas volumes that are sufficient to satisfy domestic market demand.

***Natural Gas Imports***

Executive Decree No. 2,067/2008 of December 3, 2008, created a fiduciary fund to finance natural gas imports destined for supply to the national grid, when required to satisfy internal demand. The fiduciary fund comprises: (i) various tariff charges paid by users of regular transport and distribution services, gas consumers that receive gas directly from producers and companies that process natural gas; (ii) special credit programs that may be arranged with domestic or international organizations; and (iii) specific contributions by participants of the natural gas industry.

On November 14, 2011, ENARGAS Resolution No. 1,982/2011 increased the amount to be received by the trust fund created by Decree No. 2,067/08 as of December 2011, and expanded the included customer base.

By Resolution of the Ministry of Energy and Mining No. 28/2016, a new natural gas price scheme was established, invalidating the acts of the former Ministry of Federal Planning, Public Investment and Services, issued within the framework of Article 6 of Decree 2067/08 which authorized the agency to set the value of the tariff charges intended to integrate the fund and adjust them. Further, the eligibility criteria to be a beneficiary of the social tariff were established and later modified pursuant to a different resolution.

***Stimulus for Investment in Non-conventional Gas Production Reservoirs: Resolution 46-E/2017***

On March 2, 2017, the Ministry of Energy and Mining issued Resolution No. 46-E/2017, which created the "*Programa de Estímulo a las Inversiones en Desarrollos de Producción de Gas Natural proveniente de Reservorios No Convencionales*" (Program to Stimulate Investments in Natural Gas Production Developments from Non-conventional Reservoirs), aimed at encouraging investments for the production of natural gas from non-conventional areas in the Neuquina basin.

Under the program, which will be in place from January 1, 2018 until December 31, 2021, companies that wish to take part must comply with the following: be located in the Neuquina basin, have non-conventional production permits will have to register with the National Oil company Register and provide a specific investment plan which needs to be approved by the applicable provincial authority and the Secretariat of Hydrocarbons in order to be incorporated to the program.

Compensation under the program is calculated over the production of non-conventional gas to be marketed, that is, the natural gas already conditioned for it to be in commercial condition, excluding the internal consumption in the field and taking into account the difference between the effective price (weighted average price of the sales of natural gas from each company in the domestic market) and the minimum price.

The minimum price shall be: (i) U.S.$7.50/MMBTU for the calendar year 2018, (ii) U.S.$7.00/MMBTU for the calendar year 2019, (iii) U.S.$6.50/MMBTU for the calendar year 2020, and (iv) U.S.$6.00/MMBTU for the calendar year 2021.

On November 2, 2017, Resolution No. 419-E/2017 was published in the Official Gazette, partially modifying the terms of the Resolution 46-E Stimulus Program. Among other modifications, Resolution MINEM 419/17-E17 clarified the possibility that non-conventional gas production permits from conventional reservoirs in the Neuquina Basin that are in the development stage may also fall within the Resolution 46-E Stimulus Program, provided they demonstrate an increase in production compared to current production levels, and result in committed investments comparable to those of projects in the development stage. Therefore, Resolution MINEM 419-E/17 distinguishes between exploitation permits with production – measured between June 2016 and July 2017– lower or higher than 500,000m3/d. The Resolution clarifies that that for production permits with production equal to or higher than 500,000m3/d, the benefits of the Resolution 46-E Stimulus Program will only apply to production volumes greater than the initial production of the production permit. In addition, Resolution MINEM 419-E 17 specifies that no benefit will be granted to production permits that do not reach an average production higher than 500,000 m3/d during any consecutive twelve month-period before December 2019.

In addition, Resolution MINEM 419-E/17 stipulates that the benefit of the Resolution 46-E Stimulus Program will be calculated as the difference between the guaranteed minimum price (set at: (i) U.S.$7.50/MMBTU for calendar year 2018, (ii) U.S.$7.00/MMBTU for calendar year 2019, (iii) U.S.$ 6.50/MMBTU for calendar year 2020, and (iv) U.S.$ 6.00/MMBTU for calendar year 2021) and the weighted average monthly price by volume of total natural gas sales in Argentina published by the Secretary of Hydrocarbon Resources. Resolution MINEM 419-E/17 defines the guidelines considered by the Secretariat of Hydrocarbon Resources to determine the weighted average monthly price by volume of total sales of natural gas in Argentina. Thus, the potential termination events for eligibility to the Resolution 46-E Stimulus Program have been adjusted to the new mechanisms and criteria set forth.

88% of the compensation to be received under the Resolution 46-E Stimulus Program will be paid by the regulatory authority to the companies which have enrolled in the Resolution 46-E Stimulus Program and the remaining 12% will be paid to the provinces where the non-conventional production areas which are part of the program are located. Likewise, the Resolution 46-E Stimulus Program foresees provisional payments equivalent to 85% of the corresponding compensation, based on projections made by the participating company. The first interim payment shall be made before the last business day of the month following approval of the company into the Resolution 46-E Stimulus Program (or of approval of a new production permit into the Resolution 46-E Stimulus Program) or the month of February 2018, whichever applicable. Said provisional amount will be adjusted based on affidavits from the relevant company.

On November 2, 2017, we filed a ratification to our application under the Resolution No. 46-E Stimulus Program, including the additional information required by Resolution MINEM 419-E/17. On November 8, 2017, Tecpetrol S.A was notified of the passing of Resolution RESOL-2017-271-APN-SECRH # MEM of the Secretariat of Hydrocarbon Resources under the Ministry of Energy and Mining, which approved admitting us, in our capacity as production concession holder in the *Fortín de Piedra* area, located in the Province of Neuquén, to the *Programa de Estímulo a las Inversiones en Desarrollos de Produccion de Gas Natural proveniente de Reservorios No Convencionales* (Program to Stimulate Investments in Natural Gas Production Developments from Non-conventional Reservoirs), instituted by Resolution No. 46/2017 of the Ministry of Energy and Mining dated March 2, 2017, and modified by Resolution MINEM 419-E/2017.

***LPG***

Law No. 26,020, promulgated on March 9, 2005, establishes the regulatory framework for the industry and commercialization of LPG, being the former SE the regulatory authority. This law controls the production, bottling, transport, storage, distribution and commercialization of LPG in Argentina and considers such activities of public interest, in light of assuring regular, reliable and reasonable supply of LPG for the low-income segments which no access to the distribution net of natural gas.

Law No. 26,020 includes all the parties involved in the production, distribution, transport, services and sales of LPG in Argentina. This law establishes the principle of free access to the industry and market of LPG, as well as the free import of LPG and certain restrictions on exports, which can only be approved if the domestic supply is not affected.

Disposition No. 168/05 of the Secretariat of Hydrocarbons establishes that the companies that wants to export LPG must first obtain the approval of the former SE and shall prove that the domestic demand has been satisfied or that they have offered to sale LPG in the internal market and the offers have been rejected.

# MANAGEMENT OF THE COMPANY

Our board of directors is in charge of the administration of the Company, according to the provisions of our by-laws, the Argentine Companies Law and the Argentine Capital Markets Law.

Our by-laws provide that the board of directors may be composed of not less than three directors and no more than five directors, each of which shall be appointed by the ordinary shareholders' meeting for the term of one year and can be reelected indefinitely. According to section 10 of our by-laws, the Supervisory Committee is entitled to elect alternate directors, in order to cover possible absences, resignations and impediments of the regular directors.

Our board of directors is currently composed of five directors elected by the shareholders' meeting held on May 15, 2017, and three alternate directors elected by the supervisory committee's meeting held on May 15, 2017.

Except for our by-laws there are no other agreements related to our administration and direction.

According to our by-laws and the Argentine law, the board of directors must meet at least once every three months. Quorum for a meeting of the board of directors requires the presence of the majority of the directors attending the meeting, and the board of directors' resolution shall be adopted by the affirmative vote of the majority of the directors attending the meeting. In the case of a tied vote, the president shall have the casting vote.

According to section 59 of the Argentine Companies Law, directors have the obligation to perform their duties with the loyalty and the diligence of a prudent businessman. Directors are jointly and severally liable to the corporation, the shareholders and third parties for the improper performance of their duties, for any violations of law, our by-laws or regulations, if any, and for any damage to such parties caused by fraud, abuse of authority or gross negligence. The following principles are included within a director's duty of loyalty: (i) prohibition on the use of corporate assets and confidential information for private purposes; (ii) prohibition on taking advantage, or allowing another person to take advantage, either by action or omission, of business opportunities of the company; (iii) obligation to exercise the board of directors' powers only for the purposes for which the law, the corporation's bylaws or the shareholders' or the board of directors' resolutions were intended; and (iv) obligation to take strict care so that acts of the board do not contradict, directly or indirectly, our interests. Directors must inform the board of directors and the Supervisory Committee of any conflicting interest that such director may have in a proposed transaction and abstain from voting thereon.

The Argentine Capital Markets law provides that members of the board of directors must comply with two additional duties: (i) duties related to the public offering of the securities of the Company, by virtue of which the directors must inform the CNV of any event or circumstance related to the Company that may have a material effect on the subscription of the securities or in the course of their negotiation; and (ii) the duty of secrecy, which implies that the directors (in addition to other relevant officers and employees) must keep strict confidentiality and refrain from negotiating with the Company's securities, in case they have access to confidential information related to the Company which, as a result of its relevance, may affect the price of the securities of the Company.

A director shall not be responsible for the decisions taken in a board of directors' meeting as long as he or she states his or her opposition in writing and informs the supervisory committee before any claim arises. A director's decision approved by the company's shareholders releases that director of any responsibility for his decision, unless shareholders representing 5% or more of the company's capital stock object to that approval, or the decision was taken in violation of applicable law or the company's by-laws. The company is entitled to file legal actions against a director if a majority of the company's shareholders at a shareholders' meeting request that action. If such action is not initiated within a three-month term counted as from the date the resolution of shareholders' meeting approved the filing of legal actions, any shareholder will be entitled to file legal actions on behalf of the company.

As of the date of this offering memorandum, the members of our board of directors, who were elected by our shareholders at the ordinary and extraordinary meeting held on May 15, 2017, are as set forth below:

| Name[(1)] | Position | Date of Birth | Designated | Expires |
|---|---|---|---|---|
| Carlos Arturo Ormachea | President | December 12, 1950 | May 15, 2017[(2)] | December 31, 2017[(2)] |
| Horacio Daniel Marin | Vice President | May 8, 1963 | May 15, 2017[(2)] | December 31, 2017[(2)] |
| Alicia Lucia Mondolo | Director | October 25, 1958 | May 15, 2017[(2)] | December 31, 2017[(2)] |
| Juan Jose Mata | Director | April 3, 1963 | May 15, 2017[(2)] | December 31, 2017[(2)] |
| Ricardo Miguel Markous | Director | August 14, 1956 | May 15, 2017[(2)] | December 31, 2017[(2)] |
| Carlos Guillermo Pappier | Alternate Director | March 29, 1961 | May 15, 2017[(2)] | December 31, 2017[(2)] |
| Jorge Perczyk | Alternate Director | January 2, 1963 | May 15, 2017[(2)] | December 31, 2017[(2)] |
| Marcelo German Martinez Mosquera | Alternate Director | October 26, 1951 | May 15, 2017[(2)] | December 31, 2017[(2)] |

*Notes*:—

(1) "Not independent" pursuant to CNV Rules.

(2) The directors are appointed at our annual general ordinary shareholders' meeting for a one-year term and/or until the ordinary shareholders' meeting which consider the financial statements as of December 31, 2017 is held.

The following is a brief description of the relevant background and experience of each member of our board of directors:

*Carlos Arturo Ormachea.* Mr. Ormachea graduated in Economics from the Economic University of La Plata. He holds a Master's degree in management from the University of Stanford. He is also the President of Tecpetrol International S.A. and Tecpegas S.A., and Director of Santa María S.A.I.F. Previously, he was director of Gasinvest S.A., Transportadora de Gas del Norte S.A. and President of Tecpetrol de Bolivia S.A. Currently he is our Chief Executive Officer.

*Horacio Daniel Marin.* Mr. Marin graduated as a chemical engineer from the University of La Plata. He holds a Master's degree in oil engineering from the University of Texas, Austin. He held several positions in the Techint Group, and currently he is our General Director of Exploration and Production, President of Dapetrol S.A. and Director of *Consorcio Shushifindi S.A.*, Pardaliservices S.A., Tecpecuador S.A., Tecpeservices S.A., Tecpetrol Colombia S.A.S. and Tecpetrol de Bolivia S.A.

*Alicia Lucia Mandolo*. Ms. Mandolo is a Certified Public Accountant form the University of La Plata. Ha held several positions in the Techint Group. Currently she is the President of Tecpetrol International S.A., Tecpetrol Servicios S.L.U., Santa María S.A.I.F., *Santma Inversora S.A.*, Finma S.A.I.F., ARHSA S.A., Techint Investments S.A. and Suizum S.L.U.; Director of Tecpetrol International S.A. and alternative Director of Siderar S.A.I.C and Tecpecuador S.A.

*Juan Jose Mata*. Mr. Mata is a Certified Public Accountant from the Catholic University of Buenos Aires and holds a degree in finance from the Torcuato Di Tella University. Since 1983 Mr. Mata held several positions in the Techint Group, and he is currently our Chief Financial Officer, Director of Dapetrol S.A., Energy Consulting Services S.A., Consorcio Shushufindi, Pardaliservices S.A., and Tecsip S.A., Consultant of Servicios Libertador S.L. and Servicios Múltiples de Burgos S.A. de C.V.; Alternate Director of Techint S.A., Gasinvest S.A., ARHSA S.A. and *Transportadora de Gas del Norte S.A.*, Tecpetrol Colombia S.A.S. and Syndic of Transportadora de Gas del Mercosur S.A.

*Carlos Guillermo Pappier*. Mr. Pappier is a Certified Public Accountant from the University of La Plata. He holds a Master's degree in Management from the University of Stanford. He held several positions in Tenaris and other companies of the Techint Group. He initiated his career in 1984 as Finance Director of Siderar. In 2006 he became Director of Planning of Tenaris and in 2010 Director of Process and Information Technology. Currently, he is our General Corporate Director, Director of Tecpetrol International S.A., and Alternate Director of Gasinvest S.A, Transportadora de Gas del Norte S.A., Tecpeservices S.A., Tecpetrol Colombia S.A.S, and Tecpetrol de Bolivia S.A.

*Jorge Perczyk.* Mr. Perczyk is an Industrial Engineer from the University of Buenos Aires and holds a degree in administration from the University of Bridgeport, Connecticut. He held several positions in the

Techint Group and he currently is our Director of Planning and Control and Director of Dapetrol S.A, Tecpetrol de Bolivia S.A. and Tecpower S.A.

*Marcelo German Martinez Mosquera*. Mr. Martinez Mosquera graduated as an engineer from the University of Buenos Aires. During 30 years in the Techint Group he held the following positions: President of Dapetrol S.A., Gasinvest S.A., Tecgas Argentina S.A. and Litoral Gas S.A., Vice-president of Tibsa Inversora S.A. and Director of Transportadora Gas del MERCOSUR and Transportadora de Gas del Norte S.A.

### Management

The table below sets forth our senior managers as of the date of this offering memorandum.

| Name | Position | Date of Birth |
|---|---|---|
| Carlos Arturo Ormachea | Chief Executive Officer and President | December 27, 1950 |
| Horacio Daniel Marín | E&P Managing Director | May 8, 1963 |
| Ricardo Miguel Markous | Business Development Managing Director | August 14, 1956 |
| Carlos Guillermo Pappier | General Corporate Director | March 29, 1961 |
| Jorge Perczyk | Planning and Control Director | January 2, 1963 |
| Jorge Dimopulos | Business Development E&P Director | June 3, 1970 |
| Javier Gutiérrez | Global Director of Operations | April 18, 1957 |
| Carlos Macellari | Director of Exploration and Development | April 16, 1953 |
| Juan José Mata | Chief Financial Officer | April 3, 1963 |
| Pablo Ledesma | Director of Human Resources | January 22, 1973 |

The following is a brief biographical description of our senior managers, other than those who are also members of our board of directors:

*Javier Gutiérrez*: Mr. Gutierrez graduated as a chemical engineer from Tulane University, New Orleans. He holds an MBA from The Houston Baptist University. Currently he is our Global Director of Operations.

*Jorge Dimopulos*: Mr. Dimopulos holds a degree in economics from the University of Buenos Aires and a Master's degree in economics and finance from UCEMA. In 2006, he became the Planning and Control Director of the Company and later our CFO. He is currently our Business Development E&P Director, Consultant in Servicios Libertador S.L, and Alternate Director in Gasinvest S.A. and *Transportador de Gas del Norte S.A.*

*Carlos Macellari*: Mr. Macellari holds a degree in Geology from University of La Plata. He holds a Master's degree from The Ohio State University. He is currently our Director of Exploration and Development.

*Pablo Ledesma*: Mr. Ledesma graduated as an Industrial engineer from the *Instituto Tecnológico* of Buenos Aires. He is currently our Human Resources Director and is Director of Americas Petrogas Argentina S.A, Alternate Director of Pardaliservices S.A., and Alternate Consultant of Norpower S.A. de C.V.

### Supervisory Committee

Our by-laws provide for a Supervisory Committee composed of three statutory members, each of which is appointed at our annual general ordinary shareholders' meeting for a one-year term. The annual general ordinary shareholders' meeting can additionally appoint alternate members to the Supervisory Committee.

The Supervisory Committee is the responsible to ensure that all the activities of the Company are performed in compliance with applicable law.

As of the date of this offering memorandum, the members of our Supervisory Committee are the following:

| Name[1] | Position | Date of Birth | Designated | Expires[2] |
|---|---|---|---|---|
| Ricardo Juan Pedro Soler | Supervisory | April 19, 1951 | May 2017 | December 31, 2017 |
| Claudio Renato Hirschler | Supervisory | March 18, 1947 | June 2017 | December 31, 2017 |
| Pablo Rodolfo Stampalia | Supervisory | August 12, 1960 | May 2017 | December 31, 2017 |

*Notes*:—

(1) "Independent" pursuant to CNV Rules.

(2) The supervisors are appointed at our annual general ordinary shareholders' meeting for a one-year term and/or until the ordinary shareholders' meeting which considers the financial statements as of December 31, 2017 is held.

The following is a brief description of the relevant background and experience of each member of our Supervisory Committee:

*Ricardo J. Pedro Soler*: Mr. Soler holds a degree in Business Administration from the Argentine Catholic University. He holds a Master's degree in Science of Management from the University of Stanford.

*Claudio R. Hirschler*: Mr. Hirschler holds a degree in Economy from the University of Buenos Aires. He held several executive positions in hydrocarbon companies and he acted as an independent consultant in renewable energy and industrial projects in Latin America regarding the replacement of fuel-oil and GLP by the use of natural gas.

*Pablo Rodolfo Stampalia*: Mr. Stampalia holds a degree in Industrial Engineer from the University of Buenos Aires. He also holds a degree in Development from the IAE.

## Compensation

The shareholders' meeting of the Company decides the compensation of the members of the board of directors, subject to the limits provided in section 261 of the Argentine Companies Law. Every year, a shareholders' meeting is held within a four-month period following the end of the relevant fiscal year in order to consider the financial statements and decide the compensation payable to its directors, among other issues.

Section 261 of the Argentine Companies Law provides that the maximum compensation payable to all directors, including salaries and other compensations for technical or administrative permanent activities, shall not exceed 25% of the net profit for such fiscal year. Such amount is reduced to 5% if the company is not paying dividends in respect of such net profit and it is increased through a proportional distribution up to the limit of 25% of the net profit for such fiscal year. When one or more directors perform special tasks or technical or administrative activities, and there are no earnings to distribute, or they are insufficient, the shareholders meeting may approve compensation in excess of such limit. The excess of such limit must be expressly included in the agenda of the shareholders' meeting.

Total compensation for services paid by us to our board members, senior management and members of the Supervisory Committee was approved in our ordinary and extraordinary shareholders' meeting held on May 15, 2017 and totaled Ps.1.10 million for the fiscal year ended December 31, 2016. In this case the amount approved exceeded the limit of the 5% of the profits provided by section 261 of the Argentine Companies Law and the regulations of the CNV, but the excess was the result of the performance of technical-administrative functions, the time spent in such tasks, the professional competence and reputation as well as the market value of the services rendered. The excess of the limit provided in the Argentine Companies Law and the regulations of the CNV was expressly included in the agenda of the shareholders meeting which approved the compensation.

Total compensation for services paid by us to our board members and senior management was approved in our ordinary and extraordinary shareholders' meeting held on June 3, 2016 and totaled Ps.1.02 million for the fiscal year ended December 31, 2015.

As of the date of this offering memorandum, we have not offered retirement plans to our directors and senior managers.

With the exception of the programs described below, we have no benefit plans and/or programs for our employees:

### Retirement benefit programs and others

We have two benefit programs in place under the modality of "unfunded defined benefits" and "other long-term benefits," which, under certain conditions established by us, are granted subsequent to retirement and during the work life to certain employees, and not just for directors and senior management These programs are recorded following the guidelines of current accounting regulations.

The key actuarial assumptions consider a discount rate of 7% and 5% (real average) and a compensation increase rate of 2% and 3% respectively. The amounts for these plans pursuant to Argentine GAAP are as follows:

| | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2014 |
|---|---|---|---|
| | | (in pesos) | |
| Present value of unfunded liabilities | 176,049,658 | 164,594,468 | 140,175,645 |
| Unrecognized cost of services rendered in the past | (17,339,409) | (15,280,081) | (3,353,158) |
| Unrecognized actuarial gains | 79,584,944 | 44,732,992 | 26,438,019 |
| Net recognized liabilities | 238,295,193 | 194,047,379 | 163,260,506 |

The liability corresponding to these plans is recorded as the present value of future flows; its charge during the remaining years of service of the involved beneficiaries is imputed until all conditions to which the recognition of each benefit is subject have been fulfilled. This liability is calculated by independent actuaries, at least once a year, using the "Projected Unit Credit" method.

The net liability recognized under Argentine GAAP for such benefits is presented under the heading "Non-current social security debts" as part of long-term liabilities, as there is no enforceable debt as of year-end close. The charge to the income statement calculated according to Argentine GAAP, totaled Ps.33,423,346, Ps.23,134,202 and Ps.30,194,308 in the years ended December 31, 2016, 2015 and 2014, respectively.

### Employee retention and long-term incentive program

Tecpetrol International S.A. (indirect parent of the Company) launched a retention and long-term incentive program for certain employees of some subsidiaries. Under this program, certain of our senior officers may be granted a number of units valued according to the book value of the Shareholders' Equity of Tecpetrol International S.A. per share (excluding non-controlling interest).

Units are accrued over a period of four years, and we will pay the compensation equivalent to the assigned units ten years after the reception date, with the option on the part of the employee of an early redemption at seven years after the reception date, or when the employee's ties to us are severed, at the book value of the most recent Shareholders' Equity published per share (excluding non-controlling interest) of Tecpetrol International S.A. at the time of payment. Beneficiaries will also receive cash amounts equivalent to the dividend paid per share, each time Tecpetrol International S.A. pays a cash dividend to its shareholders.

## MANAGEMENT OF THE PARENT GUARANTOR

The Parent Guarantor's board of directors currently consists of four members and is responsible for managing the Parent Guarantor's business. The shareholders present at ordinary meetings may determine the number of directors, which shall be no less than three and no more than twelve. Shareholders may also appoint an equal or lesser number of alternate directors to automatically fill any vacancies in the order determined by the shareholders.

Pursuant to Spanish corporate law, the representation of the Parent Guarantor is entrusted to the management body of the company, which can be composed of either:

- a sole director, who shall exercise representation of the Parent Guarantor, only limited by Spanish law;
- joint and several directors, each of which shall be considered as an independent sole director who can represent the Parent Guarantor;
- joint directors, who shall jointly exercise the representation of the Parent Guarantor; or
- a board of directors which shall exercise representation of the Parent Guarantor acting collectively, adopting any resolution by a majority voting system.

The management body shall be governed by the Spanish corporate regulations and the Parent Guarantor's by-laws. In this sense, the directors have the obligation to perform their duties according to Spanish law and the loyalty and diligence of a prudent businessman.

The obligation to act with the loyalty and diligence of a prudent businessman shall be considered satisfied if a director acts in good faith without personal interest in relation to the matter, making decisions after having been provided with appropriate information and background and following an appropriate procedure.

Directors are also bound to the Parent Guarantor by their duty of loyalty, being obliged to always act in good faith and in the Parent Guarantor's best interest. Should a director breach this duty, it shall be required to indemnify the Parent Guarantor for any damage caused and must return everything received by the director by means of unfair enrichment.

Directors are severally liable to the Parent Guarantor, its shareholders and its creditors for damage caused by their performance of or failure to perform their duties, whenever any such performance or failure is contrary to the Parent Guarantor's by-laws or Spanish corporate regulations. All members of the management body who have participated in the adoption of a resolution which causes any such damage, shall be jointly and severally liable, except for those directors who are able to demonstrate that they were not aware of the resolution or, being aware, endeavored to avoid the damage caused or expressed their opinion against it.

As of the date of this offering memorandum, the members of the Parent Guarantor's board of directors, who were elected by the Parent Guarantor's shareholders at the ordinary meeting held on August 18, 2016, are as set forth below:

| Name | Position | Date of Birth | Designated | Expires |
|---|---|---|---|---|
| Alicia Lucía Móndolo | President | October 25, 1958 | August 19, 2016 | N/A |
| Enrico Luca María Bonatti | Member | July 14, 1958 | June 3, 2015 | N/A |
| Gonzalo de Benito Fernández | Member | May 20, 1963 | December 1, 2010 | N/A |
| John Edward Kiddell | Member,<br>Secretary | September 14, 1941 | September 9, 2004<br>September 14, 2004 | N/A<br>N/A |

The term of office for board members is indefinite.

The following is a brief description of the relevant background and experience of each member of the Parent Guarantor's board of directors:

*Alicia Lucia Móndolo*: Ms. Móndolo is a Certified Public Accountant form the University of La Plata. She held several positions in the Techint Group. Currently she is the President of Tecpetrol International S.A., Tecpetrol Servicios S.L.U., Santa María S.A.I.F., *Santma Inversora S.A.*, Finma S.A.I.F., ARHSA S.A., Techint Investments S.A. and Suizum S.L.U.; Director of Tecpetrol International S.A. and alternative Director of Siderar S.A.I.C and Tecpecuador S.A.

*Enrico Luca María Bonatti*: Enrico Bonatti holds a B.Sc (Economics) degree from the London School of Economics and Political Science, a CHEE degree from the Collège d'Europe of Bruges, Belgium and a PMD from Harvard Business School. He held several positions in the Techint Group in Switzerland, Mexico, Venezuela and Italy. At present he is Director of Techint Industrial Corporation SpA, the Parent Guarantor and Tenaris Global Services (UK) Ltd.

*Gonzalo de Benito Fernández*: Mr. Fernández is a practicing lawyer, registered with the Ilustre Colegio of Madrid. He holds a Master's degree from the Instituto de Empresa and is currently Partner-Director of Bufete Castellana 12, S.L.P., where his primary practice is in Corporate Law. Mr. Fernández has experience advising Boards of Directors of several companies and has participated in numerous important merger and acquisition projects, both domestic and international, as well as corporate spinoffs. Since 1995, he has been part of the Techint Group, initially as an advisor to Techint, S.A. and currently as a member of the Board of Directors in other companies of the Techint Group.

*John Edward Kiddell*: Mr. Kiddell is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Instituto de Censores Jurados de Cuentas in Spain. After an extended professional career at EY and its predecessor firms in the United Kingdom, Portugal, Switzerland, Libya and Spain, with the majority of that time spent as an audit partner, terminating in 2001, he is currently on the Board of Directors of a number of companies, mostly in non-executive roles, including companies in the Techint Group.

**Compensation**

Under Spanish corporate law, the position of director is free of compensation unless otherwise established in the by-laws of a company. If the by-laws establish a remuneration system, it must also detail the amount to be received by directors. The maximum amount of the annual remuneration for directors shall be approved by the General Shareholders' Meeting and shall remain in force until a modification is approved. Unless otherwise approved by the General Shareholders' Meeting, the distribution of the remuneration between directors shall be established by their own criteria and, it shall be decided by the board of directors when the management of the company is entrusted to them, taking into account the functions and responsibilities of each member. In any case, the remuneration of directors shall be proportionate to the size and current economic situation of the Company and shall be compared to other market standards. This remuneration system shall aim to promote a long term sustainability of the Company and will incorporate the necessary measures to avoid potential risks.

Total compensation for services paid by the Parent Guarantor to its board members totaled euro 13 thousand and euro 0 for the fiscal years ended December 31, 2016 and December 31, 2015, respectively. Total compensation for services paid by us to our directors for the 2017 fiscal year through September 30, 2017 totaled euro 6 thousands.

## PRINCIPAL SHAREHOLDERS OF THE COMPANY

### Overview

As of the date of this offering memorandum, our share capital is Ps.3,800,000,000, divided up as follows: 2,459,102,936 (two billion, four hundred fifty-nine million, one hundred two thousand, nine hundred thirty-six) class-"A" ordinary book-entry shares, and 1,340,897,064 (one billion, three hundred forty million, eight hundred ninety-seven thousand, sixty-four) class-"B" book-entry shares.

All of our outstanding shares are paid-in.

As of the date of this offering memorandum, the composition of our share capital was the following:

| Shareholder | Class of Shares | Number of Shares | Percentage of Shares |
|---|---|---|---|
| Tecpetrol Internacional S.L.U. | A | 2,306,488,942 | 60.697% |
| Tecpetrol Internacional S.L.U. | B | 1,340,897,064 | 35.286% |
| Tecpetrol International S.A. | A | 152,613,982 | 4.016% |
| Claudio R. Hirschler | A | 4 | 0.0001% |
| Ricardo J.P. Soler | A | 4 | 0.0001% |
| Pablo R. Stampalia | A | 4 | 0.0001% |
| **Total** | | **3,800,000,000** | 100.00**%** |

As of the date of this offering memorandum, we are controlled directly by our Parent Guarantor, Tecpetrol Internacional S.L.U who holds 95.98% of our share capital. The Parent Guarantor is a company duly incorporated under Spanish law, registered with the Mercantile Registry of Madrid in volume 20,485, Folio 31, Section 8, Page M-362494, Entry 1, and registered under the terms of Article 123 of Law No. 19,550 in the Commercial Public Registry of Buenos Aires, under the Corporate Records Office, on March 1, 2005, under No. 293 of Book 57, Volume B, of Foreign Bylaws.

The Parent Guarantor is 100% controlled by Tecpetrol International S.A., a Uruguayan corporation, which, in turn, is indirectly controlled by San Faustin S.A. (hereinafter "San Faustin"), a *Societé Anonyme* located in Luxembourg.

Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, a private Dutch foundation (hereinafter "R&P STAK") holds a sufficient number of voting shares of San Faustin to control it.

With respect to R&P STAK, there are no controlling persons or group of persons.

**Related Party Transactions**

During the years ended December 31, 2016, 2015 and 2014, the following transactions were carried out with related companies:

Values stated in thousands of pesos, pursuant to Argentine GAAP:

| Fiscal year beginning January 1, 2016, and ending December 31, 2016 | Other related parties |
|---|---|
| Net Sales | 11,341 |
| Interest income | 1,618 |
| Interest cost | (77,104) |
| Acquisition of fixed assets | (179,749) |
| Third-party services | (6,991) |

| Fiscal year beginning January 1, 2015, and ending December 31, 2015 | Other related parties |
|---|---|
| Net Sales | 51,804 |
| Interest income | 892 |
| Acquisition of fixed assets | (174,238) |
| Third-party services | (11,510) |

| Fiscal year beginning January 1, 2014, and ending December 31, 2014 | Other related parties |
|---|---|
| Net Sales | 18,803 |
| Interest income | 1,021 |
| Acquisition of fixed assets | (123,199) |
| Third-party services | (7,852) |

## PRINCIPAL SHAREHOLDERS OF THE PARENT GUARANTOR

### Overview

As of the date of this offering memorandum, the Parent Guarantor's share capital is euro 100,000,000, divided up as follows: 10,000,000,000 quotas with par value euro 0.01 each.

As of the date of this offering memorandum, the Parent Guarantor is 100% controlled by Tecpetrol International S.A., a Uruguayan corporation, which, in turn, is indirectly controlled by San Faustin, a *Societé Anonyme* located in Luxembourg.

R&P STAK holds a sufficient number of voting shares of San Faustin to control it.

With respect to R&P STAK, there are no controlling persons or group of persons.

### Related Party Transactions

During the years ended December 31, 2016, 2015 and 2014, the following transactions were carried out by the Parent Guarantor with related companies:

Values stated in euros:

| Fiscal year beginning January 1, 2016, and ending December 31, 2016 | Related parties |
|---|---|
| Service revenues | 17,043,875 |
| Sales of goods, services and others | 529,725 |
| Interest income | 4,554,862 |
| Interest expense | (19,687,056) |
| Purchase of goods | (132,486) |
| Fees and services, net | (541,382) |

| Fiscal year beginning January 1, 2015, and ending December 31, 2015 | Related parties |
|---|---|
| Service revenues | 27,539,056 |
| Sales of goods, services and others | 4,860,192 |
| Interest income | 725,878 |
| Interest expense | (16,977,751) |
| Purchase of goods | (5,113,770) |
| Fees and services, net | 269,786 |

| Fiscal year beginning January 1, 2014, and ending December 31, 2014 | Related parties |
|---|---|
| Service revenues | 23,090,172 |
| Sales of goods, services and others | 1,530,367 |
| Interest income | 1,403,730 |
| Income from derivative financial instruments | 210,350 |
| Interest expense | (12,848,604) |
| Purchase of goods | (11,241,361) |
| Fees and services, net | (1,704,785) |

## DESCRIPTION OF THE NOTES

The following is a description of the senior notes (the "notes"). The notes will be issued by Tecpetrol S.A. ("Tecpetrol") pursuant to an indenture to be dated as of the Issue Date (the "Indenture") among Tecpetrol, as issuer, Tecpetrol Internacional S.L.U. (the "Parent Guarantor"), as guarantor, The Bank of New York Mellon, as trustee (the "Trustee"), co-registrar, paying agent and transfer agent and Banco Santander Río S.A., as registrar, Argentine paying agent, Argentine transfer agent and trustee representative in Argentina. The Issuer and the Parent Guarantor will be jointly and severally liable for all obligations under the notes and the Indenture. The notes are subject to the provisions of the Indenture. Holders will be entitled to the benefits of, be bound by, and be deemed to have notice of, all of the provisions of the Indenture. In addition, on the Issue Date, the Parent Guarantor will issue a note guarantee in favor of each Holder and the Trustee (the "Note Guarantee"). See "Note Guarantee."

In this section, references to the "Issuer" are to Tecpetrol, as issuer, and not to any of its subsidiaries. References to the "Parent Guarantor" are to Tecpetrol Internacional S.L.U., as guarantor, and not to any of its subsidiaries. References to "notes" are to the notes originally issued on the Issue Date and Additional Notes, if any, unless the context otherwise requires.

The notes will be issued in a private transaction that is not subject to the registration requirements of the Securities Act. See "Transfer Restrictions." The Issuer will not be required to, nor does the Issuer currently intend to, offer to exchange the notes for notes registered under the Securities Act or otherwise register the notes for resale under the Securities Act. The Indenture will not be qualified under the U.S. Trust Indenture Act of 1939, as amended, or subject to the terms of the U.S. Trust Indenture Act of 1939, as amended. Accordingly, the terms of the notes include only those stated in the Indenture.

Application has been made to list the notes on the Official List of the Luxembourg Stock Exchange for trading on its Euro MTF Market.

Application has also been made to have the notes listed on *Bolsas y Mercados Argentinos S.A.* (the "BYMA"). The notes will constitute non-convertible notes (*obligaciones negociables simples no convertibles en acciones*) under the Argentine Negotiable Obligations Law, will be issued in accordance with such law, the Argentine Capital Markets Law, Decree No. 1023/2013 implementing the Capital Markets Law, as amended and supplemented, rules issued by the CNV pursuant to General Resolution No. 622/2013, as amended and supplemented, and any other applicable law and/or regulation, and will have the benefits provided thereby and will be subject to the procedural requirements therein set forth.

The registered Holder of a note will be treated as the owner of it for all purposes. Only registered Holders will have rights under the Indenture. As described in the section "Book Entry; Delivery and Form," the notes will initially be issued in global form and, except as described in such section, The Depository Trust Company ("DTC"), or its nominee will be the only registered Holder of the notes.

The following is a summary of the material provisions of the Indenture and does not purport to be complete and is qualified in its entirety by reference to the provisions of the Indenture. Because this is a summary, it may not contain all the information that is important to investors. Investors should read the Indenture in its entirety because it, and not this description, defines your rights as a Holder of the notes. Copies of the proposed form of the Indenture are available as described under "General Information—Available Information," and, for so long as the notes are admitted to listing on the Official List of the Luxembourg Stock Exchange for trading on its Euro MTF Market, at the office of the listing agent in Luxembourg.

You can find the definitions of certain terms used in this description under "—Certain Definitions." The capitalized terms defined in "—Certain Definitions" below are used in this "Description of the Notes" as so defined.

## General

The notes will:

- be general unsecured and unsubordinated obligations of the Issuer,
- be guaranteed on an unsecured and unsubordinated basis by the Parent Guarantor,
- rank equal in right of payment with all other existing and future Senior Indebtedness of the Issuer,
- rank senior in right of payment to all existing and future Subordinated Indebtedness of the Issuer, if any,
- be effectively subordinated to all existing and future secured Indebtedness of the Issuer, to the extent of the value of the assets securing such Indebtedness, and
- be structurally subordinated to all existing and future Indebtedness and other liabilities (including trade payables) of the Subsidiaries of the Issuer and the Parent Guarantor.

The Note Guarantee will:

- be the general unsecured and unsubordinated obligation of the Parent Guarantor unlimited in amount,
- provide that the Parent Guarantor will be liable for all amounts due on or in respect of the notes, including amounts due in respect of principal, interest, premium or Additional Amounts, if any, or otherwise and the Indenture,
- rank equal in right of payment with all other existing and future Senior Indebtedness of the Parent Guarantor,
- rank senior in right of payment to all existing and future Subordinated Indebtedness of the Parent Guarantor, if any,
- be effectively subordinated to all existing and future secured Indebtedness of the Parent Guarantor to the extent the assets securing such Indebtedness and to any preferential obligations under Spanish law, and
- be structurally subordinated to all existing and future Indebtedness and other liabilities (including trade payables) of the Subsidiaries of the Parent Guarantor (other than the Issuer).

As of September 30, 2017, on an as adjusted basis after giving effect to the offering of the notes and the use of proceeds thereof as described under "—Use of Proceeds," the Parent Guarantor and its consolidated Subsidiaries (including the Issuer) would have had, on a combined basis, U.S.$673.5 million of Indebtedness outstanding of which no Indebtedness would have been secured Indebtedness.

## Additional Notes

The Issuer may from time to time, subject to the covenants below and the prior authorization of the CNV, and without the consent of the Holders of any outstanding notes, create and issue additional notes ("Additional Notes") having substantially identical terms (other than issue price, issue date and initial interest payment date) as notes issued on the Issue Date. Any Additional Notes will be consolidated and form a single class with the notes issued on the Issue Date, so that, among other things, Holders of any Additional Notes will have the right to vote together with Holders of notes issued on the Issue Date as one class; provided that such Additional Notes will not be issued with the same CUSIP, ISIN or other identifying number as the outstanding notes unless such Additional Notes are fungible with the outstanding notes for U.S. federal income tax purposes.

## Principal, Maturity and Interest

The redemption price of the notes at maturity will be equal to 100% of the principal amount. The notes will mature on December 12, 2022, unless earlier redeemed in accordance with the terms of the notes. See "—Optional Redemption" below. The Issuer will issue notes in minimum denominations of U.S.$1,000 and integral multiples of U.S.$1,000 in excess thereof. This offering will require a minimum subscription amount of U.S.$150,000. The notes will not be entitled to the benefit of any mandatory sinking fund.

Interest on the notes will accrue at the rate of 4.875% per year and will be payable semi-annually in arrears on June 12 and December 12 of each year, commencing on June 12, 2018. Interest on the notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payments of principal and interest will be made to the persons who are registered Holders on the day (whether or not a business day) immediately preceding the applicable payment date.

Payments on the certificated notes will be made at the office or agency of the Paying Agent in New York City unless the Issuer elects to make interest payments by check mailed to the registered Holders at their registered addresses. Payments to Holders of Global Notes will be made to DTC in accordance with its applicable procedures.

The Issuer will provide copies of the offering memorandum and the Indenture at the offices of the Luxembourg Listing Agent so long as the notes are listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF Market.

**Note Guarantee**

Pursuant to the Note Guarantee, the obligations of the Issuer under the Indenture and the notes will be fully, unconditionally and irrevocably guaranteed, on an unsecured basis, by the Parent Guarantor as primary obligor and not merely as a surety.

On the Issue Date, all of the Subsidiaries of the Parent Guarantor (including the Issuer) will be Restricted Subsidiaries under the Indenture. However, only the Parent Guarantor will Guarantee the notes.

The Note Guarantee will be limited as necessary to the maximum amount that would not render the obligations of the Parent Guarantor subject to avoidance under applicable fraudulent conveyance provisions of applicable law or under similar laws affecting the rights of creditors generally. By virtue of this limitation, the obligations of the Parent Guarantor under the Note Guarantee could be significantly less than amounts payable with respect to the notes. See "Risk Factors—Risks Relating to the Notes—The notes will be unsecured and effectively subordinated to our secured indebtedness and structurally subordinated to existing and future liabilities of our subsidiaries."

**Additional Amounts**

All payments made by or on behalf of the Issuer, the Parent Guarantor or a successor thereto (each, a "Payor") under, or with respect to, the notes or the Note Guarantee, as the case may be, will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, "Taxes") imposed, established, levied, collected or assessed by or on behalf of (1) Spain, Argentina or any political subdivision or Governmental Authority thereof or therein having the power to tax, (2) any jurisdiction from or through which payment on the notes or the Note Guarantee is made by or on behalf of the Payor, or any political subdivision or Governmental Authority thereof or therein having the power to tax, (3) following the consummation of any transaction described under "—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets, " the Qualified Merger Jurisdiction under the laws of which the Parent Guarantor, the Issuer or the Surviving Entity, as the case may be, is organized (or, in each case, any political subdivision or authority thereof or therein) having power to tax, or (4) any other jurisdiction in which a Payor is organized, engaged in business or otherwise resident for tax purposes, or any political subdivision or Governmental Authority thereof or therein having the power to tax (each of clause (1), (2), (3) and (4), a "Relevant Taxing Jurisdiction"), unless the withholding or deduction of such Taxes is then required by law or the interpretation or administration thereof.

If any deduction or withholding for, or on account of, any Taxes of any Relevant Taxing Jurisdiction will at any time be required from any payments made with respect to the notes or the Note Guarantee, including payments of principal, premium, if any, redemption price or interest, the Payor will pay (together with such payments) such additional amounts (the "Additional Amounts") as may be necessary in order that the net amounts receivable by the Holders after such withholding or deduction (including any such deduction or withholding applicable to additional sums payable under this section) in respect of such Taxes shall equal the respective amounts which would have been receivable by each Holder in respect of such payments in the absence of such withholding or deduction; provided, however, that no such Additional Amounts will be payable with respect to:

(a) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Holder or beneficial owner of a note (or between a fiduciary, settlor, beneficiary, member, partner or shareholder of, the relevant Holder or beneficial owner, if the relevant Holder or beneficial owner is an estate, nominee, trust, limited liability company, partnership or corporation) and the Relevant Taxing Jurisdiction (other than the mere ownership of such note or the receipt of such payment in respect thereof);

(b) any estate, inheritance, gift, value added, personal property, sales, use, excise, transfer or other similar Tax imposed with respect to such payment;

(c) any Taxes which are imposed, payable or due because definitive notes are presented for payment (where presentation is required) more than 30 days after the later of (i) the date such payment was due and (ii) if the full amount payable has not been received by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect will have been given to the Holders by the Trustee; except for Additional Amounts with respect to Taxes that would have been imposed had the Holder presented the note for payment during such 30-day period;

(d) any Taxes that are imposed or withheld by reason of the failure of the Holder or beneficial owner of a note to comply (to the extent it is legally entitled to comply), at the Issuer's written request, with any certification, identification, information, documentation or other reporting requirements if (1) such compliance is required or imposed by a statute, treaty or regulation or administrative practice of the Relevant Taxing Jurisdiction as a precondition to exemption from, or reduction in the rate of deduction or withholding of, such Taxes, (2) the Issuer has given the Holder or the beneficial owner at least 30 days' notice that the Holder or beneficial owner will be required to so comply, and (3) such compliance is not more onerous to the Holder or beneficial owner than would be comparable certification, information, documentation or other reporting requirements imposed under U.S. tax law, regulation and administrative practice (such as IRS Forms W-8 and W-9 or any comparable successor forms);

(e) any Taxes payable to or for the benefit of individuals resident for Tax purposes in the Kingdom of Spain;

(f) any Taxes payable otherwise than by withholding or deduction from payments on the notes;

(g) any Taxes imposed pursuant to Sections 1471-1474 of the U.S. Internal Revenue Code, the U.S. Treasury regulations thereunder and any other official guidance thereunder ("FATCA"), any intergovernmental agreement entered into with respect to FATCA, or any law, regulation or other official guidance enacted in any jurisdiction implementing, or relating to, FATCA, similar legislation under the laws of any other jurisdiction, or any such intergovernmental agreement;

(h) any Taxes levied and/or applicable to payments made to Argentine taxpayers subject to inflation adjustment rules as provided for in Title VI of the Argentine Income Tax Law; or

(i) any combination of the above.

Also, such Additional Amounts will not be payable with respect to any payment to any Holder who is a fiduciary or partnership or limited liability company or any person other than the sole beneficial owner of such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or limited liability company or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner held such note directly.

The Issuer will pay when due any stamp, court, documentary or any excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery or registration of the notes, the Indenture or any documentation with respect thereto, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside Argentina, Spain or New York.

In the event that any Payor pays any personal assets tax in respect of outstanding notes, we have agreed to waive any right we may have under Argentine law to seek reimbursement from the Holders or direct owners of the notes of any such amounts paid. See "Taxation—Argentine Tax Considerations."

The foregoing obligations to pay Additional Amounts will survive any termination, defeasance or discharge of the Indenture and any transfer by an investor of its notes (or beneficial interest therein).

Whenever in the Indenture, in this description or in the notes, there is mentioned, in any context, (1) the payment of principal, premium, if any, or interest, (2) redemption prices or purchase prices in connection with the redemption or purchase of notes or (3) any other amount payable under or with respect to any note, such mention shall be deemed also to refer to any Additional Amounts which may be payable as set forth in the Indenture or in the notes.

**Repurchases**

The Parent Guarantor, the Issuer or any of their respective Subsidiaries may at any time purchase any note in the open market. The Parent Guarantor, the Issuer or any such Subsidiary will not have voting rights with respect to such note in any Noteholders' meeting and such note will not be considered as outstanding for purpose of calculating the quorum at the meeting. Any note so purchased by the Parent Guarantor, the Issuer or their respective Subsidiaries may not be reissued or resold except in accordance with all applicable securities and other laws.

**Optional Redemption**

***Optional Redemption with Make-Whole Premium***

At any time prior to December 12, 2020, the notes may be redeemed at the option of the Issuer, in whole but not in part, upon not less than 10 nor more than 60 days' notice given to the Holders of the notes, in an amount equal to 100% of the principal amount thereof, plus accrued and unpaid interest to the redemption date and a Make-Whole Premium (as defined below), subject to the rights of Holders of the notes on the relevant record date to receive interest due on the related interest payment date.

The "*Make-Whole Premium*" in respect of an optional redemption of the notes by the Issuer at any redemption date shall mean the excess, if any, of (i) the present value at such redemption date of (A) the redemption price of such notes on December 12, 2020 (as stated in the table below immediately following the first paragraph under "Optional Redemption without a Make-Whole Premium"), plus (B) the remaining scheduled payments of interest on the notes through December 12, 2020 discounted to the redemption date for the notes on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Yield plus the Applicable Number of Basis Points, less accrued interest to the redemption date, over (ii) 100% of the principal amount of the notes.

"*Applicable Number of Basis Points*" shall mean 50 basis points.

"*Comparable Treasury Issue*" means, with respect to the notes, the United States Treasury security or securities selected by an Independent Investment Banker as having a maturity from the applicable redemption date to December 12, 2020 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to December 12, 2020.

"*Comparable Treasury Price*" means, with respect to any applicable redemption date, (i) the average of the applicable Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such applicable Reference Treasury Dealer Quotations or (ii) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"*Independent Investment Banker*" means, with respect to the notes, an independent investment banking institution of international standing appointed by the Issuer.

"*Reference Treasury Dealer*" means, with respect to the notes, at least four primary United States government securities dealers in New York City as the Issuer shall reasonably select.

"*Reference Treasury Dealer Quotations*" means, with respect to each Reference Treasury Dealer and any redemption date for the notes, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue for the notes (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:00 p.m. on the third Business Day preceding such redemption date.

"*Treasury Yield*" means, with respect to any redemption date applicable to the notes, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the applicable Comparable Treasury Price for such redemption date.

***Optional Redemption without a Make-Whole Premium***

At any time and from time to time on or after December 12, 2020, the Issuer may, at its option, redeem all or part of the notes, upon not less than 10 nor more than 60 days' prior notice to the Holders of the notes, at the redemption prices, expressed as percentages of principal amount, set forth below, plus accrued and unpaid interest thereon, if any, to the applicable redemption date, if redeemed during the 12-month period beginning on December 12 of the years indicated below:

| | Redemption Price |
|---|---|
| ● 2020……………………………………………………………………… | 102.438% |
| ● 2021 and therafter…………………………………………………………... | 100.000% |

***Optional Redemption with Proceeds of Equity Offerings***

At any time prior to December 12, 2020, the Issuer may, at its option, on one or more occasions, upon giving not less than 10 nor more than 60 days' notice to Holders, redeem up to 35% of the aggregate principal amount of notes (including any Additional Notes) at a redemption price of 104.875% of the principal amount thereof, plus accrued and unpaid interest (including Additional Amounts, if any) to the redemption date, with the net cash proceeds of one or more Equity Offerings; provided that:

(1) notes in an aggregate principal amount equal to at least 65% of the aggregate principal amount of notes issued on the first Issue Date remain outstanding immediately after the occurrence of such redemption; and

(2) the redemption must occur within 90 days of the date of the closing of such Equity Offering.

"*Equity Offering*" means a public or private offering for cash occurring after the Issue Date, of Qualified Capital Stock of the Parent Guarantor, the Issuer or any Restricted Subsidiary thereof (to the extent the proceeds thereof are contributed to the common equity of the Parent Guarantor, the Issuer or a Restricted Subsidiary thereof).

***Optional Redemption Upon Tax Event***

Notes may be redeemed, at our option, in whole but not in part, at any time, upon giving not less than 10 nor more than 60 days' notice to Noteholders (which notice will be irrevocable), at a redemption price equal to the principal amount thereof, together with accrued interest and Additional Amounts, if any, to the date fixed for redemption if (i) we determine that, as a result of any change in or amendment to the laws (or any regulations or rulings promulgated thereunder) of Spain, Argentina or, following the consummation of any transaction described under "—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets," the Qualified Merger Jurisdiction under the laws of which the Parent Guarantor, the Issuer or the Surviving Entity, as the case may be, is organized, or any political subdivision or taxing authority thereof or therein affecting taxation, or any change in the official position regarding the application or interpretation of such laws, regulations or rulings (including, among others, a holding by a court of competent jurisdiction), which change, amendment, application or interpretation becomes effective on or after the date of issue of such notes or, with respect to any such event occurring with respect to a Qualified Merger Jurisdiction, the date of any transaction described under "—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets,", we have paid or will become obligated to pay Additional Amounts in respect of such notes in excess of the amounts we were required to pay before such event pursuant to the terms thereof and (ii) such obligation cannot be avoided by us taking commercially reasonable measures available. The date fixed for such redemption shall not be earlier than the last practicable date on which we could make payment without being required to make such withholding or deduction or to pay such Additional Amounts. Prior to giving any notice of redemption of the notes pursuant to the foregoing, we will deliver to the Trustee an Officer's Certificate to the effect that our obligation to pay Additional Amounts cannot be avoided by us, taking commercially reasonable measures available. We will also deliver an opinion of an independent auditor or counsel (of recognized standing) stating that we would be obligated to pay Additional Amounts due to changes in tax laws as described in clause (i) above. The Trustee will accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in clauses (i) and (ii) above, in which case, it will be conclusive and binding for the Holders of the notes.

***Optional Redemption Procedures***

Notice of any redemption shall be given in the manner described in "—Notices" at least 10 but not more than 60 days before the redemption date to Holders of notes to be redeemed.

Notes called for redemption will become due on the date fixed for redemption. The Issuer will pay the redemption price for the notes together with accrued and unpaid interest thereon to but excluding the date of redemption. On and after the redemption date, interest will cease to accrue on the notes as long as the Issuer has deposited with the Paying Agents funds in satisfaction of the applicable redemption price pursuant to the Indenture. Upon redemption of the notes by the Issuer, the redeemed notes will be cancelled.

If fewer than all of the notes are being redeemed, the notes to be redeemed shall be redeemed, to the extent permitted under applicable law and securities exchange rules, on a *pro rata* basis, and in accordance with DTC's operational procedures, in minimum denominations of U.S.$1,000 and integral multiples of U.S.$1,000 in excess thereof. Upon surrender of any note redeemed in part, the Holder will receive a new note equal in principal amount to the unredeemed portion of the surrendered note. Subject as provided in the next paragraph, once notice of redemption is sent to the Holders, notes called for redemption become due and payable at the redemption price on the redemption date, and, commencing on the redemption date, notes redeemed will cease to accrue interest, unless the Issuer defaults in the payment of the redemption price.

Any redemption or notice of redemption may, at the discretion of the Issuer, be subject to one or more conditions precedent (except as provided for under "—Optional Redemption Upon Tax Event," in which case it must be irrevocable) and, in the case of a redemption with the proceeds of an Equity Offering, be given prior to the completion of the related Equity Offering.

**Change of Control Event**

Upon the occurrence of a Change of Control Event, each Holder will have the right to require that the Issuer purchase all or a portion (in integral multiples of U.S.$1,000) of the Holder's notes at a purchase price in cash equal to 101.0% of the principal amount thereof, *plus* Additional Amounts and accrued and unpaid interest thereon to, but excluding, the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) (the "Change of Control Payment").

Within 30 days following the date upon which a Change of Control Event occurred, the Issuer will deliver a notice to each Holder, with a copy to the Trustee, describing the transaction or transactions that constitute(s) the Change of Control Event and offering to purchase the notes as described above (a "Change of Control Offer") as described in "—Notices" below. The Change of Control Offer shall state, among other things, the purchase date (the "Change of Control Payment Date"), which must be no earlier than 30 days nor later than 60 days from the date the notice is sent, except as may be required by law.

On the Business Day immediately preceding the Change of Control Payment Date, the Issuer will, to the extent lawful, deposit with the applicable paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(a) accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer; and

(b) deliver or cause to be delivered to the Trustee the notes so accepted together with an Officers' Certificate stating the principal amount outstanding of notes being redeemed by the Issuer.

The Paying Agent will promptly deliver to each Holder of notes properly tendered the Change of Control Payment for such notes, and the Trustee will promptly authenticate and deliver (or cause to be transferred by book-entry) to each Holder a new note equal in principal amount to any unredeemed portion of the notes surrendered, if any.

If only a portion of a note is purchased pursuant to a Change of Control Offer, a new note in a principal amount equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate); provided that the remaining principal amount of such Holder's note will not be less than U.S.$1,000 and will be in integral multiples of U.S.$1,000 in excess thereof.

The Issuer will not be required to make a Change of Control Offer if (1) a third party makes the Change of Control Offer in a manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer, and purchases all notes validly tendered and not withdrawn under such Change of Control Offer, or (2) notice of redemption for all outstanding notes has been given pursuant to the Indenture as described above under the caption "—Optional Redemption," unless and until there is a default in payment of the applicable redemption price.

Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control Event, conditioned upon the consummation of such Change of Control Event, if a definitive agreement is in place for the Change of Control Event at the time the Change of Control Offer is made.

Other existing and future Indebtedness of the Parent Guarantor or the Issuer may contain prohibitions on the occurrence of events that would constitute a Change of Control Event or require that such Indebtedness be repurchased upon a Change of Control Event. Moreover, the exercise by the Holders of their right to require the Issuer to repurchase the notes upon a Change of Control Event could cause a default under such Indebtedness even if the Change of Control Event itself does not.

The ability of the Issuer to pay cash to the Holders of notes following the occurrence of a Change of Control Event may be limited by its then-existing financial resources. If a Change of Control Event occurs, the Issuer may not have available funds sufficient to make the Change of Control Payment when necessary for all the notes that might be delivered by Holders seeking to accept a Change of Control Offer. In the event the Issuer is required to purchase outstanding notes pursuant to a Change of Control Offer, the Issuer expects that they would seek third-party financing to the extent they do not have available funds to meet their purchase obligations. However, the Issuer may not be able to obtain the financing required to complete a Change of Control Offer. In addition, the Change of Control Event purchase feature of the notes may in certain circumstances make more difficult or discourage a sale or takeover of the Issuer or of the Parent Guarantor and, thus, the removal of incumbent management thereof. Holders will not be entitled to require the Issuer to purchase their notes in the event of a takeover, recapitalization, leveraged buyout or similar transaction that is not a Change of Control Event.

One of the events that constitutes a Change of Control Event under the Indenture is the disposition of "all or substantially all" of the Issuer's or Parent Guarantor's assets under certain circumstances. This term varies based upon the facts and circumstances of the subject transaction. As a consequence, in certain circumstances there may be uncertainty in ascertaining whether a particular transaction involved a disposition of "all or substantially all" of the property or assets of a Person. In the event that Holders elect to require the Issuer to purchase the notes and the Issuer contests such election, we cannot assure you as to how a court interpreting New York law would interpret the phrase under certain circumstances.

The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations in connection with the purchase of notes in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the "Change of Control Event" provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached their obligations under the Indenture by doing so. If it would be unlawful in any jurisdiction to make a Change of Control Offer, the Issuer will not be obligated to make such offer in such jurisdiction and will not be deemed to have breached their obligations under the Indenture by not making such an offer.

Except as otherwise provided in "—Meeting of Holders; Modification of the Indenture," the obligation of the Issuer to make a Change of Control Offer may be waived or modified at any time with the written consent of Holders of a majority in principal amount of the outstanding notes.

## Certain Covenants

### *Limitation on Incurrence of Additional Indebtedness*

(1) The Parent Guarantor and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, directly or indirectly, Incur any Indebtedness (including Acquired Indebtedness) except that

    the Parent Guarantor and its Restricted Subsidiaries may Incur Indebtedness if, at the time of and immediately after giving *pro forma* effect to the Incurrence thereof and the application of the net proceeds therefrom, (i) no Default or Event of Default shall have occurred and be continuing and (ii) the Interest Coverage Ratio would be no less than 2.00:1.00 and the Leverage Ratio would be no greater than 3.50:1.00.

(2) Notwithstanding clause (1) above, the Parent Guarantor, the Issuer and the Restricted Subsidiaries, as applicable, may, at any time, Incur the following Indebtedness ("Permitted Indebtedness"):

    (a) Indebtedness in respect of the notes (excluding Additional Notes);

    (b) Indebtedness Incurred under the Credit Agreement;

    (c) other Indebtedness of the Parent Guarantor, the Issuer and the Restricted Subsidiaries outstanding on the Issue Date, other than Indebtedness otherwise specified under any clause of this definition of Permitted Indebtedness;

    (d) Hedging Obligations entered into by the Parent Guarantor, the Issuer and the Restricted Subsidiaries for bona fide hedging purposes and not for speculative purposes;

    (e) Indebtedness of the Parent Guarantor or the Issuer owed to and held by any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owed to and held by the Parent Guarantor, the Issuer or any other Restricted Subsidiary; provided, however, that

        (i) any subsequent issuance or transfer of any Capital Stock or any other event that results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of any such Indebtedness (except to the Parent Guarantor, the Issuer or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the issuer thereof; and

(ii) if the Parent Guarantor or the Issuer is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations with respect to the notes;

(f) Subordinated Indebtedness and Deferred Interest Subordinated Indebtedness of the Parent Guarantor or the Issuer;

(g) Indebtedness consisting of Guarantees of any Indebtedness permitted under subclause (e) of this clause (2);

(h) Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary arising from the honoring by a bank or other financial institution of a check, draft or similar instrument (including daylight overdrafts paid in full by the close of business on the day such overdraft was Incurred) drawn against insufficient funds in the ordinary course of business; provided that such Indebtedness is extinguished within five Business Days of Incurrence;

(i) Indebtedness Incurred in connection with any Project Financing;

(j) Indebtedness in respect of severance payments, workers' compensation claims, payment obligations in connection with health or other social security benefits, unemployment insurance or other self-insurance obligations for employees, letters of credit, bankers' acceptances, payment obligations in connection with insurance premiums or similar obligations, security deposits, completion, performance, surety, appeal, bid, customs or similar bonds and reimbursement obligations (or letters of credit in connection with, in lieu of or in respect of each of the foregoing), in each case, Incurred in the ordinary course of business by, or to the extent required by applicable Governmental Authorities in connection with the operations of, the Parent Guarantor, the Issuer or any Restricted Subsidiary;

(k) Indebtedness consisting of letters of credit, banker's acceptances, performance bonds, appeal bonds, surety bonds, customs bonds and other similar bonds and reimbursement obligations Incurred by the Parent Guarantor, the Issuer or any Restricted Subsidiary in the ordinary course of business securing the performance of contractual or license obligations of the Parent Guarantor, the Issuer or any Restricted Subsidiary (in each case, other than for an obligation for borrowed money) or Incurred in connection with the financing of insurance premiums in the ordinary course of business;

(l) Refinancing Indebtedness in respect of:

(i) Indebtedness (other than Indebtedness owed to the Parent Guarantor, the Issuer or any Subsidiary of the Parent Guarantor or the Issuer) Incurred pursuant to clause (1) above (it being understood that no Indebtedness outstanding on the Issue Date is Incurred pursuant to such clause (1)); or

(ii) Indebtedness Incurred pursuant to clauses (a), (b), (c), (d), (k), (l), (m), (o) and (p) (excluding Indebtedness owed to the Parent Guarantor, the Issuer or any Subsidiary of the Parent Guarantor or the Issuer);

(m) Acquired Indebtedness, provided that after giving *pro forma* effect to the Incurrence thereof and the transactions related thereto, (i) the Parent Guarantor or the Issuer, as the case may be, could incur at least U.S.$1.00 of Indebtedness pursuant to clause (1) above, or (ii) the Interest Coverage Ratio would be no less than the Interest Coverage Ratio immediately prior to such transactions, and the Leverage Ratio would be no greater than the Leverage Ratio immediately prior to such transactions;

(n) Indebtedness arising from agreements of the Parent Guarantor, the Issuer or any Restricted Subsidiary providing for customary guarantees, indemnification, obligations in respect of earn-outs or other adjustments of purchase price or, in each case, similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business or assets or Person or any Capital Stock of a Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring or disposing of such business or assets or such Subsidiary for the purpose of financing such acquisition or disposition); provided that

(i) such Indebtedness is not reflected on the balance sheet of the Parent Guarantor, the Issuer or any Restricted Subsidiary (contingent obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet will not be deemed to be reflected on such balance sheet for purposes of this subclause (i)), and

(ii) the maximum liability of the Parent Guarantor, the Issuer and the Restricted Subsidiaries in respect of all such Indebtedness shall at no time exceed the gross proceeds, including non-cash proceeds (the fair market value of such non-cash proceeds being measured at the time received and without giving effect to any subsequent changes in value), actually received by the Parent Guarantor, the Issuer and the Restricted Subsidiaries in connection with such disposition;

(o) Indebtedness under any one or more Permitted Receivables Financings, the combined aggregate principal amount of which does not exceed U.S.$20.0 million (or the equivalent in other currencies) at any time outstanding;

(p) Indebtedness under one or more lines of credit or working capital facilities in an amount not to exceed U.S.$100.0 million;

(q) Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary with the Argentine Secretary of Energy and/or any other Governmental Authority involved in the Argentine energy or oil and gas markets; and

(r) Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary in an aggregate principal amount which, when taken together with all other Indebtedness of the Parent Guarantor, the Issuer and the Restricted Subsidiaries outstanding on the date of such Incurrence (other than Indebtedness permitted by subclauses (a) through (q) above or clause (1)) does not exceed the greater of (i) U.S.$250.0 million (or the equivalent in other currencies) and 10.0% of Consolidated Total Assets.

(3) For purposes of determining compliance with, and the outstanding principal amount of, any particular Indebtedness Incurred pursuant to and in compliance with this covenant:

(a) the outstanding principal amount of any item of Indebtedness will be counted only once;

(b) in the event that an item of Indebtedness meets the criteria of clause (1) or (2) above or more than one of the categories of Permitted Indebtedness described in clauses (a) through (q) of clause (2) above, the Parent Guarantor and the Issuer may, in their sole discretion, divide and classify (or at any time reclassify) such item of Indebtedness in any manner that complies with this covenant; and

(c) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness, but may be permitted in part by such provision and in part by one or more other provisions of this covenant permitting such Indebtedness.

(4) Notwithstanding the foregoing, the Parent Guarantor and the Issuer may not Incur any Indebtedness pursuant to clause (2) above if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Indebtedness or Deferred Interest Subordinated Indebtedness, unless such Indebtedness will be subordinated to any obligations owed under the notes and the Indenture to at least the same extent as such Subordinated Indebtedness or Deferred Interest Subordinated Indebtedness, as applicable.

(5) For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a non-U.S. currency will be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred or, in the case of revolving credit Indebtedness,

first committed; provided that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a non-U.S. currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction will be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Parent Guarantor, the Issuer or any Restricted Subsidiary may Incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, will be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

***Limitation on Restricted Payments***

The Parent Guarantor and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, directly or indirectly, take any of the following actions (each, a "Restricted Payment"):

(a) declare or pay any dividend or return of capital or make any distribution on or in respect of shares of Capital Stock of the Parent Guarantor, the Issuer or any Restricted Subsidiary to holders of such Capital Stock, other than:

(i) dividends or distributions payable in Qualified Capital Stock of the Parent Guarantor or the Issuer or options, warrants or other rights to purchase Capital Stock (other than Disqualified Stock) of the Parent Guarantor or the Issuer;

(ii) dividends or distributions payable to the Parent Guarantor, the Issuer and/or a Restricted Subsidiary; or

(iii) dividends, distributions or returns of capital made on a *pro rata* basis to the Parent Guarantor, the Issuer and the Restricted Subsidiaries, on the one hand, and minority holders of Capital Stock of a Restricted Subsidiary, on the other hand (or on a less than *pro rata* basis to any minority holder);

(b) purchase, redeem or otherwise acquire or retire for value any Capital Stock of the Parent Guarantor or the Issuer held by Persons other than the Parent Guarantor, the Issuer or any Restricted Subsidiary;

(c) make any principal payment on, purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value, prior to any scheduled final maturity, scheduled repayment or scheduled sinking fund payment, as the case may be, any Subordinated Indebtedness or Deferred Interest Subordinated Indebtedness (other than Subordinated Indebtedness between the Parent Guarantor or the Issuer and any Restricted Subsidiary); or

(d) make any Investment (other than Permitted Investments);

if at the time of the Restricted Payment and immediately after giving *pro forma* effect thereto:

(A) a Default or an Event of Default has occurred and is continuing or would occur as a result thereof; or

(B) the Parent Guarantor is not able to Incur at least U.S.$1.00 of additional Indebtedness pursuant to clause (1) of "—Limitation on Incurrence of Additional Indebtedness."

Notwithstanding the preceding paragraph, this covenant does not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration of such dividend if the dividend would have been permitted on the date of declaration pursuant to the preceding paragraph;

provided, however, that at the time of payment of such dividend, no other Default or Event of Default shall have occurred and be continuing (or result therefrom);

(2) the acquisition of any shares of Capital Stock of the Parent Guarantor or the Issuer,

   (a) in exchange for Qualified Capital Stock of the Parent Guarantor or the Issuer; or

   (b) through the application of the net cash proceeds received by the Parent Guarantor or the Issuer from a substantially concurrent sale of Qualified Capital Stock of the Parent Guarantor or the Issuer or a contribution to the equity capital of the Parent Guarantor or the Issuer not representing an interest in Disqualified Capital Stock, in each case not received from a Subsidiary of the Parent Guarantor or the Issuer;

(3) the voluntary prepayment, purchase, defeasance, redemption or other acquisition or retirement for value of any Subordinated Indebtedness solely in exchange for, or through the application of net cash proceeds of a substantially concurrent sale, other than to a Subsidiary of the Parent Guarantor or the Issuer, of:

   (a) Qualified Capital Stock of the Parent Guarantor or the Issuer; or

   (b) Refinancing Indebtedness for such Subordinated Indebtedness;

(4) repurchases of Capital Stock deemed to occur upon the exercise of stock options, warrants or other convertible or exchangeable securities to the extent such Capital Stock represents a portion of the exercise price thereof, and Restricted Payments by the Parent Guarantor or the Issuer to allow the payment of cash in lieu of the issuance of fractional shares upon the exercise of options or warrants or upon the conversion or exchange of Capital Stock of the Parent Guarantor or the Issuer;

(5) (x) Investments in Unrestricted Subsidiaries made with the net proceeds of (1) a substantially concurrent capital contribution to the Parent Guarantor or the Issuer, or issue or sale of Capital Stock (other than Disqualified Stock) of the Parent Guarantor or the Issuer or (2) an Asset Sale of Investments in one or more Unrestricted Subsidiaries and (y) Investments in any Person made with the net proceeds of an Asset Sale of Investments in one or more Persons that are not a Subsidiary;

(6) payments of dividends or other distributions of Capital Stock, Indebtedness or other securities received from Unrestricted Subsidiaries (other than Unrestricted Subsidiaries the primary assets of which are cash and/or Cash Equivalents);

(7) Investments in Unrestricted Subsidiaries in connection with a Related Business in an aggregate principal amount not to exceed U.S.$40.0 million (or the equivalent in other currencies, exclusive of any amounts incurred under (5) above), calculated as of the end of the most recent fiscal quarter ending at least 45 days prior to the date of such Investments; and

(8) repurchases by the Parent Guarantor or the Issuer of Capital Stock of the Parent Guarantor or the Issuer or options, warrants or other securities exercisable or convertible into Capital Stock of the Parent Guarantor or the Issuer from employees or directors of the Parent Guarantor or the Issuer or any of its Subsidiaries or their authorized representatives upon the death, disability or termination of employment or directorship of the employees or directors, in an amount not to exceed U.S.$5.0 million (or the equivalent in other currencies) in the aggregate.

The amount of any Restricted Payments not in cash will be the Fair Market Value on the date of such Restricted Payment of the property, assets or securities proposed to be paid, transferred or issued by the Parent Guarantor, the Issuer or the relevant Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment.

***Limitation on Asset Sales***

The Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, consummate an Asset Sale unless:

(a) the Parent Guarantor, the Issuer or such Restricted Subsidiary, as the case may be, receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the shares and/or assets sold or otherwise disposed of (for purposes of this subclause (a), all determinations of Fair Market Value shall be made in good faith by the Board of Directors of the Parent Guarantor, the Issuer or the relevant Restricted Subsidiary as certified by an Officers' Certificate delivered to the Trustee); and

(b) at least 75% of the consideration received for the assets sold by the Parent Guarantor, the Issuer or the Restricted Subsidiary, as the case may be, in the Asset Sale is in the form of (1) cash or Cash Equivalents; (2) Replacement Assets or (3) a combination of cash, Cash Equivalents and Replacement Assets; provided that in case of an Asset Sale in which the Parent Guarantor, the Issuer or such Restricted Subsidiary receives Replacement Assets, the Parent Guarantor or the Issuer delivers to the Trustee an Officers' Certificate stating that (a) the Parent Guarantor's or the Issuer's, as the case may be, chief executive officer or chief financial officer has approved such Asset Sale, (b) such Asset Sale is on fair and reasonable terms on an arm's-length basis, and (c) the Fair Market Value of the Replacement Assets, together with any cash consideration is no less than the Fair Market Value of the assets subject to such Asset Sale.

For purposes of this clause (b), the assumption by the purchasers of Indebtedness or other obligations (other than Subordinated Indebtedness and Deferred Interest Subordinated Indebtedness) of the Parent Guarantor, the Issuer or a Restricted Subsidiary pursuant to a customary novation agreement, and instruments or securities received from the purchasers that are promptly, but in any event within 90 days of the closing, converted by the Parent Guarantor, the Issuer or a Restricted Subsidiary to cash, to the extent of the cash actually so received, shall be considered cash received at closing.

The Parent Guarantor, the Issuer or such Restricted Subsidiary, as the case may be, may apply the Net Cash Proceeds of any such Asset Sale within 365 days thereof to:

(1) repay, prepay or purchase any Senior Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary, in each case for borrowed money or constituting a Capitalized Lease Obligation and permanently reduce the commitments with respect thereto without Refinancing; or

(2) purchase:

    (a) assets (other than current assets as determined in accordance with IFRS or Capital Stock) to be used by the Parent Guarantor, the Issuer or any Restricted Subsidiary in a Related Business; or

    (b) Capital Stock of a Person engaged solely in a Related Business that will become, upon purchase, a Restricted Subsidiary,

    from a Person other than the Parent Guarantor, the Issuer and any Restricted Subsidiaries; or

(3) make a capital contribution into any Restricted Subsidiary; provided such Restricted Subsidiary uses the proceeds of such contribution in accordance with (1) or (2) within such 365-day period; provided further that a binding commitment to make a purchase referred to in clause 2 shall be treated as a permitted application of the Net Cash Proceeds from the date of such commitment; provided that such investment is consummated within 365 days of the end of the 365-day period referred to in the first sentence of this clause (3); or

(4) any combination of (1), (2) and (3);

provided that application of (x) the Net Cash Proceeds from the sale of assets consisting of an Investment in an Unrestricted Subsidiary towards an Investment in another Unrestricted Subsidiary or (y) the Net Cash Proceeds from the sale of assets consisting of an Investment in a Person that is not a Subsidiary towards an Investment in another Person that is not a Subsidiary shall be deemed to satisfy the application requirements of this paragraph.

To the extent all or a portion of the Net Cash Proceeds of any Asset Sale are not applied within the 365 days of the Asset Sale as described in clauses (1), (2), (3) or (4) of the immediately preceding paragraph, the

Parent Guarantor or the Issuer, as the case may be, will make an offer to purchase notes (the "Asset Sale Offer"), at a purchase price equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest thereon, to the purchase date (the "Asset Sale Offer Amount"). The Parent Guarantor or the Issuer, as the case may be, will purchase pursuant to an Asset Sale Offer from all tendering Holders on a *pro rata* basis, and, at the Parent Guarantor's or the Issuer's option, on a *pro rata* basis with the holders of any other Senior Indebtedness with similar provisions requiring the Parent Guarantor or the Issuer to offer to purchase the other Senior Indebtedness with the proceeds of Asset Sales, that principal amount (or accreted value in the case of Indebtedness issued with original issue discount) of notes and the other Senior Indebtedness to be purchased equal to such unapplied Net Cash Proceeds. The Parent Guarantor or the Issuer may satisfy its obligations under this covenant with respect to the Net Cash Proceeds of an Asset Sale by making an Asset Sale Offer prior to the expiration of the relevant 365-day period.

The purchase of notes pursuant to an Asset Sale Offer will occur not less than 20 Business Days following the date thereof, or any longer period as may be required by applicable law or regulation, nor more than 45 days following the 365th day following the Asset Sale. The Parent Guarantor or the Issuer may, however, defer an Asset Sale Offer until there is an aggregate amount of unapplied Net Cash Proceeds from one or more Asset Sales equal to or in excess of U.S.$50.0 million (or the equivalent in other currencies). At that time, the entire amount of unapplied Net Cash Proceeds, and not just the amount in excess of U.S.$50.0 million (or the equivalent in other currencies), will be applied as required pursuant to this covenant.

Pending application in accordance with this covenant, Net Cash Proceeds will be applied to temporarily reduce revolving credit borrowings that can be reborrowed or Invested in Cash Equivalents.

Each notice of an Asset Sale Offer will be sent to the registered Holders no later than 10 days following such 365th day, with a copy to the Trustee offering to purchase the notes as described above. Each notice of an Asset Sale Offer will state, among other things, the purchase date, which must be at least 30 and not more than 60 days from the date the notice is sent, other than as may be required by law (the "Asset Sale Offer Payment Date"). Upon receiving notice of an Asset Sale Offer, Holders may elect to tender their notes in whole or in part in integral multiples of U.S.$1,000 in exchange for cash.

On the Business Day immediately preceding the Asset Sale Offer Payment Date, the Parent Guarantor or the Issuer, as the case may be, will, to the extent lawful deposit with the Paying Agents funds in an amount equal to the Asset Sale Offer Amount in respect of all notes or portions thereof so tendered.

On the Asset Sale Offer Payment Date, the Parent Guarantor or the Issuer, as the case may be, will, to the extent lawful:

(1) accept for payment all notes or portions thereof properly tendered pursuant to the Asset Sale Offer; and

(2) deliver or cause to be delivered to the Trustee the notes so accepted together with an Officers' Certificate stating the aggregate principal amount of notes or portions thereof being purchased by the Parent Guarantor or the Issuer.

To the extent that Holders of notes and holders of other Senior Indebtedness, if any, which are the subject of an Asset Sale Offer properly tender and do not withdraw notes or the other Senior Indebtedness in an aggregate amount exceeding the amount of unapplied Net Cash Proceeds, the Parent Guarantor or the Issuer will purchase the notes and the other Senior Indebtedness on a *pro rata* basis (based on amounts tendered). If only a portion of a note is purchased pursuant to an Asset Sale Offer, a new note in a principal amount equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate). Notes (or portions thereof) purchased pursuant to an Asset Sale Offer will be cancelled and cannot be reissued.

Upon completion of an Asset Sale Offer, the amount of Net Cash Proceeds will be reset at zero. Accordingly, to the extent that the aggregate amount of notes and other Senior Indebtedness tendered pursuant to an Asset Sale Offer is less than the aggregate amount of unapplied Net Cash Proceeds, the Parent Guarantor or the Issuer, as the case may be, may use any remaining Net Cash Proceeds for general corporate purposes of the Parent Guarantor, the Issuer and the Restricted Subsidiaries to the extent permitted under the Indenture.

If at any time any non-cash consideration received by the Parent Guarantor, the Issuer or any Restricted Subsidiary, as the case may be, in connection with any Asset Sale is converted into or sold or otherwise disposed of for cash (other than interest received with respect to any non-cash consideration), the conversion or disposition will be deemed to constitute an Asset Sale hereunder and the Net Cash Proceeds thereof will be applied in accordance with this covenant within 365 days of conversion or disposition.

The Parent Guarantor and the Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations to the extent any such rule, laws and regulations are applicable in connection with the purchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the "Asset Sale" provisions of the Indenture, the Parent Guarantor and the Issuer will comply with these laws and regulations and will not be deemed to have breached its obligations under the "Asset Sale" provisions of the Indenture by doing so.

***Limitation on Designation of Unrestricted Subsidiaries***

(a) The Parent Guarantor or the Issuer may designate after the Issue Date any Subsidiary of the Parent Guarantor (except the Issuer) or the Issuer as an "Unrestricted Subsidiary" under the Indenture (a "Designation") only if:

  (1) such Subsidiary is not a Significant Subsidiary at the time of its Designation;

  (2) no Default or Event of Default has occurred and is continuing at the time of or after giving effect to such Designation and any transactions between the Parent Guarantor, the Issuer or any Restricted Subsidiary and such Unrestricted Subsidiary are in compliance with "—Limitation on Transactions with Affiliates;" and

  (3) the Parent Guarantor or the Issuer, as the case may be, would be permitted to make an Investment at the time of Designation (assuming the effectiveness of such Designation and treating such Designation as an Investment at the time of Designation) as a Restricted Payment pursuant to the first paragraph of "—Limitation on Restricted Payments."

(b) None of the Parent Guarantor, the Issuer or any Restricted Subsidiary will at any time, except as permitted by "—Limitation on Incurrence of Additional Indebtedness" and "—Limitation on Restricted Payments":

  (1) provide credit support for, subject any of its property or assets (other than the Capital Stock of any Unrestricted Subsidiary) to the satisfaction of, or Guarantee, any Indebtedness of any Unrestricted Subsidiary (including any undertaking, agreement or instrument evidencing such Indebtedness);

  (2) be directly or indirectly liable for any Indebtedness of any Unrestricted Subsidiary; or

  (3) be directly or indirectly liable for any Indebtedness which provides that the holder thereof may (upon notice, lapse of time or both) declare a default thereon or cause the payment thereof to be accelerated or payable prior to its final scheduled maturity upon the occurrence of a default with respect to any Indebtedness of any Unrestricted Subsidiary.

(c) The Parent Guarantor or the Issuer may revoke any Designation of a Subsidiary as an Unrestricted Subsidiary (a "Revocation") only if:

  (1) no Default or Event of Default has occurred and is continuing at the time of and after giving effect to such Revocation; and

  (2) all Liens and Indebtedness of such Unrestricted Subsidiary outstanding immediately following such Revocation would, if Incurred at such time, have been permitted to be Incurred for all purposes of the Indenture.

(d) Upon a Restricted Subsidiary becoming an Unrestricted Subsidiary,

(1) all existing Investments of the Parent Guarantor, the Issuer and the Restricted Subsidiaries therein (valued at the Parent Guarantor's or the Issuer's proportional share of the fair market value of its assets less liabilities) will be deemed made at that time;

(2) all existing Capital Stock or Indebtedness of the Parent Guarantor, the Issuer or a Restricted Subsidiary held by it will be deemed Incurred at that time, and all Liens on property of the Parent Guarantor, the Issuer or a Restricted Subsidiary held by it will be deemed incurred at that time;

(3) all existing transactions between it and the Parent Guarantor, the Issuer or any Restricted Subsidiary will be deemed entered into at that time; and

(4) it will cease to be subject to the provisions of the Indenture as a Restricted Subsidiary.

(e) Upon an Unrestricted Subsidiary becoming, or being deemed to become, a Restricted Subsidiary,

(1) all of its Indebtedness and Disqualified or Preferred Stock will be deemed Incurred at that time for purposes of "—Limitation on Incurrence of Additional Indebtedness";

(2) Investments therein previously charged under "—Limitation on Restricted Payments" will be credited thereunder; and

(3) it will thenceforward be subject to the provisions of the Indenture as a Restricted Subsidiary.

The Designation of a Subsidiary of the Parent Guarantor or the Issuer as an Unrestricted Subsidiary will be deemed to include the Designation of all of the Subsidiaries of such Subsidiary. All Designations and Revocations must be evidenced by Board Resolutions of the Parent Guarantor's or the Issuer's, as the case may be, Board of Directors, delivered to the Trustee with an Officers' Certificate that certifies compliance with the preceding provisions.

***Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries***

(a) Except as provided in clause (b) below, the Parent Guarantor and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or permit to exist or become effective any encumbrance or restriction of any kind on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on or in respect of its Capital Stock to the Parent Guarantor, the Issuer or any other Restricted Subsidiary or pay any Indebtedness owed to the Parent Guarantor, the Issuer or any other Restricted Subsidiary;

(2) make loans or advances to, or Guarantee any Indebtedness or other obligations of, or make any Investment in, or pay any Indebtedness owed to, the Parent Guarantor, the Issuer or any other Restricted Subsidiary; or

(3) transfer any of its property or assets to the Parent Guarantor, the Issuer or any other Restricted Subsidiary.

(b) Clause (a) above of this covenant will not apply to encumbrances or restrictions existing under or by reason of:

(1) applicable law or governmental rule, regulation or order applicable other than solely on account of the action or inaction of the Parent Guarantor, the Issuer or any Restricted Subsidiary;

(2) the Indenture or the notes;

(3) the terms of any Indebtedness outstanding on the Issue Date, and any amendments or restatements thereof; provided that any amendment or restatement is not materially more restrictive with respect to such encumbrances or restrictions than those in existence on the Issue Date;

(4) the terms of any binding agreement with respect to any Restricted Subsidiary relating to its Capital Stock or assets in effect on the Issue Date, and any amendments or restatements thereof; provided that any amendment or restatement is not materially more restrictive with respect to such encumbrances or restrictions than those in existence on the Issue Date;

(5) restrictions on the transfer of assets subject to any Permitted Lien;

(6) with respect to clause (a)(3) above only, customary provisions restricting assignment or subletting in any lease governing a leasehold interest of any Restricted Subsidiary, permitted to be Incurred under "—Certain Covenants;"

(7) restrictions with respect to a Restricted Subsidiary of the Parent Guarantor or the Issuer imposed pursuant to a binding agreement which has been entered into for the sale or disposition of Capital Stock or assets of such Restricted Subsidiary; provided that such restrictions apply solely to the Capital Stock or assets of such Restricted Subsidiary being sold;

(8) restrictions (A) with respect to any Person, or to the property or assets of any Person, at the time the Person is acquired by the Parent Guarantor, the Issuer or any Restricted Subsidiary, or (B) with respect to any Unrestricted Subsidiary at the time it is designated or is deemed to become a Restricted Subsidiary, which encumbrances or restrictions (i) are not applicable to any other Person or the property or assets of any other Person and (ii) were not put in place in anticipation of such event and any extensions, renewals, replacements or refinancings of any of the foregoing, provided that the encumbrances and restrictions in the extension, renewal, replacement or refinancing are, taken as a whole, no less favorable in any material respect to the Noteholders than the encumbrances or restrictions being extended, renewed, replaced or refinanced;

(9) restrictions existing under or created by any agreement (including any amendments, modifications, restatements or supplements thereto) related to Indebtedness Incurred in connection with a Project Financing;

(10) customary restrictions on the disposition or distribution of assets or property in agreements entered into in the ordinary course of a Related Business of the types described in the definition of "Related Business Investments"; or

(11) provisions limiting the disposition or distribution of assets or property in, or transfer of assets (including Capital Stock) in asset sale agreements, sale-leaseback agreements, stock sale agreements, operating agreements, development agreements, area of mutual interest agreements and other agreements that are customary in a Related Business and other similar agreements entered into in the ordinary course of business, which limitations are applicable only to the assets, property or Capital Stock that are the subject of such agreements; and

(12) an agreement governing Indebtedness Incurred to Refinance the Indebtedness issued, assumed or Incurred pursuant to an agreement referred to in subclauses (1) through (11) of this clause (b); provided that such Refinancing agreement is not materially more restrictive with respect to such encumbrances or restrictions than those contained in the agreement referred to in such subclauses (1) through (11).

***Limitation on Liens***

The Parent Guarantor and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, directly or indirectly, Incur any Liens of any kind (except for Permitted Liens) against or upon any of their respective properties or assets, whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, to secure any Indebtedness, unless contemporaneously therewith effective provision is made to secure the notes and all other amounts due under the Indenture equally and ratably with such Indebtedness (or, in the event that such Indebtedness is subordinated in right of payment to the notes, prior to such Indebtedness) with a Lien on the same properties and assets securing such Indebtedness for so long as such Indebtedness is secured by such Lien.

***Limitation on Sale and Leaseback Transactions***

The Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; provided that the Parent Guarantor or the Issuer may enter into a Sale and Leaseback Transaction if:

(1) the Parent Guarantor, the Issuer and the Restricted Subsidiaries would be entitled to (a) Incur Indebtedness in an amount equal to the Attributable Indebtedness with respect to such Sale and Leaseback Transaction under clause (1) of the covenant described above under "—Limitation on Incurrence of Additional Indebtedness" and (b) create a Lien to secure such Indebtedness pursuant to the covenant described above under the caption "—Limitation on Liens"; and

(2) the net cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction.

***Limitation on Merger, Consolidation and Sale of Assets***

The Parent Guarantor and the Issuer will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person (whether or not the Parent Guarantor or the Issuer is the surviving or continuing Person), or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any Restricted Subsidiary to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the Parent Guarantor's or the Issuer's, as the case may be, properties and assets (determined on a consolidated basis for the Parent Guarantor or the Issuer and its Restricted Subsidiaries), to any Person unless:

(a) either:

  (1) the Parent Guarantor or the Issuer, as the case may be, is the surviving or continuing corporation; or

  (2) the Person (if other than the Parent Guarantor or the Issuer) formed by such consolidation or into which the Parent Guarantor or the Issuer is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Parent Guarantor or the Issuer and of the Parent Guarantor's or the Issuer's, as the case may be, Restricted Subsidiaries substantially as an entirety (the "Surviving Entity"):

    (A) is a corporation organized and validly existing under the laws of Argentina, Spain or any other Qualified Merger Jurisdiction; and

    (B) expressly assumes, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the notes and the performance and observance of the covenants of the notes, the Indenture and, if applicable, the Note Guarantee on the part of the Parent Guarantor or the Issuer, as the case may be, to be performed or observed;

(b) immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including giving effect on a *pro forma* basis to any Indebtedness (including any Acquired Indebtedness) Incurred or anticipated to be Incurred in connection with or in respect of such transaction), (x) the Parent Guarantor or the Issuer, as the case may be, or such Surviving Entity, as the case may be, will be able to Incur at least U.S.$1.00 of additional Indebtedness pursuant to clause (1) of "—Limitation on Incurrence of Additional Indebtedness" or (y) the Interest Coverage Ratio would be no less than the Interest Coverage Ratio immediately prior to such transaction, and the Leverage Ratio would be no greater than the Leverage Ratio immediately prior to the transaction;

(c) immediately before and immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including, without limitation, giving effect on a *pro forma* basis to any Indebtedness (including any Acquired Indebtedness) Incurred or anticipated to be

Incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default has occurred or is continuing or would occur as a result thereof;

(d) (i) immediately after giving effect to such transaction, the Surviving Entity shall have Consolidated Net Worth in an amount that is not less than the Consolidated Net Worth immediately prior to such transaction or (ii) affirmation from the applicable Rating Agencies that the notes will not be downgraded as a result of such transaction is obtained; and

(e) the Parent Guarantor or the Issuer, as the case may be, has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that the consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if required in connection with such transaction, the supplemental indenture, comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to the transaction and the execution of the supplemental indenture (if any) have been satisfied.

For purposes of this covenant, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries of the Parent Guarantor or the Issuer, as the case may be, the Capital Stock of which constitutes all or substantially all of the properties and assets of the Parent Guarantor or the Issuer (determined on a consolidated basis for the Parent Guarantor or the Issuer and its Restricted Subsidiaries), will be deemed to be the transfer of all or substantially all of the properties and assets of the Parent Guarantor or the Issuer, as the case may be.

The provisions of clauses (b) and (c) above will not apply to any merger or consolidation of the Parent Guarantor or the Issuer into an Affiliate of the Parent Guarantor or the Issuer incorporated solely for the purpose of reincorporating the Parent Guarantor or the Issuer in another jurisdiction so long as the Indebtedness of the Parent Guarantor or the Issuer and its Restricted Subsidiaries taken as a whole is not increased thereby.

The foregoing shall not apply to any transfer of assets by a Restricted Subsidiary to another Restricted Subsidiary or to the Parent Guarantor or the Issuer.

Upon any consolidation, combination or merger or any transfer of all or substantially all of the properties and assets of the Parent Guarantor or the Issuer, as the case may be, and its Restricted Subsidiaries in accordance with this covenant, in which the Parent Guarantor or the Issuer, as the case may be, is not the continuing Person, the Surviving Entity formed by such consolidation or into which the Parent Guarantor or the Issuer, as the case may be, is merged or to which such conveyance, lease or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the Parent Guarantor or the Issuer, as the case may be, under the Indenture and the notes with the same effect as if such Surviving Entity had been named as such and the Parent Guarantor or the Issuer, as the case may be, shall be relieved of its obligations under the Indenture, the notes and the Note Guarantee, if applicable. For the avoidance of doubt, compliance with this covenant will not affect the obligations of the Parent Guarantor or the Issuer (including a Surviving Entity, if applicable) under "—Change of Control Event," if applicable.

***Limitation on Transactions with Affiliates***

(1) The Parent Guarantor and the Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into any transaction or series of related transactions with an aggregate value in excess of U.S.$40.0 million (including, without limitation, any purchase, conveyance, sale, lease or other disposition of property or the rendering of any service) with, or for the benefit of, any of its Affiliates (each an "Affiliate Transaction"), unless (a) the terms of such Affiliate Transaction are made on commercially reasonable terms and on an arm's length basis, (b) in compliance with applicable law and (c) approved by the Board of Directors of the Parent Guarantor or the Issuer, as the case may be. For the avoidance of doubt, all Affiliate Transactions in effect on the Issue Date and disclosed in this offering memorandum shall be deemed to comply with this covenant.

(2) Clause (1) above will not apply to:

(a) Affiliate Transactions with or among the Parent Guarantor, the Issuer and any Restricted Subsidiary or between or among Restricted Subsidiaries;

(b) reasonable fees and compensation paid to, and any indemnity provided on behalf of, officers, directors and employees of the Parent Guarantor, the Issuer or any Restricted Subsidiary, so long as the Board of Directors of the Parent Guarantor, the Issuer or such Restricted Subsidiary, as the case may be, in good faith shall have approved the terms thereof;

(c) Affiliate Transactions undertaken pursuant to the terms of any agreement or arrangement to which the Parent Guarantor, the Issuer or any Restricted Subsidiary is a party as of or on the Issue Date, as these agreements or arrangements may be amended, modified, supplemented, extended, renewed or replaced from time to time; provided that any future amendment, modification, supplement, extension, renewal or replacement entered into after the Issue Date will be permitted to the extent that its terms, when taken as a whole, are not more disadvantageous to the Parent Guarantor, the Issuer or, as the case may be, the Restricted Subsidiaries than the terms of the agreements or arrangements in effect on the Issue Date;

(d) transactions or payments, including grants of securities, stock options and similar rights, pursuant to any employee, officer or director compensation or benefit plans or arrangements entered into in the ordinary course of business or approved by the Parent Guarantor's or the Issuer's, as the case may be, Board of Directors in good faith;

(e) any employment agreements entered into by the Parent Guarantor, the Issuer or any Restricted Subsidiary in the ordinary course of business;

(f) any Restricted Payments made in compliance with "—Limitation on Restricted Payments" and Permitted Investments;

(g) loans or advances to senior executives or directors of the Parent Guarantor, the Issuer or any Restricted Subsidiary consistent with the Parent Guarantor's or the Issuer's, as the case may be, policy and past practice in an aggregate principal amount not exceeding U.S.$5.0 million (or the equivalent in other currencies) outstanding at any one time;

(h) (i) transactions with customers, clients, suppliers, or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture or (ii) contracts for (a) drilling or other oil field services or supplies, (b) the sale, storage, gathering or transport of Hydrocarbons, or (c) the lease or rental of office space; in each case, that are fair to the Parent Guarantor, the Issuer or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors or the senior management of the Parent Guarantor or the Issuer or are on terms at least as favorable as might reasonably have been obtained from a Person that is not an Affiliate of the Parent Guarantor or the Issuer;

(i) any transaction entered into in the ordinary course of business between or among the Parent Guarantor, the Issuer or any Restricted Subsidiary and any joint venture, *unión transitoria de empresas* or similar arrangement, if such transaction would constitute an Affiliate Transaction solely because the Parent Guarantor, the Issuer or a Restricted Subsidiary owns an equity interest in or otherwise controls such joint venture or similar entity; and

(j) the provision of administrative services to or by any Unrestricted Subsidiary on substantially the same terms provided to or by Restricted Subsidiaries.

***Conduct of Business***

The Parent Guarantor, the Issuer and the Restricted Subsidiaries will not engage in any business other than a Related Business.

### *Corporate Existence*

Subject to the provisions described under "—Limitation on Merger, Consolidation and Sale of Assets," the Parent Guarantor and the Issuer will, and will cause each Restricted Subsidiary, to preserve and keep in full force and effect its corporate existence.

### *Government Approvals and Licenses; Compliance with Law*

The Parent Guarantor and the Issuer will, and will cause each Restricted Subsidiary to, (i) obtain, maintain in full force and effect and comply with, all governmental approvals, authorizations, consents, permits, concessions (including concessions for exploitation, complementary exploration and hydrocarbons development) and licenses as are necessary to engage in the Permitted Businesses, (ii) preserve and maintain good and valid title to its properties and assets (including land use rights) free and clear of any Liens other than Permitted Liens and (iii) comply with all applicable laws, rules, regulations, orders, judgments and decrees of any Governmental Authority having jurisdiction over the Parent Guarantor, the Issuer or such Restricted Subsidiary, except to the extent that failure to so obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (A) the business, results of operations or prospects of the Parent Guarantor, the Issuer and the Restricted Subsidiaries taken as a whole or (B) the ability of the Company to perform its obligations under the notes or the Indenture.

### *Maintenance of Properties and Insurance*

The Parent Guarantor and the Issuer will, and will cause each Restricted Subsidiary to, (i) maintain or cause to be maintained in good repair, working order and condition, ordinary wear and tear excepted, all properties reasonably necessary for the conduct of their businesses, and (ii) carry and maintain in full force and effect at all times with fiscally sound insurers insurance against such risks as the Parent Guarantor, the Issuer or such Restricted Subsidiary deems reasonable and prudent under the circumstances, in accordance with industry practice.

### *Maintenance of Ratings*

The Parent Guarantor and the Issuer shall, for so long as any notes are outstanding, use commercially reasonable efforts to maintain ratings on the notes from at least two Rating Agencies.

### *Limitation on Use of Proceeds*

The Issuer shall use the proceeds from the offering of the notes as described in "Use of Proceeds".

### *Reports to Holders*

So long as any of the notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Parent Guarantor and the Issuer will furnish to the Holders of the notes and to prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

The Parent Guarantor and the Issuer will furnish or cause to be furnished to the Trustee in English in electronic form:

- within 70 days after the end of the first, second and third quarters of the Parent Guarantor's and the Issuer's fiscal year (commencing with the quarter ending March 31, 2018), quarterly unaudited Consolidated financial statements prepared in accordance with IFRS of the Parent Guarantor and the Issuer for such period; and
- within 120 days after the end of the fiscal year of the Parent Guarantor and the Issuer commencing with the fiscal year ending December 31, 2017, annual audited Consolidated financial statements prepared in accordance with IFRS of the Parent Guarantor and the Issuer for such fiscal year and a report on such annual financial statements by the independent auditors of the Parent Guarantor and the Issuer.

Each such annual report and the related financial statements will be accompanied by an Officers' Certificate of each of the chief financial officer of each of the Parent Guarantor and the Issuer (i) to the effect that (A) the financial statements contained in such report fairly present, in all material respects, the consolidated financial condition of each of the Parent Guarantor and the Issuer and its Subsidiaries as of the date of such financial statement and the results of their operations for the period covered thereby and (B) such financial statements have been prepared in accordance with IFRS; and (ii) stating whether any Default or Event of Default exists on the date of such certificate and, if any Default or Event of Default then exists, setting forth the details thereof and the action which the Parent Guarantor or the Issuer is taking or proposes to take with respect thereto.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such reports shall not constitute actual or constructive notice of any information contained therein or determinable from information contained therein, including the Parent Guarantor's, the Issuer's or any other Person's compliance with any of its covenants under the Indenture, the notes or the Note Guarantee, as applicable (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

For so long as any of the notes are outstanding, the above information will be made available at the specified offices of each listing agent. For so long as the notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market and the rules of such exchange so require, the above information will also be made available in Luxembourg through the offices of the Listing Agent.

**Covenant Suspension**

If on any date following the Issue Date (i) the notes have Investment Grade Ratings from at least two Rating Agencies, and (ii) no Default has occurred and is continuing under the Indenture (the occurrence of the events described in the foregoing clauses (i) and (ii) being collectively referred to as a "Covenant Suspension Event"), the Parent Guarantor, the Issuer and the Restricted Subsidiaries will not be subject to the following covenants (collectively, the "Suspended Covenants"):

(1) "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness;"

(2) "—Certain Covenants—Limitation on Restricted Payments;"

(3) "—Certain Covenants—Limitation on Asset Sales;"

(4) "—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries;"

(5) "—Certain Covenants—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries;"

(6) "—Certain Covenants—Limitation on Sale and Leaseback Transactions;"

(7) clause (b) of the first paragraph of "—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets;" and

(8) "—Certain Covenants—Limitation on Transactions with Affiliates."

In the event that the Parent Guarantor, the Issuer and the Restricted Subsidiaries are not subject to the Suspended Covenants under the Indenture for any period of time as a result of the foregoing, and on any subsequent date (the "Reversion Date") at least two Rating Agencies no longer rate the notes Investment Grade, then the Parent Guarantor, the Issuer and the Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants under the Indenture.

The period of time between the occurrence of a Covenant Suspension Event and the Reversion Date is referred to in this description as the "Suspension Period." In the event of any such reinstatement, no action taken or omitted to be taken by the Parent Guarantor, the Issuer or any Restricted Subsidiary prior to such reinstatement will give rise to a Default or Event of Default under the Indenture with respect to notes; provided that (1) any Subsidiaries designated as Unrestricted Subsidiaries during the Suspension Period shall automatically become Restricted Subsidiaries on the Reversion Date (subject to the Parent Guarantor's or the Issuer's right to redesignate them as Unrestricted Subsidiaries pursuant to "—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries”), and (2) all Indebtedness Incurred, or Disqualified Capital Stock or Preferred Stock issued, during the Suspension Period will be classified to have been Incurred or issued pursuant to clause (c) of the second paragraph of “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness.”

The notes may never achieve or maintain Investment Grade Ratings.

**Events of Default**

The following are “Events of Default” with respect to the notes:

(1) default in the payment when due of the principal of or premium, if any, on (including, in each case, any related Additional Amounts) any notes, including the failure to make a required payment to purchase notes tendered pursuant to an optional redemption, Change of Control Offer or an Asset Sale Offer;

(2) default for 30 days or more in the payment when due of interest (including any related Additional Amounts) on any notes;

(3) the failure to perform or comply with any of the provisions described under “—Certain Covenants—Limitations on Merger, Consolidation and Sale of Assets;”

(4) the failure by the Parent Guarantor, the Issuer or any Restricted Subsidiary to comply with any other covenant or agreement contained in the Indenture or the notes for 60 days or more after written notice to the Issuer thereof from the Trustee or the Holders of at least 25% in aggregate principal amount of the outstanding notes;

(5) it becomes unlawful for the Issuer or the Parent Guarantor to perform its obligations under the Indenture, the notes or the Note Guarantees, or any payment obligations ceases to be valid, binding or enforceable;

(6) (a) the failure to pay principal of Indebtedness of the Parent Guarantor, the Issuer or any Significant Subsidiary prior to the expiration of any applicable grace period provided in such Indebtedness on the date of such default, and such default has not been waived or the time for payment of such amounts has not been expressly extended or (b) the acceleration of any Indebtedness of the Parent Guarantor, the Issuer or any Significant Subsidiary prior to its Stated Maturity; provided that Indebtedness as to which such principal payment was not made or was so accelerated has an outstanding principal amount of U.S.$50.0 million (or the equivalent in other currencies) or more in the aggregate;

(7) failure by the Parent Guarantor, the Issuer or any Significant Subsidiary to pay one or more final judgments against any of them, aggregating U.S.$50.0 million (or the equivalent in other currencies) or more, which are not paid, discharged or stayed for a period of 60 days or more (to the extent not covered by a reputable and creditworthy insurance company);

(8) certain events of bankruptcy affecting the Parent Guarantor, the Issuer or any Significant Subsidiary;

(9) (a) the Indenture or the Note Guarantee for any reason ceases to be in full force and effect, other than in accordance with its terms, (b) the Issuer or the Parent Guarantor contests the enforceability of the Indenture or the Note Guarantee, or (c) the Issuer or a Guarantor denies or disaffirms its obligations under the Indenture or the Note Guarantee; or

(10) a resolution is passed or adopted by the Board of Directors or shareholders of the Issuer or the Parent Guarantor, or a ruling or judgment of a governmental entity or court of competent jurisdiction is made, that the Issuer or the Parent Guarantor be wound up or dissolved, other than pursuant to a merger, consolidation or other transaction otherwise permitted in accordance with the terms of Indenture as described in “—Certain Covenants—Limitations on Merger, Consolidation and Sale of Assets,” and, in the case of any such ruling or judgment, remains undismissed for 30 days.

If an Event of Default (other than an Event of Default specified in clause (8) above with respect to the Issuer) has occurred and is continuing, the Trustee or the Holders of at least 25% in aggregate principal amount of outstanding notes may declare the unpaid principal of and premium, if any, and accrued and unpaid interest on all the notes to be immediately due and payable by notice in writing to the Issuer and the Trustee specifying the Event of Default and that it is a "notice of acceleration." If an Event of Default specified in clause (8) above occurs with respect to the Issuer, then the unpaid principal of and premium, if any, and accrued and unpaid interest on all the notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

At any time after a declaration of acceleration with respect to the notes as described in the preceding paragraph, the Holders of a majority in principal amount of the outstanding notes may waive all past defaults and rescind and annul such declaration and its consequences:

(1) if the rescission would not conflict with any judgment or decree;

(2) if all existing Events of Default have been cured or waived, except nonpayment of principal or interest that has become due solely because of the acceleration;

(3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid; and

(4) if the Issuer has paid the Trustee its compensation and reimbursed the Trustee for its expenses, disbursements and advances outstanding at that time.

No rescission will affect any subsequent Default or impair any rights relating thereto.

The Holders of a majority in principal amount of the outstanding notes may waive any existing Default or Event of Default under the Indenture, and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any notes.

The Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the Holders, unless such Holders have offered to the Trustee indemnity or security reasonably satisfactory to it. Subject to all provisions of the Indenture and applicable law, the Holders of a majority in aggregate principal amount of the then outstanding notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

Notwithstanding anything to the contrary, the right of a Holder of a note to receive payment of principal of or interest on its note on or after the Stated Maturity thereof, or to bring suit for the enforcement of any such payment on or after such dates, may not be impaired or affected without the consent of that Holder. The Parent Guarantor and the Issuer are required, upon becoming aware of any Default or Event of Default, to deliver to the Trustee written notice of such Default or Event of Default, the status thereof and what action the Parent Guarantor or the Issuer is taking or proposes to take in respect thereof. In the absence of receipt any such written notice of Default or Event of Default from the Parent Guarantor or the Issuer and any description of any Default or Event of Default in such Officers' Certificate or written notice from any Holder, the Trustee shall not be deemed to have notice or be charged with knowledge of any Default or Event of Default. The Indenture provides that if a Default or Event of Default occurs and is continuing of which a trust officer of the Trustee has received written notice, the Trustee must send to each Holder notice of the Default or Event of Default within 45 days after a trust officer of the Trustee receives written notice thereof. Except in the case of a Default or Event of Default in the payment of principal of, premium, if any, or interest on any note, the Trustee may withhold notice if and so long as a committee of its trust officers in good faith determines that withholding notice is in the interests of the Holders.

**Legal Defeasance and Covenant Defeasance**

The Issuer may, at its option and at any time, elect to have its obligations discharged with respect to the outstanding notes ("Legal Defeasance"). Legal Defeasance means that the Issuer will be deemed to have paid and discharged the entire Indebtedness represented by the outstanding notes on the 91st day after the deposit specified in clause (1) of the second following paragraph, except for:

(1) the rights of Holders to receive payments in respect of the principal of, premium, if any, and interest on, the notes when such payments are due from the trust referred to below;

(2) the Issuer's obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payments;

(3) the rights, powers, trust, duties and immunities of the Trustee and the obligations of the Issuer and the Parent Guarantor in connection therewith; and

(4) the Legal Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have its and the Parent Guarantor's obligations released with respect to the covenants that are described under "—Certain Covenants" (other than "Limitation on Merger, Consolidation and Sale of Assets") ("Covenant Defeasance") and thereafter any omission to comply with such obligations will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (other than non-payment and bankruptcy, receivership, reorganization and insolvency events with respect to the Parent Guarantor and the Issuer) described under "—Events of Default" will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders cash in U.S. dollars, certain direct non-callable obligations of, or guaranteed by, the United States, or a combination thereof, in such amounts as will be sufficient, without reinvestment (in the opinion of a nationally recognized firm of independent public accountants), to pay the principal of, premium, if any, and interest (including Additional Amounts) on the notes on the stated date for payment thereof or on the applicable redemption date, as the case may be;

(2) in the case of Legal Defeasance, the Issuer has delivered to the Trustee an Opinion of Counsel from a nationally recognized law firm in the U.S. reasonably acceptable to the Trustee and independent of the Issuer to the effect that:

    (a) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling; or

    (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall state that, the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuer has delivered to the Trustee an Opinion of Counsel from a nationally recognized law firm in the U.S. reasonably acceptable to the Trustee and independent of the Issuer to the effect that the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default has occurred and is continuing on the date of the deposit pursuant to clause (1) of this paragraph;

(5) the Issuer has delivered to the Trustee an Officers' Certificate stating that such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, the Indenture or any other material agreement or instrument to which the Parent Guarantor, the Issuer

or any of their respective Subsidiaries is a party or by which the Parent Guarantor, the Issuer or any of their respective Subsidiaries is bound;

(6) the Issuer has delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders over any other creditors of the Parent Guarantor, the Issuer or any Subsidiary of the Parent Guarantor or the Issuer or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Parent Guarantor or the Issuer or others;

(7) the Issuer has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel from U.S. counsel reasonably acceptable to the Trustee and independent of the Issuer, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with; and

(8) the Issuer has delivered to the Trustee an Opinion of Counsel from U.S. counsel reasonably acceptable to the Trustee and independent of the Issuer to the effect that the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally.

**Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the notes and the rights, powers, and immunities of the Trustee and the obligations of the Issuer and the Parent Guarantor in connection therewith, as expressly provided for in the Indenture) as to all outstanding notes when:

(1) either:

(a) all the notes theretofor authenticated and delivered (except lost, stolen or destroyed notes which have been replaced or paid and notes for whose payment money has theretofor been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust) have been delivered to the Trustee for cancellation; or

(b) all notes not theretofor delivered to the Trustee for cancellation have become due and payable, and the Issuer has irrevocably deposited or caused to be deposited with the Trustee funds or certain direct, non-callable obligations of, or guaranteed by, the United States sufficient without reinvestment (in the opinion of a nationally recognized firm of independent public accountants) to pay and discharge the entire Indebtedness on the notes not theretofor delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the notes to the date of payment, together with irrevocable instructions from the Issuer directing the Trustee to apply such funds to the payment of sums payable; and

(2) the Issuer has paid all other sums payable under the Indenture and the notes by it; and

(3) the Issuer has delivered to the Trustee an Officers' Certificate and Opinion of Counsel stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

**Listing**

Application will be made to list the notes on the Official List of the Luxembourg Stock Exchange for trading on its Euro MTF Market and the Issuer will use its best efforts to maintain such listing of the notes. If the admission of the notes to the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF Market of the Luxembourg Stock Exchange would, in the future, require the Issuer to publish financial information either more regularly than it would otherwise be required to, or requires the Issuer to publish separate financial information, or if the listing, in the judgment of the Issuer, is unduly burdensome, the Issuer may seek an alternative admission to listing, trading and/or quotation for the notes by another listing authority, stock exchange and/or quotation system. If such alternative admission to listing, trading and/or quotation of the notes is not available to the Issuer or is, in the Issuer's commercially reasonable judgment, unduly burdensome, an alternative admission to listing, trading and/or quotation of the notes may not be obtained.

Application has been made to have the notes listed on BYMA.

**Paying Agents; Transfer Agents and Registrars**

The Bank of New York Mellon will initially act as paying agent, transfer agent and co-registrar for the notes, Banco Santander Río S.A. will initially act as paying agent, transfer agent and registrar for the notes in Argentina. The Issuer may at any time appoint additional or other paying agents, transfer agents, registrars and co-registrars, and terminate the appointment thereof. For so long as (i) any notes issued under the Indenture are outstanding, the Issuer will maintain a paying agent, a transfer agent and a co-registrar in New York City, New York, and (ii) it is required by Argentine law or by the CNV, the Issuer will maintain a paying agent, a transfer agent and registrar in the City of Buenos Aires, Argentina. In the event required by the Indenture, notice of any resignation, termination or appointment of any paying agent, a transfer agent, registrar or co-registrar, and of any change in the office through which any paying agent, a transfer agent, registrar or co-registrar will act, will be promptly given by the Issuer to the Holders of the notes in the manner described under "—Notices" below and to the CNV. The Bank of New York Mellon SA/NV, Luxembourg Branch will initially act as listing agent for the notes in Luxembourg.

The co-registrar will be responsible for maintaining a record of the aggregate holdings of notes represented by the Global Notes and accepting notes for exchange and registration of transfer, ensuring that payments in respect of the notes are duly paid to the Holders to the extent funds are available therefor and transmitting notices to Holders and from Holders to the Issuer (in each case as contemplated by the Indenture).

The co-registrar will keep at its office a register in which, subject to such reasonable regulations as it may prescribe, the co-registrar will provide for the registration of the notes and registration of transfers and exchanges of the notes. In the event of a partial transfer of a certificated note, new notes will be obtainable at the office of the co-registrar in connection with such transfer.

**Meeting of Holders; Modification of the Indenture**

(a) *Meetings of Noteholders; Amendment and Waiver*. If required by Argentine law, the Trustee or the Issuer shall, upon the written request of the Holders of at least 5.0% in aggregate principal amount of the notes at the time outstanding, or the Issuer or the Trustee at its discretion, may, call a meeting of the Holders to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Indenture, the notes or the Note Guarantee given or taken by the Holders of such notes. Any such action may be taken by the written consent of Holders if permitted under Argentine law then in effect. Any meetings will be held in the City of Buenos Aires; provided, however, that the Issuer or the Trustee may determine to hold any such meetings in the City of New York and/or London. In any case, meetings shall be held at such time and at such place in any such city as the Issuer or the Trustee shall determine. Any resolution passed at a meeting convened in London or the City of New York shall be binding on all Holders (whether present or not at such meeting), only upon ratification by a meeting of such Holders held in the City of Buenos Aires in accordance with the Argentine Negotiable Obligations Law.

Meetings of Holders are subject to a first and second notice; the second to occur upon the failure of the first. Both the first and second notice convening a meeting of Holders may be made simultaneously, in which case the meeting convened by the second notice, upon the failure of the first, may be held within an hour of such failure. The quorum for the first notice will be persons holding or representing at least 60% in aggregate principal amount of notes at the time Outstanding (other than notes held by the Parent Guarantor, the Issuer, a Subsidiary of the Parent Guarantor or the Issuer or the Trustee). No business shall be transacted, unless a quorum is present when the meeting is called to order. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall be adjourned for a period of one hour and the quorum for the reconvened meeting shall be persons holding or representing at least 30% in aggregate principal amount of notes at the time outstanding (other than notes held by the Parent Guarantor, the Issuer, a Subsidiary of the Parent Guarantor or the Issuer).

The Indenture contains provisions for Holders present or represented at meetings of Holders convened in London or the City of New York to appoint representatives at meetings of Holders in the City of Buenos Aires. Subject as aforesaid, any resolution duly passed will be binding on all Holders (whether or not they were present at the meeting at which such resolution was passed). If a meeting is being held pursuant to a written request of Holders, the agenda for the meeting shall be as determined in the request and such meeting shall be convened within 40 days from the date such written request is received by the Trustee or the Issuer, as the case may be. Notice of any meeting of Holders (which shall include the date, place and time of the meeting, the agenda therefor and the requirements to attend) shall be given not less than 10 days nor more than 30 days prior to the date fixed for the meeting in the Official Gazette of Argentina, in one other newspaper of general circulation in Argentina (which is expected to be *La Nación*), on the website of the Luxembourg Stock Exchange (http://www.bourse.lu) (so long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require), in the Bulletin of the BASE (as long as the notes are listed on BYMA), or such other market informative systems where the notes are listed and as otherwise required by the Argentine Negotiable Obligations Law and also in the manner provided under the Indenture, and any publication thereof shall be for five consecutive business days in each place of publication.

(b) *Modification of the Indenture*. From time to time, the Parent Guarantor, the Issuer and the Trustee, without the consent of the Holders, may amend, modify or supplement the Indenture, the Note Guarantee and the notes for the following purposes:

(1) to cure any ambiguity, to correct or supplement any provision therein which may be inconsistent with any other provision of the notes or the Indenture, or to make any other provisions with respect to matters or questions arising under the Indenture which shall not be inconsistent with the provisions of the Indenture; provided such actions shall not materially and adversely affect the interest of the Holders;

(2) to provide for the assumption by a Surviving Entity of the obligations of the Parent Guarantor or the Issuer under the Indenture;

(3) to secure the notes;

(4) to add to the covenants of the Parent Guarantor or the Issuer for the benefit of the Holders or surrender any right or power conferred upon the Issuer or the Parent Guarantor;

(5) to provide for the issuance of Additional Notes in accordance with the Indenture;

(6) to evidence the replacement of the Trustee as provided for under the Indenture;

(7) if necessary, in connection with any release of any security permitted under the Indenture;

(8) to make any other change that does not adversely affect the rights of any Holder in any material respect;

(9) to conform the text of the Indenture, the Note Guarantee or the notes to any provision of "Description of the Notes" in this offering memorandum to the extent such provision was intended to be a verbatim recitation of the text of the Indenture, the Note Guarantee or the notes (as applicable); or

(10) to comply with any requirement of the CNV, BYMA or any market on which the notes are listed, provided that it does not adversely affect the rights of any Holder in any material respect.

Other modifications to, amendments of, and supplements to, the Indenture, the Note Guarantee or the notes may be made with the consent of the Holders of at least a majority in aggregate principal amount of the then outstanding notes issued under the Indenture and which, if required by Argentine law, shall be present or represented at a meeting in which a quorum is present, except that, without the consent of any affected Holder, no amendment may:

(1) reduce the percentage in principal amount of outstanding notes, the consent of the Holders which is required for the adoption of a resolution, or the quorum required at any meeting of Holders at which a resolution is adopted or the percentage in principal amount of notes, the Holders of which are entitled to request the calling of a meeting of Holders of notes;

(2) reduce the rate of or change or have the effect of changing the time for payment of interest on any notes;

(3) reduce the principal of, premium, if any, or change or have the effect of changing the fixed maturity of any notes, or change the date on which any notes may be subject to redemption, or reduce the redemption price therefor;

(4) make any notes payable in a currency other than that stated in the notes;

(5) eliminate or modify in any manner the Parent Guarantor's obligations with respect to its obligations under the Note Guarantee which adversely affects Holders in any material respect, except as contemplated in the Indenture;

(6) make any change in provisions of the Indenture entitling each Holder to receive payment of principal of, premium, if any, and interest on such notes on or after the due date thereof or to bring suit to enforce such payment, or permitting Holders of a majority in principal amount of outstanding notes to waive Defaults or Events of Default;

(7) amend, change or modify in any material respect the obligation of the Parent Guarantor or the Issuer to make and consummate a Change of Control Offer in respect of a Change of Control Event that has occurred or make and consummate an Asset Sale Offer with respect to any Asset Sale that has been consummated;

(8) make any change in the provisions of the Indenture described under "—Additional Amounts" that adversely affects the rights of any Holder or amend the terms of the notes in a way that would result in a loss of exemption from any applicable taxes; and

(9) make any change to the provisions of the Indenture, the Note Guarantee or the notes that adversely affects the ranking of the Note Guarantee or the notes.

**Notices**

Notices to Holders of non-Global Notes will be mailed to them, by first class mail, postage prepaid, at their registered addresses while notices to Holders of Global Notes will be given to DTC in accordance with its applicable procedures.

The Issuer will also be required to cause all such other publications of such notices as may be required from time to time in any manner by the provisions of the Argentine Capital Markets Law, the CNV Rules and by any applicable Argentine law and/or regulation (including without limitation publishing notices at the official site of the CNV (www.cnv.gob.ar)).

For so long as any notes are listed on BYMA, the Issuer will publish all notices in the Daily Bulletin of the BASE, or where applicable and as provided by the applicable rules from time to time.

For so long as any notes are listed on the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of such exchange so require, the Issuer will publish all notices to Holders in English via the website of the Luxembourg Stock Exchange at http://www.bourse.lu, provided that such method of publication satisfies the rules of such exchange.

Notices will be deemed to have been given on the date of mailing, delivery or of publication as aforesaid or, if published on different dates, on the date of the first such publication.

**Prescription**

All claims against the Parent Guarantor and the Issuer for the payment of principal of, premium, if any, or interest, or for other amounts payable in respect of the notes (including Additional Amounts), will be time barred unless made within 5 (five) years, in the case of principal, and 2 (two) years, in the case of interest, from the date on which the relevant payment was due, or within the shorter period established by applicable law.

**Governing Law; Jurisdiction; Notifications**

Our rights and obligations and the rights of the Holders arising out of or in connection with the Indenture or the notes are governed by, and shall be construed in accordance with, the laws of the State of New York without giving effect to the conflict of laws provisions thereof. Notwithstanding the foregoing, all matters relating to the issuance and initial delivery of the notes, such as our capacity and corporate authorizations to execute and deliver the Indenture and the notes, the authorization of the CNV for the establishment of the Program and the public offering of the notes in Argentina, and the requirements to qualify the notes as non-convertible obligaciones negociables are governed by, and shall be construed in accordance with, the Negotiable Obligations Law, together with Argentine Companies Law No. 19,550, as amended, and other applicable Argentine laws and regulations without giving effect to the conflict of laws provisions thereof.

Our rights and obligations and the rights of the Holders arising out of or in connection with the Note Guarantee are governed by, and shall be construed in accordance with, the laws of the State of New York without giving effect to the conflict of laws provisions thereof.

We agree that suits, actions or proceedings against us or our properties, assets or revenues with respect to the indenture or the notes or the Note Guarantee (each one, a "Related Proceeding") may be filed non-exclusively before the courts of the State of New York, County of New York, of the United States District Court for the Southern District of New York, and of any court in the City of Buenos Aires, Argentina (collectively, the "Specified Courts"). Any person who files a Related Proceeding can select at its sole discretion to bring such Related Proceeding in any Specified Court. We irrevocably consent to the jurisdiction of the aforementioned courts for any Related Proceeding and irrevocably waive, to the fullest extent permitted by law, any objection that we may now or hereafter have to the venue of Related Proceedings brought in the specified Courts and the defense that a Related Proceeding has been filed before a forum non-convenient. To the extent that us or any of our revenues, assets or properties shall be entitled to immunity, with respect to any Related Proceeding at any time brought against us or any of its revenues, assets or properties in any jurisdiction in which any Specified Court is located, in suits, attachment proceedings or enforcement of a final decision or any other legal or judicial resource and to the extent that the immunity is attributed to one of the mentioned jurisdictions, we hereby irrevocably agree not to claim and irrevocably waive such immunity to the extent permitted by law in respect of our obligations under the Indenture, the notes and the Note Guarantee. We agree that final judgment in any Related Proceeding brought in a Specified Court shall be conclusive and binding and may be enforced by any court to the jurisdiction of which we are subject by a suit upon such judgment, provided, that service of process is effected upon us in the manner specified below or as otherwise permitted by law.

For so long as any of the notes are outstanding, we will have an authorized agent in New York City who will receive all the notifications related to any action or legal proceedings resulting from the Indenture, the notes or the Note Guarantee. We agree that service of all writs, process and summonses in any Related Proceeding brought against us in the State of New York may be made upon an authorized agent that will be designated later by written notice to the Trustee (the "Process Agent"), and we have irrevocably appointed the Process Agent as our agent and legal representative to accept such service of any and all such writs, process and summonses, and agree that the failure of the Process Agent to give any notice to us of any such service of process shall not impair or affect the validity of such service or of any judgment based thereon. We agree to maintain at all times an agent with an office in New York to act as Process Agent. Nothing herein shall in any way be deemed to limit the ability to serve any such writs, process and summonses in any other manner permitted by applicable law.

**The Trustee**

Initially, The Bank of New York Mellon will be the Trustee under the Indenture. The Trustee's corporate trust office is presently located at 101 Barclay Street, Floor 7 East, New York, New York 10286 United States.

The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days or resign. If the Trustee, paying agent, co-registrar, transfer agent or such other agent becomes the owner or pledgee of the notes it may deal with the Issuer with the same rights as it would have if it were not the Trustee, paying agent, co-registrar, transfer agent or such other agent.

Except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs. The Trustee shall have no responsibility for any calculation required to be made by the Parent Guarantor or the Issuer under the Indenture and the notes and shall not be required to hold money in any currency other than U.S. dollars.

**No Personal Liability**

No past, present or future incorporator, director, officer, employee, shareholder or controlling Person of the Issuer or the Parent Guarantor, as such, will have any liability for any obligations of the Issuer and the Parent Guarantor under the notes, the Note Guarantee or the Indenture or for any claims based on, in respect of or by reason of such obligations. By accepting a note, each Holder waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes.

**Currency Indemnity**

The Parent Guarantor and the Issuer will pay all sums payable under the Indenture, the Note Guarantee and the notes solely in U.S. dollars. Any amount that you or the Trustee receives or recovers in a currency other than U.S. dollars in respect of any sum expressed to be due to you or the Trustee from the Parent Guarantor or the Issuer will only constitute a discharge to us to the extent of the U.S. dollar amount which you or the Trustee are able to purchase with the amount received or recovered in that other currency on the date of the receipt or recovery or, if it is not practicable to make the purchase on that date, on the first date on which you or the Trustee are able to do so. If the U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the Trustee under the Indenture or you under any note or the Note Guarantee, the Parent Guarantor and the Issuer will indemnify you and the Trustee, as applicable against any loss you sustain as a result. In any event, the Note Guarantee and the Issuer will indemnify you and the Trustee, as applicable against the cost of making any purchase of U.S. dollars. For the purposes of this paragraph, it will be sufficient for you or the Trustee, as applicable to certify in a satisfactory manner that you or the Trustee, as applicable would have suffered a loss had an actual purchase of U.S. dollars been made with the amount received in that other currency on the date of receipt or recovery or, if it was not practicable to make the purchase on that date, on the first date on which you or the Trustee, as applicable were able to do so. In addition, you will also be required to certify in a satisfactory manner the need for a change of the purchase date.

The indemnities described above:

- constitute a separate and independent obligation from the other obligations of the Parent Guarantor and the Issuer;
- will give rise to a separate and independent cause of action;
- will apply irrespective of any indulgence granted by the Trustee any Holder; and

will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Indenture, any note or the Note Guarantee.

In addition, the Issuer acknowledges that Section 765 of the Argentine Civil and Commercial Code is not applicable with respect to any payments to be performed in connection with the notes and forever and irrevocably waives any right that might assist it to allege that any payments in connection with the notes could be payable in any currency other than in U.S. Dollars, and therefore waives and renounces to applicability thereof to any payments in connection with the notes.

**Enforcement by Holders of Notes**

Except as described in the next paragraph, no Holder of a note will have any right by virtue of or by availing itself of any provision of the Indenture or such note to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Indenture or the notes or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless (i) such Holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the notes, (ii) Holders of not less than 25% in aggregate principal amount of the then outstanding notes have made written request upon the Trustee to institute such action, suit or proceeding in its own name as trustee under the Indenture and have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, (iii) the Trustee has failed to institute any such action, suit or proceeding within 60 days after its receipt of such notice, request and offer of indemnity, and (iv) during such 60-day period no direction inconsistent with such written request has been given to the Trustee by the Holders of a majority in principal amount of the outstanding notes pursuant to the Indenture.

Notwithstanding any other provision in the Indenture and any provision of the notes, the right of any Holder of notes to receive payment of the principal, any premium, and interest on such note (and Additional Amounts, if any) on or after the respective due dates expressed in such note, or to institute suit, including a summary proceeding (*acción ejecutiva individual*) pursuant to Article 29 of the Argentine Negotiable Obligations Law, for the enforcement of any such payment on or after such respective dates, will not be impaired or affected without the consent of such Holder.

Any beneficial owner of notes issued under the Indenture represented by a Global Note shall obtain from the relevant depositary a certificate representing its interest in the relevant Global Note in accordance with the Argentine Capital Markets Law. This certificate should enable such beneficial owner to initiate legal action before any competent court in Argentina, including a summary proceeding, to obtain overdue amounts under the notes.

**Certain Definitions**

The following sets forth certain of the defined terms used in the Indenture. Reference is made to the Indenture for full disclosure of all such terms, as well as any other terms used herein for which no definition is provided.

"*Acquired Indebtedness*" means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Parent Guarantor, the Issuer or a Restricted Subsidiary or is assumed in connection with the acquisition of assets from such Person. Acquired Indebtedness will be deemed to have been Incurred at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Parent Guarantor, the Issuer or a Restricted Subsidiary or at the time such Indebtedness is assumed in connection with the acquisition of assets from such Person.

"*Additional Amounts*" has the meaning set forth under "—Additional Amounts" above.

"*Additional Notes*" has the meaning set forth under "—Further Issues" above.

"*Affiliate*" means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. Solely for purposes of this definition, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"*Applicable Number of Basis Points*" has the meaning set forth under "—Optional Redemption."

"*Argentina*" means the Republic of Argentina.

"*Asset Acquisition*" means:

(1) an Investment by the Parent Guarantor, the Issuer or any Restricted Subsidiary in any other Person pursuant to which such Person will become a Restricted Subsidiary, or will be merged with or into the Parent Guarantor, the Issuer or any Restricted Subsidiary;

(2) the acquisition by the Parent Guarantor, the Issuer or any Restricted Subsidiary of the assets of any Person (other than a Subsidiary of the Company) which constitute all or substantially all of the assets of such Person or comprises any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business;

(3) the acquisition by the Parent Guarantor, the Issuer or any Restricted Subsidiary of any direct interest in any Related Business property; or

(4) any Revocation with respect to an Unrestricted Subsidiary.

"*Asset Sale*" means any direct or indirect sale, disposition, issuance, conveyance, transfer, lease, assignment or other transfer, including, without limitation, a Sale and Leaseback Transaction (each, a "disposition"), by the Parent Guarantor, the Issuer or any Restricted Subsidiary of:

(a) any Capital Stock other than Capital Stock of the Parent Guarantor or the Issuer (other than directors' qualifying shares and shares issued to foreign nationals to the extent required by applicable law); or

(b) any property or assets (other than cash, Cash Equivalents or Capital Stock) of the Parent Guarantor, the Issuer or any Restricted Subsidiary.

Notwithstanding the preceding, the following items will not be deemed to be Asset Sales:

(1) any sale of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Parent Guarantor, the Issuer or a Restricted Subsidiary);

(2) the disposition of all or substantially all of the assets of the Parent Guarantor or the Issuer and its Restricted Subsidiaries as permitted under "—Certain Covenants—Merger, Consolidation and Sale of Assets" or any disposition which constitutes a Change of Control Event;

(3) the sale of property or equipment that, in the reasonable determination of the Parent Guarantor or the Issuer, has become worn out, obsolete or damaged or otherwise unused in connection with the business of the Parent Guarantor, the Issuer or any Restricted Subsidiary or the transfer of any property, right or asset upon expiration and in accordance with the terms of any concession;

(4) sales or other dispositions of equipment, inventory, accounts receivable or other assets in the ordinary course of business;

(5) for purposes of "—Certain Covenants—Limitation on Asset Sales" only, the making of a Restricted Payment permitted under "—Certain Covenants—Limitation on Restricted Payments" and any Permitted Investment;

(6) a disposition to the Parent Guarantor, the Issuer or a Restricted Subsidiary, including a Person that is or will become a Restricted Subsidiary immediately after the disposition;

(7) the creation of a Permitted Lien;

(8) dispositions of receivables and related assets or interests and in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(9) the licensing or sublicensing of intellectual property or other general intangibles in the ordinary course of business;

(10) the disposition of cash or Cash Equivalents;

(11) any Production Payments and Reserve Sales; *provided* that all such Production Payments and Reserve Sales (other than incentive compensation programs on terms that are reasonably customary in a Related Business for geologists, geophysicists and other providers of technical services to the Parent Guarantor, the Issuer or a Restricted Subsidiary) will have been created, incurred, issued, assumed or Guaranteed in connection with the financing of, and within 60 days after the acquisition of, the oil and gas properties that are subject thereto;

(12) the sale or other disposition (regardless of whether in the ordinary course of business) of Related Business properties; *provided* that, at the time of such sale or other disposition, such properties do not have attributed to them any proved or probable reserves; and

(13) any disposition in a transaction or series of related transactions of assets with a fair market value of less than the greater of U.S.$50.0 million (or the equivalent in other currencies) and 2.5% of Consolidated Total Assets.

"*Asset Sale Offer*" has the meaning set forth under "—Certain Covenants—Limitation on Asset Sales."

"*Asset Sale Offer Amount*" has the meaning set forth under "—Certain Covenants—Limitation on Asset Sales."

"*Asset Sale Offer Payment Date*" has the meaning set forth under "—Certain Covenants—Limitation on Asset Sales."

"*Attributable Indebtedness*" means, in respect of a Sale and Leaseback Transaction, as at the time of determination, the present value (discounted at the interest rate implicit in the Sale and Leaseback Transaction) of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

"*Board of Directors*" means, with respect to any Person, the board of directors or similar governing body of such Person or any duly authorized committee thereof.

"*Board Resolution*" means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"*Business Day*" any day which is not a Saturday, Sunday or other day on which commercial banks are authorized or required by law or regulation to close in (i) the City of New York, (ii) the City of Buenos Aires, Argentina, (iii) the City of Madrid or (iv) the city where the relevant paying agent or transfer agent is located.

"*Capital Stock*" means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated and whether or not voting) of equity of such Person, including each class of Common Stock, Preferred Stock, limited liability interests or partnership interests, but excluding any debt securities convertible into such equity.

"*Capitalized Lease Obligations*" means, at any time, for any Person, all obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) property to the extent such obligations are required to be accounted for as a liability on a balance sheet of such Person under IFRS and, for purposes of the Notes, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with IFRS.

"*Cash Equivalents*" means (i) time deposits, money market deposits and certificates of deposit with financial institutions, (ii) all instruments (including, for the avoidance of doubt, money market investments, marketable securities, commercial paper, checks and deferred payment checks (*cheques de pago diferido*)) (a) by whomever issued which, by their terms, are payable or may be required to be paid in cash within 180 days of their issuance, or (b) issued (or, solely for purposes of the covenant described under "—Certain Covenants—Limitation on Asset Sales," guaranteed) by the government of a member state of the European Union, Switzerland, the United States of America, Peru or Canada (including any agency or instrumentality thereof) having an Investment Grade Rating, or (c) issued by the Republic of Argentina or the Central Bank of Argentina *(Banco Central de la República Argentina*), (iii) repurchase obligations with a term of not more than 30 days for underlying instruments of the types described in clauses (i) and (ii), or (iv) (x) investments in money market funds substantially all the assets of which are comprised of investments of the types described in clauses (i) through (iii) above or (y) *fondos comunes locales* (Argentine funds focused primarily on in-country cash management investments) that have a local rating of at least "A-bf.ar" by Moody's (or the equivalent by Fitch or S&P or their respective affiliates in Argentina).

"*Change of Control Event*" means the occurrence of one or more of the following events:

(1) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act or any successor provisions to either of the foregoing), including any group acting for the purpose of acquiring, holding, voting or disposing of securities within the meaning of the Rule 13d-5(b)(1) under the Exchange Act, other than a Permitted Holder and/or any Qualified Strategic Investor, (x) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the outstanding Voting Stock of the Parent Guarantor, measured by voting power rather than number of shares, or (y) acquires or otherwise obtains the right to nominate or elect the majority of the members of the Board of Directors of the Parent Guarantor; or

(2) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger, amalgamation or consolidation in compliance with "—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets" if more than 50% of the outstanding Voting Stock of the Surviving Entity in the aggregate is beneficially owned by a Permitted Holder and/or any Qualified Strategic Investor immediately after giving effect to such transaction), in one or a series of related transactions, of all or substantially all of the assets of the Parent Guarantor and its Subsidiaries taken as a whole to any "person" (as that term is used in Section 13(d) of the Exchange Act) other than to one of its Subsidiaries.

"*Change of Control Payment*" has the meaning set forth under "—Change of Control Event."

"*Change of Control Payment Date*" has the meaning set forth under "—Change of Control Event."

"*CNV*" means the Argentine National Securities Commission (*Comisión Nacional de Valores*). "Commodity Agreement" means, with respect to any Person, any commodity swap agreement, commodity cap agreement, commodity collar agreement, commodity or raw material futures contract or any other agreement as to which such Person is a party designed to manage commodity risk of such Person.

"*Common Stock*" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common equity interests, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common equity interests.

*"Comparable Treasury Price*" has the meaning set forth under "—Optional Redemption."

"*Consolidated EBITDA*"means, for any period, the sum (without duplication), determined on a Consolidated basis in accordance with IFRS for such period, of (i) the Consolidated results for the period of the Parent Guarantor (after income tax); plus (ii) the sum of each of the following, to the extent that it would be necessary or applicable under IFRS to deduct them for purposes of determining the Consolidated results for the period of the Parent Guarantor, (a) the income tax from both continuing and discontinued operations, (b) consolidated net financial results, from both continuing and discontinued operations, including Consolidated Interest Expense, interest income and other financial results, net (including foreign exchange differences), (c) all amounts in respect of depreciation of property, plant and equipment, Amortization of intangible assets and Impairments of property, plant and equipment and intangible assets from both continuing and discontinued operations, and (d) all charges for provisions in respect of both continuing and discontinued operations, including charges of allowance for doubtful accounts, provisions for legal claims and contingencies and reversal of provisions, in each case, for the Parent Guarantor for such period.

"*Consolidated Interest Expense*" means, for any period, the sum of the aggregate interest expense (net of interest income) of the Parent Guarantor on a Consolidated basis for such period, as determined in accordance with IFRS, including without limitation the interest portion of payments under Capitalized Lease Obligations, any capitalized interest and any interest accrued on any Subordinated Indebtedness, but excluding (i) interest accrued and not paid (other than in kind) on any Deferred Interest Subordinated Indebtedness and (ii) for any period ending on or prior to December 31, 2018, to the extent included in the calculation of interest expense during such period, the Transaction Costs.

"*Consolidated Net Indebtedness*" means, at any time, the sum of the aggregate outstanding principal amount of Indebtedness (including any Subordinated Indebtedness, but excluding any Deferred Interest Subordinated Indebtedness or Indebtedness Incurred in connection with any Project Financing), minus the sum of cash and Cash Equivalents, at such time of the Parent Guarantor (on a Consolidated basis) expressed in U.S. dollars at the Exchange Rate as of the date of determination.

"*Consolidated Net Worth*" means, at any time and with respect to the Parent Guarantor, the stockholders' equity of the Parent Guarantor and its Restricted Subsidiaries, as determined on a Consolidated basis in accordance with IFRS, less (to the extent included in stockholders' equity) amounts attributable to Disqualified Capital Stock of the Parent Guarantor or its Restricted Subsidiaries not held by the Parent Guarantor or its Restricted Subsidiaries.

"*Consolidated Total Assets*" means, as of any date of determination, the total assets shown on the consolidated balance sheet of the Parent Guarantor as of the most recent date for which such a balance sheet is available, determined on a Consolidated basis and in accordance with IFRS, expressed in U.S. dollars at the Exchange Rate as of the date of determination.

"*Consolidation*" means the consolidation of the accounts of the Parent Guarantor or the Issuer with those of its Restricted Subsidiaries in accordance with IFRS. The term "Consolidated" has a correlative meaning.

"*Covenant Defeasance*" has the meaning set forth under "—Legal Defeasance and Covenant Defeasance."

"*Covenant Suspension Event*" has the meaning set forth under "—Covenant Suspension."

"*Credit Agreement*" means that U.S.$200.0 million term loan agreement dated as of September 18, 2017, among the Issuer, Tecpetrol del Peru S.A.C. and Tecpetrol Bloque 56 S.A.C., as co-borrowers, Banco de Crédito del Perú, as administrative agent and the lenders named therein.

"*Currency Agreement*" means, with respect to any Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party designed solely to hedge foreign currency risk of such Person.

"*Default*" means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

"*Deferred Interest Subordinated Indebtedness*" means Indebtedness of the Parent Guarantor or the Issuer, as the case may be, which is subordinated in right of payment to the notes, has a Stated Maturity after the Stated Maturity of the notes and on which no interest is payable in cash during the tenor of the notes.

"*Designation*" and "*Designation Amount*" have the meanings set forth under "—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries" above.

"*Disqualified Capital Stock*" means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof.

"*Dollar-Denominated Production Payments*" means production payment obligations recorded as liabilities in accordance with IFRS, together with all undertakings and obligations in connection therewith.

"*Event of Default*" has the meaning set forth under "—Events of Default."

"*Equity Offering*" has the meaning set forth under "—Optional Redemption."

"*Exchange Act*" means the U.S. Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

"*Fair Market Value*" means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) which could be negotiated in an arm's-length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction; provided that the Fair Market Value of any such asset or assets will be determined conclusively by the Board of Directors of the Parent Guarantor or the Issuer, as the case may be, acting in good faith, and will be evidenced by a Board Resolution.

"*Farm-In Agreement*" means an agreement whereby a Person agrees to pay all or a share of the drilling, completion or other expenses of an exploratory or development well (which agreement may be subject to a maximum payment obligation, after which expenses are shared in accordance with the working or participation interests therein or in accordance with the agreement of the parties) or perform the drilling, completion or other operation on such well in exchange for an ownership interest or equivalent in an oil or gas property, or substantially similar arrangements.

"Farm-Out Agreement" means a Farm-In Agreement, viewed from the standpoint of the party that transfers an ownership interest or equivalent to another, or substantially similar arrangements.

"*Fitch*" means Fitch Ratings Ltd. and its successors.

"*Governmental Authority*" means any government, court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of any country, state, county, city or other political subdivision, having jurisdiction over the matter or matters in question.

"*Guarantee*" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person:

(1) to purchase or pay, or advance or supply funds for the purchase or payment of, such Indebtedness of such other Person, whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise; or

(2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part; provided that "Guarantee" will not include endorsements for collection or deposit in the ordinary course of business. "Guarantee," when used as a verb, has a corresponding meaning.

"*Hedging Obligations*" means the obligations of any Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Agreement.

"*Holder*" and "*Noteholder*" means the Person in whose name a note is registered in the note register pursuant to the terms of the Indenture.

"*Hydrocarbons*" means oil, gas, casing head gas, drip gasoline, natural gasoline, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons, natural gas liquids, and all constituents, elements or compounds thereof and products refined or processed therefrom.

*"IFRS*" means International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the European Union, as in effect from time to time.

"*Incur*" means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), assume, Guarantee or otherwise become liable in respect of such Indebtedness or other obligation on the balance sheet of such Person (and "Incurrence" and "Incurred" will have meanings correlative to the foregoing); provided that (1) any Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary of the Parent Guarantor will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary of the Parent Guarantor and (2) neither the accrual of interest nor the accretion of original issue discount nor the payment of interest in the form of additional Indebtedness with the same terms and the payment of dividends on Disqualified Capital

Stock or Preferred Stock in the form of additional shares of the same class of Disqualified Capital Stock or Preferred Stock will be considered an Incurrence of Indebtedness.

"*Indebtedness*" means, with respect to any Person, without duplication:

(1) the principal amount (or, if less, the accreted value) of all obligations of such Person for borrowed money;

(2) the principal amount (or, if less, the accreted value) of all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all Capitalized Lease Obligations of such Person;

(4) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable in the ordinary course of business and advances received from customers in relation to sales of Hydrocarbons);

(5) all reimbursement obligations in respect of letters of credit, banker's acceptances or similar credit transactions (except to the extent they relate to trade payables in the ordinary course of business and such obligation is satisfied within 20 Business Days of Incurrence);

(6) Guarantees and other contingent obligations of such Person in respect of Indebtedness of another Person;

(7) all Indebtedness of any other Person which is secured by any Lien on any property or asset of such Person, whether or not such Indebtedness is assumed by such Person, the amount of such Indebtedness being deemed to be the lesser of the Fair Market Value of such property or asset and the amount of the Indebtedness so secured;

(8) all outstanding net obligations under Hedging Obligations of such Person;

(9) all liabilities recorded on the balance sheet of such Person in connection with a sale or other disposition of accounts receivable and related assets;

(10) all obligations of such Person under any receivables financing, including any Permitted Receivables Financing;

(11) all Disqualified Capital Stock issued by such Person with the amount of Indebtedness represented by such Disqualified Capital Stock being equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any; provided that:

   (i) if the Disqualified Capital Stock does not have a fixed repurchase price, such maximum fixed repurchase price will be calculated in accordance with the terms of the Disqualified Capital Stock as if the Disqualified Capital Stock were purchased on any date on which Indebtedness will be required to be determined pursuant to the Indenture; and

   (ii) if the maximum fixed repurchase price is based upon, or measured by, the fair market value of the Disqualified Capital Stock, the fair market value will be the Fair Market Value thereof; and

(12) any obligation to pay rent or other payment amounts of such Person with respect to any Sale and Leaseback Transaction to which such Person is a party.

The amount of Indebtedness of any Person at any date will be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingency obligations at such date. For purposes of this definition only, Capitalized Lease Obligations shall mean only those obligations that would be or have been required to be accounted for as a liability on a balance sheet of such Person under IFRS in effect prior to January 1, 2018.

"*Independent Investment Banker*" has the meaning set forth under "—Optional Redemption."

"*Interest Coverage Ratio*" means, as of any date of determination, the ratio of (i) Consolidated EBITDA for the then most recently concluded period of four consecutive fiscal quarters of the Parent Guarantor for which financial information have been provided to the Trustee pursuant to the covenant described under "—Certain Covenants—Reports to Holders" to (ii) Consolidated Interest Expense for such period; provided, however, that for the purposes of such computation, in calculating Consolidated EBITDA and Parent Guarantor Consolidated Interest Expense, (1) the Incurrence of the Indebtedness giving rise to the need to calculate the Interest Coverage Ratio and the application of the proceeds therefrom shall be calculated on a *pro forma* basis as if all such Incurrence had occurred on the first day of the Reference Period, (2) Asset Acquisitions and Asset Sales and related retirement or repayment of Indebtedness that occur during the Reference Period or subsequent to the Reference Period and prior to the transaction date (including any Asset Acquisition occurring in connection with the incurrence of Indebtedness pursuant to clause (1) above) shall be calculated on a *pro forma* basis as if all such Asset Acquisitions, Asset Sales and retirement or repayment of Indebtedness had occurred on the first day of the Reference Period, (3) the Incurrence of any Indebtedness or the issuance of any Disqualified Capital Stock during the Reference Period or subsequent to the Reference Period and prior to the transaction date and the application of the proceeds therefrom shall be calculated on a *pro forma* basis as if such Incurrence or issuance and application of proceeds therefrom had occurred on the first day of such Reference Period and (4) Consolidated Interest Expense attributable to any Indebtedness (whether existing or being incurred) computed on a *pro forma* basis and bearing a floating interest rate shall be computed as if the rate in effect on the date of computation had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term of at least twelve months as at the date of computation) and (5) the retirement of Indebtedness with the net proceeds of the issuance and sale of Capital Stock of the Parent Guarantor shall be calculated on a *pro forma* basis as if such retirement had occurred on the first day of the Reference Period. For the purposes of making the computation referred to above, Asset Acquisitions and Asset Sales that have been made by any Person that has become a Subsidiary or been merged with or into the Parent Guarantor or any other Restricted Subsidiary during the Reference Period or subsequent to the Reference Period and prior to the transaction date shall be calculated on a *pro forma* basis (including all of the calculations referred to in clauses (1) through (5) above) assuming such Asset Dispositions or Asset Acquisitions occurred on the first day of the Reference Period. For purposes of this definition, whenever *pro forma* effect is to be given to an Asset Acquisition or Asset Sale and retirement or repayment of Indebtedness relating thereto, the *pro forma* calculations shall be determined in good faith by a responsible financial or accounting officer of the Parent Guarantor. For purposes of making a *pro forma* computation referred to above, the amount of Indebtedness and interest on Indebtedness under any revolving credit facility will be computed based on the average daily balance of such Indebtedness during the Reference Period.

"*Interest Rate Agreement*" means, with respect to any Person, any interest rate protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of hedging agreements designed solely to hedge interest rate risk of such Person.

"*Investment*" means, with respect to any Person, any:

(1) direct or indirect loan, advance or other extension of credit (including, without limitation, a Guarantee, an irrevocable capital contribution with respect to a future issuance of equity securities and the purchase of property from a Person subject to an understanding or agreement, contingent or otherwise, to resell such property to such Person) to any other Person (other than advances or extensions of credit to customers in the ordinary course of business);

(2) capital contribution (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others) to any other Person; or

(3) any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, any other Person;

provided, however, that "Investment" will exclude accounts receivable or deposits arising in the ordinary course of business. "Invest," "Investing" and "Invested" have corresponding meanings.

For purposes of the "—Limitation on Restricted Payments" covenant, the Parent Guarantor will be deemed to have made an "Investment" in an Unrestricted Subsidiary at the time of its Designation, which will be valued at the Fair Market Value of the sum of the net assets of such Unrestricted Subsidiary at the time of its Designation and the amount of any Indebtedness of such Unrestricted Subsidiary or owed to the Parent Guarantor, the Issuer or any Restricted Subsidiary immediately following such Designation. Any property transferred to or from an Unrestricted Subsidiary will be valued at its Fair Market Value at the time of such transfer. If the Parent Guarantor, the Issuer or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of a Restricted Subsidiary (including any issuance and sale of Capital Stock by a Restricted Subsidiary) such that, after giving effect to any such sale or disposition, such Restricted Subsidiary would cease to be a Subsidiary of the Parent Guarantor, the Parent Guarantor will be deemed to have made an Investment on the date of any such sale or disposition equal to the sum of the Fair Market Value of the Capital Stock of such former Restricted Subsidiary held by the Parent Guarantor, the Issuer or any Restricted Subsidiary immediately following such sale or other disposition and the amount of any Indebtedness of such former Restricted Subsidiary Guaranteed by the Parent Guarantor, the Issuer or any Restricted Subsidiary or owed to the Parent Guarantor, the Issuer or any other Restricted Subsidiary immediately following such sale or other disposition.

"*Investment Grade Rating*" means BBB- or higher by S&P, Baa3 or higher by Moody's or BBB- or higher by Fitch, or the equivalent of such global ratings by S&P, Moody's or Fitch.

"*Issue Date*" means December 12, 2017.

"*Legal Defeasance*" has the meaning set forth under "—Legal Defeasance and Covenant Defeasance."

"*Leverage Ratio*" means, at any time, the ratio of (i) Consolidated Net Indebtedness at such time to (ii) Consolidated EBITDA for the then most recently concluded period of four consecutive fiscal quarters of the Parent Guarantor for which financial information have been provided to the Trustee pursuant to the covenant described under "—Certain Covenants—Reports to Holders" (the "Reference Period"); provided, however, that for the purposes of such computation, in calculating Consolidated EBITDA, (1) Asset Acquisitions and Asset Sales and related retirement or repayment of Indebtedness that occur during the Reference Period or subsequent to the Reference Period and prior to the transaction date (including any Asset Acquisition occurring in connection with the incurrence of Indebtedness giving use to the need to calculate the Leverage Ratio) shall be calculated on a *pro forma* basis as if all such Asset Acquisitions, Asset Sales and retirement or repayment of Indebtedness had occurred on the first day of the Reference Period, (2) the Incurrence of any Indebtedness or the issuance of any Disqualified Capital Stock during the Reference Period or subsequent to the Reference Period and prior to the transaction date and the application of the proceeds therefrom shall be calculated on a *pro forma* basis as if such Incurrence or issuance and application of proceeds therefrom had occurred on the first day of such Reference Period and (3) the retirement of Indebtedness with the net proceeds of the issuance and sale of Capital Stock of the Parent Guarantor shall be calculated on a *pro forma* basis as if such retirement had occurred on the first day of the Reference Period. For the purposes of making the computation referred to above, Asset Acquisitions and Asset Sales that have been made by any Person that has become a Restricted Subsidiary or been merged with or into the Parent Guarantor or any other Restricted Subsidiary during the Reference Period or subsequent to the Reference Period and prior to the transaction date shall be calculated on a *pro forma* basis (including all of the calculations referred to in clauses (1) through (3) above) assuming such Asset Sale or Asset Acquisitions occurred on the first day of the Reference Period. For purposes of this definition, whenever *pro forma* effect is to be given to a transaction, the *pro forma* calculations shall be determined in good faith by a responsible financial or accounting officer of the Parent Guarantor. For purposes of making a *pro forma* computation referred to above, the amount of Indebtedness under any revolving credit facility will be computed based on the average daily balance of such Indebtedness during the Reference Period.

"*Lien*" means any lien, mortgage, deed of trust, pledge, hypothecation, assignment (fiduciary or other), deposit arrangement, security interest, charge, encumbrance, preference, priority or other security or similar agreement or preferential arrangement of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest); provided that the lessee in respect of a Capitalized Lease Obligation or Sale and Leaseback Transaction will be deemed to have

Incurred a Lien on the property leased thereunder; provided that in no event shall an operating lease be deemed to constitute a Lien.

"*Make-Whole Premium*" has the meaning set forth under "—Optional Redemption."

"*Moody's*" means Moody's Investors Service, Inc., or any successor thereto.

"*Net Cash Proceeds*" means, with respect to any Asset Sale, the proceeds in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents, received by the Parent Guarantor, the Issuer or any Restricted Subsidiary from such Asset Sale, net of:

(1) out-of-pocket expenses and fees relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees and sales commissions);

(2) taxes paid or payable in respect of such Asset Sale after taking into account any reduction in consolidated tax liability due to available tax credits or deductions and any tax sharing arrangements;

(3) repayment of Indebtedness secured by a Lien permitted under the Indenture that is required to be repaid in connection with such Asset Sale;

(4) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Sale; and

(5) appropriate amounts to be provided by the Parent Guarantor, the Issuer or any Restricted Subsidiary, as the case may be, as a reserve, in accordance with IFRS, against any liabilities associated with such Asset Sale and retained by the Parent Guarantor, the Issuer or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, but excluding any reserves with respect to Indebtedness;

provided, however, that in the event that any consideration for an Asset Sale (which would otherwise constitute Net Cash Proceeds) is required to be held in escrow or reserved pending determination of whether a purchase price adjustment will be made or liability will be paid, such consideration (or any portion thereof) shall become Net Cash Proceeds only at such time as it is released to the Parent Guarantor, the Issuer or the Restricted Subsidiaries from escrow or such reserve is released, and provided further that any consideration received in the form of Cash Equivalents in connection with an Asset Sale which is subsequently converted to cash shall only be deemed to be Net Cash Proceeds at the time of such conversion and shall thereafter be applied in accordance with "—Certain Covenants—Limitation on Asset Sales" within 365 days of such conversion.

"*Officers' Certificate*" shall mean a certificate signed by two officers or by an officer and the chief financial officer of the Parent Guarantor, the Issuer or any Restricted Subsidiary, as the case may be, and delivered to the Trustee.

"*Opinion of Counsel*" means a written opinion (in form and substance reasonably acceptable to the Trustee) of counsel, who may be an employee of or counsel for the Parent Guarantor or the Issuer (except as otherwise provided in the Indenture), obtained at the expense of the Parent Guarantor, the Issuer, a Surviving Entity or a Restricted Subsidiary, and who is reasonably acceptable to the Trustee.

"*Permitted Holders*" means San Faustin S.A., a Luxembourg Societé Anonyme, or any Person directly or indirectly controlled by San Faustin S.A.

"*Permitted Indebtedness*" has the meaning set forth under clause (2) of "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness."

"*Permitted Investments*" means:

(1) Investments by the Parent Guarantor, the Issuer or any Restricted Subsidiary in any Person that is, or that result in any Person becoming, immediately after such Investment, a Restricted Subsidiary

or constituting a merger or consolidation of such Person into the Parent Guarantor or the Issuer or with or into a Restricted Subsidiary; provided that such Person is engaged solely in a Related Business;

(2) Investments by any Restricted Subsidiary in the Parent Guarantor or the Issuer;

(3) Investments in cash and Cash Equivalents;

(4) Investments in existence on, or made pursuant to legally binding commitments in existence on, the Issue Date;

(5) any extension, modification or renewal of any Investments existing as of the Issue Date (but not Investments involving additional advances, contributions or other investments of cash or property or other increases thereof, other than as a result of the accrual or accretion of interest or original issue discount or payment-in-kind securities, in each case pursuant to the terms of such Investment as of the Issue Date);

(6) Investments permitted pursuant to clause (2)(b) or (d) of "—Certain Covenants—Limitation on Transactions with Affiliates;"

(7) Investments received as a result of the bankruptcy, insolvency, receivership or reorganization of any Person or taken in settlement of or other resolution of claims or disputes, and, in each case, extensions, modifications and renewals thereof;

(8) Investments made by the Parent Guarantor, the Issuer or any Restricted Subsidiary as a result of non-cash consideration permitted to be received in connection with an Asset Sale made in compliance with the covenant described under "—Certain Covenants—Limitation on Asset Sales;"

(9) Investments in the form of Hedging Obligations permitted under clause 2(d) of "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness";

(10) receivables owing to the Parent Guarantor, the Issuer or any Restricted Subsidiary created or acquired in the ordinary course of business;

(11) Related Business Investments;

(12) payroll, travel, moving and other loans or advances to, or Guarantees issued to support the obligations of, officers and employees, in each case in the ordinary course of business;

(13) extensions of credit and prepayment of expenses to customers, suppliers, utility providers, licensees and other trade creditors in the ordinary course of business consistent with past practice;

(14) Investments in the nature of deposits with respect to leases or utilities provided to third parties in the ordinary course of business;

(15) Investments in any notes issued under the Indenture;

(16) Investments made exclusively with the net proceeds of any issuance of Capital Stock (other than Disqualified Stock), Subordinated Indebtedness or Deferred Interest Subordinated Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary;

(17) Guarantees of performance or other obligations (other than Indebtedness) arising in the ordinary course in a Related Business;

(18) investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or purchases of contract rights or licenses or leases of intellectual property, in each case related to a Related Business and in the ordinary course of business;

(19) cash pooling arrangements entered into in the ordinary course of business in connection with a Related Business; and

(20) any other Investments in any Person (other than a Restricted Subsidiary) the primary business of which is a Related Business in an aggregate amount not exceeding, and taken together with any

additional Investments made pursuant to this clause (20), the greater of U.S.$50.0 million (or the equivalent in other currencies) and 5.0% of Consolidated Total Assets, calculated as of the end of the most recent fiscal quarter ending at least 45 days prior to the date of such Investment.

"*Permitted Liens*" means any of the following Liens:

(1) Liens existing on the Issue Date and any extension, renewal or replacement thereof;

(2) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith, if such reserve or other appropriate provision, if any, as shall be required by IFRS shall have been made in respect thereof;

(3) zoning restrictions, licenses, sublicenses, easements, servitudes, rights of way, title defects, covenants running with the land, and other similar charges or encumbrances or restrictions, and leases or subleases granted by the Parent Guarantor, the Issuer or any Restricted Subsidiary to other Persons, in each case not materially interfering with the ordinary operation of any property subject thereto or the conduct of the business of the Parent Guarantor, the Issuer or any Restricted Subsidiary or materially and adversely affecting the value of the property subject thereto;

(4) Liens Incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, including any Lien securing letters of credit issued in the ordinary course of business in connection therewith, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, customs duties, bids, leases, government performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(5) Liens securing trade letters of credit issued in the ordinary course of business, which Liens extend only to the goods and documents related to such letters of credit and which letters of credit were issued in compliance with "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness";

(6) Liens for taxes, assessments or other governmental charges not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings, provided that appropriate reserves required pursuant to IFRS have been made in respect thereof;

(7) judgment Liens in respect of judgments that do not give rise to an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceeding may be initiated has not expired;

(8) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depositary institution; provided, however, that (A) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Parent Guarantor, the Issuer or any of their Subsidiaries in excess of any regulations of the Central Bank of Argentina or analogous governmental authorities and (B) such deposit account is not intended by the Parent Guarantor, the Issuer or any of their Subsidiaries to provide collateral to such depository institution;

(9) Liens to secure the notes;

(10) Liens securing Hedging Obligations;

(11) any Lien securing or providing for the payment of Indebtedness Incurred in connection with any Project Financing, provided that the properties to which any such Lien applies are (a) properties which are the subject of such Project Financing or (b) revenues or claims which arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of, or damage to, such properties;

(12) Liens to secure any Refinancing Indebtedness which is Incurred to Refinance any Indebtedness below which has been secured by a Lien permitted under the covenant described under "—Certain Covenants—Limitation on Liens" not incurred pursuant to clause (23) and which Indebtedness has been Incurred in accordance with "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness;" provided that such new Liens:

(a) are no less favorable to the Holders of notes and are not more favorable to the lienholders with respect to such Liens than the Liens in respect of the Indebtedness being Refinanced; and

(b) do not extend to any property or assets other than the property or assets securing the Indebtedness Refinanced by such Refinancing Indebtedness;

(13) Liens securing Acquired Indebtedness Incurred in accordance with "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness" not incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation; provided that

(a) such Liens secured such Acquired Indebtedness at the time of and prior to the Incurrence of such Acquired Indebtedness by the Parent Guarantor, the Issuer or a Restricted Subsidiary and were not granted in connection with, or in anticipation of the Incurrence of such Acquired Indebtedness by the Parent Guarantor, the Issuer or a Restricted Subsidiary; and

(b) such Liens do not extend to or cover any property of the Parent Guarantor, the Issuer or any Restricted Subsidiary other than the property that secured the Acquired Indebtedness prior to the time such Indebtedness became Acquired Indebtedness of the Parent Guarantor, the Issuer or a Restricted Subsidiary and are no more favorable to the lienholders than the Liens securing the Acquired Indebtedness prior to the Incurrence of such Acquired Indebtedness by the Parent Guarantor, the Issuer or a Restricted Subsidiary;

(14) Liens securing Indebtedness or other obligations of a Restricted Subsidiary owing to the Parent Guarantor, the Issuer or another Restricting Subsidiary and permitted to be Incurred under the Indenture;

(15) Liens (including extensions and renewals thereof) upon real or personal property acquired after the Issue Date; provided that (A) such Lien is created solely for the purpose of securing Indebtedness Incurred in accordance with the "Limitation on Indebtedness" covenant, (i) to finance the cost (including the cost of design, development, construction, improvement, installation or integration) of the item of property or assets subject thereto and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition, the completion of construction or the commencement of full operation of such property, or (ii) to refinance any Indebtedness previously so secured, (B) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of such cost, and (C) any such Lien shall not extend to or cover any property or assets other than such item of property or assets and any improvements on such item;

(16) Liens on the Capital Stock of Unrestricted Subsidiaries;

(17) Liens in respect of Production Payments and Reserve Sales;

(18) Liens on pipelines and pipeline facilities that arise by operation of law;

(19) Liens arising under joint venture agreements, partnership agreements, oil and gas leases or subleases, assignments, purchase and sale agreements, division orders, contracts for the sale, purchasing, processing, drilling, trading, transportation or exchange of energy, oil or natural gas, unitization and pooling declarations and agreements, development agreements, area of mutual interest agreements, licenses, sublicenses, net profits interests, participation agreements, Farm-Out Agreements, Farm-In Agreements, carried working interest, joint operating, unitization, royalty, sales and similar agreements relating to the exploration or development of, or production from, properties entered into in the ordinary course of business in a Related Business;

(20) Liens reserved in oil and gas mineral leases for bonus, royalty or rental payments and for compliance with the terms of such leases;

(21) Liens on, or related to, properties or assets to secure all or part of the costs incurred in the ordinary course of a Related Business for exploration, drilling, development, production, generation, processing, transportation, marketing, storing, abandonment or operation; and

(22) any other Liens securing an amount of Indebtedness outstanding at any one time not to exceed the greater of U.S.$200.0 million (or the equivalent in other currencies) and 10.0% of Consolidated Total Assets.

"*Permitted Receivables Financing*" means any receivables financing facility or arrangement entered into by the Parent Guarantor, the Issuer or a Restricted Subsidiary, provided that the aggregate consideration received in any such financing is at least equal to the Fair Market Value of the receivables and related assets sold, less customary discounts, reserves or amounts reflecting the implicit interest rate.

"*Person*" means an individual, partnership, limited partnership, corporation, company, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

"*Preferred Stock*" means, with respect to any Person, any Capital Stock of such Person that has preferential rights over any other Capital Stock of such Person with respect to dividends, distributions or redemptions or upon liquidation.

"*Production Payments*" means Dollar-Denominated Production Payments and Volumetric Production Payments, collectively.

"*Production Payments and Reserve Sales*" means the grant or transfer by the Parent Guarantor, the Issuer or a Subsidiary of the Parent Guarantor or the Issuer to any Person of a royalty, overriding royalty, net profits interest, Production Payment, partnership or other interest in oil and gas properties, reserves or the right to receive all or a portion of the production or the proceeds from the sale of production attributable to such properties, including any such grants or transfers pursuant to incentive compensation programs on terms that are reasonably customary in a Related Business for geologists, geophysicists and other providers of technical services to the Parent Guarantor, the Issuer or a Subsidiary of the Parent Guarantor or the Issuer.

*"Program"* means program for the issuance of notes in Argentina, approved by the shareholders of the Issuer on May 15, 2017, and authorized by the CNV by Resolution No. RESFC-2017-18994-APN-DIR#CNV dated October 30, 2017.

"*Project Financing*" means any financing of the acquisition, construction and/or development of any properties in connection with a project (a) if the Person or Persons providing such financing agree expressly to, or by operation of the relevant financing documents, look to the properties so financed and the revenues to be generated by the operation of, or loss or damage to, such properties (except to the extent set forth in clause (b)) as the sole source of repayment for the moneys advanced and (b) for which there is no recourse to the Parent Guarantor, the Issuer or their Subsidiaries other than (i) recourse to the relevant project finance Subsidiary or (ii) recourse to the equity investment, equity commitment, completion guaranty, funded debt investment or debt funding commitment of the Parent Guarantor, the Issuer or their Subsidiaries in such project, which recourse in each case shall be in a fixed or capped amount.

"*Qualified Capital Stock*" means any Capital Stock that is not Disqualified Capital Stock and any warrants, rights or options to purchase or acquire Capital Stock that is not Disqualified Capital Stock that are not convertible into or exchangeable into Disqualified Capital Stock.

"*Qualified Merger Jurisdiction*" shall mean (i) Argentina, (ii) any country that participates in the European Union or the North American Free Trade Agreement (NAFTA), Denmark, Sweden, Norway, Finland, Brazil, Chile, Peru, Japan and China, and (iii) any other nation that has Investment Grade sovereign debt ratings from two Rating Agencies.

"*Qualified Strategic Investor*" shall mean any Person, or an Affiliate of such Person, that (i) conducts a significant part of its business activity and operations in the energy or oil and gas sector and (ii) has an (a) international investment grade rating for its long-term debt of at least BBB- by S&P or Baa3 by Moody's or (b) a local credit rating for its long-term debt of at least "A".

"*Rating Agencies*" means Moody's, S&P and Fitch (or if any of such entities shall not make a rating of the Notes publicly available, such other "nationally recognized statistical rating organization", within the meaning of Rule 15c3-1 under the Exchange Act, as the Issuer may select as a replacement agency).

"*Reference Period*" has the meaning set forth in the definition of Leverage Ratio.

"*Reference Treasury Dealer*" has the meaning set forth under "—Optional Redemption."

"*Reference Treasury Dealer Quotations*" has the meaning set forth under "—Optional Redemption."

"*Refinance*" means, in respect of any Indebtedness, to issue any Indebtedness in exchange for or to refinance, replace, defease or refund such Indebtedness in whole or in part. "Refinanced" and "Refinancing" have correlative meanings.

"*Refinancing Indebtedness*" means Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary issued to Refinance any other Indebtedness of the Parent Guarantor, the Issuer or a Restricted Subsidiary so long as:

(1) the aggregate principal amount (or initial accreted value, if applicable) of such new Indebtedness as of the date of such proposed Refinancing does not exceed the aggregate principal amount (or initial accreted value, if applicable) of the Indebtedness being Refinanced (plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness and the amount of reasonable expenses incurred by the Parent Guarantor or the Issuer in connection with such Refinancing);

(2) such new Indebtedness has a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being Refinanced;

(3) if the Indebtedness being Refinanced is:

- Indebtedness of the Parent Guarantor or the Issuer, then such Refinancing Indebtedness will be Indebtedness of the Parent Guarantor or the Issuer, as the case may be;
- Indebtedness of a Restricted Subsidiary, then such Refinancing Indebtedness will be Indebtedness of the Parent Guarantor or the Issuer and/or such Restricted Subsidiary; and
- Subordinated Indebtedness or Deferred Interest Subordinated Indebtedness, then such Refinancing Indebtedness will be subordinate to the Notes at least to the same extent and in the same manner as the Indebtedness being Refinanced.

"*Related Business*" means:

(1) the business of acquiring, exploring, drilling, exploiting, developing, producing, operating, transporting, distributing, trading and disposing of interests in oil, natural gas, liquefied natural gas, other Hydrocarbon and energy properties or interests, or products produced in association with any of the foregoing; and

(2) any business or activity relating to, arising from, or necessary, appropriate, incidental, ancillary or complementary to, or which constitutes a reasonable extension, development or expansion of the activities described in the foregoing clause (1) of this definition.

"*Related Business Investments*" means Investments, expenditures, ownership interests and agreements of a nature that is or shall have become customary in a Related Business.

"*Replacement Assets*" means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Related Business and shall include Capital Stock of any Person holding such property or assets, which is primarily engaged in a Related Business and will upon the acquisition by the Parent Guarantor, the Issuer or any Restricted Subsidiary of such Capital Stock, become a Restricted Subsidiary.

"*Restricted Payment*" has the meaning set forth under "—Certain Covenants—Limitation on Restricted Payments."

"*Restricted Subsidiary*" means any Subsidiary of the Parent Guarantor which at the time of determination is not an Unrestricted Subsidiary.

"*Reversion Date*" has the meaning set forth under "—Covenant Suspension."

"*Revocation*" has the meaning set forth under "—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries."

"*S&P*" means Standard & Poor's Rating Service or any successor thereto.

"*Sale and Leaseback Transaction*" means any direct or indirect arrangement with any Person or to which any such Person is a party, providing for the leasing to the Parent Guarantor, the Issuer or any Restricted Subsidiary of any property, whether owned by the Parent Guarantor, the Issuer or any Restricted Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Parent Guarantor, the Issuer or any such Restricted Subsidiary.

"*Senior Indebtedness*" means the notes and any other Indebtedness of the Parent Guarantor, the Issuer or any Restricted Subsidiary that ranks equal in right of payment with the notes.

"*Significant Subsidiary*" means a Restricted Subsidiary of the Parent Guarantor or the Issuer, as the case may be, that would constitute a "Significant Subsidiary" of the Parent Guarantor or the Issuer, as the case may be, in accordance with Rule 1-02 under Regulation S-X under the Securities Act in effect on the Issue Date.

"*Stated Maturity*" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"*Subordinated Indebtedness*" means, with respect to the Parent Guarantor, the Issuer or any Restricted Subsidiary, any Indebtedness of the Parent Guarantor, the Issuer or such Restricted Subsidiary, as the case may be, which is expressly subordinated in right of payment to the notes.

"*Subsidiary*" means, with respect to any Person, any other Person of which such Person owns, directly or indirectly, more than 50% of the voting power of the other Person's outstanding Voting Stock.

"*Surviving Entity*" has the meaning set forth under "—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets."

"*Suspended Covenants*" has the meaning set forth under "—Covenant Suspension." "Suspension Period" has the meaning set forth under "—Covenant Suspension."

"*Transaction Costs*" means the nonrecurring out-of-pocket expenses (including, but not limited to, underwriter's fees and expenses, prepayment fees and expenses and attorney's fees) accrued by the Parent Guarantor, the Issuer and their Restricted Subsidiaries in connection with the issuance of the notes and the application of the proceeds thereof as described under "Use of Proceeds."

"*Treasury Yield*" has the meaning set forth under "—Optional Redemption."

"*Unrestricted Subsidiary*" means any Subsidiary of the Parent Guarantor or the Issuer, as the case may be, Designated as an Unrestricted Subsidiary pursuant to "—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries." Any such Designation may be revoked by a Board Resolution of the Parent Guarantor or the Issuer, as the case may be, subject to the provisions of such covenant.

"*Volumetric Production Payment*" means production payment obligations recorded as deferred revenue in accordance with IFRS, together with all related undertakings and obligations.

"*Voting Stock*" means, with respect to any Person, securities of any class of Capital Stock of such Person then outstanding and normally entitled to vote in the election of members of the Board of Directors (or equivalent governing body) of such Person. The term "normally entitled" means without regard to any contingency.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years (calculated to the nearest one-twelfth) obtained by dividing:

(1) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness into

(2) the sum of the products obtained by multiplying:

 (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by

the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

## BOOK-ENTRY; DELIVERY AND FORM

The Notes are being offered and sold only:

- to "qualified institutional buyers" (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act (the "Rule 144A Notes"); or
- in offshore transactions in reliance on Regulation S under the Securities Act (the "Regulation S Notes").

The Notes will be issued in fully registered global form in minimum denominations of U.S.$1,000 and integral multiples of U.S.$1,000 in excess thereof. Rule 144A Notes initially will be represented by one global note in registered form without interest coupons (the "Rule 144A Global Note"). Regulation S Notes initially will be represented by one global note in registered form without interest coupons (the "Regulation S Global Notes" and, together with the Rule 144A Global Notes, the "Global Notes").

The Global Notes will be deposited upon issuance with the Trustee as custodian for The Depository Trust Company ("DTC"), in New York, New York, and registered in the name of DTC or its nominee for credit to an account of a direct or indirect participant in DTC, including Euroclear Bank S.A./N.V. ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), as described below under "—Depositary Procedures."

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for Notes in certificated form except in the limited circumstances described below under "—Exchange of Book-Entry Notes for Certificated Notes."

The Notes will be subject to certain restrictions on transfer and will bear a restrictive legend as described under "Transfer Restrictions" in this offering memorandum. In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream, Luxembourg), which may change from time to time.

The Notes are not (and will not be) issuable in bearer form.

### Depositary Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream, Luxembourg are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them. We take no responsibility for these operations and procedures and urge investors to contact the systems or their participants directly to discuss these matters.

DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the "Participants") and facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the "Indirect Participants"). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through Participants or Indirect Participants. DTC has no knowledge of the identity of beneficial owners of securities held by or on behalf of DTC. DTC's records reflect only the identity of Participants to whose accounts securities are credited. The ownership interests and transfer of ownership interests of each beneficial owner of each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

Pursuant to procedures established by DTC:

- upon deposit of the Global Notes, DTC will credit the accounts of Participants designated by the initial purchasers with portions of the principal amount of the Global Notes; and
- ownership of such interests in the Global Notes will be maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interests in the Global Notes).

Investors in the Global Notes may hold their interests therein directly through DTC, if they are Participants in such system, or indirectly through organizations (including Euroclear and Clearstream, Luxembourg) that are Participants or Indirect Participants in such system. Euroclear and Clearstream, Luxembourg will hold interests in the Notes on behalf of their Participants through customers' securities accounts in their respective names on the books of their respective depositaries. The depositaries, in turn, will hold interests in the Notes in customers' securities accounts in the depositaries' names on the books of DTC.

All interests in a Global Note, including those held through Euroclear or Clearstream, Luxembourg, will be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream, Luxembourg will also be subject to the procedures and requirements of those systems. The laws of some states require that certain persons take physical delivery of certificates evidencing securities they own. Consequently, the ability to transfer beneficial interests in a Global Note to such persons will be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants, the ability of beneficial owners of interests in a Global Note to pledge such interests to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests. For certain other restrictions on the transferability of the Notes, see "—Exchange of Book-Entry Notes for Certificated Notes."

Except as described below, owners of interests in the Global Notes will not have Notes registered in their names, will not receive physical delivery of Notes in certificated form and will not be considered the registered owners or holders thereof under the Indenture for any purpose.

Payments in respect of the principal of and premium, if any, and interest on a Global Note registered in the name of DTC or its nominee will be remitted by the Trustee (or the paying agents if other than the Trustee) to DTC in its capacity as the registered Holder under the Indenture. The Issuer and the Trustee will treat the persons in whose names the Notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever. Consequently, none of the Company, the Trustee or any agent of the Company or the Trustee has or will have any responsibility or liability for:

- any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interests in the Global Notes, or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Notes; or
- any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised the Company that its current practice is to credit the accounts of the relevant Participants with the payment on the payment date in amounts proportionate to their respective holdings in the principal amount of the relevant security as shown on the records of DTC, unless DTC has reason to believe it will not receive payment on such payment date. Payments by the Participants and the Indirect Participants to the beneficial owners of Notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Trustee or the Company. Neither the Company nor the Trustee nor any agent of the Company or the Trustee will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the Notes, and the Company and the Trustee and their respective agents may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Except for trades involving only Euroclear and Clearstream, Luxembourg participants, interests in the Global Notes are expected to be eligible to trade in DTC's Same-Day Funds Settlement System and secondary market trading activity in such interests will therefore settle in immediately available funds, subject in all cases to the rules and procedures of DTC and its Participants.

Subject to the transfer restrictions described under "Transfer Restrictions" in this offering memorandum, transfers between Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in accordance with their respective rules and operating procedures.

Subject to the transfer restrictions described under "Transfer Restrictions" in this offering memorandum, cross-market transfers between Participants, on the one hand, and Euroclear or Clearstream, Luxembourg participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by their depositaries. Cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the ease may be, by the counterparty in that system in accordance with the rules and procedures and within the established deadlines (Brussels time) of that system. Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositaries to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream, Luxembourg participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream, Luxembourg.

Because of time zone differences, the securities account of a Euroclear or Clearstream, Luxembourg participant purchasing an interest in a Global Note from a Participant will be credited and reported to the relevant Euroclear or Clearstream, Luxembourg participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream, Luxembourg) immediately following the settlement date of DTC. DTC has advised the Company that cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream, Luxembourg participant to a Participant will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day for Euroclear or Clearstream, Luxembourg following DTC's settlement date.

DTC has advised the Company that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Participants to whose account with DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such Participant or Participants has or have given such direction.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or to continue to perform such procedures, and the procedures may be discontinued at any time. Neither the Company nor the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

The information in this section concerning DTC, Euroclear and Clearstream, Luxembourg and their book-entry systems has been obtained from sources that the Company believes to be reliable, but the Company takes no responsibility for the accuracy thereof.

### Exchange of Book-Entry Notes for Certificated Notes

The Global Notes are exchangeable for certificated notes in definitive, fully registered form without interest coupons (the "Certificated Notes") only in the following limited circumstances:

- DTC notifies the Issuer that it is unwilling or unable to continue as depositary for the Global Note or DTC ceases to be a clearing agency registered under the Exchange Act at a time when DTC is required to be so registered in order to act as depositary, and in each ease the Company fails to appoint a successor depositary within 90 days of such notice;

- the Issuer notifies the Trustee in writing that the Global Note shall be so exchangeable; or
- if there shall have occurred and be continuing an Event of Default with respect to the notes.

In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of DTC (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in "Transfer Restrictions" in this offering memorandum, unless the Issuer determines otherwise in accordance with the Indenture and in compliance with applicable law.

**Transfers Within and Between Global Notes**

Through and including the 40th day after the later of the commencement of the offering of the Notes and the closing of the offering (the "40-day Period"), beneficial interests in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note only if such transfer is made pursuant to Rule 144A and the transferor first delivers to the Trustee a certificate (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions. After the expiration of the 40-day Period, beneficial interests in the Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note without compliance with these certification requirements.

Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Note only upon receipt by the Trustee of a written certification (in the form provided in the Indenture) from the transferor to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act (if available).

The Trustee shall be entitled to receive such evidence as may be reasonably requested by them to establish the identity and/or signatures of the transferor and transferee.

Transfers of beneficial interests within a Global Note may be made without delivery of any written certification or other documentation from the transferor or the transferee.

Transfers of beneficial interests in the Regulation S Global Note for beneficial interests in the Rule 144A Global Note or vice versa will be effected by DTC by means of an instruction originated by the Trustee through the DTC Deposit/Withdraw at Custodian system. Accordingly, in connection with any transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note or vice versa, as applicable. Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest.

# TAXATION

## General

The following summary contains a description of the material U.S. federal income tax and Argentine federal tax consequences of the purchase, ownership and disposition of the Notes by certain non-Argentine resident holders.

This summary is based upon federal income tax laws of the United States and federal tax laws of Argentina as in effect on the date of this offering memorandum, all of which are subject to change. This summary does not purport to be a comprehensive description of all the U.S. federal income tax or Argentine federal tax considerations that may be relevant to a decision to purchase, hold or dispose of the Notes. The summary does not address any tax consequences under the laws of any state, municipality or locality of Argentina or the United States, any federal tax laws other than federal income tax laws of the United States or the laws of any taxing jurisdiction other than the federal laws of Argentina and the United States.

Prospective investors should consult their own tax advisors as to the Argentine and United States tax consequences of the purchase, ownership and disposition of Notes, including, in particular, the effect of any foreign (non-Argentine and non-U.S.), state or local tax laws.

Argentina has also entered into or is negotiating several other double taxation treaties with various countries that may have an impact on the tax treatment of the purchase, ownership or disposition of Notes. Prospective purchasers of Notes should consult their own tax advisors as to the tax consequences, if any, of the application of any such treaties.

## Argentine Tax Considerations

### *General*

The following is a general summary of the principal Argentine income tax consequences of the acquisition, ownership and disposition of the Notes by holders of the Notes.

This summary is based on the tax laws and regulations in force in Argentina as of the date of this offering memorandum, all of which are subject to change, possibly with retroactive effect, or to new or different interpretations, which could affect the continued validity of this general summary. On October 31, 2017, the Argentine government announced its intention to submit a series of tax and social security reforms to Congress for consideration prior to the end of 2017.

On November 15, 2017, the tax reform bill was sent to the Argentine Congress by the Argentine government in order to be discussed and eventually passed into law. The bill would introduce several modifications to the existing tax regime, including modifications to income tax for corporate entities and individuals, value added tax, social security, tax on debit and credits on bank accounts, local taxes (turnover tax and stamp tax), excise tax, tax on fuels, tax on transfer of real estate and customs tax.

This summary does not address all of the Argentine tax consequences that may be applicable to specific holders of the Notes and does not purport to be a comprehensive description of all the Argentine tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes.

**Potential investors should consult with their own tax advisors regarding the particular consequences of the purchase, ownership or disposition of the Notes under the federal laws of Argentina or any other jurisdiction or under any applicable double taxation treaty.**

## Income Tax

### *Interest payments*

Except as described below, interest payments on the Notes made to Argentine resident individuals and to non-Argentine residents (whether individuals or legal entities) will be exempt from Argentine income tax if the Notes are issued in accordance with Argentine Negotiable Obligations Law and qualify for tax-exempt treatment under Section 36 bis of that act. Pursuant to Section 36 of the Negotiable Obligations Act, interest on the Notes will be exempt if the following conditions (the "Section 36 Conditions") are met:

(a) The Notes must be placed through a public offering, and, to such end, be authorized by the CNV (Argentine Securities and Exchange Commission), in compliance with the Capital Markets Law and the CNV Regulations;

(b) The proceeds of the placement of must be used by the issuer for any one or more of the following purposes: (i) investments in tangible physical assets located in Argentina, (ii) working capital in Argentina, (iii) refinancing of liabilities, and/or (iv) capital contributions to controlled or related companies, and the proceeds are in turn to be applied exclusively for the purposes specified above, as established in the resolution that decided the issuance and made known to the public by means of a prospectus; and

(c) The issuer must provide evidence to the CNV, at the time in the manner prescribed by regulation, as to the use of the proceeds of the offering made hereby for any of the purposes described in sub-section (b) above.

In accordance with the Joint Resolution AFIP/CNV No. 3872-664/2016 (published in the Official Gazette on May 9, 2016), it has been established that the AFIP and the CNV will implement, independently, all of the regulations that they believe to be appropriate in connection with public offerings of securities, within the scope of their respective competencies.

If the issuer does not comply with Section 36 Conditions, the issuer will be liable for payment of the corresponding tax on the Notes` interest. In such case, the issuer must apply, within the context of income taxes, the highest rate contemplated by Article 90 of the Income Tax Law to the income accrued in favor of the investors, such rate currently being 35%. Pursuant to General Resolution No. 1516/2003, modified by General Resolution No. 1578/2003, the AFIP regulated the mechanism pursuant to which income tax will be assessed against an issuer who did not comply with Section 36 Conditions.

Executive Order No. 1076, dated July 2, 1992 (as amended by Executive Order No. 1157, dated July 15, 1992, both ratified by Act No. 24,307, dated December 30, 1993) eliminated the Argentine income tax exemption described above for taxpayers subject to tax adjustment for inflation rules pursuant to Title VI of the Argentine Income Tax Act. Those subjects to such law include corporations, *sociedades en comandita por acciones y en comandita simple*, limited liability companies, civil associations and foundations, those entities and organizations referred to in Article 1 of Law No. 22,016, trust constituted in accordance with Law No. 24,441 (as amended and regulated) (except those where the trustor is also the beneficiary, which do not apply in the case of financial trust or when the trustor/beneficiary is a foreign entity), investments funds not contemplated by the first paragraph of Article 1 of Law No. 24,083, sole proprietorships and individuals carrying on certain business activities in Argentina, and other entities not specifically included in the fourth category of the Income Tax Law (hereinafter, the "Holders of Title VI"). As a result of this executive order, interest paid to Holders of Title VI is not exempt.

The payment of the tax contemplated in the above paragraph must be paid directly by Holders of Title VI to the extent the withholding regime described herein does not apply. In the event that the issuer is not regulated by the provisions of the Argentine Financial Entities Act, and the beneficiaries of interest payments are also not financial institutions regulated by the provisions of the Argentine Financial Entities Act, applicable income tax must be withheld and paid by the issuer. Such withholding in such case, which is up to 35% of the amount of the interest paid, must comply with the tax laws in force in Argentina. Such withholding will be regarded as a payment on account of such tax by the beneficiary of such payment.

In respect of foreign beneficiaries of any such interest payments (contemplated by Title V of the Income Tax Law, which includes human persons, undivided estates and legal entities resident in foreign countries who receive income from Argentina ("Foreign Beneficiaries"), such Foreign Beneficiaries are not subject to Article 21 of the Income Tax Law nor Article 106 of Law No. 11,683, which establish that tax exemptions do not apply when, as a result of the application of an exemption, revenue that would have been collected by Argentina tax authority would be collected instead by a foreign tax authority.

As a result of the above, so long as the Section 36 Conditions are complied with, interest on the Notes will be exempt from income taxes in respect of human persons and undivided estates resident in Argentina and Foreign Beneficiaries.

***Capital Gains***

Human persons resident in Argentina, undivided estates located in Argentina and Foreign Beneficiaries without a permanent establishment in Argentina are not subject to income tax on capital gains derived from the purchase, sale or other disposition of the Notes, in accordance with the exemption contemplated by Article 36 bis (to the extent compliant therewith).

As a result of Decree No. 1,076, dated July 2, 1992, Holders of Title VI are subject to income tax on capital gains derived from the purchase, sale or other disposition of the Notes as prescribed by Argentine tax regulations. Holders of Title VI that sell negotiable obligations must determine, as of the end of the respective year, the gain obtained from such sale and pay the corresponding tax.

Foreign Beneficiaries are not subject to Article 21 of the Income Tax Law nor Article 106 of Law No. 11,683, which establish that tax exemptions do not apply when, as a result of the application of an exemption, revenue that would have been collected by the Argentine tax authority would be collected instead by a foreign tax authority.

***Value-added Tax***

As long as the Notes meet the Section 36 Conditions, any financial transactions and operations related to the offer, such as the subscription, placement, purchase, transfer, amortization and cancellation of the Notes, will be exempt from Argentine value added tax. Furthermore, payments of principal and/or interest or upon redemption of the Notes and guarantees thereof, made in connection with the Notes will also be exempt from the value added tax to the extent the Notes meet the Section 36 Conditions.

Pursuant to the Value Added Tax law, transfer of the Notes would not be levied on value added tax even when the Section 36 Conditions are not fulfilled.

***Personal Assets Tax***

Individuals domiciled in Argentina and undivided estates located in Argentina are subject to a tax levied on all their assets located in Argentina and abroad, by December 31st of each fiscal year, which is applied at different rates depending on the value of the taxable assets.

Pursuant to Law No. 23,966 (the "PAT Law") as amended by Law No. 27,260, published in the Official Gazette on July 22, 2016, the personal assets tax ("PAT") non-taxable minimum threshold and tax rates applicable to Argentine domiciled individuals and undivided estates located in Argentina vary according to the fiscal period. If the aggregate value of assets of the Argentine domiciled taxpayer exceeds the non-taxable minimum threshold, only the exceeding amount will be subject to PAT taxation.

The following PAT rates apply:

| **Fiscal Year** | | **Applicable rate** |
|---|---|---|
| 2016 | Value of taxable assets exceeding Ps.800,00 | 0.75% |
| 2017 | Value of taxable assets exceeding Ps.950,000 | 0.50% |
| 2018 and subsequent periods | Value of taxable assets exceeding Ps.1,050,000 | 0.25% |

Foreign domiciled individuals and undivided estates located abroad shall only be subject to taxation over the assets located in Argentina. The tax is levied on individuals or legal entities domiciled in Argentina that have the possession, use, disposition, deposit, ownership, custody, administration or safekeeping of taxable assets (the "Substitute Payer"). In accordance with Argentine law, the Substitute Payer may then claim the payment of the tax from the foreign domiciled individual or undivided state. The applicable rate payable by these taxpayers is 0.75% for tax period 2016, 0.50% for 2017 and 0.25% for 2018 and thereafter. The tax shall not be paid if the amount to be remitted is equal to or lower than Ps.255.75.

Notwithstanding the foregoing, Section 26 of the PAT law prescribes that certain assets such as the Notes are excluded from taxation via a Substitute Payer. Therefore, although assets held by foreign domiciled individuals and undivided states located abroad are technically subject to PAT, the PAT law does not establish a mechanism for paying the tax corresponding to the Notes.

In respect of PAT, negotiable obligations that are listed on exchanges or markets will be valued in accordance with the last negotiated value thereof at the end of fiscal year. Non-publicly traded negotiable obligations will be valued at cost, increased, as applicable, with interest and exchange rate differences that have accrued to the applicable date.

Individuals domiciled outside of Argentina and undivided estates located abroad are not subject to PAT to the extent the tax liability is equal to or less than Ps.255.75.

In some cases, with respect to assets directly held by certain companies or other entities domiciled abroad (namely, off-shore companies other than insurance companies, open investment funds, pension funds or banking or financial entities with head offices incorporated or domiciled in those countries whose central banks or similar banking entities have adopted the Basel Committee’s international rules on banking supervision), the law assumes, against all evidence to the contrary, that such assets are held by individuals or undivided estates domiciled in Argentina.

In such cases, the law imposes on the Substitute Payer the obligation to apply the tax at a rate increased by 100% of the rate that should have been paid by the Argentine Issuer. Accordingly, such assets shall be subject to the PAT at the following rates: 1.50% for tax period 2016, 1.00% for tax period 2017, and 0.50% for tax period 2018 and thereafter.

Notwithstanding the above, Decree No. 812/1996, dated July 22, 1996, provides that the legal presumption discussed above will not apply to corporate debt securities, such as the Notes, the public offering of which has been authorized by the CNV and which are traded on stock exchanges located in Argentina or abroad

In order to ensure that this legal presumption will apply and as such, that the Issuer will not be liable as a Substitute Payer with respect to the Notes, the Issuer will keep among its records a duly certified copy of the CNV resolution authorizing the public offering of equity securities or corporate debt securities, and the documentation evidencing that such certificate or resolution was in force on December 31st of the year in which the fiscal obligation occurred, as required by AFIP General Resolution No. 2151, dated October 1, 2006.

In the event that the tax authority understands that the Issuer does not have the documentation evidencing the authorization by the CNV, and that the applicable securities are not traded on domestic or foreign stock markets, the Issuer will be responsible for paying the relevant tax.

The Issuer shall take the necessary actions to meet the conditions detailed above, so that the Notes held by legal persons domiciled abroad can be included within the scope of the exemption.

Additionally, Law No. 27,260 established in its Article 63 that Argentine taxpayers that have complied with their tax obligations corresponding to the fiscal years immediately preceding 2016 and that comply with Article 66 thereof (in general, not having outstanding debts with AFIP and not having adhered to the voluntary exteriorization regime or the restructuring of taxes contemplated by Law 27,260) would benefit from an exemption as regards the PAT for fiscal periods 2016, 2017 and 2018.

***Presumed Minimum Income Tax***

Law No. 25,063 establishes the Presumed Minimum Income Tax (the “PMIT”) that is levied on the ownership of certain income generating assets, including the Notes. The taxable persons liable for PMIT are: companies domiciled at Argentina, civil associations, foundations, local branches of foreign entities, sole proprietorships or individuals carrying on certain business activities in Argentina, trusts created in Argentina (except for financial trusts established in accordance with the provisions of the Argentine Civil and

Commercial Code), certain mutual funds organized in Argentina that are not included in Section 1 of law No. 24,083, as amended, certain permanent establishments belonging to foreign parties and the entities and institutions mentioned in Section 1 of the Law No. 22,016. The PMIT rate is 1.0% and it is applicable over the value of such holdings located in Argentina and abroad as of their respective year-ends if its value exceeds the amount of Ps.200,000. In the event that a taxpayer owns assets located abroad, this amount will be increased by the amount resulting from multiplying Ps.200,000 by a percentage that represents the taxable assets located abroad, as compared to the taxpayer's total assets.

PMIT will only be owed if the income tax determined for any fiscal year does not equal or exceed the amount owed under the PMIT. Pursuant to Law No. 25,063, income tax assessed for a particular fiscal year is considered as a payment on account of this tax. If the income tax which may be deducted on account of the PMIT is insufficient so that such PMIT must be paid in a certain fiscal year, it will be possible to acknowledge PMIT as a credit toward income tax owed in the immediately following ten fiscal years. In the case of local financial entities regulated by the law on financial entities, leasing entities and insurance companies, the assessable tax base will be 20% of the value of assessable assets.

In respect of such tax, negotiable obligations that are listed on exchanges or markets will be valued in accordance with the last negotiated value thereof at the end of fiscal year. Negotiable obligations which are not publicly traded will be valued at cost, increasing, as applicable, with interest and exchange rate differences that have accrued to the applicable date.

In general, human persons and undivided estates domiciled and located in Argentina and human persons or legal entities that do not have a permanent establishment in Argentina, subject to certain exceptions, are not subject to the tax for their investments in the Notes, whether issued pursuant to a public offering or a private offering. Such persons and entities are only subject to the tax to the extent that they establish a domicile or presence in the country for commercial activities. The ownership of the Notes is not considered to be sufficient to establish such a permanent establishment.

This tax has been abrogated by Law No.27,260 as of fiscal periods commencing after January 1, 2019.

**Tax on Bank Debits and Credits in Argentine bank accounts**

Law No. 25,413 establishes, with certain exceptions, a tax levied upon debits and credits on bank accounts maintained at financial institutions located in Argentina and on other transactions that are used as a substitute for the use of Argentine bank accounts. The general tax rate is 0.6% for each debit and credit (although in certain cases an increased rate of 1.2% and a reduced rate of 0.075% may apply).

Pursuant to Decree No. 534/2004, 34% of the tax paid on credits levied at the 0.6% tax rate and 17.% of the tax paid on transactions levied at the 1.2% tax rate will be considered as a payment on account of income tax, PMIT and/or tax on assets or the special contribution over the capital of cooperative associations.

The credit of such amounts as a payment on account will be carried out, with no distinction, against income tax, PMIT and/or tax on assets or the special contribution over the capital of cooperative associations. The exceeding amount will not be subject to compensation with other taxes or transfer in favor of third parties, being able to be transferred, until its exhaustion, to other fiscal periods of the above-mentioned taxes.

Certain exceptions to this tax apply based on the type of taxpayer and intended use of the accounts. For example, debits and credits in banking accounts opened by foreign legal entities in accordance with Communication "A" 3250 of the Argentine Central Bank and used exclusively for the purpose of making financial investments in Argentina are exempted from this tax in accordance with section 10, paragraph s) of Decree 380/2001.

Article 10 of Decree No. 380/01 establishes an exemption from such tax for certain operations, including debit and credit operations relating to accounts used exclusively and to transfers and withdrawals of related amounts, those markets authorized by the CNV and its agents, commercial exchanges that do not have organized stock exchanges, clearing agencies and other similar liquidation agencies authorized by the CNV.

In case holders of the Notes receive payments in Argentine checking accounts, such tax may apply.

## Turnover Tax

This tax is assessed by the Argentine provinces and the Autonomous City of Buenos Aires and is calculated based on the gross income of taxpayers regularly performing their activities in those jurisdictions. Below is the tax treatment applicable in the two most relevant jurisdictions.

The Autonomous City of Buenos Aires City Tax Code, Section 179(1), second paragraph, sets forth that revenues derived from operations related to Notes issued in accordance with Law No. 23,576, the interest collected and updates accrued and the selling price in case of a transfer, shall be exempt provided the income tax exemption is applicable.

The Province of Buenos Aires Tax Code sets forth a similar exemption in Section 207 (c), second paragraph.

Considering the autonomous authority vested in each provincial jurisdiction in connection with tax matters, any potential effects derived from these transactions must be analyzed, in addition to the tax treatment established by other provincial jurisdictions. Potential investors must consider the turnover tax impact depending on the local jurisdictions involved.

### *System of collection and Control over Credits on Bank Accounts*

Various provincial tax authorities (for example Corrientes, Córdoba, Tucumán, Buenos Aires, and Salta) have established a regime to ensure the collection of turnover tax denominated SIRCREB. The collection regime contemplates the withholding of certain credits on deposit in bank accounts maintained with Argentine financial entities. The collection regime generally applies to taxpayers included in a list provided by the local tax authorities involved.

Such rates vary between the various provinces with the highest current amount being 5%.

Collections made under these regimes shall be considered as a payment on account of the respective turnover tax.

Investors should consider any tax consequences relating to such turnover tax that may be applicable to them.

## Stamp Tax

Stamp tax is a local tax that is applicable on contracts of an onerous character that are formalized pursuant to public and/or private instruments that are executed in the provinces or the Autonomous City of Buenos Aires or executed in one jurisdiction and having effects in another one.

The Argentine Negotiable Obligations Law, Section 35, sets forth that corporate bond holders shall not be subject to federal stamp tax. However, such law only admits the possibility of requesting the provinces to grant a similar exemption in their respective jurisdictions. This request has been accepted only by some jurisdictions.

In particular, the Province of Buenos Aires Tax Code, Section 297 (46) sets forth an exemption for acts, contracts and transactions, including money delivered and received related to the issuance, subscription placement or transfer of Notes, as well as any capital stock increases made to issue shares to be delivered as a result of corporate bond conversions, issued in accordance with the system of Laws No. 23,576 and 23,962.

Also, acts, contracts and operations related to issuance of securities placed by public offering under the terms of Argentine Law No. 26,831 by companies authorized by the CNV are exempt from stamp tax in the Province of Buenos Aires. This exemption applies if the authorization to place the security by public offering is filed within 90 calendar days from the execution of any such act, contracts and operations and if the placement of the securities is not performed within 180 calendar days from the authorization to place such securities by public offering. The Tax Code of the Province of Buenos Aires has an exemption for agreements related to the negotiation of shares and other securities that are authorized by the CNV.

The Tax Code of the Autonomous City of Buenos Aires sets forth a similar exemption in Section 475(53). The Tax Code of the City of Buenos Aires has an exemption for agreements related to the negotiation of shares and other securities that are authorized by the CNV. The Tax Code of the Autonomous City of Buenos Aires also exempts from stamp tax those acts, contracts and operations related to issuance of securities placed by means of public offering under Argentine Law No. 17,811 by companies authorized by the CNV. This exemption applies if the authorization to place the security by public offering is filed within 90 calendar days from the execution of any such act, contracts and operations and if the placement of the securities is performed within 180 calendar days from the authorization to place such securities by public offering.

Considering the autonomous authority vested in each provincial jurisdiction in connection with tax matters, any potential effects derived from these transactions must be analyzed, in addition to the tax treatment established by the other provincial jurisdictions. Potential investors must consider the stamp tax impact depending on the local jurisdictions involved.

**Court Tax**

In the event that it becomes necessary to institute enforcement proceedings in relation to the Notes in Argentina, a court tax (currently at a rate of 3.0%) will be imposed on the amount of any claim brought before the Argentine courts sitting in the Autonomous City of Buenos Aires.

**Other taxes**

At the Argentine federal level, no tax is levied on the gratuitous conveyance of assets to heirs, donors, legatees or donees.

On the provincial level, the Province of Buenos Aires established pursuant to Law No. 14,044, modified by Law No. 14,200 a Free Transmission of Goods Tax (“FTGT”) -as from January 1, 2011- which main characteristics are:

- The FTGT applies to any enrichment received as a result of a free transfer of title, including as a result of inheritance, legacies, donations, and any other similar transfer that implies a similar enrichment.
- Individuals and legal entities are subject to the FTGT.
- Tax payers domiciled in the Province of Buenos Aires are subject to the FTGT over goods located in and out of the Province of Buenos Aires. On the other hand, for those domiciled outside of the Province of Buenos Aires, the tax only applies to those enrichments originating from a transfer of assets within the Province of Buenos Aires.
- Assets –such as the Notes- issued by an entity domiciled in the Province of Buenos Aires are considered as located in the Province of Buenos Aires.
- Free transfers of assets are exempted from the FTGT when the total amount of goods transferred is equal to or less than Ps.107,640 (or Ps.448,500 when related to a transfer by parents, children or the spouse of the recipient).
- The tax rates have been set between 4% to 21.925% according to the tax base and the degree of kinship involved.

The free transfer of notes may be subject to this tax if it meets the thresholds above.

The Province of Entre Ríos in 2013, pursuant to Law No. 10,197 imposed a tax on the free transfer of assets, which would apply if the beneficiary of such transfer is domiciled in such province or if the transferred assets are located within such province. The taxable base and rates relating to such tax are similar to those applicable for the FTGT in Decree 2554/2014 (published on the Official Gazette of the province on October 24, 2014) and its amendments established that free transfers of assets whose value is equal to or less than Ps.60,000 (or Ps.250,000 in respect of parents, children or spouses) are exempt.

Potential investors must consider the tax on the free transfer of assets impact depending on the local jurisdictions involved.

### Double Taxation Treaties

Argentina has entered into treaties to avoid double taxation with several countries. At present, there is no double taxation treaty between Argentina and the United States.

### Inflow of Funds from non-cooperative jurisdictions

Decree No. 589/2013 replaced Article 21.7 of Regulatory decree of Argentine Income Tax Law establishing that, to all effects set forth under Argentine Income Tax Law and regulatory decree thereof, any reference to low or no taxation countries should be construed as a reference to the countries which are not considered as "cooperating countries for fiscal transparency purposes."

Cooperating countries for fiscal transparency purposes are considered to be those countries executing an agreement with Argentina for exchange of information concerning tax matters or an agreement to avoid international double taxation with a broad information exchange provision, always provided that such exchange of information is effectively complied with. The Federal Administration of Public Revenues prepares and keeps an updated list of the jurisdictions considered as "cooperative for fiscal transparency purposes." The provisions of Decree No. 589/2013 are applicable since January 1, 2014. You can review such list on the following website: *http://www.afip.gov.ar*.

According to Tax Procedure Law (Law No. 11,683 as amended), any local party receiving funds of any kind (that is, loans, capital contributions, etc.) from foreign parties located in non-cooperating countries for fiscal transparency purposes, could be subject to Income Tax and Value Added Tax on a 110% taxable base of the amounts received (subject to some limited exceptions). Although the concept of "incoming funds" is not clear, it should be construed as any transfer of funds:

(i) from an account in a non-cooperative jurisdiction or from a bank account opened outside of a non-cooperative jurisdiction but owned by an entity located in a non-cooperative jurisdiction; or

(ii) to a bank account located in Argentina or to a bank account opened outside of Argentina but owned by an Argentine tax resident.

The foregoing is based upon an assumption that such amounts constitute unjustified asset increases for the local receiving party. The Argentine tax resident may rebut such legal presumption by duly evidencing before the Argentine Tax Authority that the funds arise from activities effectively performed by the Argentine taxpayer or a third party in such jurisdictions, or that such funds have been previously declared.

### Certain United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Notes at the "issue price" (the first price at which a substantial amount of Notes are sold for money, excluding sales to underwriters, placement agents or wholesalers) in the initial offering that are U.S. Holders and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors (including consequences under the alternative minimum tax or Medicare tax on net investment income), and does not address state, local, non-U.S. or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Notes in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

***Payments of Interest***

Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such holder's method of accounting for U.S. federal income tax purposes. For these purposes, interest on the Notes includes any non-U.S. tax withheld from interest payments and any Additional Amounts paid in respect of such withholding tax. Interest paid by the Issuer on the Notes should constitute income from sources outside the United States.

Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for any non-U.S. income taxes withheld by the Issuer. Interest generally will constitute "passive category income" for purposes of the foreign tax credit. The rules governing foreign tax credits are complex. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of non-U.S. withholding taxes.

***Sale and Retirement of the Notes***

A U.S. Holder generally will recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement and the U.S. Holder's adjusted tax basis of the Note. A U.S. Holder's adjusted tax basis in a Note generally will be its U.S. dollar cost. The amount realized does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Gain or loss recognized by a U.S. Holder on the sale or retirement of a Note generally will be U.S.-source capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. The deductibility of capital losses is subject to limitations.

***Backup Withholding and Information Reporting***

Payments of principal and interest on and the proceeds of sale or other disposition of Notes by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Notes, including requirements related to the holding of certain "specified foreign financial assets."

**The Kingdom of Spain**

***General***

The following is an overview of the principal Spanish tax consequences of the ownership and disposition of Notes.

This overview is not a complete analysis or listing of all the possible tax consequences of the ownership or disposition of the Notes. Prospective investors should, therefore, consult their tax advisers with respect to the Spanish and other tax consequences taking into consideration the circumstances of each particular case. The statements regarding Spanish tax laws set out below are based on those laws in force at the date of this Base Prospectus.

***Withholding tax***

*Payments made by the Issuer*

On the basis that the Issuer is not resident in the Kingdom of Spain for tax purposes and does not operate in the Kingdom of Spain through a permanent establishment, branch or agency, all payments of principal and interest in respect of the Notes can be made free of any withholding or deduction for or on account of any taxes in the Kingdom of Spain of whatsoever nature imposed, levied, withheld, or assessed by the Kingdom of Spain or any political subdivision or taxing authority thereof or therein, in accordance with applicable Spanish law.

Under certain conditions, withholding taxes may apply to Spanish taxpayers when a Spanish resident entity or a non-resident entity that operates in the Kingdom of Spain through a permanent establishment in the Kingdom of Spain is acting as depositary of the Notes or as collecting agent of any income arising from the Notes.

*Payments made by the Guarantor*

In the opinion of the Guarantor, any payments of principal and interest made by the Guarantor under the Guarantee should be characterised as an indemnity and, accordingly, be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Kingdom of Spain or any political subdivision or authority thereof or therein having power to tax.

However, although no statement of law or regulation nor clear precedent exits in relation thereto, in the event that the Spanish Tax Authorities take the view that the Guarantor has validly, legally and effectively assumed all the obligations of the Issuer under the Notes subject to and in accordance with the Guarantee, the part of the payments which corresponds to payments of interest under the Notes could qualify as interest.

In such case, payment of interest made under the Guarantee to the Holders may be subject to Spanish withholding tax at the then applicable rat (currently 19%) unless the recipient is:

(i) resident for tax purposes in a Member State of the European Union other than Spain (or is a permanent establishment of such resident situated in another Member State of the European Union) and it is not resident in or acting through a territory considered as a tax haven pursuant to Spanish Law (currently as set out in Royal Decree 1080/1991, of 5 July) or through a permanent establishment in Spain or in a country outside the European Union, or

(ii) resident for tax purposes in a state with which Spain has entered into a Double Tax Treaty which makes provision for full exemption from tax imposed in Spain on such payment under the Double Tax Treaty, or

(iii) eligible to any other withholding tax exemption applied under Spanish law.

provided that, in either case of (i) and (ii) above, such recipient submits to the Guarantor a tax residence certificate duly issued by the tax authorities in its own jurisdiction stating its residence for tax purposes either within the relevant EU Member State or in the relevant country for the purposes of the Double Tax Treaty, such certificate being valid for a period of one year from the date of issue under Spanish law and therefore new certificates needing to be issued periodically.

Holders entitled to withholding tax exemption, but the payment to whom was not exempt from Spanish withholding tax due to the failure to deliver by the Holder or the Agent (as the case may be) of a valid certificate of tax residence of the Holder or certain information relating to the Notes (as the case may be) in a timely manner may apply directly to the Spanish tax authorities for any refund to which they may be entitled. Holders are advised to consult their own tax advisers regarding their eligibility to claim a refund from the Spanish tax authorities and the procedures to be followed in such circumstances.

**In connection with Spanish tax resident Holders and Non-Spanish tax resident Holders acting with respect to the Notes through a permanent establishment in Spain, income deriving from the Notes and the Guarantee is subject to tax in Spain. Payments made under the Guarantee which correspond to payments of interest under the Notes may be subject to withholding on account of Spanish taxes.**

## PLAN OF DISTRIBUTION

BBVA Securities Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Santander Investment Securities Inc. are acting as Joint Book-Running Managers and as initial purchasers. Subject to the terms and conditions of the Purchase Agreement (as defined below), we have agreed to sell and the initial purchasers named below have severally, and not jointly, agreed to purchase from us the following respective principal amounts of Notes listed opposite their names below:

| Initial Purchaser | Principal Amount of Notes |
|---|---|
| BBVA Securities Inc. | U.S.$125,000,000 |
| Citigroup Global Markets Inc. | U.S.$125,000,000 |
| J.P. Morgan Securities LLC | U.S.$125,000,000 |
| Santander Investment Securities Inc. | U.S.$125,000,000 |
| **Total** | **U.S.$500,000,000** |

Pursuant to the Argentine public offering of the notes, the Local Placement Agents arranged the placement of the notes under a Local Placement Agreement (as defined below). The offer of the Notes shall be conducted by means of an offering that qualifies as a public offering in Argentina under the Capital Markets Law, the CNV Rules and the Argentine Negotiable Obligations Law.

Following international and local practices for the placement of securities in similar transactions, we will enter into (i) a Purchase Agreement with the initial purchasers (the "Purchase Agreement") and (ii) a local placement agreement with the Local Placement Agents (the "Local Placement Agreement").

The placement of the notes in Argentina will be done as specified below under "—Placement Efforts." Notwithstanding the foregoing, outside of Argentina, the notes will be offered only in accordance with the laws of the applicable jurisdiction under exemptions to the registration or public offering requirements for such jurisdiction. Local Placement Agents will not be initial purchasers nor will they conduct any placement activities outside of Argentina.

Subject to the terms and conditions of the Local Placement Agreement, the Local Placement Agents will agree to perform a series of marketing and placement efforts of the notes in Argentina subject to the Capital Markets Law, the CNV Rules and other applicable regulations. We will indemnify the Local Placement Agents from certain obligations.

The Purchase Agreement provides that the obligations of the several initial purchasers to purchase the Notes offered hereby are subject to certain conditions precedent and that the initial purchasers will purchase all of the Notes offered by this offering memorandum if they purchase any of the Notes. The Purchase Agreement also provides that if an initial purchaser defaults, the purchase commitments of the non-defaulting initial purchasers may be increased or the offering may be terminated.

The initial purchasers may offer and sell the Notes through certain of their affiliates. In addition, after the initial offering, the initial purchasers may change the offering price and other selling terms of the Notes.

We have agreed to reimburse the initial purchasers for certain expenses incurred in connection with the offering and to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the initial purchasers may be required to make in respect of any of these liabilities.

The Notes and the Note Guarantee have not been, and will not be, registered under the Securities Act. Each initial purchaser has agreed that it will offer or sell the Notes only (i) in the United States to qualified institutional buyers ("QIBs") in reliance on Rule 144A under the Securities Act or (ii) outside the United States in reliance on Regulation S under the Securities Act. The Notes being offered and sold pursuant to Regulation

S may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless the Notes are registered under the Securities Act or an exemption from the registration requirements thereof is available. Terms used above have the meanings given to them by Regulation S and Rule 144A under the Securities Act. See "Transfer Restrictions."

**New Issue of Securities**

The Notes are a new issue of securities and there is currently no market for the Notes. In addition, the Notes are subject to certain restrictions on resale and transfer as described under "Transfer Restrictions" in this offering memorandum. We have applied for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and on BYMA. However, we cannot assure you that any of those applications will be approved.

**No Sale of Similar Securities**

We have agreed that, for a period of 90 days from the closing of the offering, we will not, without the prior written consent of the initial purchasers, offer, sell or contract to sell or otherwise dispose of, any debt securities substantially similar to the Notes, issued or guaranteed by us and having a tenor of more than one year. The initial purchasers in their sole discretion may release any of the securities subject to the Purchase Agreement at any time without notice.

**Listing of Securities**

We will apply to have the notes listed on the Official List of the Luxembourg Stock Exchange and on BYMA, through the BASE acting in accordance with the authority delegated by BYMA , and to have the notes admitted to trading on the Euro MTF Market. The notes do not have an established trading market, so we cannot assure you to the liquidity, development or continuation of the trading markets for the notes. In addition, any such market-making activity will be subject to the limits imposed by the Securities Act, the Exchange Act, Argentine Capital Markets Law and the CNV rules. Accordingly, we cannot assure you as to the liquidity of, or the development or continuation of trading markets for, the notes.

**Relationships with the initial purchasers**

Certain of the initial purchasers, the Local Placement Agents and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Parent Guarantor and/or their affiliates or controlled companies. Consequently, they have received, or may in the future receive, customary fees, interest and commissions for these transactions. In particular, BBVA Banco Continental (an affiliate of BBVA Securities Inc.), Citibank N.A. and J.P. Morgan Chase Bank, N.A. have entered into the Club Facility with the Issuer, Tecpetrol Peru and Tecpetrol Bloque 56.

**Placement Efforts in Argentina**

We, together with the Local Placement Agents, will make placement efforts and offer the Notes in Argentina through a public offering under the terms of the Argentine Capital Markets Law, the CNV Rules and other applicable regulations, including, without limitation, Chapter IV, Title VI of the CNV Rules.

In accordance with the applicable regulations of Argentina, the notes cannot be offered directly to the public in Argentina by anyone other than the Issuer or the Local Placement Agents. The offering of the notes to the public will be made by way of the Argentine Prospectus and the Pricing Supplement in the Spanish language, in accordance with the terms of the Argentine Capital Markets Law, the CNV Rules (including, without limitation, Chapter IV, Title VI of the CNV Rules) and other applicable regulations or proceedings, as it is described in this offering memorandum.

The Notes will be offered in Argentina by the Local Placement Agents subject to the terms and conditions of the Local Placement Agreement. Local Placement Agents are authorized under Argentine law to act as placement agents in Argentina.

In Argentina the Notes will be offered to "qualified investors" (*inversores calificados*), as defined by Article 12, Section II, Chapter VI of Title II of the CNV Rules by way of the Local Placement Agents in accordance with and subject to the terms and conditions described in the Local Placement Agreement.

In addition, we, together with the initial purchasers, will make placement efforts regarding the notes in the international market outside Argentina, in accordance with the applicable regulations in each jurisdiction. The notes will be offered by the initial purchasers outside of Argentina in accordance with applicable laws of each jurisdiction in which the notes are offered in reliance on Rule 144A and Regulation S.

Placement efforts may consist of a variety of marketing methods, used in similar transactions, which may include, among others, the following: (i) the making of presentations ("road show") to local or international potential investors; (ii) conference, or individual, calls where potential investors will have the opportunity to ask questions about our business and the notes; (iii) our management will also be available to potential investors, both in Argentina and in foreign countries, by means of (a) one-on-one conference calls; (b) meetings; and (c) general group meetings; (iv) an "electronic road show," an online presentation that allows potential investors to access the Company presentation; (v) publication of a summarized version of the local offering memorandum and local pricing supplement in the Daily Bulletin of the BASE, and the publication in Argentina of other communications and notices; (vi) distribution (hard copy and/or electronically) of the local offering memorandum, and local pricing supplement in Spanish, in Argentina, and similar documents in English for other countries (in accordance with Regulation 144A and Regulation S), which will be substantially identical among each other; and (vii) make available to potential Argentine investors, at their request at our offices and the offices of the Local Placement Agents and of the initial purchasers (at the addresses detailed at the last page of this offering memorandum), copies of the local offering memorandum and local pricing supplement.

### *Local Offering*

The Local Placement Agents may only solicit or receive purchase orders from investors who are Argentine residents.

### *Initial Placement of the Notes*

In accordance with Article 1, Section I, Chapter IV, Title VI of the CNV Rules, the placement of the notes will be made through a book building process, (the "Book-building Mechanism"), which will be conducted by the initial purchasers and the Local Placement Agents.

Pursuant to Article I, Section I, Chapter IV, Title VI of the CNV Rules, the Initial Purchasers will receive the indications of interest from investors (the "Indication of Interest") outside Argentina and the Local Placement Agents will receive Indications of Interest from investors in Argentina, which Indications of Interest will be binding and confirmed, and will include them in an electronic log book that may be kept in the city of New York in accordance with the customary practices and applicable regulations for this type of international placement in the United States (the "Registry"). The CNV Rules require that the Registry detail the identity and country of origin of the potential investor, and whether the potential investor is a physical person or entity well as the amount of notes requested in the Indication of Interest received, the agent through which the Indication of Interest was placed, the interest rate, the issue price requested by the potential investor, the offered yield and the date and time when the Indication of Interest was delivered.

In Argentina, the potential investors may deliver the Indication of Interest before the Argentine Placement Agents at the addresses indicated herein, and the tendered Indication of Interest must specify the requested principal amount of the Notes which they seek to purchase (which shall be no less than U.S.$150,000 and in integral multiples of U.S.$1,000 in excess thereof), as well as the yield offered for the Notes, expressed as a nominal annual rate rounded to three decimals (the "Offered Yield"). Subject to the CNV Rules and other applicable regulations, Local Placement Agents may require potential investors that make an Indication of Interest to provide guarantees for the payment of their requested orders.

***Solicitation Period and Final Time for Filing Indications of Interest***

Indications of Interest in Argentina shall be delivered to the Local Placement Agents at the addresses indicated in this offering memorandum during a period of at least three business days in accordance with the CNV Rules which will begin on the day stated in the Subscription Notice published on the website of the CNV, the Daily Bulletin of the BASE, from 10:00 am to 4:00 pm Buenos Aires time (the "Solicitation Period") and on the Pricing Date (as defined below) in which the Local Placement Agents will receive Indications of Interest until 1:00 pm Buenos Aires time of such date (the Solicitation Period and the date and hour of finalization of the Solicitation Period, the "Final Time for Filing Indications of Interest"). After the Final Time for Filing Indications of Interest, no further Indications of Interest will be received.

Between 1:00 pm and 5:00 pm Buenos Aires time, on the Pricing Date, the initial purchasers will log into the Registry all the Indications of Interest received by the Final Time for Filing Indications of Interest and shall thereafter close the Register (the exact date and time of the effective registration of the Indications of Interest in the Register and closing of the Register to be determined by the initial purchasers in their sole discretion within the range described above at the Pricing Date) (the "Register Closing Time"). After the Final Time for Filing Indications of Interest no further Indication of Interest will be received. The Indications of Interest received by the Final Time for Filing Indications of Interest will not be binding, and can be withdrawn or modified, until the Register Closing Time. Pursuant to the powers set forth in Article 7, Section 2, Chapter IV, Title VI of the CNV Rules, the potential investors may waive their right to expressly ratify the Indications of Interest with effect as of the Register Closing Time. Consequently, all Indications of Interest that are not withdrawn or modified by the Register Closing Time will be firm, irrevocable, binding and final in the terms presented (according to the modifications made by that time) with effect as from the Register Closing Time.

***Pricing Date***

Pursuant to the CNV Rules, the day following the expiration of the Solicitation Period (the "Pricing Date"), after the closing of the Register by the initial purchasers, we, jointly with the initial purchasers, will determine: (i) the issue price, (ii) the applicable interest rate, (iii) the maturity date, and (iv) the amount of the notes to be issued, all based on the offers received and in accordance with the Book-building Mechanism.

On the Pricing Date, and after the final allocation of the Notes, a results notice will be published on the CNV website (www.cnv.gob.ar) under "Financial Information" (*Información Financiera*), and as soon as possible, in the Daily Bulletin of the BASE, indicating the aggregate amount of Notes requested, the amount of Notes to be issued, the maturity date, the issue price and interest rate.

***Anticipated Termination, Amendment Suspension, and/or Extension. Void Offer. Rejection of the Indications of Interest.***

The anticipated termination, amendment suspension, and/or extension of the Solicitation Period and/or the Pricing Date will not subject us, the initial purchasers or the Local Placement Agents to any liability and will not give investors which have submitted Indications of Interest any right to compensation or indemnity. In the event that the Solicitation Period and/or the Pricing Date is terminated or revoked, or if the decision is made not to issue the notes, all Indications of Interest which have been received will expire automatically.

If the Solicitation Period is suspended or extended, investors who submitted Indications of Interest during that period may, at their discretion and without penalty, withdraw their Indications of Interest at any time during the period of the suspension or the new extended Solicitation Period.

The suspension, amendment and/or extension of the Solicitation Period and/or the Pricing Date prior to the expiration of the original term can be decided, prior notifying the initial purchasers and the Local Placement Agents, by us through a notification as used in the Subscription Notice and will not subject us, the initial purchasers or the Local Placement Agents to any liability and will not give investors which have submitted Indications of Interest any right to compensation or indemnity. In the event that the Pricing Date is terminated or revoked, or if the decision is made not to issue the notes, all Indications of Interest which have been received will expire automatically.

If the Solicitation Period is suspended or extended, investors who submitted Indications of Interest during that period may, at their discretion and without penalty, withdraw their Indications of Interest at any time before the end of the new Solicitation Period.

Indications of Interest may not be rejected unless they contain errors and/or omissions that make it unduly burdensome or impossible to process them, or in the cases that are indicated hereafter.

Persons who submit Indications of Interest may be forced to provide the initial purchasers and/or Local Placement Agents with all information and documentation that may be required by the initial purchasers and/or the Local Placement Agents, as the case may be, in order to comply with the applicable regulations, including, without limitation, laws and regulations issued in connection with anti-money laundering regulations and financing of terrorism. For the cases where such information (i) is inadequate, incomplete and/or (ii) is not provided on time, the initial purchasers and/or Local Placement Agents may reject such Indications of Interest without any responsibility.

We and/or the initial purchasers and/or Local Placement Agents reserve the right to reject any Indication of Interest if any of them consider at their discretion that the information and documentation required, the formal requirements related to them, the guarantee requested and/or the applicable laws and regulations and the regulations related to anti-money laundering were not complied with, including the local capital markets regulations in relation to the prevention of money laundering and terrorist financing issued by the UIF and other similar, applicable regulations of the CNV, and/or the Argentine Central Bank, including without limitation the Money Laundering and Financing of Terrorism Law. Any decision to reject an Indication of Interest will take into account the principle of fair treatment of all investors.

**Any modification of these rules will be published through a complementary notice on the CNV website and the Daily Bulletin of the BASE.**

We may declare void the placement of the Notes during or immediately after the Solicitation Period if: (i) we had not received Indications of Interest or if all of the Indications of Interest had been rejected; (ii) the yield offered by investors was higher than the yield expected by us; (iii) the Indications of Interest represent a nominal value of Notes that, being reasonably considered, did not justify the issuance of the Notes; (iv) taking into account the resulting economic equation, the issue of the Notes was not desirable for us; (v) adverse changes in international or local financial markets and/or the international or local capital markets or our general situation and/or Argentina, including, for example, the political, economic, financial conditions or our credit, were or are such that it would not be advisable to complete the transaction referred to in this offering memorandum or (vi) the interested investors have not complied with the regulations related money laundering and terrorist financing issued by the UIF, the CNV, and/or the Argentine Central Bank, including without limitation the Money Laundering and Financing of Terrorism Law. In addition the placement of the Notes may be terminated pursuant to the terms and conditions of the Purchase Agreement.

***Allocation Process***

On the day Pricing Date, after the closing of the Register, we, jointly with the initial purchasers, may determine: (i) the issue price, (ii) the interest rate, (iii) the applicable yield (the "Applicable Yield") and (iv) the amount of the Notes to be issued (or demand curve), in each case based on the offers received and in accordance with the Book-building Mechanism. We expect to place the notes principally among international and local institutional investors, including, but not limited to, investment funds, pension funds, sovereign funds, insurance companies, financial entities, brokerage firms and managers of private banking accounts. We will give priority to those Indications of Interest received from investors that generally maintain these types of notes in their portfolio for a longer period with the intention that the secondary market price of the Notes will benefit from a stable investor base, with proven ability to understand credit risks, interested in maintaining long-term positions, thus allowing the creation of a reference for our debt and facilitating future access to international capital markets. Priority will be given, in particular, to those Indications of Interest received from regulated institutional investors or international financial entities. The criteria to distribute and allocate the Notes to be applied by us shall be based on, among others, the investor's previous international transactions involving issuers in emerging markets, the size of the Indication of Interest, the competitiveness of the Offered Yield, the investor's interest in our credit profile and the investor's creditworthiness.

**The allocations will be performed at the same value for all investors that achieve an allocation.**

No investor having submitted an Indication of Interest with an Offered Yield higher than the Applicable Yield determined by us shall receive any Notes.

**We cannot assure investors that their Indications of Interest will be allocated or, if that happens, that they will get an allocation of Notes for the full amount applied for, nor that the percentage of allocations over the solicited aggregate amount between two Indications of Interest of equal characteristics will be the same.**

Neither we, nor the initial purchasers or the Local Placement Agents have any obligation to individually notify any investor whose Indications of Interest have been totally or partially excluded, that such Indications of Interest have been totally or partially excluded.

### International Offering

The Notes will be placed outside of Argentina by means of an offering in accordance with the laws of the applicable jurisdictions, under exemptions to registration or public offering requirements.

The Notes have not been, and will not be, registered under the Securities Act. The initial purchasers will offer or sell the Notes only (i) in the United States to QIBs in reliance on Rule 144A under the Securities Act or (ii) in offshore transactions in reliance on Regulation S under the Securities Act. The Notes being offered and sold pursuant to Regulation S may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless the Notes are registered under the Securities Act or an exemption from the registration requirements thereof is available. Terms used above have the meanings given to them by Regulation S and Rule 144A under the Securities Act. See "Transfer Restrictions."

The offering of the Notes outside of Argentina will be made with this offering memorandum. The initial purchasers have undertaken outside of Argentina a variety of marketing methods consistent with international practices for the placement of securities in comparable transactions (including, without limitation road shows, global or individual conference calls, one-on-one or group meetings, and distribution of the offering memorandum), and may also offer and sell the Notes through certain of their qualified affiliates.

Until the expiration of 40 days after the commencement of this offering, any offer or sale of Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act, unless the dealer makes the offer or sale pursuant to Rule 144A or another available exemption from registration under the Securities Act.

### Payment of the Subscription Price; Settlement

On or prior to the date of the issuance and settlement of the Notes, that will be on or about December 12, 2017, the fifth business day after the Pricing Date (such settlement being referred to as T+5) and that will be specified in the Subscription Notice and/or Results Notice, depending on the case, investors who have received an allocation of the notes in accordance with the process described above will be charged the full amount of such notes in U.S. dollars through a bank transfer to an account outside of Argentina, that will be disclosed by the Local Placement Agents and/or the initial purchasers to the investors in accordance with standard market practice. Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on the date of this offering memorandum or on the next two business days before the date of initial delivery of the notes hereunder will be required, by virtue of the fact that the notes initially settle in T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes prior to their date of delivery hereunder should consult their advisors.

Investors that acquire the Notes will have no obligation to pay any fee, unless its investment is made by means of a broker, agent, bank, trustee or any other entity, case in which it is possible that the investor may have to pay fees and/or charges to those entities, which will be an exclusive responsibility of such investor. Likewise, in case of transfers or other assets or registers in respect with the Notes, including the collective deposit system, DTC may charge to the participants, which may be transferred to the holders of the Notes.

**Stabilization Transactions**

In connection with the offering of the Notes, subject to the terms and conditions and during the timelines specified in CNV Rules and other applicable regulations, the initial purchasers (or persons acting on their behalf) may over-allot notes or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail including, by means of short-sales, stabilizing transactions and purchases to cover positions created by short-sales.

However, there is no assurance that the initial purchasers (or persons acting on their behalf) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the notes is made. Notwithstanding the foregoing, if such transactions and undertaken, they must comply with the following conditions: (i) the offering document must include a warning addressed to investors regarding the possibility of carrying out these transactions, the applicable term and conditions; (ii) the transactions may be carried out by agents that have participated in the organization and coordination of the placement and distribution of the notes; (iii) the transactions may not be extended beyond the 30 calendar days from the first day on which the trading of the notes has started; (iv) stabilization operations may be carried out to avoid or moderate abrupt changes in the price of the notes; (v) no stabilization transactions carried out, can be performed at a price higher than the prices negotiated for such notes in the secondary market for arms-length transactions; and (vi) the agents that carry out such transactions are required to disclose the applicable terms of such transactions to the markets in which the notes are authorized for trading. The markets in which the notes are traded are required to disclose stabilization transactions at the end of each trading date.

Over allotment involves sales in excess of the offering size, which creates a short position for the initial purchaser. Stabilizing transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Stabilizing transactions may cause the price of the notes to be higher than it would otherwise be in the absence of those transactions.

**Sales Outside the United States**

None of us, the Parent Guarantor, the initial purchasers or the Local Placement Agents are making an offer to sell, or seeking offers to buy, the Notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of us, the Parent Guarantor, the initial purchasers or the Local Placement Agents will have any responsibility therefor.

**Notice to Prospective Investors in the European Economic Area**

Each of the initial purchasers has represented and agreed that, in relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") it has, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), not made and will not make an offer to the public of any Notes which are the subject of the offering contemplated by this offering memorandum in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in the Relevant Member State:

1. at any time to any legal entity which is a person that is a qualified investor within the meaning of Article 2(1)(e) of the Prospectus Directive (a "qualified investor");

2. at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors) subject to obtaining the prior consent of the initial purchasers; or

3. at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

*provided* that no such offer of Notes referred to in sub-clauses (a) to (c) shall result in a requirement by us or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this offering memorandum, (i) the expression an "offer to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and Notes to be offered so as to enable an investor to decide to purchase or subscribe to the relevant Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, (ii) the expression "Prospectus Directive" means Directive 2003/71/EC (and the amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State in question) and includes any relevant implementing measure in that Relevant Member State, (iii) the expression "2010 PD Amending Directive" means Directive 2010/73/EU and (iv) the countries comprising the "European Economic Area" are Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

**Notice to Prospective Investors in the United Kingdom**

Each initial purchaser has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

**Notice to Prospective Investors in Canada**

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

**Notice to Prospective Investors in Switzerland**

This offering memorandum does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Notes will not be listed on the SIX Swiss Exchange. Therefore, this offering memorandum may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the Notes with a view to distribution. Any such investors will be individually approached by the initial purchasers from time to time.

**Notice to Prospective Investors in Hong Kong**

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

The contents of this offering memorandum have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this offering memorandum, you should obtain independent professional advice.

**Notice to Prospective Investors in Japan**

The Notes offered in this offering memorandum have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act"). The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

**Notice to Prospective Investors in Singapore**

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:
    - (i) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than U.S.$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
    - (ii) where no consideration is or will be given for the transfer; or
    - (iii) where the transfer is by operation of law.

**Notice to Prospective Investors in Brazil**

The offering of the Notes described in this offering memorandum will not be carried out by any means that would constitute a public offering in Brazil under Law No. 6,385, of December 7, 1976, as amended, and under CVM Rule (*Instrução*) No. 400, of December 29, 2003, as amended. The offering and sale of the Notes have not been and will not be registered with the *Comissão de Valores Mobiliários* in Brazil. Any public offering of the Notes in Brazil, as defined under Brazilian laws and regulations, requires prior registration with the CVM under Law No. 6,385, dated of 7 December 1976, as amended, and CVM Instruction No. 400, dated 29 December 2003, as amended. Therefore, the Notes may not be issued, distributed, offered, placed or negotiated in the Brazilian capital markets, except in circumstances which do not constitute a public offering, distribution, placement or negotiation in the Brazilian capital markets, as well as any documents relating to the offering of the Notes and any information contained in those documents, may not be distributed to the public in Brazil nor be used in connection with any offer for subscription or sale of the Notes to the public in Brazil.

**Notice to Prospective Investors in Chile**

The offering of the Notes will begin on November 28, 2017 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*, or the "SVS"). The Notes being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the Notes are not subject to the supervision of the SVS. As with all unregistered securities, the issuer of the Notes is not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

*La oferta de los valores comienza el 28 de noviembre de 2017 y está acogida a la NCG 336 de la superintendencia de Valores y Seguros de Chile (la "SVS"). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta pública a menos que sean inscritos en el registro de valores correspondiente.*

**Notice to Prospective Investors in Argentina**

The Notes are being placed in Argentina by the Local Placement Agents, through an offering that will qualify as a public offering conducted in accordance with the Argentine Capital Markets Law, the CNV Rules and other applicable Argentine laws. For this purpose, the Program has been authorized by the CNV by Resolution No. RESFC-2017-18994-APN-DIR#CNV dated October 30, 2017. The Local Offering will be made to "qualified investors" (*inversores calificados*) in Argentina, as defined by Article 12, Section II, Chapter VI of Title II of the CNV Rules, by way of an Argentine prospectus and an Argentine pricing supplement in the Spanish language with information substantially similar to that included in this offering memorandum. The CNV authorization means only that the information requirements of the CNV have been satisfied. The CNV has not rendered any opinion in respect of the accuracy of the information contained in the Argentine prospectus and pricing supplement or in this offering memorandum.

**Notice to Prospective Investors in Colombia**

The Notes may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 to offer privately the Notes to their Colombian clients.

**Notice to Prospective Investors in Peru**

The Notes and the information contained in this offering memorandum are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. The Notes have not been and will not be approved by or registered with the Peruvian securities regulatory authority, the Superintendency of the Securities Market (Superintendencia del Mercado de Valores). Accordingly, the Notes cannot be offered or sold within Peruvian territory except to the extent any such offering qualifies as a private offering under Peruvian regulations and complies with the provisions on private offerings set forth therein. This notice is for information purposes only and it does not constitute a public offering of any kind in Peru.

**Notice to Prospective Investors in Italy**

The offering of the Notes has not been cleared by the *Commissione Nazionale per la Società e la Borsa* ("CONSOB") pursuant to Italian securities legislation. Accordingly, each initial purchaser has represented and agreed that it has not offered, sold or delivered, directly or indirectly, any Notes to the public in the Republic of Italy.

For the purposes of this provision, the expression "offer of notes to the public" in Italy means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, including the placement through authorized intermediaries.

Each initial purchaser has represented and agreed that it will not offer, sell or deliver, directly or indirectly, any note or distribute copies of these listing particulars or of any other document relating to the Notes in the Republic of Italy except:

(i) to qualified investors (*investitori qualificati*), as defined under Article 100 of the Legislative Decree No. 58 of February 24, 1998, as amended (the "Italian Financial Act"), as implemented by Article 26, paragraph 1(d) of CONSOB Regulation No. 16190 of October 29, 2007, as amended ("Regulation No. 16190"), pursuant to Article 34-ter, first paragraph, letter b), of CONSOB Regulation No. 11971 of May 14, 1999, as amended ("Regulation No. 11971"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Act and its implementing CONSOB regulations including Regulation No. 11971.

Any such offer, sale or delivery of the Notes or distribution of copies of the listing particulars or any other document relating to the Notes in the Republic of Italy must be in compliance with the selling restriction under (i) and (ii) above and:

(1) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the relevant provisions of the Italian Financial Act, Regulation No. 16190, Legislative Decree No. 385 of September 1, 1993 as amended (the "Banking Act") and any other applicable laws or regulation;

(2) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy or by Italian persons outside of Italy; and

(3) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or the Bank of Italy or any other Italian authority.

Any investor purchasing the Notes is solely responsible for ensuring that any offer, sale, delivery or resale of the notes by such investor occurs in compliance with applicable Italian laws and regulations.

**Notice to Prospective Investors in Mexico**

The Notes have not been and will not be registered with the RNV maintained by the CNBV, and, therefore, the Notes may not be offered or sold publicly in Mexico, except that the Notes may be sold to Mexican institutional and qualified investors solely pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law. This offering memorandum is solely our responsibility and has not been reviewed or authorized by the CNBV. The acquisition of the Notes by an investor who is a resident of Mexico will be made under its own responsibility.

**Notice to Prospective Investors in Uruguay**

This offering of the Notes is neither authorized for public offering in Uruguay nor registered with the Uruguayan Central Bank. The Notes may not be sold publicly under Uruguayan Securities Law 18.627 unless they are registered according to the terms and conditions established therein. The Notes may be offered privately and may not be offered directly to natural persons or determined legal entities and shall neither be offered on the Uruguayan Stock Exchange nor be advertised by any means.

**Notice to Prospective Investors in Panama**

The Notes have not been, and will not be, registered for public offering in Panama with the National Securities Commission of Panama under Decree-Law 1 of July 8, 1999, as reformed by Law 67 of 2011 (the "Panamanian Securities Act"). Accordingly, the Notes may not be offered or sold in Panama, except in certain limited transactions exempted from the registration requirements of the Panamanian Securities Act. The Notes do not benefit from tax incentives accorded by the Panamanian Securities Act, and are not subject to regulation or supervision by the National Securities Commission of Panama as long as the Notes are offered to no more than 25 persons domiciled in Panama and result in the sale to no more than 10 of such persons.

## TRANSFER RESTRICTIONS

The Notes have not been registered and will not be registered under the Securities Act, any U.S. state securities laws or the laws of any other jurisdiction (other than Argentina), and may not be offered or sold within the United States or to or for the account or benefit of, U.S. persons except pursuant to transactions exempt from, or not subject to, registration under the Securities Act and the securities laws of any other jurisdiction. Accordingly, the Notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions in reliance on Regulation S under the Securities Act.

### Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of Notes (other than the initial purchasers in connection with the initial issuance and sale of Notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

(a) it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;

(b) it acknowledges that the Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any U.S. state or any other jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth above;

(c) it understands and agrees that Notes initially offered in the United States to qualified institutional buyers will be represented by a global note and that Notes offered outside the United States pursuant to Regulation S will also be represented by a global note;

(d) it will not resell or otherwise transfer any of such Notes except (a) to us, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to another exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;

(e) it agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes;

(f) it acknowledges that prior to any proposed transfer of Notes (other than pursuant to an effective registration statement or in respect of Notes sold or transferred either pursuant to (a) Rule 144A or (b) Regulation S) the holder of such Notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;

(g) it acknowledges that the Trustee, Co-Registrar or Transfer Agent for the Notes will not be required to accept for registration the transfer of any Notes acquired by it, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with;

(h) it acknowledges that we, the initial purchasers and their affiliates and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it will promptly notify us and the initial purchasers; and

(i) if it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

**Legends**

The following is the form of restrictive legend which will appear on the face of the Rule 144A Global Note, and which will be used to notify transferees of the foregoing restrictions on transfer:

> **"This note has not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any U.S. state securities laws. The holder hereof, by purchasing this note, agrees for the benefit of the issuer that this note or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (1) to the issuer, (2) so long as this note is eligible for resale pursuant to Rule 144A under the Securities Act ("Rule 144A"), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (3) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (4) pursuant to an exemption from registration under the Securities Act (if available) or (5) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States or other applicable jurisdiction. The holder hereof, by purchasing this note, represents and agrees that it shall notify any purchaser of this note from it of the resale restrictions referred to above.**
>
> **This legend may be removed solely at the direction of the issuer."**

The following is the form of restrictive legend which will appear on the face of the Regulation S Global Note and which will be used to notify transferees of the foregoing restrictions on transfer:

> **"This note has not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any U.S. state securities laws. The holder hereof, by purchasing this note, agrees that neither this note nor any interest or participation herein may be offered, resold, pledged or otherwise transferred in the absence of such registration unless such transaction is exempt from, or not subject to, such registration and in accordance with any applicable securities laws of any other applicable jurisdiction.**
>
> **This legend may be removed solely at the direction of the issuer."**

The resale restriction periods may be extended, in our discretion, in the event of one or more issuances of Additional Notes, as described under "Description of the Notes." The above legends (including the restrictions on resale specified thereon) may be removed solely at our direction.

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in Global Notes and Certificated Notes, see "Description of the Notes."

## GENERAL INFORMATION

### Clearing Systems

The Notes have been accepted for clearance through DTC. The CUSIP and ISIN numbers for the Notes are as follows:

| | CUSIP Number | ISIN Number |
|---|---|---|
| Rule 144A Global Notes | 87876T AE4 | US87876TAE47 |
| Regulation S Global Notes | P90187 AE8 | USP90187AE86 |

### Listing

We have applied to have the Notes listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market of such exchange. In Luxembourg, this offering memorandum will be distributed free of charge to anyone upon request. We have also applied to have the Notes listed on BYMA. We cannot assure you that these applications will be accepted and that the Notes will be listed or remain so listed.

### Available Information

Copies of our by-laws, the Indenture, as may be amended or supplemented from time to time, our and the Parent Guarantor's published audited annual financial statements and any published unaudited interim financial statements will be available at our principal executive offices, as well as at the offices of the Trustee, co-registrar, paying agent and transfer agent, as such addresses are set forth in this offering memorandum. We believe the auditor's reports included herein have been accurately reproduced.

### Authorization

We and the Parent Guarantor have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes and the Note Guarantee.

### No Material Adverse Change

Except as disclosed in this offering memorandum, there has been no material adverse change in the financial position or prospects of the Company or the Parent Guarantor and their respective subsidiaries taken as a whole since September 30, 2017.

## LEGAL MATTERS

Certain legal matters in connection with this offering are being passed upon for us by Linklaters LLP, our special U.S. counsel, and for the initial purchasers by Milbank, Tweed, Hadley & McCloy LLP, special U.S. counsel to the initial purchasers. Certain matters relating to the validity of the Notes will be passed upon for us by FINMA S.A.I.F., our special Argentine counsel, and for the initial purchasers by Bruchou, Fernández Madero & Lombardi, special Argentine counsel to the initial purchasers. Certain matters relating to the due authorization of the Note Guarantee will be passed upon for us by Linklaters, S.L.P., our special Spanish counsel.

## INDEPENDENT AUDITORS

The financial statements as of December 31, 2016 and 2015 and for each of the two years in the period ended December 31, 2016, included in this offering memorandum, have been audited by Price Waterhouse & Co. S.R.L., a member firm of PricewaterhouseCoopers global network, independent auditors, as stated in their report appearing herein.

The financial statements as of December 31, 2015 and 2014 and for each of the two years in the period ended December 31, 2015, included in this offering memorandum, have been audited by Price Waterhouse & Co. S.R.L., a member firm of PricewaterhouseCoopers global network, independent auditors, as stated in their report appearing herein.

The Parent Guarantor's consolidated annual accounts as of December 31, 2016 and 2015 and for each of the years ended December 31, 2016 and 2015, included in this offering memorandum, have been audited by PricewaterhouseCoopers Auditores, S.L., a member firm of PricewaterhouseCoopers global network, independent auditors, as stated in their reports appearing herein.

## INDEPENDENT EXPERTS

Certain oil, condensate, gas and natural gas liquids (NGL) reserves and resources data included herein was audited by Ryder Scott, and Gaffney, Cline & Associates in reliance upon the authority of such firms as experts in estimating proved oil, condensate, gas and NGL reserves and resources.

## INDEX TO OUR FINANCIAL STATEMENTS



## INDEX TO FINANCIAL STATEMENTS – THE PARENT GUARANTOR

Free translation from the Spanish version originally prepared for publication in Argentina

# Tecpetrol Sociedad Anónima

## Financial statements at December 31, 2016 and 2015

Free translation from the original prepared in Spanish for publication in Argentina

## INDEPENDENT AUDITORS' REPORT

To the Shareholders, President and Directors of
Tecpetrol Sociedad Anónima
Legal address: Pasaje Della Paolera 297/299 - 16th floor
Autonomous City of Buenos Aires
Tax Code No. 30-59266547-2

### Report on the financial statements

We have audited the accompanying financial statements of Tecpetrol Sociedad Anónima (hereinafter, "the Company"), which comprise the statement of financial position at December 31, 2016, the related statements of income, of changes in equity and cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory information included in the supplementary notes and exhibits. We have also examined the consolidated financial statements of Tecpetrol Sociedad Anónima with its subsidiaries for the year ended on December 31, 2016, which are presented as supplementary information.

The balances and other information corresponding to the year 2015 are an integral part of the audited financial statements mentioned above; therefore, they must be considered in connection with these financial statements.

### Board of Directors' responsibility

The Board of Directors of the Company is responsible for the preparation and reasonable presentation of these financial statements in accordance with Argentine professional accounting standards. Further, the Board of Directors is responsible for the existence of adequate internal control to prepare financial statements free of any material misstatements due to error or irregularities.

### Auditors' responsibility

Our responsibility is to express an opinion on the accompanying financial statements based on our audit. We conducted our examination in accordance with auditing standards in force in Argentina established in Technical Pronouncement No. 37 of the Argentine Federation of Professional Councils in Economic Sciences (FACPCE). These standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from any material misstatements.

An audit includes the application of procedures to obtain judgmental elements regarding the figures and other information disclosed in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the financial statements. In making those risk assessments, the auditor must consider internal control relevant to the Company's preparation and reasonable presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

*Price Waterhouse & Co. S.R.L., Bouchard 557, piso 8°, C1106ABG - Ciudad de Buenos Aires*
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reasonableness of significant accounting estimates made by the Company's Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion,

a) the accompanying financial statements present fairly, in all material respects, the financial position of Tecpetrol Sociedad Anónima at December 31, 2016, income, changes in equity and cash flows for the year then ended, in accordance with Argentine professional accounting standards.

b) the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tecpetrol Sociedad Anónima at December 31, 2016 with its subsidiaries, the consolidated income and cash flows for the year then ended, in accordance with Argentine professional accounting standards.

**Report on compliance with current regulations**

In compliance with regulations in force, we report that:

a) as of December 31, 2016, the debt of Tecpetrol Sociedad Anónima accrued in favor of the Argentine Integrated Social Security System arising from the Company's accounting records and calculations amounted to $ 16,157,634, none of which was claimable at that date;

b) we have applied the anti-money laundering and financing of terrorism procedures for Tecpetrol Sociedad Anónima, prescribed by professional standards issued by the Professional Council of Economic Sciences for the City of Buenos Aires.

Autonomous City of Buenos Aires, April 11, 2017

PRICE WATERHOUSE & CO. S.R.L.

By (Partner)

Daniel A. López Lado

# Tecpetrol Sociedad Anónima

## Financial statements at December 31, 2016 and 2015

## TECPETROL SOCIEDAD ANONIMA

Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations. Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

To the Shareholders:

In compliance with the applicable legal and regulatory provisions, the Board of Directors of the Company submits for the consideration of the Ordinary General Shareholders' Meeting the Annual Report, Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, Notes, Exhibits, Complementary Information, and the Auditors' Report for the 37th fiscal year that commenced on January 1, 2016 and ended on December 31, 2016.

The Report from the Surveillance Committee relating to the financial statements referenced above is also attached.

**ANNUAL REPORT**

**For the 37th fiscal year commenced on January 1, 2016 and ended on December 31, 2016**

**1 – DESCRIPTION OF THE BUSINESS**

**I. COMPANY INFORMATION**

Tecpetrol S.A. (the "Company") carries out oil and gas exploration and production activities directly in the Republic of Argentina, and indirectly in other Latin American countries through its investments in third parties.

In Argentina, the Company operates hydrocarbons-producing areas in the Golfo San Jorge, Neuquina and Noroeste basins. The main areas are El Tordillo in the Golfo San Jorge, Los Bastos and Agua Salada in the Neuquina basin, and Aguaragüe in the Noroeste basin. The company also holds a stake as a non-operating partner in the Ramos area in the Noroeste basin.

Abroad, the Company owns a 20% interest in the Ipati and Aquío Blocks through its subsidiary, Tecpetrol de Bolivia S.A., in which it has a non-operator role.

At December 31, 2016, the proven oil and gas reserves stemming from the Company's direct and indirect interests reached 6.4 million $m^3$ of oil equivalent in Argentina, and 8.1 million $m^3$ oil equivalent abroad.

During the year, Tecpetrol S.A.'s production in Argentina reached 2,574 m3/day of oil and 3,532 Mm3/day of gas. In terms of energy dispatches made directly by the Company, Tecpetrol S.A. delivered 1,399 m3/day of oil and 1,466 Mm3/day of gas during the year.

**II. OIL AND GAS MARKET**

*Argentina – Oil*

During fiscal year 2016, 40% of crude oil production was sold to local market refineries, and the remaining 60% was exported mainly to The Bahamas, China and the United States due to the temporary drop in refining operations on the local market.

In order to avoid a decline in oil and gas exploration and production, the Argentine government implemented incentives for oil exporters and agreements between oil and gas producers and refiners, which managed to keep the local sales price of fuel and crude oil above international values. Tecpetrol's average sales price was 60 USD/bbl on the local market, and 35 USD/bbl on the export market.

As a result of the temporary drop in fuel demand and the possibility of importing high quality crude oil and by-products at prices below the domestic market prices, Argentine refineries reduced their processing of national crude. This caused a rise in stocks and oversupply of crude, causing local market sales prices to drop at a monthly rate of -2% during the second semester.

## II. OIL AND GAS MARKET (Cont'd)

In the year 2017 the domestic market prices of Medanito and Escalante crude are expected to continue to drop until they reach the price of imported crude.

The government incentive program for exports of Escalante crude from the Golfo San Jorge basin, which involved a subsidy of USD 7.5 per barrel, created through Resolution 21/2016 of the Energy Ministry, concluded on December 31, 2016. This incentive applied to all exports of Escalante crude carried out between January 1, 2016 and December 31, 2016, when the reference sales price (Brent) exceeded USD 47.50 per barrel during the days leading up to the completion of the shipment. During the year under review, the Company applied for this incentive program for four shipments for a volume of 987,419 Bbl.

At the date of this Annual Report, the Chubut Executive Branch had not yet regimented Decree No. 442 dated April 11, 2016, which established an Extraordinary Incentive Program for exports of surplus crude oil from the province entailing a subsidy of USD 2.50 per barrel exported when the Brent sales price did not exceed USD 47.20 per barrel. It will be effective until December 31, 2016. Consequently, despite being eligible for the incentive, which remained in force until December 31, 2016, the Company did not apply for it.

Law No. 23,018, which allowed exporting companies from provinces in Patagonia to request a refund proportional to the export price based on the provincial port of export, remained effective until December 2, 2016. During the current year, the Company applied for the refund referred to for the seven export transactions carried out at the port of Caleta Córdova in the province of Chubut. At the date of issue of this Annual Report, the amounts due remained pending. The refund requests filed in fiscal year 2015 also remain pending. During the second semester of 2016 and beginning of 2017 other companies collected some refunds for exporters of Escalante crude and other crude oil exported in 2016 and processed at the customs office at Río Grande.

In December 2014 the Economy Ministry issued Resolution No. 1077/14 which became effective on January 1, 2015, and established export duties at a fixed 1% rate when the reference price was below USD 71 per barrel, and a variable rate when the price was equal to or above USD 71 per barrel. On January 6, 2017 the export duties levied on exports of hydrocarbons lapsed; consequently, exports carried out after January 7, 2017 will not be affected by this tax.

*Argentina - Gas*

During 2016, 89% of the revenues from natural gas activities originated from industrial users, 2% came from distribution service licensees, and 9% from electric power generators.

Energy Secretariat (ES) Resolution No. 172/11, which indefinitely extended the allocation rules and criteria established by ES Resolution No. 599/07, remains effective. ES Resolution No. 599/07 ratified the agreement with natural gas producers to supply the domestic market with natural gas from 2007 to 2011, in order to meet domestic demand.

Resolution 1/13 of the Strategic Planning and Coordination Committee of the National Hydrocarbon Investment Plan, published in January 2013, created the "Incentive Program for the Injection of Surplus Natural Gas". In November 2013, Resolution 60/13 of the same Committee extended the Program to include "companies with reduced injection". In March 2014, the induction of Tecpetrol S.A. to the program was approved. During fiscal year 2016 the Company did not receive any compensation under the program, as the average sales price of Tecpetrol S.A. was above the price established by the program.

The Ministry of Energy and Mining published Resolutions Nº 28/2016 and 34/2016 on April 1, 2016, which established new prices at the Point of Entry to the Transport System (PETS) for natural gas sold to users through a network distribution company (Distributors) and destined to Compressed Natural Gas (CNG) filling stations effective for volumes consumed as from April 1, 2016. On April 13, 2016, the Ministry of Energy and Mining published Resolution No. 41/2016 which established new prices at the PIST for natural gas intended for electric power generation for sale on the wholesale electricity market (WEM).

## II. OIL AND GAS MARKET (Cont'd)

The enforcement of the provisions of Resolution 28/2016 of the Ministry of Energy and Mining generated significant increases in the amounts billed to residential users for the gas utility, and amounts billed by way of general service fee to small consumers. As a result, legal actions were filed against the resolutions that established the price and tariff increases for the gas utility, with varying results in different instances and jurisdictions. In August 2016, the National Supreme Court of Justice (NSCJ) confirmed, in part, the ruling issued by Hall II of the La Plata Federal Court of Appeals concerning the nullity of Resolutions 28/2016 and 31/2016 of the Ministry of Energy and Mining. The decision applied collectively to residential users of the natural gas utility. Additionally, the CSJN tied gas utility price and tariff increases to the holding of a Public Hearing.

By virtue of the above, Resolution 152 of the Ministry of Energy and Mining, dated August 18, 2016 (published in the Official Gazette on 08/19/2016), instructed ENARGAS to issue the necessary measures for distributors to apply the tariff schedules effective as of March 31, 2016 to residential users of the gas utility for gas volumes consumed as of April 1, 2016.

The Public Hearing previously referred to was held on September 16, 2016. Subsequently, Ministry of Mining and Energy Resolution No. 212/2016 was published on October 7, 2016, establishing new prices at the PETS for natural gas sold to users through network distribution companies (Distributors) and destined to Compressed Natural Gas (CNG) filing stations, effective for volumes consumed as from October 7, 2016.

During the year and as a result of the precautionary measures filed against Resolution No. 28/2016 of the Ministry of Energy and Mining, Distributors had to suspend the billing of residential users of the gas utility. This caused a cease in payments by Distributors to natural gas producers -including the Company- for volumes delivered. This situation still persists at the date of this annual report.

## III. COMMENTS ON THE BUSINESS CONDUCT

### *i. EXPLORATION AND PRODUCTION*

**Argentina**

In July 2016, Tecpetrol S.A. obtained the concession for the non-conventional production of the Fortín de Piedra farea located in the Vaca Muerta formation (province of Neuquén). This is a high-productivity world-class reservoir in multi-fractured horizontal wells.

The new framework established following the agreement reached with oil syndicates, the announcement by the national government of incentives tied to the price of gas (both at the beginning of 2017) and the availability of equipment and qualified labor, encourage the Company to make investment commitments for coming years. The Company plans to make estimated investments of approximately USD 2,300 millions until 2019 in the first development phase of the Fortín de Piedra area, including the drilling of 150 wells and gas treatment and transport facilities.

Tecpetrol ranks second among production companies in terms of its own acreage in the Vaca Muerta wet gas window, and fourth in terms of total acreage. Gas development from Vaca Muerta will generate activity across the goods and services value chain associated with hydrocarbon production, and will provide energy under competitive conditions, favoring the economic and industrial development of Argentina and contributing to energy self-sufficiency.

During fiscal year 2016, one vertical well was drilled in the Fortín de Piedra area and two wells were drilled at a depth of 4,750 meters, with 1,500 meter-long horizontal branches. Additionally, investments were made in a gas treatment plant, and connecting ducts to transport production in the area. Initial testing in horizontal wells shows good evolution of flow and wellhead pressure, providing positive future production outlook.

In the Loma Ancha area (province of Neuquén), 3D seismic data reprocessing was carried out in line with the commitments made.

**III. COMMENTS ON THE BUSINESS CONDUCT (Cont'd)**

As part of the commitments assumed in the extension of the concession in 2014, during 2016 in the Agua Salada area (province of Río Negro) three new wells were drilled in the Aguada del Indio Sur zone, and two new exploratory wells were drilled, one in Jaguel del Moro and one in Loma Azul Norte. Additionally, well repairs were carried out.

In the Los Bastos area (province of Neuquén), repairs were carried out and the concession was obtained in July 2016 for non-conventional exploration for the Punta Senillosa natural gas area (Punta Senillosa and Las Chivas natural gas area), where one well was drilled with positive results.

The first two exploratory wells were drilled in the Río Atuel exploratory area (province of Mendoza), and a third well is expected to be drilled in the following fiscal year to evaluate the project.

In Aguaragüe (province of Salta), well CD-1011 was brought back into production, increasing Tecpetrol's gas sales by 25%, from 180 $Mm^3$/day to 240 $Mm^3$/day. Additionally, the planned pulling and workover campaign commenced in August 2016. During the following fiscal year one exploratory well will be drilled in Icua, and two development wells will be drilled at Campo Durán.

In September 2016, upon the lapsing of the term of the production concession for the Atuel Norte area (province of Mendoza), the document for the reversion of the public license corresponding to the area was signed, and the province took possession of it.

***Abroad***

*Bolivia*

The drilling of wells ICS-2 and ICS-3 incorporated gas reserves at the Huamampampa formation, in the Ipati Block. There remains exploratory potential in deeper reservoirs (Icla and Santa Rosa formations), which will be investigated by the subsidiary and the operator.

The Incahuasi and Aquío gas areas were brought into commercial production in August 2016. As of December 2016, Tecpetrol's share in production in equivalent units was 20.1$Mm^3$ of oil and 148.4$MMm^3$ of gas.

The Incahuasi and Aquío oilfields was officially inaugurated and brought into production in September 16, 2016 at the Processing Plant. Additionally, that same month, the Natural Gas Delivery Agreements were signed with YPFB, establishing the terms and conditions that govern the delivery of gas produced for YPFB. These terms establish that once the contribution to the Bolivian domestic market has been complied with according to the prevailing regulation, as from 2016 and until 2020, 90% of production will be allocated to the Argentine market and the remaining 10% to the Brazilian market. From the year 2021, 100% of gas deliveries will be allocated to the Argentine market. Following the start-up of the first export compressor in November 2016, a production flow of 6.5 $MMm^3$/d was achieved.

***ii - STAFF AND COMMUNITY RELATIONS***

**Human Resources**

It is the Company's priority to consolidate its growth by developing qualified and committed human resources with broad expertise in the different businesses in which the Company operates. In the context of declining oil prices that characterized the fiscal year, the Company's strategy was to continue investing in training, reflecting its high level of commitment in this area.

During the year, key training activities were maintained, including the Tecpetrol University Induction Camp (TUIC) program, the Leadership program, and the Intensive Training for Managers. Additionally, it is worth noting the implementation of the first Entrepreneurs program, and the launch of a learning platform that will grant staff a more active role in managing their training.

### III. COMMENTS ON THE BUSINESS CONDUCT (Cont'd)

**Health, Safety and the Environment**

Tecpetrol's Health, Safety, and the Environment ("HSE") Policy is based on leadership and commitment, and comprises prevention programs, accident and incident investigation, risk management, improvement plans, safety and environmental care initiatives, preventive observations, and inspections of operating activities, among other tools. Operating safely remains a priority of management.

During 2016 the implementation of the HSE Management System continued with the standardization of its Corporate Rules and Procedures. Here it is worth highlighting the issue of the Environmental Care Procedures – a tool that provides Operations with a clear and systematic approach to environmental matters, and the "HSE Management System Audits". Additionally, safe work analysis and waste management procedures were reviewed, and work continues in the preparation of standard procedures for contractor management, sociocultural aspects and emergency response.

Indicator results are monitored through an HSE Dashboard that displays the evolution of accident ratios, and progress made in the use of different proactive and preventive tools such as STOP, area inspections, incident/accident reporting, closure of investigations, and compliance with the annual training plan.

In the El Tordillo area, as part of the actions taken following a fatal accident in 2015, specific documents were issued relating to work permits and the blocking and labeling of electrical systems, which adjusts the corporate standard's minimum criteria to the particular characteristics of the area. Additionally, a project was carried out to incorporate process safety aspects in oilfield operations. The Company continues its improvement processes relating to solid and liquid waste management, which comprise all the operations in the area, including on-site treatment of hydrocarbon-contaminated muds, drilling sludge and shavings, wastewater, and organic waste compost.

**Social Development**

Tecpetrol actively collaborates with the communities in the areas in which it operates, contributing to the sustainable development of the population and its institutions in the areas of education, health, sports, culture and social advancement. In this spirit, the Company carries out and supports social development programs in low income rural and urban areas, reaching out to the communities and schools in the vicinity of its oil and gas areas, and garnering the commitment of its staff and of the local populations.

The social development plan includes various education, sustainable development, cultural appreciation, labor training and health programs. All these programs are planned following a detailed diagnosis of the circumstances to be improved, and in line with a clear and efficient technical design.

### 2 – STRUCTURE AND ORGANISATION OF THE COMPANY AND ITS ECONOMIC GROUP

The Company is controlled by Tecpetrol Internacional S.L.U., based in Spain, and with subsidiaries that develop, invest and run businesses in oil and gas production, transportation, and distribution in Argentina, Bolivia, Ecuador, Mexico, Peru and Venezuela.

The table below presents a summary description of the parent company and investments in Tecpetrol S.A. Companies:

| Parent company | Principal line of business | Country | % 2016 | % 2015 |
|---|---|---|---|---|
| Tecpetrol Internacional S.L.U. | Investments and equity investment in companies | Spain | 95.98 | 95.98 |
| **Subsidiaries and other equity investments** | **Principal line of business** | **Country** | **% 2016** | **% 2015** |
| Dapetrol S.A. | Exploration, production and sale of hydrocarbons | Argentina | 97.50 | 97.50 |

## TECPETROL SOCIEDAD ANONIMA

Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations. Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

### 2 – STRUCTURE AND ORGANISATION OF THE COMPANY AND ITS ECONOMIC GROUP (Cont'd)

| Subsidiaries and other equity investments | Principal line of business | Country | % 2016 | % 2015 |
|---|---|---|---|---|
| Tecpetrol de Bolivia S.A. | Exploration, production and sale of hydrocarbons | Bolivia | 98.05 | 98.05 |
| GEA – Geo Energy Alternatives S.A. (1) | Advisory services | Argentina | 70.00 | 70.00 |
| Oleoducto del Valle S.A. | Oil pipeline transport concession to Allen and from Allen oil pipeline - Puerto Rosales | Argentina | 2.10 | 2.10 |
| Tecpetrol del Perú S.A.C. | Exploration, production and sale of hydrocarbons | Peru | 2.00 | 2.00 |
| Tecpetrol Bloque 56 S.A.C. | Exploration, production and sale of hydrocarbons | Peru | 2.00 | 2.00 |
| Tecpetrol de México S.A. de C.V. | Provision of services to the hydrocarbon industry | Mexico | 1.77 | 1.77 |
| Burgos Oil Services S.A. de C.V. | Provision of services to the hydrocarbon industry | Mexico | 0.937 | 0.937 |
| Norpower S.A. de C.V. | Provision of services to the hydrocarbon industry | Mexico | 0.60 | 0.60 |
| Tecpetrol Colombia S.A.S. (2) | Exploration, production and sale of hydrocarbons | Colombia | 0.1574 | 0.24 |
| Tecpetrol de Venezuela S.A. | Provision of services to the hydrocarbon industry | Venezuela | 0.03 | 0.03 |
| Pardaliservices S.A | Provision of hydrocarbon exploration, evaluation and development services. | Ecuador | 0.0000054 | 0.0000054 |
| Tecpeservices S.A. | Provision of design, engineering and construction services relating to works in oilfields or any other oil and gas infrastructure. | Ecuador | 0.0063 | 0.0063 |
| Tecpecuador S.A. | Provision of services to the hydrocarbon industry | Ecuador | 0.0000002 | 0.0000002 |

(1) On April 7, 2017, GEA-GEO Energy Alternatives S.A. was sold to Techint Inversiones S.A.I.F. for USD 145,250.
(2) The Shareholders' Meetings of Tecpetrol de Colombia S.A.S. held on December 30, 2016, September 2, 2016, and December 22, 2015 decided to make capital increases in which the Company did not participate. As a result, the Company's equity interest in that company has decreased.

### 3 – SUMMARY INFORMATION ON THE ECONOMIC AND FINANCIAL POSITION OF THE COMPANY

The main figures from the Company's financial statements are presented below:

**Balance sheet structure**

(amounts stated in pesos)

| | Separate Financial Statements | | Consolidated Financial Statements | |
|---|---|---|---|---|
| | **December 31, 2016** | **December 31, 2015** | **December 31, 2016** | **December 31, 2015** |
| Current assets | 1,731,826,448 | 1,418,934,763 | 1,912,330,830 | 1,482,714,161 |
| Non-current assets | 5,185,974,470 | 3,629,555,434 | 10,896,922,669 | 7,696,827,288 |
| **Total assets** | **6,917,800,918** | **5,048,490,197** | **12,809,253,499** | **9,179,541,449** |
| Current liabilities | 3,495,725,450 | 1,979,999,190 | 4,775,358,850 | 2,173,712,200 |
| Non-current liabilities | 2,001,188,691 | 1,756,410,243 | 6,615,007,386 | 5,692,470,424 |
| **Total liabilities** | **5,496,914,141** | **3,736,409,433** | **11,390,366,236** | **7,866,182,624** |
| Minority interest in controlled companies | - | - | (1,999,514) | 1,278,061 |
| Shareholders' equity | 1,420,886,777 | 1,312,080,764 | 1,420,886,777 | 1,312,080,764 |
| **Total liabilities plus Shareholders' equity** | **6,917,800,918** | **5,048,490,197** | **12,809,253,499** | **9,179,541,449** |

## TECPETROL SOCIEDAD ANONIMA

Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations. Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

### 3 - ECONOMIC-FINANCIAL POSITION (Cont'd)

**Income statement structure**
(amounts stated in pesos)

| | Separate Financial Statements | | Consolidated Financial Statements | |
|---|---|---|---|---|
| | **December 31, 2016** | **December 31, 2015** | **December 31, 2016** | **December 31, 2015** |
| Ordinary operating result | (71,375,465) | 237,905,470 | (48,186,789) | 215,347,818 |
| Net financial and holding result | (700,866,295) | (692,983,131) | (738,710,427) | (670,497,375) |
| Other income and expenses | (1,971,752) | 23,063,971 | 9,645,600 | 23,803,675 |
| **Net ordinary result** | **(774,213,512)** | **(432,013,690)** | **(777,251,616)** | **(431,345,882)** |
| Income tax | 223,756,693 | 239,452,781 | 223,756,693 | 239,452,781 |
| Minority interest in controlled companies | - | - | 3,038,104 | (667,808) |
| **Result for the year (loss)** | **(550,456,819)** | **(192,560,909)** | **(550,456,819)** | **(192,560,909)** |

**Structure of funds provided or used**
(amounts stated in pesos)

| | Separate Financial Statements | | Consolidated Financial Statements | |
|---|---|---|---|---|
| | **December 31, 2016** | **December 31, 2015** | **December 31, 2016** | **December 31, 2015** |
| Funds generated by / (allocated to) operating activities | 623,303,400 | (183,151,049) | 588,337,217 | (393,224,182) |
| Funds (allocated to) investment activities | (1,431,496,452) | (1,137,478,091) | (2,888,989,326) | (3,055,737,887) |
| Funds generated by financing activities | 705,171,304 | 1,307,321,470 | 2,241,816,828 | 3,428,809,144 |
| Financial and holding results generated by cash and banks | 77,044,625 | 54,424,341 | 81,339,989 | 62,008,835 |
| **Total funds (allocated to)/generated in this fiscal year** | **(25,977,123)** | **41,116,671** | **22,504,708** | **41,855,910** |

### 4 - MAIN INDICATORS

| | Separate Financial Statements | | Consolidated Financial Statements | |
|---|---|---|---|---|
| | **December 31, 2016** | **December 31, 2015** | **December 31, 2016** | **December 31, 2015** |
| Solvency (1) | 0.26 | 0.35 | 0.12 | 0.17 |
| Current Liquidity (2) | 0.50 | 0.72 | 0.40 | 0.68 |
| Locked-up capital (3) | 0.75 | 0.72 | 0.85 | 0.84 |
| Rate of Return (4) | (0.40) | (0.22) | (0.40) | (0.22) |

(1) Shareholders' equity/Total liabilities
(2) Current Assets/ Current Liabilities
(3) Non-current assets/Total Assets
(4) Result for the year/Average equity

## 5 - ANALYSIS OF THE MAIN VARIATIONS IN EQUITY AND OF THE RESULT FOR THE FISCAL YEAR

The operating income for the fiscal year ended December 31, 2016 amounted to $3,610 Million, a 28% increase with regard to the previous year attributed mainly to the effect of the fluctuating exchange rate of the US dollar to the peso.

The gross margin rose 59% with regard to 2015, as a result of higher operating income. However, the net result for fiscal year 2016 was a loss of $550 million (net of the income tax charge of $224 million – profit), mainly due to exchange differences stemming from foreign currency indebtedness, and other financial results.

During the year, the Company used cash flows obtained through bank borrowings ($762 million) and from the partial contribution of the capital increase approved during the previous fiscal year ($104 million) to fund normal business activities.

Bank borrowings were obtained at similar interest rates to those applied to other companies in the Argentine market with comparable solvency, liquidity, cash generation and risk.

At the fiscal closing date the Company had a credit toward its shareholders of $286 million as a result of the capital increase approved by the Extraordinary Shareholders' Meeting held on December 30, 2015 and contributed in part during the year.

Investments in fixed assets and other assets during the year reached $1,439 million. Additionally, as a result of the revaluation carried out at December 31, 2016, the Company increased the value of machinery & equipment and installations by $1,031 million; this amount is reflected, net of the income tax charge of $361 million, in the Statement of Changes in Equity as "Revaluation balance" and "Other reserves", respectively.

| **Statistical data Argentina(*)** | **12.31.16** | **12.31.15** |
|---|---|---|
| Production in equivalent units (**) (thousands $m^3$ of oil and gas) | 1,114 | 1,282 |
| Destined to: | | |
| Domestic market | 869 | 996 |
| Export market | 245 | 286 |
| Oil production (thousands $m^3$) | 515 | 642 |
| Gas production (thousands $m^3$) | 599 | 640 |

(*) Sales figures are similar to production figures and are not presented.
(**) In caloric equivalent (1,000 $m^3$ gas = 1 $m^3$ oil).

## 6 - SIGNIFICANT CONTRACTS NOT RELATED WITH THE MAIN ACTIVITY

During the year under review no significant contracts were executed relating to operations not comprised under the main activity.

## 7 - INFORMATION ON RELEVANT FIXED ASSETS

The Company owns fixed assets located mainly in areas of the Noroeste, San Jorge and Neuquina basins in Argentina. During the current year, the Company made a revaluation of fixed assets (see Note 10 to the Financial Statements). Pursuant to the regulatory framework that governs oil and gas activities, the Company has certain environmental obligations in relation to these assets which comprise the withdrawal of facilities, plugging of wells, and remediation of surfaces whenever an operation is to be discontinued.

## 8 - SIGNIFICANT SPECIAL PROJECTS

No significant special projects were carried out during the present fiscal year.

## 9 - TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are presented in Note 7 of the financial statements.

## 10 - OBJECTIVES AND OUTLOOK

The change in trend in the international price of crude that commenced in November 2014 generates uncertainties for hydrocarbon sector activities. At the date of these financials, the Company continues to exert its greatest efforts to sustain production and employment, without neglecting its long term commitment and striving to defend the viability of projects through the reduction and/or postponement of investments, cost optimization, renegotiation of supplier contracts, and focusing on efficiency and increased productivity in its operating, administrative and commercial processes.

The sale of hydrocarbons in Argentina is expected to continue unfolding as in previous years, within the framework of prices agreed between parties, in the knowledge that a portion of the production originating from the oilfields in the province of Chubut must be exported, while production from the other oilfields located in other provinces will be destined for the local market. At the beginning of 2017 the domestic market reference prices remain disconnected from international oil and gas prices; however, in line with general agreements in the industry instituted by the Ministry of Energy and Mining, these prices will likely become level with the international scenario toward the second half of 2017.

## 11 - SUBSEQUENT EVENTS

No events, situations or circumstances that have or could have a significant impact on the equity, economic or financial position of the Company have occurred subsequent to December 31, 2016, aside from those described in this annual report and in the financial statements.

## 12 - DISTRIBUTION OF PROFITS

The Result for the year was a net loss of $550,456,819. The Board of Directors of Tecpetrol S.A. proposes to the Shareholders' Meeting to report this loss as Retained Earnings considering that the amount does not exceed the limit established by section 206 of the General Companies Law.

Considering that the result for the year was a loss, no allocation is proposed to the Legal Reserve.

A provision was made in the financial statements for the fiscal year ended December 31, 2016, for $1,109,000 in respect of the estimated fees of the Board of Directors and Supervisory Board, which requires the approval of the Shareholders' Meeting that deals with this Annual Report and Financial Statements.

The Board of Directors thanks all the staff for their dedication and efforts throughout the year.

Buenos Aires, April 11, 2017

## TECPETROL SOCIEDAD ANONIMA

## JURIDICAL INFORMATION

**Financial statements for the fiscal years ended December 31, 2016 and 2015**

| | |
|---|---|
| **Legal domicile:** | Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires |
| **Fiscal year:** | No. 37, commenced January 1, 2016 and ended December 31, 2016 |
| **Company's main line of business:** | Exploration, exploitation and development of Hydrocarbon areas; transport,distribution, transformation, distillation and industrial use of hydrocarbons and its By-products and hydrocarbons trade. |
| **Date of registration with the Public Registry of Commerce:** | Of by-laws: number 247 of Book 94, Volume Companies by Shares, June 19, 1981.<br><br>Of amendments to by-laws: March 25, 1983, October 16, 1985, July 1, 1987, February 24, 1989, December 12, 1989, August 18, 1992, December 21, 1992, April 06, 1993, December 14, 1995, October 30, 1997, October 13, 2000, September 14, 2005, November 16, 2007, March 23, 2009, September 20, 2010, March 2, 2016, and November 25, 2016 |
| **Expiration of Company term of duration:** | June 19, 2080 |
| **Correlative registration number with the Superintendency of Commercial Companies (“IGJ”):** | 802,207 |
| **Name of Parent company:** | Tecpetrol Internacional S.L.U. |
| **Legal domicile of parent company:** | Calle García de Paredes 94, 1°A, 28010 Madrid, Spain. |
| **Parent company’s main line of business:** | Investments. |
| **Equity interest held by the Parent company:** | 95.98% |
| **Percentage of votes of Parent company:** | 98.3346% |

**Capital status (Note 9)**

| | At December 31, 2016 | | |
|---|---|---|---|
| **Type of shares** | **Subscribed and paid-in** | **Subscribed but not yet paid in** | **Total subscribed** |
| **Book-entry shares** | $ | | |
| Common, class A shares, face value $1 - 1 vote each | 477,392,124 | 185,271,404 | 662,663,528 |
| Common, class B shares, face value $1 - 5 votes each | 260,311,876 | 101,024,596 | 361,336,472 |
| | 737,704,000 | 286,296,000 | 1,024,000,000 |

## TECPETROL SOCIEDAD ANONIMA

Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations. Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

## BALANCE SHEET

**At December 31, 2016 and 2015**
**Amounts stated in pesos**

| ASSETS | 12.31.16 | 12.31.15 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and banks | 5,103,939 | 31,168,308 |
| Other investments (Exhibit D) | 113,763,132 | 113,675,886 |
| Trade receivables (Note 6 a)) | 567,254,694 | 269,656,813 |
| Other receivables (Note 6 b)) | 812,676,295 | 847,604,755 |
| Inventories (Note 6 c)) | 233,028,388 | 156,829,001 |
| **Total Current assets** | **1,731,826,448** | **1,418,934,763** |
| | | |
| **NON-CURRENT ASSETS** | | |
| Other receivables (Note 6 d)) | 69,162,451 | 59,986,004 |
| Deferred tax (Note 6 e)) | 142,407,032 | 278,368,319 |
| Investments (Note 6 f) and Exhibit C) | 10,480,005 | 46,768,895 |
| Fixed assets (Exhibit A) | 4,636,289,733 | 2,981,592,810 |
| Other assets (Exhibit B) | 327,635,249 | 262,839,406 |
| **Total Non-current assets** | **5,185,974,470** | **3,629,555,434** |
| **Total Assets** | **6,917,800,918** | **5,048,490,197** |
| | | |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Debts | | |
| Trade payables (Note 6 g)) | 1,056,787,425 | 565,338,473 |
| Borrowings (Note 6 h)) | 2,166,254,396 | 1,276,927,133 |
| Social Security and tax payables (Note 6 i)) | 115,469,790 | 106,179,136 |
| Other liabilities (Note 6 j) | 152,233,994 | 25,443,526 |
| Total debts | 3,490,745,605 | 1,973,888,268 |
| Allowances and provisions (Exhibit E) | 4,979,845 | 6,110,922 |
| **Total Current liabilities** | **3,495,725,450** | **1,979,999,190** |
| | | |
| **NON-CURRENT LIABILITIES** | | |
| Debts | | |
| Borrowings (Note 6 k) | 702,716,556 | 804,957,909 |
| Social Security and tax payables (Note 6 l)) | 359,448,933 | 286,519,036 |
| Other liabilities (Note 6 m)) | 897,740,406 | 625,011,680 |
| Total debts | 1,959,905,895 | 1,716,488,625 |
| Allowances and provisions (Exhibit E) | 41,282,796 | 39,921,618 |
| **Total Non-Current Liabilities** | **2,001,188,691** | **1,756,410,243** |
| **Total Liabilities** | **5,496,914,141** | **3,736,409,433** |
| | | |
| **SHAREHOLDERS' EQUITY** | | |
| As per related statement | **1,420,886,777** | **1,312,080,764** |
| | | |
| **Total liabilities plus Shareholders' equity** | **6,917,800,918** | **5,048,490,197** |

Notes 1 to 11, exhibits A, B, C, D, E, F and G, and tables 1 and 2 along with the attached consolidated financial statements are an integral part of these financial statements.

## TECPETROL SOCIEDAD ANONIMA
Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

## INCOME STATEMENT
**For the fiscal year ended December 31, 2016, presented in comparative format with the prior year.**

**Amounts stated in pesos.**

| | 12.31.16 | 12.31.15 |
|---|---|---|
| Net sales | 3,609,725,256 | 2,828,974,132 |
| Export duties and other exports costs | (12,102,639) | (3,846,483) |
| Operating costs (Exhibit G) | (2,723,033,175) | (2,275,811,293) |
| **Gross profit** | **874,589,442** | **549,316,356** |
| Result from valuation of inventories at net realizable value | 81,698,986 | 58,366,953 |
| Selling expenses (Exhibit G) | (171,721,342) | (92,970,500) |
| Administrative expenses (Exhibit G) | (565,862,546) | (399,229,416) |
| Exploration costs (Exhibit G) | (57,574,994) | (20,146,400) |
| Result from subsidiaries, under significant influence and other related parties (Note 6) | (152,688,594) | 206,040,116 |
| Other taxes (Note 3.3.s )) | (79,816,417) | (63,471,639) |
| Financial and holding results generated by assets | | |
| Interest | 38,154,655 | 14,880,253 |
| Exchange differences | 84,172,089 | 86,255,782 |
| Securities and derivatives holding result | 958,054 | 29,209,527 |
| Financial and holding results generated by liabilities | | |
| Interest | (245,596,262) | (288,226,771) |
| Bank commissions and charges | (7,041,762) | (7,362,291) |
| Exchange differences | (571,513,069) | (527,739,631) |
| Other net income and expenses | (1,971,752) | 23,063,971 |
| **(Loss) before income tax** | **(774,213,512)** | **(432,013,690)** |
| Income tax (Note 8) | 223,756,693 | 239,452,781 |
| **(Loss) for the year** | **(550,456,819)** | **(192,560,909)** |

Notes 1 to 11, exhibits A, B, C, D, E, F and G, and tables 1 and 2 along with the attached consolidated financial statements are an integral part of these financial statements.

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

## STATEMENT OF CHANGES IN EQUITY

**For the fiscal year ended December 31, 2016, presented in comparative format with the prior year.**

**Amounts stated in pesos.**

| Items | Shareholders' Contributions | Accumulated Results | | | | | | | Total Shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| | Capital stock | Reserved profits | | | Deferred result | | | Retained earnings | |
| | | Reserves | | Total | | | | | |
| | Subscribed capital | Legal | For future dividends | | Balances from revaluation (Note 10) | Other reserves (Notes 8 and 10) | Temporary translation differences | | |
| Balances at December 31, 2014 | | | | | | | | | |
| - According to the previous year financial statements | 374,000,000 | 74,800,000 | 334 | 74,800,334 | - | - | (22,381,431) | 14,407,241 | 440,826,144 |
| **Distribution of retained earning according to the Ordinary Shareholders' Meeting held on April 14, 2015:** | | | | | | | | | |
| - Reserve for future dividends | - | - | 14,407,241 | 14,407,241 | - | - | - | (14,407,241) | - |
| Capital stock increase according to | | | | | | | | | |
| the Extraordinary Shareholders' Meeting held on July 31, 2015 | 260,000,000 | - | - | - | - | - | - | - | 260,000,000 |
| the Extraordinary Shareholders' Meeting held on December 30, 2015 | 390,000,000 | - | - | - | - | - | - | - | 390,000,000 |
| Fixed assets revaluation and effect of deferred income tax (1) | - | - | | - | 587,997,450 | (205,799,108) | - | - | 382,198,342 |
| Net increase of deferred result | - | - | - | - | - | - | 31,617,187 | - | 31,617,187 |
| Result for the year (loss) | - | - | - | - | - | - | - | (192,560,909) | (192,560,909) |
| **Balances at December 31, 2015** | **1,024,000,000** | **74,800,000** | **14,407,575** | **89,207,575** | **587,997,450** | **(205,799,108)** | **9,235,756** | **(192,560,909)** | **1,312,080,764** |
| **Distribution of retained earning according to the Ordinary Shareholders' Meeting held on June 3, 2016:** | | | | | | | | | |
| - Reserve for future dividends and Legal reserve | - | (74,800,000) | (14,407,575) | (89,207,575) | - | - | - | 89,207,575 | - |
| Fixed assets revaluation and effect of deferred income tax | - | - | - | - | 1,030,668,658 | (360,734,030) | - | - | 669,934,628 |
| Depreciation of fixed assets revaluation and effect of deferred income tax | | - | - | - | (170,710,348) | 59,748,622 | - | 110,961,726 | - |
| Net increase of deferred result | - | - | - | - | - | - | (10,671,796) | - | (10,671,796) |
| Result for the year (loss) | - | - | - | - | - | - | - | (550,456,819) | (550,456,819) |
| **Balances at December 31, 2016** | **1,024,000,000** | **-** | **-** | **-** | **1,447,955,760** | **(506,784,516)** | **(1,436,040)** | **(542,848,427)** | **1,420,886,777** |

(1)The revaluation performed in fiscal year 2015 was registered once approval was obtained from the Superintendency of Commercial Companies under number 7597.

Notes 1 to 11, exhibits A, B, C, D, E, F and G, and tables 1 and 2 along with the attached consolidated financial statements are an integral part of these financial statements.

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

## CASH FLOW STATEMENT

**For the fiscal year ended December 31, 2016, presented in comparative format with the prior year.**

**Amounts stated in pesos.**

| | 12.31.16 | 12.31.15 |
|---|---|---|
| **CHANGES IN CASH** | | |
| Cash at the beginning of year (1) | 144,844,194 | 103,727,523 |
| Cash at year end (1) | 118,867,071 | 144,844,194 |
| **Decrease in cash** | **(25,977,123)** | **41,116,671** |
| | | |
| **Operating activities** | | |
| **Result for the year (loss)** | **(550,456,819)** | **(192,560,909)** |
| | | |
| Adjustments to arrive at net cash flows provided by operating activities (2) | | |
| Depreciation of fixed assets | 807,367,114 | 535,754,165 |
| Amortization of other assets | 41,070,098 | 46,431,508 |
| Income tax charge | (223,756,693) | (239,452,781) |
| Interest and exchange differences from asset retirement obligation | 163,185,099 | 85,812,312 |
| Interest paid | 185,618,606 | 249,966,538 |
| Allowance variation | 75,843,445 | 12,506,882 |
| Income from the sale of fixed assets | (2,545,611) | (3,429,336) |
| Dividends earned | (4,553,510) | (11,294,003) |
| Result from investment in subsidiaries, under significant influence and other related parties | 152,688,594 | (206,040,116) |
| Financial and holding results generated by cash and banks | (77,044,625) | (54,424,341) |
| | | |
| Income tax payments | (29,195,190) | (142,033,004) |
| Dividends from subsidiaries | - | 21,376,029 |
| | | |
| **Changes in operating assets and liabilities:** | | |
| Increase in inventories | (76,199,387) | (13,380,239) |
| (Increase) in investments and other investments | - | (275) |
| (Increase) Decrease in other receivables | (180,437,747) | (236,954,729) |
| (Increase) Decrease in trade receivables | (270,725,465) | 18,856,073 |
| Increase (Decrease) in trade payables | 491,448,952 | (172,553,765) |
| Increase in Social Security and tax payables | 110,399,691 | 128,823,138 |
| Increase (Decrease) in other liabilities | 10,596,848 | (10,554,196) |
| **Net cash total generated by (applied to) operations** | **623,303,400** | **(183,151,049)** |
| | | |
| **Investment activities** | | |
| Collected dividends from other investments | 4,553,510 | 11,294,003 |
| Net increase in fixed assets | (1,333,283,130) | (1,133,936,083) |
| Increase in of other assets | (105,865,941) | (19,098,208) |
| Proceeds from the sale of fixed assets | 3,099,109 | 4,262,197 |
| **Total cash applied to investment activities** | **(1,431,496,452)** | **(1,137,478,091)** |
| | | |
| **Financing activities** | | |
| Net increase of borrowings | 761,882,187 | 1,263,352,297 |
| Interest paid | (160,414,883) | (216,030,827) |
| Capital increase | - | 260,000,000 |
| Payment of capital | 103,704,000 | - |
| **Total cash generated by financing activities** | **705,171,304** | **1,307,321,470** |
| | | |
| **Financial and holding results generated by cash and banks** | | |
| Gains from financial deposits and mutual funds | 45,333 | 35,427 |
| Interest | 23,527,834 | 9,885,094 |
| Exchange differences | 53,471,458 | 44,503,820 |
| **Increase in cash and banks generated by financial and holding results** | **77,044,625** | **54,424,341** |
| **(Decrease) Increase in cash** | **(25,977,123)** | **41,116,671** |
| | | |
| **Non-cash transactions:** | | |
| Increase due to revaluation (net of income tax) | 669,934,628 | 382,198,342 |
| Capital increase | - | 390,000,000 |

(1) Includes balances under the item Cash and banks and Other current investments.
(2) The difference between the interest income and collected is not significant.

The accompanying Notes 1 to 11, Exhibits A, B, C, D, E, F and G, Tables 1 and 2 and Consolidated Financial Statements are an integral part of these financial statements

# Notes to the financial statements at December 31, 2016 and 2015

## Note 1 – General information

Tecpetrol S.A. (the "Company") was incorporated on June 5, 1981 and its main activity is the exploration and exploitation of oil and gas in Argentina and other Latin American countries through subsidiaries. In Argentina, the Company operates in hydrocarbon areas in Golfo de San Jorge, Neuquina and Noroeste basins.

## Note 2 – Preparation and presentation of financial statements

These financial statements are stated in Argentine pesos and were prepared in accordance with disclosure and valuation standards contained in the Technical Pronouncements issued by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE, for its acronym in Spanish), as approved by the Professional Council in Economic Sciences of the City of Buenos Aires (CPCECABA, for its acronym in Spanish), and the regulations issued by enforcement authorities.

Balances at December 31, 2015, disclosed for comparative purposes, arise from the financial statements at that date.

Certain reclassifications have been made to the information as of December 31, 2015 to conform it to the current period presentation.

## Note 3 – Accounting standards

The most significant accounting standards used in the preparation of these financial statements are shown below:

### 3.1. Consideration of the effects of inflation

In accordance with the methodology established by professional accounting standards in force in Argentina, these financial statements recognize the changes in the purchasing power of the Argentine peso until August 31, 1995. Between that date and December 31, 2001, the adjustment for inflation of financial statements was discontinued, as the economy underwent a period of monetary stability. From January 1, 2002 to March 1, 2003, the effects of inflation were recognized due to the existence of a new inflationary period. The adjustment for inflation has been discontinued since that date, as required by National Executive Branch Decree 664/03 and by the professional accounting standards in effect at that time.

In accordance with the regulations of the Superintendency of Commercial Companies, since March 1, 2003, financial statements have not been restated in constant currency as per Technical Resolution No. 6, as amended and approved by the Professional Council in Economic Sciences of the Autonomous City of Buenos Aires.

Professional accounting standards in Argentina establish that the adjustment for inflation should be made when there is an inflationary context, which is characterized, among other features, by the existence of an accumulated rate of inflation over three years reaching or exceeding 100%, considering for such purpose the Wholesale Price Index ("IPIM", for its acronym in Spanish) released by the National Institute of Statistics and Census ("INDEC", for its acronym in Spanish). At December 31, 2016, it is not possible to calculate the cumulative inflation rate corresponding to the three-year period ended, based on official data from the INDEC, given that in October 2015 this agency discontinued the calculation of the Domestic Wholesale Price Index, only resuming its calculation from January 2016 onwards. Therefore, these financial statements have not been restated in constant currency.

### 3.2. Accounting estimates

The preparation of financial statements at a given date requires that Management makes estimates and evaluations affecting the amount of assets and liabilities recorded and contingent assets and liabilities disclosed at the date of issuance of the financial statements, as well as income and expenses recorded during the fiscal year. Company Management makes estimates to calculate, at a given moment, for example, hydrocarbon reserves, depreciation and amortization charges, the recoverable value of assets, the income tax charge, asset retirement obligation cost, long-term benefit plans, and provisions for contingencies. Actual future results may differ from the estimates and evaluations made at the date of preparation of these financial statements.

# Notes to the financial statements at December 31, 2016 and 2015

**Note 3 – Accounting standards (Cont'd)**

**3.3. Measurement and disclosure criteria**

The main valuation and disclosure criteria used in the preparation of these financial statements, which are consistent with criteria used in the prior fiscal year, are detailed below.

**a) Cash and banks**

Available cash has been stated at nominal value.

**b) Foreign currency assets and liabilities**

Foreign currency assets and liabilities have been valued at year-end exchange rates.

**c) Other investments**

Time deposits and deposits held at call with banks have been valued in accordance with the amount delivered at the time of the transaction plus financial results accrued at year end. Mutual funds and government securities have been valued at their market price at year-end.

**d) Trade receivables and payables**

Trade receivables and payables have been stated at nominal value. Their present value, if applicable, calculated at the estimated discount rate at the time of the transaction, does not show significant differences.

The Company analyses its trade receivables on a regular basis. If there are signs of financial difficulties of the debtor or the debtor is unable to make payments to the Company as they fall due, it recognizes an allowance for doubtful accounts. This allowance is periodically adjusted based on the aging of accounts receivable.

**e) Other receivables and payables**

Other receivables and payables have been stated at their nominal value plus interest accrued at year-end, net of impairment allowance, if applicable. Their present value, if applicable, calculated at the estimated discount rate at the time of the transaction, does not show significant differences.

**f) Inventories**

Hydrocarbon stocks have been valued at their net realizable value at the end of the year.

Materials and spare parts have been valued at replacement cost, which does not exceed their amounts recoverable as a whole.

**g) Investments**

Investments in subsidiaries and entities over which the Company has significant influence have been recognized at their equity value, calculated based on the financial statements of subsidiaries and associates at the dates detailed in Exhibit C.

The financial statements used for the calculation of the equity value are adjusted, if necessary, in line with accounting standards used by the Company.

Foreign companies have been classified as separate from the Company's operations due to the following reasons:

# Notes to the financial statements at December 31, 2016 and 2015

**Note 3 – Accounting standards (Cont'd)**

**3.3. Measurement and disclosure criteria (Cont'd)**

- Operations abroad are carried out with a considerable degree of autonomy from the investor;
- Labor, materials and other costs of the goods and services of operations abroad are mainly settled in local currency and/or in US dollars, and not in the currency of the investor's financial statements;
- Income from operations abroad is mainly obtained in a currency other than that of the investor's financial statements.

The assets and liabilities of the companies that issue their financial statements in foreign currency are translated into Argentine currency using effective exchange rates at the closing date of the financial statements. The results are converted into Argentine currency using the average exchange rates for the fiscal year. The exchange differences generated by the conversion are recognized in the Statement of Changes in Equity as "Temporary translation differences".

Companies in which there is no control or significant influence on their decisions have been valued at their cost restated in accordance with Note 3.1, which does not exceed their recoverable value.

**h) Fixed assets**

The Company has decided to measure the items Wells (drilled wells and wells repair) and the item Machinery, equipment and installations caption at their revalued carrying amount (see Note 10). The revalued carrying amount is the amount for which an asset could be exchanged between knowledgeable willing parties, in an arm's length transaction. This criterion has been applied for those assets in which there is certainty on the recoverability of the highest value obtained produced by the revaluation.

Fixed assets were valued at acquisition cost, following the guidelines indicated in Note 3.1., net of accumulated depreciation.

Exploration and evaluation costs are initially capitalized and accumulated individually per area. In the case of exclusive exploration areas, these costs include geological studies and other costs directly attributable to the activity. Subsequently, if the results of the commercial evaluation of the area are not positive, they will be allocated to results in the period in which the absence of reserves is confirmed by the technical reports and studies.

The costs of exploratory drilling are initially capitalized until the existence of proven reserves justifying their commercial development is determined. During that period and, if there is production associated with those wells, the value of the exploratory investment decreases due to the net book value of the commercialization of extracted hydrocarbons. If those reserves are found, the drilling costs mentioned are allocated to results in the period in which the absence of reserves is confirmed.

Occasionally, an exploratory well can determine the existence of reserves, but they cannot be classified as proven when the drilling is finished. In those cases, such costs continue to be capitalized provided that enough reserves were found in the well to justify its completion/end as a producing well and that the Company is making enough progress in the economic and operating evaluation of the project viability.

During the exploration and evaluation stages, the assets are not depreciated.

Tangible and intangible drilling costs corresponding to development wells (including dry wells) are capitalized as incurred. The Company considers development wells those which are not drilled in production areas and which are aimed at the development of proven reserves.

Workover in wells which develop reserves and/or increase the production are capitalized and depreciated according to their average useful life. Maintenance expenses are recognized in the Income Statement when they are incurred.

# Notes to the financial statements at December 31, 2016 and 2015

**Note 3 – Accounting standards (Cont'd)**

**3.3. Measurement and disclosure criteria (Cont'd)**

The asset retirement obligation is calculated and depreciated according to the guidelines described in Note 3.3.j) and included under the items Wells.

The depreciation of wells, machinery, equipment and facilities is calculated by the reserves depletion method based on the developed proven reserves considered in each area from the month of start-up/placing into operation or completion.

The depreciation of the remaining fixed assets has been calculated following the straight-line method, applying annual rates sufficient to extinguish their values at the end of the estimated useful life.

The value of fixed assets, considered per area, does not exceed the estimated recoverable value based on the information available at the date of issuance of the financial statements.

**i) Other assets**

Exploitation and association rights over the areas have been valued at their acquisition cost restated according to Note 3.1 net of accumulated amortization.

The depreciation of the developing areas is calculated by the reserves depletion method based on the cubic meters of extracted hydrocarbons over the total proven reserves considered economically profitable in each area. The depreciation of exploratory areas has been calculated according to reasonable prudence based on the periodic restatements of their potential.

The value of fixed assets, considered per area, does not exceed the estimated recoverable value based on the information available at the date of issuance of the financial statements.

**j) Asset retirement obligation costs**

The present value of costs necessary for asset retirement obligation is calculated for each area on the basis of a cash flow that is discounted at an average interest rate applicable to the indebtedness of the industry in Argentina.

The present value determined is recognized as an opening asset and liability balance. Over time, liabilities increase until reaching their present value in each period, while assets are depreciated by the units of production method considering developed proven reserves and production for the year. Liabilities are disclosed under Other liabilities - Non-current liabilities.

Adjustments to future plugging costs, if any, are recorded following the same criteria used for the initial estimate.

The capitalized balance at December 31, 2016 and 2015 for asset retirement obligation amounts to $307.8 million and $215.4 million, respectively, and the related accumulated depreciation is $97.8 million and $61.9 million, respectively.

**k) Borrowings**
Borrowings have been valued in accordance with the sum of money received, net of transaction costs, plus interest accrued at year end.

**l) Income tax**

The current income tax charge comprises the current tax that the Company determines by applying the 35% rate on the taxable profit, assessed on the basis of the tax laws in effect.

**Note 3 – Accounting standards (Cont'd)**

**3.3. Measurement and disclosure criteria (Cont'd)**

The Company determined its income tax charge using the deferred tax liability method, recognizing temporary differences between accounting and tax assets and liabilities measurements. The main temporary differences arise from different accounting and tax measurements of fixed assets, other assets, investments, other tax credits, losses and provisions.

To determine deferred assets and liabilities, the tax rate expected to be in effect at the time of reversal or use has been applied to temporary differences identified, considering the regulations in effect at the date of issuance of these financial statements.

For deferred tax purposes, the Company may opt to recognize the inflation adjustments included in the book value of fixed assets as a temporary difference, along with the related liability, or maintain that difference as a permanent difference and disclose the resulting effect.

The Company decided to adopt the latter criterion and states this situation in a note to these financial statements. The accumulated difference resulting from the effect of the restatement at the tax rate amounts to $6.6 million and $7.7 million at December 31, 2016 and 2015, respectively. The charge to income/loss that would apply to the reversal of deferred tax liabilities amounts to $1.1 million at December 31, 2016 and $1.2 million at December 31, 2015.

The amounts and terms of reversal, estimated based on production and reserve levels, are shown below with the information available at this date:

| 2017 | 2018 | 2019 | Balance | Total |
|---|---|---|---|---|
| 0.6 | 0.6 | 0.5 | 4.9 | 6.6 |

**m) Minimum notional income tax**

In addition, the Company determines minimum notional income tax by applying the effective 1% rate to the computable assets at year end. This tax complements income tax. The Company's tax obligation for each year will be the higher of the two taxes. If in a fiscal year, however, minimum notional income tax obligation exceeds income tax liability, the surplus will be computable as a payment on account of income tax over the next ten fiscal years.

The accumulated balance of the Company is $33 million at December 31, 2016 and $23 million at December 31, 2015.

**n) Royalties and exports withholding systems**

Royalties ranging from 12% to 22.7% are paid on the production of crude oil and natural gas, based on the price actually obtained from the sale of hydrocarbons of the area, less deductions set forth in the legislation for packaging of the product for delivery to third parties. Royalties are shown in the Operating costs line in the Income Statement.
In December 2014 the Economy Ministry issued Resolution No. 1077/14, which became effective on January 1, 2015, and established export duties at a fixed 1% rate when the reference price was below USD 71 per barrel, and a variable rate when the price was equal to or above USD 71 per barrel. On January 6, 2017 the export duties levied on exports of hydrocarbons lapsed; consequently, exports carried out after January 7, 2017 will not be reached by this tax.

# Notes to the financial statements at December 31, 2016 and 2015

**Note 3 – Accounting standards (Cont'd)**

**3.3. Measurement and disclosure criteria (Cont’d)**

Export duties paid are not deducted from the price for the calculation of royalties. Export duties are recognized in the line “Export duties and other expenses” from the Income Statement.

Export duties and royalties are recognized as mentioned in Note 3.3.r).

**o) Non-current social security debts**

*a) Retirement benefit and other plans*

The Company has two benefit plans in place: “unfunded defined benefits” and “other long-term benefits” which, under certain conditions, are granted over working life and after retirement and are recorded following the guidelines of current accounting standards.

The main actuarial assumptions consider a discount rate ranging from 5% to 7% average, and a salary increase rate ranging from 2% to 3%, respectively. The amounts under these plans are the following:

| | At December 31, 2016 | At December 31, 2015 |
|---|---|---|
| Present value of unfunded liabilities | 176,049,658 | 164,594,468 |
| Unrecognized cost of services rendered in the past | (17,339,409) | (15,280,081) |
| Unrecognized actuarial gains / (losses) | 79,584,944 | 44,732,992 |
| Net recognized liabilities | 238,295,193 | 194,047,379 |

Liabilities corresponding to these benefits are recorded at the present value of future cash flows, and they are charged to income during the remaining years of service of the beneficiaries involved, until all the conditions for the vesting period of each benefit have been met. Such liabilities are calculated at least once a year by independent actuaries using the Projected credit unit method.

Net liabilities recognized for those benefits have been disclosed under the item “Social security charges”, in non-current liabilities, there being no claimable debt at year end. The charge to income, amounting to $ 33,423,346 for the fiscal year ended December 31, 2016 ($ 23,134,202 at December 31, 2015), has been recognized in the Salaries and social security contributions line of Exhibit G.

*b) Long-term employee retention and incentive program*

Tecpetrol International S.A. (indirect parent company of Tecpetrol S.A.) implemented a long-term retention and incentive program for certain employees of select subsidiaries. Pursuant to this program, certain senior managers of Tecpetrol S.A. will receive a number of units valued at the carrying amount of equity per share of Tecpetrol International S.A. (excluding the non-controlling interest).

The credit units will accrue over a four-year period and Tecpetrol S.A. will pay the compensation equivalent to the attributed units after a 10-year period has elapsed from the date of receipt, with the employee having an option to request it as payment from the seventh year, or upon termination from the Company, at the carrying value of the latest equity per share of Tecpetrol International S.A. published (excluding the non-controlling interest) at the moment of payment. Beneficiaries will also receive cash payments equivalent to the dividends paid per share, each time that Tecpetrol International S.A. pays dividends in cash to its shareholders.

# Notes to the financial statements at December 31, 2016 and 2015

**Note 3 – Accounting standards (Cont'd)**

**3.3. Measurement and disclosure criteria (Cont'd)**

Based on calculations made by independent actuaries, the Company recognized at December 31, 2016 and 2015, liabilities for $ 120,328,483 and $ 90,583,260, respectively. The charge to income for the benefit plan accrual at December 31, 2016 and 2015 amounts to $ 10,204,867 (loss) and $ 2,706,510 (profit), respectively, and has been recognized in the line Salaries and social security contributions line of Exhibit G.

**p) Allowances and provisions**

Allowances and provisions were set up to face any contingent situation that may give rise to obligations, provided that they are likely to happen and may be reasonably quantified, taking into consideration Management's expectations and the opinion of the Company's legal counsel.

**q) Equity**

Activity in equity accounts was restated following the guidelines detailed in Note 3.1.

**r) Revenue recognition**

Income from sale of hydrocarbons is recognized when the entity has transferred the significant risks and rewards of ownership to the buyer.

Income from sales for oil and natural gas production activities, in which the Company has a joint participation with other producers, is recognized on the basis of the contractual participation that the Company in each Joint arrangement (UTE) irrespective of the actual allocation.

Dividends earned are recognized when the right to collect is awarded.

**s) Costs and expenses**

Costs and expenses are recognized in the Income Statement on an accrual basis.

**t) Other taxes**

Other taxes relates to tax on credits and debits in current accounts (Law No. 25,413).

**u) Derivative financial instruments**

Derivative financial instruments are initially recognized at fair value on the date the contract is executed. Financial assets/ liabilities at fair value through profit and loss

In fiscal years 2016 and 2015, the Company executed financial derivatives contracts. At December 31, 2016 and 2015, there are no remaining assets or liabilities arising from transactions with derivatives.

**3.4. Participation in joint arrangements and consortia**

The financial statements of Tecpetrol S.A. include in each item the Company's share in the assets, liabilities, costs and expenses of the joint arrangements and consortia in which it participates.

Table 1 shows the joint arrangements and consortia in which the Company participates as well as its share in their assets and liabilities, valued following the same criteria as adopted by Tecpetrol S.A.

# Notes to the financial statements at December 31, 2016 and 2015

**Note 4 – Investment commitments and guarantees - Contingencies**

**a – Investment commitments and guarantees**

At the date of issuance of these financial statements, Tecpetrol S.A. has assumed the following guarantees for investment commitments (in millions of dollars, according to the interest in area):

| Company | Area | Commitment | Expiration |
|---|---|---|---|
| Tecpetrol S.A. | Río Colorado | 0.57 | End of the first exploration period |
| Tecpetrol S.A. | Río Atuel | 0.40 | End of the first exploration period |
| Tecpetrol S.A. | Agua Salada | 2.85 | End of works |
| Tecpetrol S.A. | Loma Ancha | 25.72 | December 2019 |

Further, below we mention the main commitments undertaken by Tecpetrol S.A.:

- Joint, unconditional and irrevocable guarantee for providing Tecpetrol de Bolivia S.A. with all the technical and financial resources required for the latter to fully and appropriately comply with its obligations pursuant to the contracts for the exploitation of the Blocks of Aquío and Ipati for USD 17 million.

- Guarantee of compliance with work obligations (phase I) from the contracts executed by Tecpetrol Colombia S.A.S. in CPO6, CPO7 and CPO13 areas, in Colombia, for a total amount of USD 0.6 million falling due in July 2017 (phase I), and for an amount of USD 0.2 million falling due between July 2019 and July 2020 (phase II).

- Guarantee for the obligations in connection with environmental remediation liabilities in the areas of Río Colorado and Río Atuel, for USD 0.7 million and USD 0.04 million, falling due at the end of the first and second exploration periods, respectively.

- Guarantee of judicial counter-surety policies in favor of the Commercial Court of Original Jurisdiction in and for the City of Buenos Aires No. 3 in relation to provisional remedies, for USD 1.60 million.

- Guarantee of other policies in favor of the Province of Salta Directorate of Roads, of the Federal Court in and for Río Negro and of the Labor Court in and for Neuquén, for USD 0.4 million.

Further, the Company has investment commitments in the areas where it operates. At December 31, 2016, among the commitments that are pending, there is one in the Fortín de Piedra area (province of Neuquén) for USD 148 million, to be fulfilled before July 2021.

**b - Contingencies**

The Company has contingent liabilities related to tax claims arising in the ordinary course of business. Also, there are certain interpretations of the regulatory authorities as to the calculation and payment of certain taxes that differs from the criteria applied by Tecpetrol.

# Notes to the financial statements at December 31, 2016 and 2015

**Note 4 – Investment commitments and guarantees - Contingencies (cont'd)**

**b – Contingencies (cont'd)**

The local tax authority, Federal Administration of Public Revenue (AFIP, for its acronym in Spanish), has notified the Company of a jeopardy assessment amounting to $ 9.6 million corresponding to Income tax, plus interest and fines, claiming a presumably incorrect treatment of results accrued on certain crude oil derivatives and other deductions, for fiscal years 2000 and 2001. In July 2006, an appeal was filed with suspensive effect on the demand for payment. In May 2011, the Company was notified of the Tax Court's decision, which ruled in favor of the Company with regards to the treatment of oil derivative instruments, and against it in connection with certain deductions. As the suspensive effect of the appeal to the Tax Court had expired, in November 2011 the Company paid up the amount corresponding to the items detailed in the ruling (approximately $ 0.4 million of taxes plus interest); notwithstanding this, the Company has filed an appeal with the Cámara Nacional de Apelaciones en lo Contencioso, Administrativo Federal In July 2013 the Court of Appeals passed judgment in favor of Tecpetrol S.A. and the AFIP lodged an appeal against this decision with the Argentine Supreme Court of Justice.

Based on Management's assessment and the advice of the legal counsels, it is not anticipated that any material expenses will arise from the contingent liabilities other than those provided for in these financial statements.

**Note 5 – Hydrocarbon reserves**

Reserves are the volumes of oil and gas (expressed in m3 of oil equivalent) which generate or are related to an economic gain in the areas where the Company operates or has an investment (direct or indirect) and on which it has rights over exploitation.

There are various factors that create uncertainty as to the estimate of proven reserves, future production profiles, and development costs and prices, including several factors beyond the control of the producer. The procedure for calculating reserves is a subjective process related to the estimate of crude oil and natural gas to be recovered from the subsoil, which causes certain level of uncertainty. Reserves are estimated based on the quality of the geological and engineering information at the date of calculation.

Proven developed and undeveloped hydrocarbon reserves estimated as of December 31, 2016 are disclosed below:

| | |
|---|---|
| *Argentina* | |
| Oil – million cubic meters | 3.8 |
| Gas – thousands of millions cubic meters | 2.6 |
| *Bolivia* | |
| Oil – million cubic meters | 0.9 |
| Gas – thousands fo millions cubic meters | 7.2 |

Technical Company staff prepared the estimates of reserves; this may be different from the estimates prepared by third parties for specific purposes.

The estimates of reserve were prepared by Company technical personnel, and are based on technological and economic conditions effective at June 30, 2016, considering the economic assessment and having as their horizon the expiry of the concession to determine the term for recoverability. Reserve estimates are adjusted if changes in the factors considered in the evaluation justify the adjustment, or at least, once a year.
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# Notes to the financial statements at December 31, 2016 and 2015

**Note 6 –Detailed list of the main balance sheet items**
Amounts stated in pesos

| | 12.31.16 | 12.31.15 |
|---|---|---|
| **CURRENT ASSETS** | | |
| **a) Trade receivables** | | |
| Regular | 615,376,644 | 269,209,646 |
| With other related companies | 17,178 | 75,458,711 |
| Allowance for doubtful accounts | (48,139,128) | (75,011,544) |
| | **567,254,694** | **269,656,813** |
| **b) Other receivables** | | |
| Tax | 151,749,701 | 194,739,764 |
| Accounts receivable | 90,993,312 | 98,450,141 |
| With shareholders | 286,296,000 | 390,000,000 |
| With other related companies | 111,920,017 | 79,434,286 |
| Employees loans and advances | 17,148,632 | 7,692,790 |
| Controlled companies: | | |
| - Tecpetrol de Bolivia S.A. | 548,380 | 14,255,810 |
| - Dapetrol S.A. | 2,506,250 | 1,926,986 |
| - GEA-GEO Energy Alternatives S.A. | - | 20,016 |
| Advances to suppliers | 5,558,356 | 5,171,033 |
| Insurance, expenses and other items to accrue | 7,045,631 | 10,802,223 |
| Others | 155,492,598 | 47,247,554 |
| Allowance for doubtful accounts | (16,582,582) | (2,135,848) |
| | **812,676,295** | **847,604,755** |
| **c) Inventories** | | |
| Hydrocarbon | 144,308,950 | 106,811,054 |
| Materials and spare parts | 88,719,438 | 50,017,947 |
| | **233,028,388** | **156,829,001** |
| **NON-CURRENT ASSETS** | | |
| **d) Other receivables** | | |
| With other related companies | 106,325,535 | 12,727,290 |
| Tax credits | 32,734,614 | 23,031,243 |
| Accounts receivable | 2,885,650 | 3,575,134 |
| Employees loans | 14,433,392 | 20,107,380 |
| Expenses to be accrued | 1,405,130 | 1,080,467 |
| Others | 269 | 47,603 |
| Allowance for doubtful accounts | (88,622,139) | (583,113) |
| | **69,162,451** | **59,986,004** |
| **e) Deferred tax** | | |
| Deferred tax asset (Note 8) | 142,407,032 | 278,368,319 |
| | **142,407,032** | **278,368,319** |

## Notes to the financial statements at December 31, 2016 and 2015

**Note 6 – Detailed list of main balance sheet items (Cont'd)**
Amounts stated in pesos

| | 12.31.16 | 12.31.15 |
|---|---|---|
| **f) Investments** | | |
| At the beginning of year | 46,768,895 | 47,657,931 |
| Capital contribution | - | 275 |
| Dividends | - | (21,376,029) |
| Gain/loss | (152,688,594) | 206,040,116 |
| Reclassification from/(to) Other liabilities | 127,071,500 | (217,170,585) |
| Translation differences | (10,671,796) | 31,617,187 |
| At year end | **10,480,005** | **46,768,895** |
| | | |
| **CURRENT LIABILITIES** | | |
| | | |
| **g) Trade payables** | | |
| Regular | 1,023,422,000 | 548,693,591 |
| Controlled companies: | | |
| - GEA-GEO Energy Alternatives S.A. | - | 4,408 |
| With other related companies | 33,365,425 | 16,640,474 |
| | **1,056,787,425** | **565,338,473** |
| | | |
| **h) Borrowings** | | |
| Bank borrowings | 858,115,238 | 668,116,970 |
| Current account overdrafts | 2,353,000 | 406,612,705 |
| Other loans | 157,311,000 | 202,120,000 |
| With controlling company - Tecpetrol Internacional S.L.U. | 1,092,446,748 | - |
| With other related companies | 56,028,410 | 77,458 |
| | **2,166,254,396** | **1,276,927,133** |
| | | |
| **i) Social security and tax charges** | | |
| Tax credits | 88,557,706 | 79,522,690 |
| Social security charges | 26,912,084 | 26,656,446 |
| | **115,469,790** | **106,179,136** |
| | | |
| **j) Other liabilities** | | |
| Equity restructuring commitments - | | |
| Permanent investments (Exhibit C) | 149,760,776 | 22,689,276 |
| Provision for Directors and Statutory Auditors' fees | 1,109,000 | 1,021,000 |
| Others | 1,364,218 | 1,733,250 |
| | **152,233,994** | **25,443,526** |

# Notes to the financial statements at December 31, 2016 and 2015

**Note 6 – Detailed list of main balance sheet items (Cont'd)**
Amounts stated in pesos

**NON-CURRENT LIABILITIES**

| | 12.31.16 | 12.31.15 |
|---|---|---|
| **k)Borrowings** | | |
| Bank borrowings | - | 551,930,002 |
| Other borrowings | 97,222,222 | 129,096,000 |
| With other related companies | 605,494,334 | 123,931,907 |
| | **702,716,556** | **804,957,909** |
| | | |
| **l) Social security and tax charges** | | |
| Social security charges | 358,623,676 | 284,630,639 |
| Tax payables - Law No. 26,476 (part I) | 825,257 | 1,888,397 |
| | **359,448,933** | **286,519,036** |
| | | |
| **m) Other liabilities** | | |
| Asset retirement obligation | 837,091,454 | 575,240,608 |
| Others | 60,648,952 | 49,771,072 |
| | **897,740,406** | **625,011,680** |

**Note 7 – Related parties balances and transactions**

The following transactions with related companies were carried out this fiscal year:

Amounts stated in pesos

| Fiscal year commenced January 1, 2016 and ended December 31, 2016 | Controlled companies | Other related parties | Total |
|---|---|---|---|
| Net sales | - | 11,340,832 | 11,340,832 |
| Interest income | 151,936 | - | 151,936 |
| Interest cost | (6,826,531) | (77,103,900) | (83,930,431) |
| Acquisition of fixed assets | - | (179,749,332) | (179,749,332) |
| Third-party services | - | (6,990,651) | (6,990,651) |

| Fiscal year commenced January 1, 2015 and ended December 31, 2015 | Controlled companies | Other related parties | Total |
|---|---|---|---|
| Net sales | - | 51,804,028 | 51,804,028 |
| Interest income | 582,601 | 878,192 | 1,460,793 |
| Interest cost | (461,562) | - | (461,562) |
| Acquisition of fixed assets | - | (174,237,551) | (174,237,551) |
| Third-party services | - | (11,169,075) | (11,169,075) |

# Notes to the financial statements at December 31, 2016 and 2015

**Note 8 – Income tax**

Below is a reconciliation of the income tax charged to earnings to that resulting from applying the statutory income tax rate to the accounting profits:

Amounts stated in pesos

| | 12.31.16 | 12.31.15 |
|---|---|---|
| Result for the year before income tax | (774,213,512) | (432,013,690) |
| Current tax rate | 35% | 35% |
| **Loss for the year at tax rate** | **270,974,729** | **151,204,791** |
| Permanent differences at the tax rate | | |
| - Result from controlled companies under significant influence and other related parties | (53,441,008) | 72,114,041 |
| - Effect from monetary restatement and others | 6,222,972 | 16,133,949 |
| **Total income tax charge** | **223,756,693** | **239,452,781** |
| - Deferred tax - charge to results | 224,772,743 | 237,260,044 |
| - Difference between provision and tax return | (1,016,050) | 2,192,737 |
| | **223,756,693** | **239,452,781** |

The following table shows the changes and detailed list of deferred tax assets and liabilities:

| | Deferred assets - provisions and fixed assets | Deferred assets - tax losses | Deferred liabilities - investments and other receivables | Deferred liabilities – technical revaluation of fixed assets | Total |
|---|---|---|---|---|---|
| **Balance at December 31, 2014** | **252,264,796** | **-** | **(5,357,413)** | **-** | **246,907,383** |
| Charge to income/loss | 55,851,120 | 177,576,862 | 3,832,062 | - | 237,260,044 |
| Charge to Other reserves | - | - | - | (205,799,108) | (205,799,108) |
| **Balance at December 31, 2015** | **308,115,916** | **177,576,862** | **(1,525,351)** | **(205,799,108)** | **278,368,319** |
| Charge to income/loss | 125,756,759 | 39,267,362 | - | 59,748,622 | 224,772,743 |
| Charge to Other reserves | - | - | - | (360,734,030) | (360,734,030) |
| **Balance at December 31, 2016** | **433,872,675** | **216,844,224** | **(1,525,351)** | **(506,784,516)** | **142,407,032** |

At December 31, 2016 the Company has tax losses amounting to $620 million, $504 million of which will become statute-barred in 2020, and $116 million of which will become statute-barred in 2021.

**Note 9 – Capital status**

At December 31, 2016 and 2015, subscribed capital amounts to $ 1,024,000,000, represented by ordinary shares with a par value of $ 1 each.

On July 31, 2015 and December 30, 2015 the Extraordinary Shareholders' Meetings of the Company approved capital increases of $ 260,000,000 and $ 390,000,000, respectively. Both increases were registered with the Public Registry of Commerce. Part of the second capital increase is pending pay-in at the date of these financial statements.

# Notes to the financial statements at December 31, 2016 and 2015

**Note 9 – Capital status (Cont'd)**

*Restrictions on the distribution of profits*

Pursuant to effective legal provisions, the Company must allocate no less than 5% of the income for the year to set up a legal reserve, until it reaches 20% of capital. When the reserve is decreased for any cause, no profits can be distributed until it is restored.

**Note 10 – Revaluation of fixed assets**

At December 31, 2016, the Company requested a revaluation of the Installations, machinery and equipment caption from external independent experts. The Company's management considers that accounting for this item at its revalued amount (fair value at the moment of revaluation) is the most appropriate way to disclose these assets in the financial statements of the Company. For this purpose, the valuations performed by the external independent experts were obtained and approved, considering that the revalued amount does not exceed recoverable value.

When a revaluation is performed on an item of fixed assets, the same criteria must be applied to all the items belonging to the same class of assets within each item. A class of revalued items is a grouping of assets of a similar nature and use in an entity's operations.

To obtain the revalued amounts, the following methods were applied, as described below:

a) The *Sales Comparison approach* analyzes recent sales (or offers) involving similar ("comparable") properties, to determine the value of the asset. If no comparable items identical to the analyzed asset are available, the selling price of the former is adjusted to equal the characteristics of the asset under revaluation.

b) The *Cost approach* estimates the value of the asset by comparison to the cost of producing a new asset or a substitute property item, as considered appropriate in the market. The cost is compared with the value of the existing asset and adjusted according to differences in the age, condition and usefulness of the asset. In its simplest form, the cost approach is represented by the replacement cost of a new item, minus all types of depreciation or obsolescence. Depreciation for valuation purposes is defined as the difference between the value of an existing property and a hypothetical new property taken as comparison standard.

c) The *Income approach* considers that the value can be estimated based on the future benefits expected by the owner. This approach is used for the valuation of physical assets when it is possible to determine a certain income directly related to the asset. However, it is not widely used in the valuation of fixed assets due to the difficulty in determining the income that can be directly allocated to a specific asset.

In particular, installations, machinery and equipment are not usually the matter of bargaining transactions. Therefore, there are no stable markets of similar assets in use, or conditions offered for sale where the valuation can be performed through the sale of comparable items, only isolated lots of surplus material or clearance sales of equipment can be found, and these do not reflect the revalued amount under the assumption of a going concern or business continuity. For this reason, the most common approach was cost approach, with the recoverable value as a limit, when applicable.

The increase in value of the Installations, machinery and equipment caption as a result of the revaluation performed at December 31, 2016 amounted to $ 1,030,668,658 and has been recorded, net of tax effects, for $ 360,734,030 under the Balance from revaluation and Other reserves lines, respectively, in the Statement of Changes in Equity. In addition, by exercising the option provided by professional accounting standards in effect, accumulated depreciation at revaluation date was offset against the original value of the assets.

Should installations, machinery and equipment have been valued at their historical cost, the net value recorded at December 31, 2016 would have been $ 184,077,642.

# Notes to the financial statements at December 31, 2016 and 2015

**Note 10 - Revaluation of fixed assets (cont'd)**

Further, at December 31, 2015 the Company carried out a revaluation of the wells already drilled (drillings) and repairs of wells (workover) included in the Wells caption. The increase in value of drillings and workover amounted to $ 587,997,450 and has been recorded, net of tax effects, for $ 205,799,108 under the *"Balance from revaluation"* and *"Other reserves"* lines, respectively, in the Statement of Changes in Equity. On May 19, 2016 the Superintendency of Commercial Companies, under number 7597, granted administrative approval to the technicalrevaluation performed at December 31, 2015.

The reversal of the Balance from revaluation reserve due to depreciation of assets for the current year amounts to $ 170,710,348. Its corresponding tax effect, included in Other reserves, was $ 59,748,622.

In the course of fiscal year 2016, no significant changes were observed in the fair value of drilled wells (drillings) and repairs of wells (workover) included in the Wells caption; accordingly, at December 31, 2016 no new revaluation was performed.

Should drillings and workover included in the Wells caption have been valued at their historical cost, their net value would have been $ 1,624,500,696 and $ 1,369,304,710 at December 31, 2016 and 2015, respectively.

Revaluations must be implemented on a regular basis so that the accounting amount recorded does not differ significantly from the fair value at closing date of each fiscal year.

The Balance from revaluation reserve is reverted, net of tax effects, by means of (i) the deletion of the revalued items, or (ii) depreciation charges through transfer to retained earnings.

**Note 11 – Subsequent events**

After December 31, 2016, no event, situation or circumstance that is not publicly known and that affects or may significantly affect the Company's financial or economic position has occurred.

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**Exhibit A**

**BALANCE SHEET**
**At December 31, 2016 and 2015**

**FIXED ASSETS**
**Amounts stated in pesos.**

| Items | Original values | | | | | | | Depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | At the beginning of the year | Increases | Reclassifications | Decreases | Compensation original value before revaluation (Note 10) | Revaluation (Note 10) | At year end | Accumulated at the beginning of the year | For the year | Decreases | Compensation accumulated depreciation before revaluation (Note 10) | Accumulated at year end | Net book value at 12.31.16 | Net book value at 12.31.15 |
| Wells | 5,627,094,909 | 98,665,747 | 561,620,585 | (5,730,388) | - | - | 6,281,650,853 | 3,516,222,535 | 730,869,126 | (7,228,606) | - | 4,239,863,055 | 2,041,787,798 | 2,110,872,374 |
| Exploratory Investments | 274,430,734 | - | 12,675,639 | (28,956,514) | - | - | 258,149,859 | - | - | - | - | - | 258,149,859 | 274,430,734 |
| Installations | 862,159,694 | 248,409 | 83,692,180 | (616,279) | (761,406,362) | 1,030,668,658 | 1,214,746,300 | 720,347,310 | 41,850,278 | (791,226) | (761,406,362) | - | 1,214,746,300 | 141,812,384 |
| Furniture and office equipment | 75,289,915 | 5,482,696 | 81,214,239 | (4,759) | - | - | 161,982,091 | 53,372,828 | 27,177,367 | (6,199) | - | 80,543,996 | 81,438,095 | 21,917,087 |
| Vehicles | 34,184,284 | 11,027,603 | - | (3,929,637) | - | - | 41,282,250 | 19,353,268 | 7,470,343 | (3,376,139) | - | 23,447,472 | 17,834,778 | 14,831,016 |
| Works in progress | 336,365,019 | 1,358,161,635 | (739,202,643) | - | - | - | 955,324,011 | - | - | - | - | - | 955,324,011 | 336,365,019 |
| **Subtotal** | **7,209,524,555** | **1,473,586,090** | **-** | **(39,237,577)** | **(761,406,362)** | **1,030,668,658** | **8,913,135,364** | **4,309,295,941** | **807,367,114** | **(11,402,170)** | **(761,406,362)** | **4,343,854,523** | **4,569,280,841** | **2,900,228,614** |
| Advances to suppliers | | | | | | | | | | | | | **978,854** | **739,948** |
| Materials and spare parts | | | | | | | | | | | | | **66,030,038** | **80,624,248** |
| **Total at December 31, 2016** | | | | | | | | | | | | | **4,636,289,733** | **-** |
| **Total at December 31, 2015** | **5,394,675,084** | **1,248,147,511** | **-** | **(21,295,490)** | **-** | **587,997,450** | **7,209,524,555** | **3,776,008,963** | **535,754,165** | **(2,467,187)** | **-** | **4,309,295,941** | **-** | **2,981,592,810** |

**TECPETROL SOCIEDAD ANONIMA**
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Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**Exhibit B**

**BALANCE SHEET**

**At December 31, 2016 and 2015**

**Other assets**
**Amounts stated in pesos**

| Main account | Original values | | | | Amortization | | | | Net | Net |
|---|---|---|---|---|---|---|---|---|---|---|
| | At the beginning of the year | Increases | Decreases | At year end | Accumulated at the beginning of year | For the year | Decreases | Accumulated at at year end | book value at 12.31.16 | book value at 12.31.15 |
| Exploitation rights | 723,345,396 | 105,865,941 | (1,033,407) | 828,177,930 | 460,505,990 | 41,070,098 | (1,033,407) | 500,542,681 | 327,635,249 | 262,839,406 |
| **Total** | **723,345,396** | **105,865,941** | **(1,033,407)** | **828,177,930** | **460,505,990** | **41,070,098** | **(1,033,407)** | **500,542,681** | **327,635,249** | **262,839,406** |

**TECPETROL SOCIEDAD ANONIMA**

**Exhibit C**

Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**BALANCE SHEET**
**At December 31, 2016 and 2015**

**INVESTMENTS**
**Investments in shares and in other companies**
**Amounts stated in pesos.**

| Type | Issuer | Class | Value | Amount | Adjusted cost value | Equity value | Book value at 12.31.16 | Book value at 12.31.15 |
|---|---|---|---|---|---|---|---|---|
| **Non-current investments** | | | | | | | | |
| **Controlled companies** | | | | | | | | |
| Shares | Petronado S.A. (5) | Common Class A shares, | $ 1 | 8,845,543 | 9,855,407 | (2,555,352) | (2,555,352) | 36,760,407 |
| Shares | Tecpetrol de Bolivia S.A. (6) | Common shares, 1 vote | Bolivian 1,000 | 105,898 | 36,054,359 | (147,205,424) | (147,205,424) | (22,689,276) |
| Shares | GEA-GEO Energy Alternatives S.A (5) | Common Class A shares, | $ 1 | 461,115 | 2,415,000 | 2,305,173 | 2,305,173 | 1,833,656 |
| **- Other related entities without significant influence** | | | | | | | | |
| Shares | Tecpetrol Colombia S.A.S. (1) | Common shares, 1 vote | Colombian pesos | 255,000 | 21,758 | 21,758 | 21,758 | 21,758 |
| Shares | Tecpetrol de Venezuela S.A. (2) | Common shares, 1 vote | Bolívar fuerte $1 | 15 | 408 | 317 | 408 | 408 |
| Shares | Tecpetrol del Perú S.A.C. (3) | Common shares, 1 vote | USD 2.88 | 61,538 | 424,478 | 29,049,076 | 424,478 | 424,478 |
| Shares | Tecpetrol de México S.A. de C.V. | Common Class I shares, | $ 1 (Mexico) | 57,519 | 214,455 | 6,930,384 | 214,455 | 214,455 |
| Shares | Burgos Oil Services S.A. de C.V. (4) | Common classes I and II | $ 1 (Mexico) | 2,224,635 | 1,916,749 | 1,916,765 | 1,916,749 | 1,916,749 |
| Shares | Oleoductos del Valle S.A. | Common Class A shares, | $ 10 | 231,156 | 5,579,508 | 7,287,959 | 5,579,508 | 5,579,508 |
| Shares | Tecpetrol Bloque 56 S.A.C. | Common shares, 1 vote | USD 1 | 65,600 | 5,793 | 24,867,266 | 5,793 | 5,793 |
| Shares | Tecpecuador S.A. | Common shares, 1 vote | USD 1 | 1 | 14 | 65 | 14 | 14 |
| Shares | Norpower S.A. de C.V. | Series CMF-A and CV-A | $ 1 (Mexico) | 39,300 | 11,621 | 1,410,943 | 11,621 | 11,621 |
| Shares | Pardaliservices S.A. | Common shares, 1 vote | USD 1 | 1 | 4 | 28 | 4 | 4 |
| Shares | Tecpeservices S.A. | Common shares, 1 vote | USD 1 | 10 | 44 | 5,938 | 44 | 44 |
| **Subtotal** | | | | | | | **(139,280,771)** | **24,079,619** |
| Reclassification to Other liabilities - current (6) | | | | | | | **149,760,776** | **22,689,276** |
| **Total non-current investments** | | | | | | | **10,480,005** | **46,768,895** |

(1) On December 30, 2016, September 2, 2016 and December 22, 2015 the Shareholders' Meeting of Tecpetrol Colombia S.A.S. decided a capital increase. The Company did not participate; therefore, its percentage of interest in the equity of Tecpetrol Colombia has decreased.
(2) On September 9, 2015 the Shareholders' Meeting of Tecpetrol de Venezuela S.A. approved a capital increase.
(3) On October 5, 2015 the Shareholders' Meeting of Tecpetrol Lote 174 S.A.C decided a merger through absorption with Tecpetrol del Perú S.AC. (as merged company), with effective date November 1, 2015.
(4) On November 21, 2016 the Shareholders' Meeting of Burgos Oil Services S.A de C.V approved a capital decrease to absorb losses. Also, on December 29, 2015 the Shareholders' Meeting of Burgos Oil Services S.A de C.V. approved a capital increase on which the Company has waived its residual preemptive right; as a result, its percentage of interest in the equity of Burgos Oil Services has decreased. In addition, an adjustment to the recoverable value of this investment has been recorded.
(5) On April 7, 2017 the Company sold its interest in GEA-GEO Energy Alternatives S.A. to Techint Inversiones S.A.I.F. for USD 145,250.
(6) Corresponds to interests in subsidiaries in which the equity value is negative, with the relevant balance reclassified to the Other liabilities - current line.

**TECPETROL SOCIEDAD ANONIMA**
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**Exhibit C**

**BALANCE SHEET**
**At December 31, 2016 and 2015**

**INVESTMENTS (Cont'd)**
**Investments in shares and in other companies**
**Amounts stated in pesos.**

| Type and characteristics of securities | Issuer | Country | Information on the issuer | | | | | | Participation % on capital |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Latest accounting information (1) (2) | | | | | |
| | | | Principal line of business | Date | Capital | | Gain/(loss) | Shareholders' equity | |
| **Non-current investments** | | | | | | | | | |
| **Controlled companies** | | | | | | | | | |
| Shares | Dapetrol S.A. | Argentina | Exploration, discovery, exploitation and sale of hydrocarbons | 12/31/2016 | ARS | 9,072,352 | (40,323,856) | (2,620,875) | 97,50 |
| Shares | Tecpetrol de Bolivia S.A. | Bolivia | Exploration, discovery, exploitation and sale of hydrocarbons | 12/31/2016 | BOB | 108,000,000 | (114,683,804) | (150,127,347) | 98,05 |
| Shares | GEA-GEO Energy Alternatives S.A. | Argentina | Operation of gas pipes and oil pipes; transport and distribution of hydrocarbons and energy in general | 12/31/2016 | ARS | 658,736 | 673,595 | 3,293,104 | 70,00 |
| **b- without significant influence** | | | | | | | | | |
| Shares | Tecpetrol Colombia S.A.S. | Colombia | Exploration, discovery, exploitation and sale of hydrocarbons | 12/31/2016 | COP | 161,982,000 | (615,910,722) | 566,420,888 | 0,1574 |
| Shares | Tecpetrol de Venezuela S.A. | Venezuela | Exploration, discovery, exploitation and sale of hydrocarbons | 12/31/2016 | VEF | 50,000 | (357,865) | 39,045 | 0,03 |
| Shares | Tecpetrol del Perú S.A.C. | Peru | Exploration, discovery, exploitation and sale of hydrocarbons | 12/31/2016 | USD | 8,861,452 | 489,732,184 | 2,100,591,596 | 2,00 |
| Shares | Tecpetrol de México S.A. de C.V. | Mexico | Provision of services relating to development, infrastructure and maintenance of gas areas. | 12/31/2016 | MXN | 3,252,000 | 44,919,425 | 527,339,345 | 1,7687 |
| Shares | Burgos Oil Services S.A. de C.V. | Mexico | Provision of services relating to development, infrastructure and maintenance of gas areas. | 12/31/2016 | MXN | 474,976,001 | 19,058,372 | 226,633,463 | 0,937 |
| Shares | Oleoductos del Valle S.A. | Argentina | Transportation of hydrocarbons and supplementary activities | 12/31/2016 | ARS | 110,074,290 | 125,034,947 | 472,080,606 | 2,10 |
| Shares | Tecpetrol Bloque 56 S.A.C. | Peru | Exploration, discovery, exploitation and sale of hydrocarbons | 12/31/2016 | USD | 3,280,000 | 194,331,681 | 1,629,992,355 | 2,00 |
| Shares | Tecpecuador SA | Ecuador | Exploration, discovery, exploitation and sale of hydrocarbons | 12/31/2016 | USD | 4,500,000 | 64,975,354 | 312,155,888 | 0,0000002 |
| Shares | Norpower S.A. de C.V. | Mexico | Execution of works relating to pipe maintenance technical assistance (System 3) | 12/31/2016 | MXN | 6,550,000 | 473,932,323 | 712,585,255 | 0,60 |
| Shares | Pardaliservices S.A. | Ecuador | Provision of hydrocarbon exploration and evaluation services development services. | 12/31/2016 | USD | 18,410,000 | 85,474,233 | 709,072,309 | 0,0000054 |
| Shares | Tecpeservices S.A. | Ecuador | Provision of design, engineering and construction services of works in areas or any other type of oil facilities. | 12/31/2016 | USD | 159,000 | 53,638,602 | 91,320,625 | 0,0063 |

(1) Information on the issuer, except for capital stock, is stated at the currency value at closing.
(2) It relates to annual financial statements.

**TECPETROL SOCIEDAD ANONIMA**

Exhibit D

Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.

Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**BALANCE SHEET**

**At December 31, 2016 and 2015**

**OTHER INVESTMENTS**

**Amounts stated in pesos.**

| Main account and characteristics | Book value at 12.31.16 | Book value at 12.31.15 |
|---|---|---|
| **CURRENT** | | |
| Call deposits - other related companies | 35,943,094 | 17,807,789 |
| Call deposits - ordinary | - | 1,550 |
| Other financial deposits - ordinary | 77,375,912 | 95,502,079 |
| Securities | 444,126 | 364,468 |
| **Total** | **113,763,132** | **113,675,886** |

**TECPETROL SOCIEDAD ANONIMA**

Exhibit E

Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**BALANCE SHEET**
**At December 31, 2016 and 2015**

**ALLOWANCES AND PROVISIONS**
**Amounts stated in pesos.**

| Item | Balances at the beginning of the year | Increases / (Decreases) | Reclassifications | Balances at year end |
|---|---|---|---|---|
| **Deducted from assets** | | | | |
| **Current** | | | | |
| For doubtful accounts (Notes 6.a and 6.b) | 77,147,392 | (a) 75,613,344 | (88,039,026) | 64,721,710 |
| **Non-Current** | | | | |
| For doubtful accounts (Note 6.d) | 583,113 | - | 88,039,026 | 88,622,139 |
| **Total deducted from assets at 12.31.16** | **77,730,505** | **75,613,344** | **-** | **153,343,849** |
| **Total as of 12.31.15** | **53,357,450** | **24,373,055** | **-** | **77,730,505** |
| **Included in liabilities** | | | | |
| **Current** | | | | |
| For provision for contingencies (Note 4.b) | 6,110,922 | (b) (1,131,077) | - | 4,979,845 |
| **Non-Current** | | | | |
| For provision for contingencies (Note 4.b) | 39,921,618 | (c) 1,361,178 | - | 41,282,796 |
| **Total included in liabilities at 12.31.16** | **46,032,540** | **230,101** | **-** | **46,262,641** |
| **Total as of 12.31.15** | **57,898,713** | **(11,866,173)** | **-** | **46,032,540** |

(a) Recognized in selling expenses and financial results generated by assets.

(b) Recognized in operating costs and financial results generated by liabilities.

(c) Recognized in other income and expenses and financial results generated by liabilities.

**TECPETROL SOCIEDAD ANONIMA** **Exhibit F**

Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**BALANCE SHEET**
**At December 31, 2016 and 2015**

**Assets and Liabilities in Foreign currency**

| Items | 12.31.16 | | | | 12.31.15 |
|---|---|---|---|---|---|
| | Foreign currency | | Prevailing exchange rate $ (2) | Amount in Argentine currency and recorded | Amount in Argentine currency and recorded |
| | Class (1) | Amount | | | |
| **ASSETS** | | | | | |
| **CURRENT ASSETS** | | | | | |
| **CASH AND BANKS** | USD | 219,444 | 15.89 | 3,486,965 | 2,778,871 |
| **OTHER INVESTMENTS** | | | | | |
| Securities | USD | 27,950 | 15.89 | 444,126 | 364,468 |
| Call deposits | USD | 2,261,995 | 15.89 | 35,943,094 | 17,809,339 |
| **TRADE RECEIVABLES** | | | | | |
| Ordinary | USD | 32,809,654 | 15.89 | 521,345,402 | 243,413,377 |
| Other related parties: | USD | - | 15.89 | - | 75,385,048 |
| Allowance for doubtful | USD | (2,926,647) | 15.89 | (46,504,422) | (72,400,115) |
| **OTHER RECEIVABLES** | | | | | |
| Other related parties: | USD | 6,769,830 | 15.89 | 107,572,599 | 77,117,697 |
| Controlled companies | USD | 34,511 | 15.89 | 548,380 | 14,255,810 |
| Accounts receivable | USD | 6,988,955 | 15.89 | 111,054,495 | 7,187,126 |
| Allowance for doubtful | USD | (2,077) | 15.89 | (33,004) | (2,135,848) |
| **NON-CURRENT ASSETS** | | | | | |
| **OTHER RECEIVABLES** | | | | | |
| Accounts receivable | USD | 181,602 | 15.89 | 2,885,650 | 2,189,494 |
| Other related parties: | USD | 5,635,716 | 15.89 | 89,551,526 | - |
| Allowance for doubtful | USD | (5,540,530) | 15.89 | (88,039,026) | - |
| **Total Assets** | | | | **738,255,785** | **365,965,267** |
| **LIABILITIES** | | | | | |
| **CURRENT LIABILITIES** | | | | | |
| **TRADE PAYABLES** | USD | 48,386,352 | 15.89 | 768,859,133 | 389,110,053 |
| **BORROWINGS** | | | | | |
| Loans | USD | 35,900,000 | 15.89 | 570,451,000 | 235,345,307 |
| With parent company | USD | 68,750,582 | 15.89 | 1,092,446,748 | - |
| Other related parties: | USD | 3,526,017 | 15.89 | 56,028,410 | 77,458 |
| **NON-CURRENT** | | | | | |
| **BORROWINGS** | | | | | |
| Loans | USD | - | 15.89 | - | 350,581,222 |
| Other related parties: | USD | 38,105,370 | 15.89 | 605,494,332 | 123,931,907 |
| **OTHER LIABILITIES** | | | | | |
| Asset retirement obligation | USD | 52,680,394 | 15.89 | 837,091,454 | 187,537,303 |
| **Total liabilities** | | | | **3,930,371,077** | **1,286,583,250** |

(1) USD= United States Dollar.

(2) US dollar quotation: exchange rate from Banco de la Nación Argentina in force at year end.

**TECPETROL SOCIEDAD ANONIMA**

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Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**Exhibit G**

**INFORMATION REQUIRED BY SECTION 64.I sub-sect. b) OF LAW 19,550**
**For the fiscal year ended December 31, 2016, presented in comparative format with the prior year.**

**Amounts stated in pesos.**

| | Operating costs | Exploration costs | Selling expenses | Administrative expenses | Total at 12.31.16 | Total at 12.31.15 |
|---|---|---|---|---|---|---|
| Remuneration to Directors and Surveillance Committee | - | - | - | 1,109,000 | 1,109,000 | 1,021,000 |
| Salaries and social security contributions | 202,114,207 | - | - | 512,130,542 | 714,244,749 | 550,129,793 |
| Other personnel expenses | 17,594,288 | - | - | 29,093,887 | 46,688,175 | 33,287,638 |
| Royalties, rates, contributions and stamps | 536,064,450 | - | 72,280,188 | 28,243,740 | 636,588,378 | 515,761,146 |
| Third-party services | 106,186,223 | - | - | 118,929,506 | 225,115,729 | 194,017,746 |
| Insurance | 11,986,390 | - | - | 398,166 | 12,384,556 | 8,965,531 |
| Chemical supplies and materials | 36,770,572 | - | - | - | 36,770,572 | 28,918,009 |
| Electricity, fuels and lubricants | 116,023,378 | - | - | - | 116,023,378 | 102,822,495 |
| Wells service and maintenance operations | 587,486,029 | - | - | - | 587,486,029 | 668,826,535 |
| Exploratory wells, seismic and other exploratory costs | - | 57,574,994 | - | - | 57,574,994 | 20,146,400 |
| Transportation | - | - | 16,551,809 | - | 16,551,809 | 11,755,280 |
| Treatment, storage and loading | 105,206,312 | - | 22,330,264 | - | 127,536,576 | 101,740,333 |
| Travel expenses | 18,042,798 | - | - | 11,834,110 | 29,876,908 | 24,402,483 |
| Fee and easements | 25,371,760 | - | - | - | 25,371,760 | 20,676,872 |
| Amortization of other assets | 41,070,098 | - | - | - | 41,070,098 | 46,431,508 |
| Depreciation of fixed assets | 790,043,259 | - | - | 17,323,855 | 807,367,114 | 535,754,165 |
| Others | 129,073,411 | - | 60,559,081 | 85,493,993 | 275,126,485 | 131,385,055 |
| Reimbursement of expenses (*) | - | - | - | (238,694,253) | (238,694,253) | (207,884,380) |
| **Total at 12.31.16** | **2,723,033,175** | **57,574,994** | **171,721,342** | **565,862,546** | **3,518,192,057** | - |
| **Total at 12.31.15** | **2,275,811,293** | **20,146,400** | **92,970,500** | **399,229,416** | - | **2,788,157,609** |

(*) Are not liable to association or proration in connection with each line involved in the costs and/or expenses table, but rather in connection with the tasks which make up the function of the operator.

**Table 1**

**BALANCE SHEET**
**at December 31, 2016**

**INTEREST IN JOIN ARRANGEMENTS (UTE) AND CONSORTIA**

a) Areas operated by Tecpetrol S.A.

| Name | Location | Interest % | Assignment date | Term (years) |
|---|---|---|---|---|
| Agua Salada | Río Negro | 70.00 | September 1990 | 35 (6) |
| Atuel Norte | Mendoza | 50.00 (1) | September 1990 | 25 |
| El Tordillo | Chubut | 52.13 | June 1991 | 35 (5) |
| Aguaragüe | Salta | 23.00 | November 1992 | 35 (2) |
| La Tapera - Puesto Quiroga | Chubut | 52.13 | July 1994 | 35 (3)(5) |
| Rio Atuel | Mendoza | 33.34 | December 2008 | (4) |
| Loma Ancha | Neuquén | 95.00 | December 2014 | 25 (7) |

(1) In 2013, the partners Petrolera el Trébol S.A. and Petrobras Argentina S.A. left the joint arrangement Atuel Norte. Tecpetrol S.A. assumed 100% of the costs and investments of Petrolera El Trébol S.A. as from May 15, 2014, the effective retirement date of the Company. Consequently, the economic benefit in the joint arrangement amounts to 66.67% as from that date. The concession term of the exploitation of the area expired on September 5, 2016. Thus, on September 6, 2016, the “Deed of Reversion of Atuel Norte Area” was signed, by means of which the Province of Mendoza took over the area.

(2) For San Antonio Sur concession, this term has been in effect since November 2001 and includes the extension of the term obtained in 2012.

(3) This term has been considered as from July 21, 1992, when the area was awarded to Glacco S.A. Tecpetrol S.A. acquired the are in July 1994.

(4) It will have the necessary duration to enable compliance with the obligations assumed in the contract stating the purpose of the joint arrangement.

(5) In 2013, the concession was extended 10 more years in addition to the original 25 years.

(6) In 2014, the concession was extended 10 more years in addition to the original 25 years.

(7) Tecpetrol S.A. assumes 100% of the costs and investments as a result of an agreement with its partner Gas y Petróleo del Neuquén S.A.

b) Areas operated by third parties

| Name | Location | Interest % | Assignment date | Term (years) |
|---|---|---|---|---|
| Ramos | Salta | 25.00 | January 1991 | 35 (*) |

(*) On June 20, 1996, the maturity date of the concession was extended until January 21, 2026.

**TECPETROL SOCIEDAD ANONIMA**

Table 1

Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.

Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**BALANCE SHEET**

**INTEREST IN JOINT ARRANGEMENTS (UTE) AND CONSORTIA (Cont'd)**

**Amounts stated in pesos (according to the percentage of interest of Tecpetrol S.A.)**

| Name | 12.31.16 | | 12.31.15 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Agua Salada | 297,238,587 | 202,204,129 | 203,280,595 | 138,147,574 |
| El Tordillo | 2,010,328,872 | 772,369,106 | 1,584,510,626 | 659,500,123 |
| Aguaragüe | 264,396,920 | 125,749,543 | 375,716,291 | 89,697,936 |
| Ramos | 314,121,452 | 98,912,971 | 204,894,906 | 55,022,547 |
| La Tapera - Puesto Quiroga | 39,430,660 | 15,629,382 | 68,166,739 | 22,264,643 |
| Atuel Norte | 493,166 | 12,926,600 | 1,630,212 | 8,340,261 |
| Rio Atuel | 36,706,127 | 7,007,819 | 41,115,429 | 2,693,968 |

**TECPETROL SOCIEDAD ANONIMA**

Table 2

Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**BALANCE SHEET**
**At December 31, 2016**

**OTHER INVESTMENTS, RECEIVABLES AND DEBTS: DUE DATES AND RATES**
**Amounts stated in pesos.**

**CURRENT**

| Items | Without due date | Quarter I | Quarter II | Quarter III | Quarter IV | Subtotals | Total |
|---|---|---|---|---|---|---|---|
| **OTHER INVESTMENTS** | | | | | | | |
| With fixed rate | - | 35,943,094 | - | - | - | 35,943,094 | |
| With floating rate | - | 77,820,038 | - | - | - | 77,820,038 | **113,763,132** |
| **TRADE RECEIVABLES** | | | | | | | |
| Without rate | - | 567,254,694 | - | - | - | 567,254,694 | **567,254,694** |
| **OTHER RECEIVABLES** | | | | | | | |
| Without rate (1) | - | 562,844,601 | 74,622,592 | 74,622,593 | 82,889,497 | 794,979,283 | |
| With fixed rate | - | 814,340 | 814,340 | 651,472 | 977,209 | 3,257,361 | |
| With floating rate | - | 4,630,425 | 3,472,818 | 2,778,254 | 3,558,154 | 14,439,651 | **812,676,295** |
| **LIABILITIES** | | | | | | | |
| Without rate (2) | 5,049,845 | 1,298,800,282 | 8,540,309 | 8,540,309 | 8,540,309 | 1,329,471,054 | |
| With fixed rate | - | 2,110,004,396 | 2,777,778 | 2,888,889 | 583,333 | 2,116,254,396 | |
| With floating rate | - | 12,500,000 | 12,500,000 | 12,500,000 | 12,500,000 | 50,000,000 | **3,495,725,450** |

(1) Includes tax credits, other operating credits and with partners.
(2) Includes trade payables, social security, tax payables, sundry payables and allowances.

**NON-CURRENT**

| Items | Without due date | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 4 years | More than 4 years | Subtotals | Total |
|---|---|---|---|---|---|---|---|
| **OTHER RECEIVABLES** | | | | | | | |
| Without rate | 32,734,614 | - | - | - | 1,535,274 | 34,269,888 | |
| With fixed rate | - | 2,513,661 | 2,513,661 | 2,513,661 | 21,503,083 | 29,044,066 | |
| With floating rate | - | 1,462,125 | 1,462,124 | 1,462,124 | 1,462,124 | 5,848,497 | **69,162,451** |
| **DEFERRED TAX** | | | | | | | |
| Without rate | 142,407,032 | - | - | - | - | 142,407,032 | **142,407,032** |
| **LIABILITIES** | | | | | | | |
| Without rate (3) | 1,298,472,135 | - | - | - | - | 1,298,472,135 | |
| With fixed rate | - | 605,494,332 | - | - | - | 605,494,332 | |
| With floating rate | - | 33,333,335 | 33,333,333 | 30,555,556 | - | 97,222,224 | **2,001,188,691** |

(3) Includes trade payables, social security, tax payables, sundry payables and asset retirement obligation.

## Complementary information
## Consolidated Financial Statements at December 31, 2016 and 2015

**Consolidated Balance Sheet**

**Consolidated Income Statement**

**Consolidated Cash Flow Statement**

**Notes**

**Tables**

I - Fixed assets and other assets

II - Other investments, receivables and payables: due dates and rates

## TECPETROL SOCIEDAD ANONIMA

Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**Complementary information**
**Consolidated balance sheet**
**At December 31, 2016 and 2015**
**Amounts stated in pesos.**

| **ASSETS** | **12.31.16** | **12.31.15** |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and banks | 29,654,242 | 42,497,445 |
| Other investments (Note 4 a)) | 188,990,974 | 153,643,063 |
| Trade receivables (Note 4 b)) | 632,122,372 | 282,330,944 |
| Other receivables (Note 4 c)) | 825,610,147 | 832,964,207 |
| Inventories (Note 4 d)) | 235,953,095 | 171,278,502 |
| **Total current assets** | **1,912,330,830** | **1,482,714,161** |
| **NON-CURRENT ASSETS** | | |
| Other receivables (Note 4 e)) | 697,690,504 | 516,962,709 |
| Deferred tax (Note 4 f)) | 142,407,032 | 278,368,319 |
| Investments (Note 4 g)) | 10,837,003 | 10,560,345 |
| Fixed assets (Table I) | 9,718,352,881 | 6,628,096,509 |
| Other assets (Table I) | 327,635,249 | 262,839,406 |
| **Total non-current assets** | **10,896,922,669** | **7,696,827,288** |
| **Total Assets** | **12,809,253,499** | **9,179,541,449** |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Debts | | |
| Trade payables (Note 4 h)) | 1,160,447,184 | 697,701,477 |
| Borrowings (Note 4 i)) | 3,464,918,049 | 1,342,152,320 |
| Social security and tax payables (Note 4 j)) | 142,539,279 | 124,088,712 |
| Other liabilities (Note 4 k)) | 2,474,493 | 3,658,769 |
| Total debts | 4,770,379,005 | 2,167,601,278 |
| Allowances and provisions (Note 4 l)) | 4,979,845 | 6,110,922 |
| **Total current liabilities** | **4,775,358,850** | **2,173,712,200** |
| **NON-CURRENT LIABILITIES** | | |
| Debts | | |
| Borrowings (Note 4 m)) | 5,102,686,015 | 4,686,006,298 |
| Social security and tax payables (Note 4 n)) | 359,448,933 | 286,519,036 |
| Other liabilities (Note 4 o)) | 1,111,589,642 | 680,023,472 |
| Total debts | 6,573,724,590 | 5,652,548,806 |
| Allowances and provisions (Note 4 p)) | 41,282,796 | 39,921,618 |
| **Total Non-Current Liabilities** | **6,615,007,386** | **5,692,470,424** |
| **Total liabilities** | **11,390,366,236** | **7,866,182,624** |
| **MINORITY INTEREST IN SUBSIDIARIES** | **(1,999,514)** | **1,278,061** |
| **SHAREHOLDERS' EQUITY** | | |
| **As per related statement** | **1,420,886,777** | **1,312,080,764** |
| **Total liabilities plus Shareholders' equity** | **12,809,253,499** | **9,179,541,449** |

**The accompanying notes 1 to 6 and tables I and II are an integral part of these consolidated financial statements.**

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**Complementary information**
**Consolidated Income Statement**
**For the fiscal year ended December 31, 2016, presented in comparative format with the prior year.**

**Amounts stated in pesos.**

| | 12.31.16 | 12.31.15 |
|---|---|---|
| Net sales | 3,776,688,419 | 2,884,458,185 |
| Export duties and other exports costs | (12,102,639) | (3,846,483) |
| Operating costs | (2,967,263,724) | (2,315,368,321) |
| **Gross profit** | **797,322,056** | **565,243,381** |
| Result from valuation of inventories at net realizable value | 81,800,526 | 64,149,383 |
| Selling expenses | (193,919,146) | (93,785,922) |
| Administrative expenses | (593,312,301) | (420,841,416) |
| Exploration cost | (57,574,994) | (23,285,910) |
| Result from investment in subsidiaries under significant influence and other related parties | (1,395,975) | 188,350,954 |
| Other taxes | (81,106,955) | (64,482,652) |
| Financial and holding results generated by assets | | |
| Interest net of bank commissions and charges | 46,187,642 | 17,385,363 |
| Exchange differences | 92,672,844 | 100,567,007 |
| Result on securities holding | 958,054 | 30,527,034 |
| Financial and holding results generated by liabilities | | |
| Interest | (466,424,297) | (382,952,223) |
| Bank commissions and charges | (7,181,156) | (7,470,664) |
| Exchange differences | (404,923,514) | (428,553,892) |
| Other net income and expenses | 9,645,600 | 23,803,675 |
| **(Loss) before tax** | **(777,251,616)** | **(431,345,882)** |
| Income tax (Note 3) | 223,756,693 | 239,452,781 |
| Minority interest in controlled companies | 3,038,104 | (667,808) |
| **(Loss) for the year** | **(550,456,819)** | **(192,560,909)** |

**The accompanying notes 1 to 6 and tables I and II are an integral part of these consolidated financial statements.**

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**Complementary information**
**Consolidated Cash Flow Statement**
**For the fiscal year ended December 31, 2016, presented in comparative format with the prior year.**

**Amounts stated in pesos.**

| | 12.31.16 | 12.31.15 |
|---|---|---|
| **CHANGES IN CASH** | | |
| Cash at the beginning of year (1) | 196,140,508 | 154,284,598 |
| Cash at year end (1) | 218,645,216 | 196,140,508 |
| **Net increase in cash** | **22,504,708** | **41,855,910** |
| | | |
| **Operating activities** | | |
| **Result for the year (loss)** | **(550,456,819)** | **(192,560,909)** |
| | | |
| Adjustments to arrive at net cash flow provided by operating activities: | | |
| Depreciation of fixed assets | 969,784,894 | 537,232,065 |
| Amortization of other assets | 41,070,098 | 46,431,508 |
| Income tax charge | (223,756,693) | (239,452,781) |
| Interest and exchange differences for asset retirement obligation | 181,538,188 | 91,571,017 |
| Interest paid | 401,332,618 | 317,735,524 |
| Allowance variation and other liabilities | 108,625,826 | 12,089,227 |
| Income from the sale of fixed assets | (2,545,611) | (3,429,336) |
| Dividends earned | (4,553,510) | (11,294,003) |
| Result from investment in subsidiaries under significant influence and other related parties | 1,395,975 | (188,350,954) |
| Financial and holding results generated by cash and banks | (81,339,989) | (62,008,835) |
| | | |
| Income tax payments | (29,195,190) | (142,033,004) |
| | | |
| **Changes in operating assets and liabilities:** | | |
| Increase in inventories | (64,674,593) | (21,000,238) |
| (Increase) Decrease in investments | (11,764,428) | 8,573,968 |
| (Increase) Decrease in trade receivables | (345,896,040) | 12,206,974 |
| (Increase) Decrease in other receivables | (379,563,495) | (519,204,801) |
| Increase (Decrease) in trade payables | 462,745,707 | (150,107,054) |
| (Decrease) Increase in other liabilities | 9,693,604 | (26,430,477) |
| Increase in Social Security and tax payables | 109,754,250 | 137,050,656 |
| (Decrease) in minority interest in controlled companies | (3,277,575) | (26,323) |
| **Total cash generated by (applied to) operations** | **588,917,217** | **(393,007,776)** |
| | | |
| **Investment activities** | | |
| Dividends collected from other investments | 4,553,510 | 11,294,003 |
| Net increase in fixed assets | (2,790,776,004) | (3,052,195,879) |
| Increase in other assets | (105,865,941) | (19,098,208) |
| Payment of capital in subsidiaries under significant influence | (580,000) | (215,500) |
| Capital increase in subsidiaries without significant influence | - | (906) |
| Proceeds from the sale of fixed assets | 3,099,109 | 4,262,197 |
| **Total cash applied to investment activities** | **(2,889,569,326)** | **(3,055,954,293)** |
| | | |
| **Financing activities** | | |
| Net increase of borrowings | 2,514,241,723 | 3,452,608,957 |
| Interest paid | (376,128,895) | (283,799,813) |
| Capital increase | - | 260,000,000 |
| Payment of capital | 103,704,000 | - |
| **Net cash flow provided by financing activities** | **2,241,816,828** | **3,428,809,144** |
| | | |
| **Financial and holding results generated by cash and banks** | | |
| Gains from financial placements and mutual funds | 1,623,684 | 3,850,611 |
| Interest | 23,581,949 | 9,997,806 |
| Exchange differences | 56,134,356 | 48,160,418 |
| | | |
| **Increase in cash and banks generated by financial and holding results** | **81,339,989** | **62,008,835** |
| **Net increase in cash** | **22,504,708** | **41,855,910** |
| | | |
| **Non-cash transactions:** | | |
| Increase due to revaluation (net of income tax) | 669,934,628 | 382,198,342 |
| Capital increase | - | 390,000,000 |
| Capital increase in related companies not yet paid up | - | 300,000 |

(1) Includes balances under the item Cash and banks and Other current investments.
(2) The difference between the interest income and collected is not significant.

# Notes to the consolidated financial statements at December 31, 2016 and 2015

## NOTE 1 - BASIS FOR PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements have been prepared in accordance with the valuation criteria explained in Notes 2 and 3 to the Company's Separate Financial Statements and should be read in conjunction with these notes.

## NOTE 2 - BASIS FOR PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company has effective control over all consolidated companies and the necessary votes to form the corporate will.

At December 31, 2016 and 2015, the Company has consolidated the following subsidiaries:

| Company | Participation % in the capital and in the votes | Financial Statements used |
|---|---|---|
| Dapetrol S.A. | 97.50% | 12-31 |
| Tecpetrol de Bolivia S.A. | 98.05% | 12-31 |
| GEA-GEO Energy Alternatives S.A. | 70.00% | 12-31 |

These companies are engaged in the exploration, exploitation and development of hydrocarbon areas, as well as the transportation, distillation, refining, industrial use and sale activities involving hydrocarbons and related by-products. In addition, GEA – GEO Energy Alternatives S.A. is engaged in performing tasks associated to the operation of oil and gas pipelines, the development of projects and new business related to gas, oil and energy transport, distribution and sale, as well as the development of advisory and consulting services on these activities. This Company also has the ability to be the holder of concessions of gas and/or other public utilities transportation and distribution.

At December 31, 2016, GEA – GEO Energy Alternatives S.A. holds 20% interest of Parque Eólico Pampa S.A. capital. This Company is engaged in the design, development, construction, start-up, operation and maintenance of wind power farms, as well as the sale of wind power. On February 22, 2017, Tecpetrol S.A. Acquired interest in Parque Eólico Pampa for USD 75,000. Additionally, on April 7, 2017, the Company sold its interest in GEA-GEO Energy Alternatives S.A. to Techint Inversiones S.A.I.F. in USD 145,250.

Through its subsidiaries, the Company participates in the following projects of hydrocarbon areas exploration and exploitation:

| Areas | Interest (1) | Country | Operator |
|---|---|---|---|
| José Segundo (2) | 100.00% | Argentina | Dapetrol S.A. |
| Ipati (3) | 20.00% | Bolivia | Total Exploration & Production Bolivia |
| Aquio (3) | 20.00% | Bolivia | Total Exploration & Production Bolivia |

(1) Direct interest of the subsidiaries in each area.

(2) José Segundo area is a mining concession.

# Notes to the consolidated financial statements at December 31, 2016 and 2015

**Note 2 – Basis for preparation of the Consolidated Financial Statements (Cont'd)**

(3) The operation contracts of the blocks of Ipati and Aquío set forth that private partners will be responsible for executing the oil operation (exploration, evaluation, development, exploitation and retirement) at their own risk, in exchange for receiving a compensation from Yacimientos Petrolíferos Fiscales Bolivianos (YPFB, for its Spanish acronym) based on the production obtained and delivered to YPFB, the latter assuming no risk or responsibility regarding the oil operations or their results. In this context, Tecpetrol de Bolivia will not have any ownership rights to the hydrocarbon areas or the hydrocarbons produced, which will remain under the ownership of YPFB. In August 2016, the regular commercial production of Incahuasi and Aquío areas began. In September 2016, the start-up of the gas treatment plant was conducted.

The assets of Tecpetrol de Bolivia S.A. related to the exploration and production amount to $ 5,702 million at December 31, 2016, and to $ 4,073 million at December 31, 2015.

**NOTE 3 – Income Tax**

Below there is a reconciliation between income tax expensed and the amount that would result from applying the prevailing tax rate to the accounting results:

Amounts stated in pesos

| | 12.31.16 | 12.31.15 |
|---|---|---|
| Result for the year before tax | (777,251,616) | (431,345,882) |
| Deletion of results of subsidiaries which do not pay taxes (*) | 40,323,856 | (26,706,707) |
| Deletion of results of investments in companies with tax loss carry forward which do not recognize deferred assets | 114,683,804 | 72,669,785 |
| Net income | (622,243,956) | (385,382,804) |
| | | |
| Result for the year at tax rate | 217,533,721 | 216,897,043 |
| Permanent differences at the tax rate | | |
| - Effect of monetary restatement and others | 6,222,972 | 22,555,738 |
| **Total income tax charge** | **223,756,693** | **239,452,781** |
| | | |
| - Deferred tax - charge to results | 224,772,743 | 237,260,044 |
| - Difference between provision and tax return | (1,016,050) | 2,192,737 |
| | **223,756,693** | **239,452,781** |

(*) Corresponds to the results of José Segundo area exploitation originated in the subsidiary Dapetrol S.A. Such activity is not subject to the income tax.

The subsidiary Tecpetrol de Bolivia S.A. calculates the net income for the year before tax according to the generally accepted accounting standards in Bolivia, and is subject to the Tax on Corporate Income, after giving effect to certain adjustments established due to its regulatory framework. The tax rate is 25%, while the income for the year is subject to the Corporate Income Tax – Foreign beneficiaries Tax (IUE-BE, by its acronym in Spanish) with a 12.5% tax rate over the amount referred to.

Tax-loss carry forwards can be deducted from future taxable earnings for up to five years from their generation. At the date of these financial statements, Tecpetrol de Bolivia S.A. does not record tax-loss carry forwards pending use.

# Notes to the consolidated financial statements at December 31, 2016 and 2015

## NOTE 4 –DETAILED LIST OF THE MAIN BALANCE SHEET ITEMS

Amounts stated in pesos

| CURRENT ASSETS | 12.31.16 | 12.31.15 |
|---|---|---|
| **a) Other Investments** | | |
| Call deposits – other related companies | 111,170,936 | 57,774,966 |
| Call deposits – ordinary | - | 1,550 |
| Other financial deposits – ordinary | 77,375,912 | 95,502,079 |
| Government securities | 444,126 | 364,468 |
| | **188,990,974** | **153,643,063** |
| **b) Trade receivables** | | |
| Regular | 703,750,374 | 282,412,801 |
| With other related companies | 17,178 | 75,458,711 |
| Allowance for doubtful accounts | (71,645,180) | (75,540,568) |
| | **632,122,372** | **282,330,944** |
| **c) Other receivables** | | |
| Accounts receivable | 90,993,312 | 98,450,141 |
| Tax | 153,221,678 | 194,854,099 |
| With shareholders | 286,296,000 | 390,000,000 |
| With other related companies | 111,920,017 | 79,434,286 |
| Employees loans and advances | 17,211,287 | 7,692,790 |
| Expenses to be accrued | 21,486,428 | 12,146,443 |
| Advances to suppliers | 5,562,456 | 5,171,033 |
| Others | 155,501,551 | 47,351,263 |
| Allowance for doubtful accounts | (16,582,582) | (2,135,848) |
| | **825,610,147** | **832,964,207** |
| **d) Inventories** | | |
| Hydrocarbons | 145,313,398 | 119,614,813 |
| Materials and spare parts | 90,639,697 | 51,663,689 |
| | **235,953,095** | **171,278,502** |
| **NON-CURRENT ASSETS** | | |
| **e) Other receivables** | | |
| With other related companies | 106,325,535 | 12,727,290 |
| Tax | 661,262,667 | 480,007,948 |
| Accounts receivable | 2,885,650 | 3,575,134 |
| Employees loans | 14,433,392 | 20,107,380 |
| Expenses to be accrued | 1,405,130 | 1,080,467 |
| Others | 269 | 47,603 |
| Allowance for doubtful accounts | (88,622,139) | (583,113) |
| | **697,690,504** | **516,962,709** |

# Notes to the consolidated financial statements at December 31, 2016 and 2015

### NOTE 4 – DETAILED LIST OF MAIN BALANCE SHEET ITEMS (Cont'd)

| | 12.31.16 | 12.31.15 |
|---|---|---|
| **f) Deferred tax** | | |
| Deferred tax assets | 142,407,032 | 278,368,319 |
| | **142,407,032** | **278,368,319** |
| **g) Investments** | | |
| Interest in: | | |
| Oleoductos del Valle S.A. | 5,579,508 | 5,579,508 |
| Terminales Marítimas Patagónicas S.A. | 1,471,159 | 1,471,159 |
| Burgos Oil Services S.A. de C.V. (1) | 1,916,749 | 1,916,749 |
| Parque Eólico Pampa S.A. | 1,189,788 | 913,130 |
| Tecpetrol del Perú S.A.C. (2) | 424,478 | 424,478 |
| Tecpetrol de México S.A. de C.V. | 214,455 | 214,455 |
| Norpower S.A. de C.V. | 11,621 | 11,621 |
| Tecpetrol de Colombia S.A.S. | 21,758 | 21,758 |
| Tecpetrol Bloque 56 S.A.C. | 5,793 | 5,793 |
| Euroamérica Hardwoods Technology S.A. (3) | 1,224 | 1,224 |
| Tecpetrol de Venezuela S.A. | 408 | 408 |
| Tecpeservices S.A. | 44 | 44 |
| Tecpecuador S.A. | 14 | 14 |
| Pardaliservices S.A. | 4 | 4 |
| | **10,837,003** | **10,560,345** |

(1) On November 21, 2016, the Shareholders' Meeting of Burgos Oil Services S.A. De C.V. decided on a capital decrease to absorb losses. On December 29, 2015, the Shareholders' Meeting of Burgos Oil Services S.A. De C.V. approved a capital increase, in which the Company has waived its residual preemptive right; as a result, its percentage of interest in the equity of Burgos Oil Services has decreased.

(2) On October 5, 2015, the Shareholders' Meeting of Tecpetrol Lote 174 S.A.C. approved the merger through absorption with Tecpetrol del Perú S.AC. (the continuing Company), with effective date November 1, 2015.

(3) On April 7, 2017, the interest in Euroamérica Hardwoods Technology S.A. was sold, together with the sale of GEA-GEO Energy Alternatives S.A.

| **CURRENT LIABILITIES** | **12.31.16** | **12.31.15** |
|---|---|---|
| **h) Trade payables** | | |
| Regular | 1,127,073,822 | 681,052,769 |
| With related companies | 33,373,362 | 16,648,708 |
| | **1,160,447,184** | **697,701,477** |
| **i) Borrowings** | | |
| Current account overdraft | 2,353,000 | 406,612,705 |
| Bank borrowings | 858,115,238 | 668,136,984 |
| Other loans | 157,311,000 | 202,120,000 |
| With controlling company - Tecpetrol Internacional S.L.U. | 1,092,446,748 | - |
| With related companies | 1,354,692,063 | 65,282,631 |
| | **3,464,918,049** | **1,342,152,320** |
| **j) Social security and tax payables** | | |
| Tax credits | 115,406,759 | 97,203,397 |
| Social security charges | 27,132,520 | 26,885,315 |
| | **142,539,279** | **124,088,712** |

# Notes to the consolidated financial statements at December 31, 2016 and 2015

## NOTE 4 – DETAILED LIST OF MAIN BALANCE SHEET ITEMS (Cont'd)

| | 12.31.16 | 12.31.15 |
|---|---|---|
| **k) Other liabilities** | | |
| Provision for directors and syndics' fees | 1,109,000 | 1,609,000 |
| Others | 1,365,493 | 2,049,769 |
| | **2,474,493** | **3,658,769** |
| **l) Allowances and Provisions** | | |
| Provision for contingencies | 4,979,845 | 6,110,922 |
| | **4,979,845** | **6,110,922** |
| **NON-CURRENT LIABILITIES** | | |
| **m) Borrowings** | | |
| With other related companies | 5,005,463,791 | 4,004,980,296 |
| Other loans | 97,222,224 | 129,096,000 |
| Bank borrowings | - | 551,930,002 |
| | **5,102,686,015** | **4,686,006,298** |
| **n) Social security and tax payables** | | |
| Social security charges | 358,623,676 | 284,630,639 |
| Tax payables - Law No. 26,476 (part I) | 825,257 | 1,888,397 |
| | **359,448,933** | **286,519,036** |
| **o) Other liabilities** | | |
| Asset retirement obligation | 1,050,940,690 | 630,252,400 |
| Others | 60,648,952 | 49,771,072 |
| | **1,111,589,642** | **680,023,472** |
| **p) Allowance and provisions** | | |
| Provision for contingencies | 41,282,796 | 39,921,618 |
| | **41,282,796** | **39,921,618** |

## NOTE 5 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

During the year, the following transactions with related parties have been conducted:

Amounts stated in pesos

| Fiscal year commenced on January 1, 2016 and ended December 31, 2016 | Other related parties |
|---|---|
| Net sales | 11,340,832 |
| Interest income | 1,617,624 |
| Interest cost | (77,103,900) |
| Acquisition of fixed assets | (179,749,332) |
| Third-party services | (6,990,651) |

# Notes to the consolidated financial statements at December 31, 2016 and 2015

**NOTE 5 - OPERATIONS AND BALANCES WITH RELATED PARTIES (Cont'd)**

| Financial year commenced on January 1, 2015 and ended December 31, 2015 | Other related parties |
|---|---|
| Net sales | 51,804,028 |
| Interest income | 892,179 |
| Acquisition of fixed assets | (174,237,551) |
| Third-party services | (11,510,037) |

**NOTE 6 - EVENTS SUBSEQUENT TO THE CLOSING DATE**

After December 31, 2016, no event, situation or circumstance that is not publicly known and that affects or may significantly affect the Company's financial or economic position has occurred.

## TECPETROL SOCIEDAD ANONIMA

Table I

Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**Complementary information**
**Consolidated balance sheet**
**At December 31, 2016 and 2015**
**Amounts stated in pesos.**

**FIXED ASSETS**

| Main account | Net amount at 12.31.16 | Net amount at 12.31.15 |
|---|---|---|
| Wells | 4,147,853,524 | 2,139,107,713 |
| Exploratory investments | 258,149,859 | 3,891,079,905 |
| Machinery, equipment and installations | 3,700,522,166 | 143,109,635 |
| Mining property | 258,179 | 321,938 |
| Furniture and office equipment | 81,438,095 | 21,917,087 |
| Vehicles | 17,834,778 | 14,831,016 |
| Works in progress | 1,280,347,269 | 336,365,019 |
| **Subtotal** | **9,486,403,870** | **6,546,732,313** |
| Advances to suppliers | 978,854 | 739,948 |
| Materials and spare parts | 230,970,157 | 80,624,248 |
| **Total** | **9,718,352,881** | **6,628,096,509** |

| | | |
|---|---|---|
| The evolution of assets during the year are detailed below: | | |
| Net additions/disposals/transfers | 2,221,158,601 | 2,324,273,586 |
| Increase due to revaluation | 1,030,668,658 | 587,997,450 |
| Depreciation | (969,784,894) | (537,232,065) |
| Translation differences of subsidiaries abroad | 808,214,007 | 892,390,517 |

In August 2016, the commercial production of Incahuasi and Aquío areas in Bolivia began, encouraging the reclassification of investments that were disclosed as exploratory investments in the previous year.

**Other assets**

| Main account | Net amount at 12.31.16 | Net amount at 12.31.15 |
|---|---|---|
| Exploitation rights | 327,635,249 | 262,839,406 |
| **Total** | **327,635,249** | **262,839,406** |

| | | |
|---|---|---|
| The evolution of Other assets during the year are detailed below: | | |
| Net additions/disposals/transfers | 105,865,941 | 19,098,208 |
| Amortization | (41,070,098) | (46,431,508) |

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with the Superintendency of Commercial Companies: 802,207, record 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

Table I

**Complementary information**
**Consolidated balance sheet**
**At December 31, 2016**

**OTHER INVESTMENTS, RECEIVABLES AND DEBTS: Taxes and rates**
**Amounts stated in pesos.**

**CURRENT**

| Items | Without due date | Quarter I | Quarter II | Quarter III | Quarter IV | Subtotals | Total |
|---|---|---|---|---|---|---|---|
| **OTHER INVESTMENTS** | | | | | | | |
| With fixed rate | - | 111,170,936 | - | - | - | 111,170,936 | |
| With floating rate | - | 77,820,038 | - | - | - | 77,820,038 | **188,990,974** |
| **TRADE RECEIVABLES** | | | | | | | |
| Without rate | - | 632,122,372 | - | - | - | 632,122,372 | **632,122,372** |
| **OTHER RECEIVABLES** | | | | | | | |
| Without rate (1) | - | 575,747,126 | 74,653,919 | 74,622,593 | 82,889,497 | 807,913,135 | |
| With fixed rate | - | 814,340 | 814,340 | 651,472 | 977,209 | 3,257,361 | |
| With floating rate | - | 4,630,425 | 3,472,818 | 2,778,254 | 3,558,154 | 14,439,651 | **825,610,147** |
| **LIABILITIES** | | | | | | | |
| Without rate (2) | 5,049,845 | 1,279,770,029 | 8,540,309 | 8,540,309 | 8,540,309 | 1,310,440,801 | |
| With fixed rate | - | 2,110,004,396 | 2,777,778 | 2,888,889 | 583,333 | 2,116,254,396 | |
| With floating rate | - | 12,500,000 | 12,500,000 | 12,500,000 | 1,311,163,653 | 1,348,663,653 | **4,775,358,850** |

(1) Includes tax credits, other operating credits and with partners.
(2) Includes social security charges, trade payables, other liabilities and allowances.

**NON-CURRENT**

| Items | Without due date | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 4 years | More than 4 years | Subtotals | Total |
|---|---|---|---|---|---|---|---|
| **OTHER RECEIVABLES** | | | | | | | |
| Without rate | 32,734,614 | 420,526 | - | - | 1,535,274 | 34,690,414 | |
| With fixed rate | - | 2,513,661 | 2,513,661 | 2,513,661 | 21,503,084 | 29,044,067 | |
| With floating rate | - | 629,569,654 | 1,462,124 | 1,462,124 | 1,462,124 | 633,956,026 | **697,690,507** |
| **DEFERRED TAX** | | | | | | | |
| Without rate | 142,407,032 | - | - | - | - | 142,407,032 | **142,407,032** |
| **LIABILITIES** | | | | | | | |
| Without rate (3) | 1,512,321,371 | 1,257 | - | - | - | 1,512,322,628 | |
| With fixed rate | | 605,494,332 | - | - | - | 605,494,332 | |
| With floating rate | - | 4,433,301,537 | 33,333,333 | 30,555,556 | - | 4,497,190,426 | **6,615,007,386** |

(3) Includes social security and tax payables, other liabilities and allowances.

# Tecpetrol Sociedad Anónima

## Financial statements at December 31, 2015 and 2014

pwc

Free translation from the original prepared in Spanish for publication in Argentina

**INDEPENDENT AUDITORS' REPORT**

To the Shareholders, President and Directors of
Tecpetrol Sociedad Anónima
Legal address: Pasaje Della Paolera 297/299 - 16th floor
Autonomous City of Buenos Aires
Tax Code No. 30-59266547-2

**Report on the financial statements**

We have audited the accompanying financial statements of Tecpetrol Sociedad Anónima (hereinafter, "the Company"), which comprise the statement of financial position at December 31, 2015, the related statements of income, of changes in equity and cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory information included in the supplementary notes and exhibits. We have also examined the consolidated financial statements of Tecpetrol Sociedad Anónima with its subsidiaries for the year ended on December 31, 2015, which are presented as supplementary information.

The balances and other information corresponding to the year 2014 are an integral part of the audited financial statements mentioned above; therefore, they must be considered in connection with these financial statements.

**Board of Directors' responsibility**

The Board of Directors of the Company is responsible for the preparation and reasonable presentation of these financial statements in accordance with Argentine professional accounting standards. Further, the Board of Directors is responsible for the existence of adequate internal control to prepare financial statements free of any material misstatements due to error or irregularities.

**Auditors' responsibility**

Our responsibility is to express an opinion on the accompanying financial statements based on our audit. We conducted our examination in accordance with auditing standards in force in Argentina established in Technical Pronouncement No. 37 of the Argentine Federation of Professional Councils in Economic Sciences (FACPCE). These standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from any material misstatements.

An audit includes the application of procedures to obtain judgmental elements regarding the figures and other information disclosed in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the financial statements. In making those risk assessments, the auditor must consider internal control relevant to the Company's preparation and reasonable presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

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reasonableness of significant accounting estimates made by the Company's Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion,

a) the accompanying financial statements present fairly, in all material respects, the financial position of Tecpetrol Sociedad Anónima at December 31, 2015, income, changes in equity and cash flows for the year then ended, in accordance with Argentine professional accounting standards.

b) the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tecpetrol Sociedad Anónima at December 31, 2015 with its subsidiaries, the consolidated income and cash flows for the year then ended, in accordance with Argentine professional accounting standards.

**Report on compliance with current regulations**

In compliance with regulations in force, we report that:

a) as of December 31, 2015, the debt of Tecpetrol Sociedad Anónima accrued in favor of the Argentine Integrated Social Security System arising from the Company's accounting records and calculations amounted to $ 12,079,951, none of which was claimable at that date;

b) we have applied the anti-money laundering and financing of terrorism procedures for Tecpetrol Sociedad Anónima, prescribed by professional standards issued by the Professional Council of Economic Sciences for the City of Buenos Aires.

Autonomous City of Buenos Aires, June 3, 2016

PRICE WATERHOUSE & CO. S.R.L.

By (Partner)

Carolina García Zúñiga

# Tecpetrol Sociedad Anónima

## Financial statements at December 31, 2015 and 2014

**TECPETROL SOCIEDAD ANONIMA**

Correlative registration number with the Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations. Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

To the Shareholders:

In compliance with the applicable legal and regulatory provisions, the Board of Directors of the Company submits for the consideration of the Ordinary General Shareholders' Meeting the Annual Report, Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, Notes, Exhibits, Complementary Information, and the Auditors' Report for the 36th fiscal year that commenced on January 1, 2015 and ended on December 31, 2015.

The Report from the Surveillance Committee relating to the financial statements referenced above is also attached.

## ANNUAL REPORT

**For the 36th fiscal year commenced on January 1, 2015 and ended on December 31, 2015**

**COMMENTS ON THE BUSINESS CONDUCT**

## I. COMPANY INFORMATION

Tecpetrol S.A. (the "Company") carries out oil and gas exploration and production activities directly in the Republic of Argentina, and indirectly in other Latin American countries through its investments in third parties. In Argentina, the Company operates hydrocarbons-producing areas in the Golfo San Jorge, Neuquina and Noroeste basins. The main areas are El Tordillo in the Golfo de San Jorge, Los Bastos and Agua Salada in the Neuquina basin, and Aguaragüe in the Noroeste basin. The Company also holds a stake as a non-operating partner in the Ramos area in the Noroeste basin.

At December 31, 2015, the estimated hydrocarbons proved reserves stemming from the Company's interests in Argentina reached 6.7 million $m^3$ oil equivalents.

During the year, Tecpetrol S.A.'s production reached 3,053 $m^3$/day of oil and 3,737 $Mm^3$/day of gas. In terms of direct dispatches, during the year Tecpetrol S.A. delivered 1,734 $m^3$/day of oil and 1,565 $Mm^3$/day of gas during the year.

## II. OIL AND GAS MARKET

*Oil*

During fiscal year 2015, 55% of crude oil production was sold to local market refineries, and the remaining 45% was exported mainly to Brazil, China and the United States due to the temporary drop in refining capacity on the local market.

From 2007 to 2014 the Ministry of Economy established export duties at rates that varied according to the international price of crude, under which the State withheld any difference between a cutoff value of USD 70 per barrel and the international price of crude. This caused the domestic price of crude to be below the international market price. At the end of 2014 the international price of crude fell below the reference value used to determine the tax rates; consequently, the Ministry established fixed rates. In December 2014, the Ministry of Economy issued resolution No. 1077/14, effective as from January 1, 2015, which repealed Resolution No. 394/07 and its modifications, and established a fixed 1% rate for crude export duties when the reference price is below USD 71 per barrel, and a variable rate when the reference pricel is equal to or above USD 71 per barrel. Consequently, the Company's exports during fiscal year 2015 were reached by the tax at a 1% rate.

Additionally, as a result of the continuing drop in the international prices of crude in 2014, the Argentine government issued Decree 2579/14 on December 30, 2014, establishing an average 5% reduction of retail prices of fuel. This implied a drop in the domestic market sales prices for the Company.

## II. OIL AND GAS MARKET (Cont'd)

In February 2015, through Resolution 14/2015 of the Strategic Planning and Coordination Committee of the National Hydrocarbon Investment Plan, the Argentine Government created the Incentive Program for Crude Oil Production under which hydrocarbon production companies could apply for a financial compensation of USD 3 per barrel produced and up to USD 3 per barrel exported. During the fiscal year, Tecpetrol applied for the benefits under this program in the first, second and fourth quarter of the year. The program was effective until December 31, 2015.

On November 3, 2015, through Decree No. 2229/15, the National Government re-enacted law No. 23.018 which allowed crude oil exporting companies from provinces in Patagonia to request a refund proportional to the export price of crude based on the provincial port of export. During the present fiscal year the Company requested this refund for two exports made from the port of Caleta Córdova in the province of Chubut. At the date of this report these amounts remained pending collection.

Energy Ministry Resolution 21/2016, published in the Official Gazette on March 11, 2016, establishes an incentive program comprising a subsidy of USD 7.5 per barrel for exports of Escalante crude originating from the Gulf of San Jorge Basin. This incentive is effective from January 1, 2016 to December 31, 2016, and is applicable when the reference price (Brent) does not exceed USD 47.50 per barrel. To this end, the average price per barrel for the two days preceding and two days subsequent to the date of shipment will be considered.

Additionally, on April 11, 2016, the Executive Branch of the province of Chubut established an Extraordinary Incentive Program for exports of surplus crude oil from the province which comprises a subsidy of USD 2.50 per barrel exported when the Brent sales price does not exceed USD 47.20 per barrel, also effective from January 1 to December 31, 2016.

As a result of agreements reached between hydrocarbon producers and the government to establish new sales prices for the domestic market as from January 2016, and of changes in the local economic context, the domestic market sales prices for November and December 2015 were renegotiated with clients.

*Gas*

During 2015, 89% of the revenues from natural gas activities originated from industrial users, 7% came from distribution service licensees, and 4% from electric power generators.

Energy Secretariat (ES) Resolution No. 172/11, which indefinitely extended the allocation rules and criteria established by ES Resolution No. 599/07, remains effective. ES Resolution No. 599/07 ratified the agreement with natural gas producers to supply the domestic market with natural gas from 2007 to 2011, in order to meet domestic demand.

Under the framework of Energy Secretariat Resolution No. 24/08 and complementary resolutions, which created the "Gas Plus" natural gas production incentive program, Tecpetrol S.A. has submitted 29 gas projects to the National ES requesting that they qualify under the Gas Plus program. To date, 27 of these projects have been approved and 15 are currently in production.

Resolution 1/13 of the Strategic Planning and Coordination Committee of the National Hydrocarbon Investment Plan, published in January 2013, created the "Incentive Program for the Injection of Surplus Natural Gas". In November 2013, Resolution 60/13 of the same Committee extended the Program to include "companies with reduced injection". In March 2014, the induction of Tecpetrol S.A. to the program was approved, and at the end of December 2014 a compensation of $5.1 million was received. During fiscal year 2015 the Company did not receive any compensation under the program, as the average sales price of Tecpetrol S.A. was above the price established by the program.

National Energy Secretariat Resolution 226/14 published in April 2014 established an increase in natural gas basin prices for distribution licensees and CNG filling stations. These price increases were established in three stages during 2014 (April, June and August).

The new prices for distribution licensees were established according to consumption savings achieved by the different types of users compared with the previous year. Nevertheless, it should be noted that during the last months of 2014 certain distribution licensees notified Tecpetrol S.A. of precautionary measures issued by various law courts instructing the partial suspension of Resolution 226/14 and of the ENARGAS resolutions that authorized the tariff increases.

## II. OIL AND GAS MARKET (Cont'd)

National Energy Secretariat Resolution 263/15, published in June 2015, approved a disbursement by the National State by way of temporary economic assistance to be distributed among natural gas distribution licensees for the cancelation of past due debts held with natural gas production companies, among other uses. This enabled the Company to collect a significant portion of balances due from distributors through specific agreements with each company.

## III. COMMENTS ON THE BUSINESS CONDUCT

### i. *EXPLORATION AND PRODUCTION*

Argentina

During the year under review, the drilling campaign continued in the areas of El Tordillo and La Tapera-Puesto Quiroga (province of Chubut), and a non-conventional well was drilled in the D-129 Formation. In January 2015 a well was drilled in the Estancia La Mariposa area (province of Santa Cruz).

A ten year extension was obtained in December 2014 for the production concession over the Agua Salada area in the Neuquina Basin (province of Río Negro), until September 2025. In view of this extension, and as part of the associated commitments taken on, during 2015 four new wells were drilled in Aguada del Indio Sur, and 4 repairs were carried out. In the Los Bastos area (province of Neuquén) a well was drilled in the Puesto Aguada del Sembrado gas area, and the first exploratory well was drilled in the area of Río Atuel (province of Mendoza), as part of the commitments for the area, with successful results.

In Aguaragüe (province of Salta), the well drilling campaign commenced at the end of 2014 in Campo Durán and Alto de Yariguarenda as part of the commitments undertaken in the production concession extension agreement for the area. In the drilling of well ADY-2, Tecpetrol implemented the casing drilling technique for the first time. This consists in using the casing pipe as a drilling string. This way, every meter drilled already has casing pipe, guaranteeing the lining of well walls and shortening drilling times by avoiding the use of traditional tools. Additionally, 2 wells were drilled for gas in the Campo Durán gas area.

Abroad

*Colombia*

The drilling campaign that commenced in November 2014 was completed during the first months of 2015. This comprised the drilling of five wells in the CPO-13 Block, with a main focus on the exploration of the area of the El Tigre indigenous reserve, and on the delimitation of the Pendare area, in order to continue with the evaluation of the behavior and extension of the oilfield discovered.

As a result of the drop in international prices of crude in the middle of 2015, this campaign was suspended and numerous cost and area operating structure optimizations were carried out. Throughout the year extensive tests continued in the discoveries recorded in Atarraya (CPO-7) and Pendare (CPO-13), having achieved an average operative production of 1,756 barrels/day of oil. Refurbishing was carried out in both oilfields allowing the full recovery of produced water by reinjection in compliance with various Environmental Development Licenses recently obtained. Additionally, the water treatment plant in Pendare was upgraded, resulting in an increase in net production above 1,800 barrels per day.

In January 2015 the Company filed the relinquishment of the exploration program for Block CPO-6 before the National Hydrocarbons Agency, and continued the abandonment and environmental restoration tasks relating to certain wells drilled and their sites.

The contracts for Blocks CPO-7 and CPO-13 are currently in Phase 2 of the Exploratory Program, which will be completed in mid-2017 in both cases.

## III. COMMENTS ON THE BUSINESS CONDUCT (Cont'd)

On December 22, Tecpetrol de Colombia S.A.S. resolved to make a capital increase of USD 135,000,000. Tecpetrol S.A. did not exercise is preemptive rights and consequently did not take part in this contribution. Consequently, its share in the equity of Tecpetrol de Colombia S.A.S. fell from 25.5% to 0.24%.

<u>Bolivia</u>

The drilling of wells ICS-2 and ICS-3 incorporated gas reserves in the Huamampampa formation, in the Ipati Block, in which the subsidiary Tecpetrol de Bolivia S.A. has a 20% interest. There remains exploratory potential in deeper reservoirs (Icla and Santa Rosa formations), which will be investigated by the subsidiary and the operator. An estimated production flow of 6.5 $MMm^3$ per day will be achieved as from June 2016.

### *ii - STAFF AND COMMUNITY RELATIONS*

**Human Resources**

It is the Company's priority to consolidate its growth by developing qualified and committed human resources with broad expertise in the different businesses in which the Company operates. In the context of declining oil prices that characterized the fiscal year, the Company's strategy was to continue investing in training, reflecting its commitment in this area.

Additionally, in 2015 the second edition of the Tecpetrol University Induction Camp program was held. This is a corporate university that offers intensive training for young professionals from Tecpetrol. This year, staff from the Company participated in the project alongside young professionals from Mexico, Ecuador, Colombia and Peru.

**Health, Safety and the Environment**

Tecpetrol's Health, Safety, and the Environment ("HSE") Policy is based on leadership and commitment, and comprises prevention programs, accident and incident investigation, risk management, improvement plans, and safety and environmental care initiatives, preventive observations, and inspections of operating activities.

During fiscal year 2015, the first phase of the HSE Management System was implemented, with the standardization of its Corporate Rules and Procedures. This included the incorporation of Risk and Impact Management Standards, the Corporate Environmental Management Plan, Legal Requirements and Other Commitments Management, Waste Management, and the Operating Practice for operations involving Hydrogen Sulfide (SH2). Additionally, work continues in the preparation of standard procedures for Contractor Management, Environmental Protection, sociocultural aspects and emergency response.

Indicator results are monitored through an HSE Dashboard that displays the evolution of accident ratios, and progress made in the use of different proactive and preventive tools such as STOP, area inspections, incident/accident reporting, closure of investigations, and compliance with the annual training plan.

The Company is also working intensively in Occupational Health monitoring, and monitoring and enforcement of the latest resolutions of the Argentine Labor Risk Superintendency (LRS) relating to occupational medical doctors (Res. 905/15) and Ergonomics (Res. 886/15).

In the El Tordillo area, the Company obtained formal approval for the oil-contaminated sludge treatment technology and continues working on solid and liquid waste management process improvements, among which it is worth highlighting the implementation of the organic waste composting process.

During August 2015 there was an accident at the El Tordillo oilfield during the execution of maintenance work that resulted in one fatality and four injured persons. Emergency procedures and situation containment were activated immediately. Additionally, all activities in the area of the accident at the oilfield were interrupted and a scheduled stoppage was coordinated for all operations at El Tordillo. Operations were resumed gradually after executing the corresponding controls.

**III. COMMENTS ON THE BUSINESS CONDUCT (Cont'd)**

**Social Development**

Tecpetrol actively collaborates with the communities in the areas in which it operates, contributing to the sustainable development of the population and its institutions in the areas of education, health, sports, culture and social advancement. In this spirit, the Company carries out and supports social development programs in low income rural and urban areas, reaching out to the communities and schools in the vicinity of its oil and gas areas, and garnering the commitment of its staff and of the local populations.

The social development plan includes various education, sustainable development, cultural appreciation, labor training and health programs. All these programs are planned following a detailed diagnosis of the circumstances to be improved, and in line with a clear and efficient technical design.

**2 - STRUCTURE AND ORGANISATION OF THE COMPANY AND ITS ECONOMIC GROUP**

The Company is controlled by Tecpetrol Internacional S.L.U., based in Spain, with subsidiaries that develop, invest and run businesses in oil and gas production, transportation and distribution in Argentina, Bolivia, Ecuador, Mexico, Peru, Venezuela and Colombia.

The table below presents a summary description of the parent company and investments in Tecpetrol S.A. Companies:

| Parent company | Principal line of business | Country | % 2015 | % 2014 |
|---|---|---|---|---|
| Tecpetrol Internacional S.L.U. | Investments and equity investment in companies | Spain | 95.98 | 95.98 |
| **Subsidiaries and other equity investments** | **Principal line of business** | **Country** | **% 2015** | **% 2014** |
| Dapetrol S.A. | Exploration, production and sale of hydrocarbons | Argentina | 97.50 | 97.50 |
| Tecpetrol de Bolivia S.A. | Exploration, production and sale of hydrocarbons | Bolivia | 98.05 | 98.05 |
| GEA – Geo Energy Alternatives S.A. | Advisory services | Argentina | 70.00 | 70.00 |
| Tecpetrol Colombia S.A.S. (1) | Exploration, production and sale of hydrocarbons | Colombia | 0.24 | 25.50 |
| Oleoducto del Valle S.A. | Oil pipeline transport concession to and from Allen oil pipeline - Puerto Rosales | Argentina | 2.10 | 2.10 |
| Tecpetrol del Perú S.A.C. | Exploration, production and sale of hydrocarbons | Peru | 2.00 | 2.00 |
| Tecpetrol Bloque 56 S.A.C. | Exploration, production and sale of hydrocarbons | Peru | 2.00 | 2.00 |
| Tecpetrol Lote 174 S.A.C. (2) | Exploration, production and sale of hydrocarbons | Peru | - | 2.00 |
| Tecpetrol de México S.A. de C.V. (3) | Provision of services to the hydrocarbon industry | Mexico | 1.77 | 1.77 |
| Burgos Oil Services S.A. de C.V. (4) | Provision of services to the hydrocarbon industry | Mexico | 0.937 | 1.12 |
| Norpower S.A. de C.V. | Provision of services to the hydrocarbon industry | Mexico | 0.60 | 0.60 |
| Tecpetrol de Venezuela S.A. | Provision of services to the hydrocarbon industry | Venezuela | 0.03 | 0.03 |
| Pardaliservices S.A | Provision of hydrocarbon exploration, evaluation and development services. | Ecuador | 0.0000054 | 0.0000054 |
| Tecpeservices S.A. | Provision of design, engineering and construction services relating to works in oilfields or any other oil and gas infrastructure. | Ecuador | 0.0063 | 0.0063 |
| Tecpecuador S.A. | Provision of services to the hydrocarbon industry | Ecuador | 0.0000002 | 0.0000002 |

(1) The Shareholders' Meeting of Tecpetrol de Colombia S.A.S. held on December 22, 2015, decided to make a capital increase in which the Company did not participate. As a result, the Company's equity interest in that company has decreased.

(2) On October 5, 2015 the Shareholders' Meeting of Tecpetrol Lote 174 S.A.C. resolved a merger by takeover with Tecpetrol del Perú S.AC. (as merged company), with effective date November 1, 2015.

(3) On October 10, 2014, the Shareholders' Meetings of Tecpetrol de México S.A. de C.V. and TGT de México S.A. de C.V. approved the merger of these companies, with Tecpetrol de México S.A. de C.V. as the absorbing and subsisting company.

(4) On December 29, 2015, the Ordinary General Shareholders' Meeting of Burgos Oil Services S.A. de C.V. approved a capital increase in which the Company waived its right to accretion. As a result, the Company's equity interest in Burgos Oil Services decreased from 1.12% to 0.937%.

## 3 - SUMMARY INFORMATION ON THE ECONOMIC AND FINANCIAL POSITION OF THE COMPANY

The main figures from the Company's financial statements are presented below:

### Balance sheet structure

(amounts stated in pesos)

| | Separate Financial Statements | | Consolidated Financial Statements | |
|---|---|---|---|---|
| | December 31, 2015 | December 31, 2014 | December 31, 2015 | December 31, 2014 |
| Current assets | 1,418,934,763 | 790,665,043 | 1,482,714,161 | 849,281,440 |
| Non-current assets | 3,629,555,434 | 2,292,847,944 | 7,696,827,288 | 4,129,060,310 |
| **Total assets** | **5,048,490,197** | **3,083,512,987** | **9,179,541,449** | **4,978,341,750** |
| Current liabilities | 1,979,999,190 | 1,732,461,188 | 2,173,712,200 | 1,889,605,409 |
| Non-current liabilities | 1,756,410,243 | 910,225,655 | 5,692,470,424 | 2,646,605,813 |
| **Total liabilities** | **3,736,409,433** | **2,642,686,843** | **7,866,182,624** | **4,536,211,222** |
| Minority interest in controlled companies | - | - | 1,278,061 | 1,304,384 |
| Shareholders' equity | 1,312,080,764 | 440,826,144 | 1,312,080,764 | 440,826,144 |
| **Total liabilities plus shareholder's equity** | **5,048,490,197** | **3,083,512,987** | **9,179,541,449** | **4,978,341,750** |

### Income statement structure

(amounts stated in pesos)

| | Separate Financial Statements | | Consolidated Financial Statements | |
|---|---|---|---|---|
| | December 31, 2015 | December 31, 2014 | December 31, 2015 | December 31, 2014 |
| Ordinary operating result | 237,905,470 | 387,192,580 | 215,347,818 | 381,568,170 |
| Net financial and holding result | (692,983,131) | (263,762,830) | (670,497,375) | (257,787,836) |
| Other income and expenses | 23,063,971 | 101,188,644 | 23,803,675 | 101,199,522 |
| **Net ordinary result** | **(432,013,690)** | **224,618,394** | **(431,345,882)** | **224,979,856** |
| Income tax | 239,452,781 | (116,611,153) | 239,452,781 | (116,611,153) |
| Minority interest in controlled companies | - | - | (667,808) | (361,462) |
| **Income/(loss) for the year** | **(192,560,909)** | **108,007,241** | **(192,560,909)** | **108,007,241** |

### 3 - ECONOMIC-FINANCIAL POSITION (Cont'd)

**Structure of funds provided or used**
(amounts stated in pesos)

| | Separate Financial Statements | | Consolidated Financial Statements | |
|---|---|---|---|---|
| | December 31, 2015 | December 31, 2014 | December 31, 2015 | December 31, 2014 |
| Funds (allocated to)/ generated by operating activities | (183,151,049) | 923,040,927 | (393,224,182) | 953,388,788 |
| Funds (allocated to) investment activities | (1,137,478,091) | (1,278,535,623) | (3,055,737,887) | (2,249,933,878) |
| Funds generated by financing activities | 1,307,321,470 | 284,824,384 | 3,428,809,144 | 1,238,719,317 |
| Financial and holding results generated by cash and banks | 54,424,341 | 30,505,644 | 62,008,835 | 33,094,253 |
| **Total funds generated/(allocated to) in this fiscal year** | **41,116,671** | **(40,164,668)** | **41,855,910** | **(24,731,520)** |

### 4 - MAIN INDICATORS

| | Separate Financial Statements | | Consolidated Financial Statements | |
|---|---|---|---|---|
| | December 31, 2015 | December 31, 2014 | December 31, 2015 | December 31, 2014 |
| Solvency (1) | 0.35 | 0.17 | 0.17 | 0.10 |
| Current Liquidity (2) | 0.72 | 0.46 | 0.68 | 0.45 |
| Locked-up capital (3) | 0.72 | 0.74 | 0.84 | 0.83 |
| Rate of Return (4) | (22%) | 23% | (22%) | 23% |

(1) Shareholders' equity/Total liabilities
(2) Current Assets/ Current Liabilities
(3) Non-current assets/Total Assets
(4) Result for the year/Average equity

### 5 - ANALYSIS OF THE MAIN VARIATIONS IN EQUITY AND OF THE RESULT FOR THE FISCAL YEAR

The operating income for the fiscal year ended December 31, 2015 reached $2,829 million, down 16% compared with the previous fiscal year mainly due to the significant drop in international oil prices during the year and offset in part by the fluctuation in the US dollar exchange rate.

The gross margin decreased 47% compared with 2014 as a result of lower operating income and higher costs. The net result for fiscal year 2015 was a loss of $193 million (net of the income tax charge of $239 million – profit).

In 2015, the result from equity interests in controlled companies, with significant influence, and other related parties, includes the effect of the drop in the equity share in Tecpetrol Colombia S.A.S. mentioned in point 1, Chapter III (Comments relating to the Business Conduct).

During the present fiscal year the Company used cash flows obtained through bank borrowings ($1.263 million) and from shareholder contributions through a capital increase paid-in to the Company ($260 million) to finance its normal business activities.

Bank borrowings were obtained at similar interest rates to those applied to other companies in the Argentine market with comparable solvency, liquidity, cash generation and risk.

**5 - ANALYSIS OF THE MAIN VARIATIONS IN EQUITY AND OF THE RESULT FOR THE FISCAL YEAR (Cont'd)**

At the fiscal closing date the Company held a credit toward its shareholders of $390 million as a result of the capital increase approved by the Extraordinary Shareholders' Meeting held on December 30, 2015. At the date of this annual report this capital increase had been partially paid in.

Investments in fixed assets and other assets during the year reached $1,267 million. Additionally, and as a result of the technical revaluation carried out on December 31, 2015, the Company increased the value of drilled wells and repairs by $588 million; this amount is reflected, net of the income tax charge of $206 million, in the statement of changes in equity as "Technical Revaluation allowance" and "Other reserves", respectively.

| Statistical data (*) | 12.31.15 | 12.31.14 |
|---|---|---|
| Production in equivalent units (**) (thousands $m^3$ of oil and gas) | 1,282 | 1,271 |
| Destined to: | | |
| Domestic market | 996 | 966 |
| Export market | 286 | 305 |
| Oil production (thousands $m^3$) | 642 | 652 |
| Gas production (thousands $m^3$) | 640 | 619 |

(*) Sales figures are similar to production figures and are not presented.
(**) In caloric equivalent (1,000 $m^3$ gas = 1 $m^3$ oil).

**6 - SIGNIFICANT CONTRACTS NOT RELATED WITH THE MAIN ACTIVITY**

During the year under review no significant contracts were executed relating to operations not comprised under the main activity.

**7 - INFORMATION ON RELEVANT**

The Company owns fixed assets located mainly in areas of the Noroeste, San Jorge and Neuquina basins in Argentina. During the current year, the Company made a technical revaluation of fixed assets (see Note 10 to the Financial Statements). Pursuant to the regulatory framework that governs oil and gas activities, the Company has certain environmental obligations in relation to these assets which comprise the withdrawal of facilities, plugging of wells, and remediation of surfaces whenever an operation is to be discontinued.

**8 - SIGNIFICANT SPECIAL PROJECTS**

No significant special projects were carried out during the present fiscal year.

**9 - TRANSACTIONS WITH RELATED PARTIES**

Transactions with related parties are presented in Note 7 of the financial statements.

## 10 - OBJECTIVES AND OUTLOOK

The change in trend in the international price of crude that commenced in November 2014 generates uncertainties for hydrocarbon sector activities. At the date of these financials, the Company continues to exert its greatest efforts to sustain production and employment, without neglecting its long term commitment and striving to defend the viability of projects through the reduction and/or postponement of investments, cost optimization, renegotiation of supplier contracts, and focusing on efficiency and increased productivity in its operating, administrative and commercial processes.

The sale of hydrocarbons in Argentina is expected to continue unfolding as in previous years, within the framework of prices agreed between parties, in the knowledge that a portion of the production originating from the oilfields in the province of Chubut must be exported, while production from the other oilfields located in other provinces will be destined to the local market.

Negotiations will be continued with the province of Mendoza for an extension of the concession for the Atuel Norte area.

## 11 - SUBSEQUENT EVENTS

No events, situations or circumstances that have or could have a significant impact on the equity, economic or financial position of the Company have occurred subsequent to December 31, 2015, aside from those referred to in Note 9 and Note 10 to these financial statements.

## 12 - DISTRIBUTION OF PROFITS

The Result for the year was a net loss of $192,560,909. The Board of Directors of Tecpetrol S.A. proposes to the Shareholders' Meeting that this loss be absorbed in part using the Reserve for future dividends and the Legal Reserve, and to report the remainder as Retained Earnings considering that this amount does not exceed the limit established by section 206 of the Company Law.

Considering that the result for the year was a loss, no allocation is proposed to the Legal Reserve.

A provision was made in the financial statements for the fiscal year ended December 31, 2015, for the fees of the Board of Directors and Surveillance Committee, amounting to $1,021,000, and which requires the approval of the Shareholders' Meeting that deals with this Annual Report and Financial Statements.

The Board of Directors thanks all the staff for their dedication and efforts throughout the year.

Buenos Aires, June 03, 2016

## TECPETROL SOCIEDAD ANONIMA

## JURIDICAL INFORMATION

**Financial statements for the fiscal years ended December 31, 2015 and 2014**

| | |
|---|---|
| **Legal domicile:** | Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires |
| **Fiscal year:** | No. 36, commenced January 1, 2015 and ended December 31, 2015 |
| **Company's main line of business:** | Exploration, exploitation and development of Hydrocarbon areas; transport, distribution, transformation, distillation and industrial use of hydrocarbons and its by-products, and hydrocarbons trade. |
| **Date of registration with the Public Registry of Commerce:** | By-laws: number 247 of Book 94, Volume Companies by Shares, June 19, 1981.<br><br>Of amendments to by-laws: March 25, 1983, October 16, 1985, July 1, 1987, February 24, 1989, December 12, 1989, August 18, 1992, December 21, 1992, April 06, 1993, December 14, 1995, October 30, 1997, October 13, 2000, September 14, 2005, November 16, 2007, March 23, 2009, September 20, 2010, March 2, 2016, |
| **Expiration of Company term of duration:** | June 19, 2080 |
| **Correlative registration number with the Superintendency of Commercial Companies (“IGJ”):** | 802,207 |
| **Name of Parent company:** | Tecpetrol Internacional S.L.U. |
| **Legal domicile of parent company:** | Calle García de Paredes 94, 1°A, 28010 Madrid, Spain. |
| **Parents Company’s main line of business:** | Investments. |
| **Equity interest held by the Parent company:** | 95.98% |
| **Percentage of votes of Parent company:** | 98.3346% |

| | | At December 31, 2015 | | |
|---|---|---|---|---|
| **Capital status (Note 9)** | **Class of shares** | **Subscribed and paid-in** | **Subscribed but not yet paid in** | **Total subscribed** |
| | **Book-entry shares** | **$** | **$** | **$** |
| | Common, class A shares, face value $1 - 1 vote each | 410,281,911 | 252,381,617 | 662,663,528 |
| | Common, class B shares, face value $1 - 5 votes each | 223,718,089 | 137,618,383 | 361,336,472 |
| | | 634,000,000 | 390,000,000 | 1,024,000,000 |

## TECPETROL SOCIEDAD ANONIMA

Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations. Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

## BALANCE SHEET

**At December 31, 2015 and 2014**
**Amounts stated in pesos**

| ASSETS | 12.31.15 | 12.31.14 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and banks | 31,168,308 | 68,478,471 |
| Other investments (Exhibit D) | 113,675,886 | 35,249,052 |
| Trade receivables (Note 6 a)) | 269,656,813 | 312,926,335 |
| Other receivables (Note 6 b)) | 847,604,755 | 230,562,423 |
| Inventories (Note 6 c)) | 156,829,001 | 143,448,762 |
| **Total Current assets** | **1,418,934,763** | **790,665,043** |
| **NON-CURRENT ASSETS** | | |
| Other receivables (Note 6 d)) | 59,986,004 | 50,033,213 |
| Deferred tax (Note 6 e)) | 278,368,319 | 246,907,383 |
| Investments (Note 6 f) and Exhibit C) | 46,768,895 | 47,657,931 |
| Fixed assets (Exhibit A) | 2,981,592,810 | 1,658,076,711 |
| Other assets (Exhibit B) | 262,839,406 | 290,172,706 |
| **Total Non-current assets** | **3,629,555,434** | **2,292,847,944** |
| **Total Assets** | **5,048,490,197** | **3,083,512,987** |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Debts | | |
| Trade payables (Note 6 g)) | 565,338,473 | 737,892,238 |
| Borrowings (Note 6 h)) | 1,276,927,133 | 522,039,258 |
| Social Security and tax payables (Note 6 i)) | 106,179,136 | 180,203,114 |
| Other liabilities (Note 6 j)) | 25,443,526 | 270,301,922 |
| Total debts | 1,973,888,268 | 1,710,436,532 |
| Allowances and provisions (Exhibit E) | 6,110,922 | 22,024,656 |
| **Total Current liabilities** | **1,979,999,190** | **1,732,461,188** |
| **NON-CURRENT LIABILITIES** | | |
| Debts | | |
| Borrowings (Note 6 k) | 804,957,909 | 262,557,776 |
| Social Security and tax payables (Note 6 l)) | 286,519,036 | 227,897,661 |
| Other liabilities (Note 6 m)) | 625,011,680 | 383,896,161 |
| Total debts | 1,716,488,625 | 874,351,598 |
| Allowances and provisions (Exhibit E) | 39,921,618 | 35,874,057 |
| **Total Non-Current Liabilities** | **1,756,410,243** | **910,225,655** |
| **Total Liabilities** | **3,736,409,433** | **2,642,686,843** |
| **SHAREHOLDERS' EQUITY** | | |
| As per related statement | **1,312,080,764** | **440,826,144** |
| **Total Liabilities plus Shareholders' equity** | **5,048,490,197** | **3,083,512,987** |

**The accompanying Notes 1 to 11, Exhibits A, B, C, D, E, F and G, Tables 1 and 2 along with the attached consolidated financial statements are an integral part of these financial statements.**

## TECPETROL SOCIEDAD ANONIMA

Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations. Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

## INCOME STATEMENT

**For the period ended December 31, 2015, in comparative format with the prior year.**

**Amounts stated in pesos.**

| | **12.31.15** | **12.31.14** |
|---|---|---|
| Net sales | 2,828,974,132 | 3,383,772,193 |
| Export duties and other exports costs | (3,846,483) | (391,639,290) |
| Operating costs (Exhibit G) | (2,275,811,293) | (1,959,684,432) |
| **Gross profit** | **549,316,356** | **1,032,448,471** |
| Result from valuation of inventories at net realizable value | 58,366,953 | 49,125,070 |
| Selling expenses (Exhibit G) | (92,970,500) | (88,083,999) |
| Administrative expenses (Exhibit G) | (399,229,416) | (435,347,962) |
| Exploration costs (Exhibit G) | (20,146,400) | (22,144,458) |
| Result from controlled companies, under significant influence and other related parties | 206,040,116 | (98,454,695) |
| Other taxes (Note 3.3.s )) | (63,471,639) | (50,349,847) |
| Financial and holding results generated by assets | | |
| Interest | 14,880,253 | 17,557,227 |
| Exchange differences | 86,255,782 | 26,531,791 |
| Securities and derivatives holding result | 29,209,527 | (16,137,134) |
| Financial and holding results generated by liabilities | | |
| Interest | (288,226,771) | (100,215,572) |
| Bank commissions and charges | (7,362,291) | (4,056,259) |
| Exchange differences | (527,739,631) | (187,442,883) |
| Other income and expenses, net | 23,063,971 | 101,188,644 |
| **Result before income tax** | **(432,013,690)** | **224,618,394** |
| Income tax (Note 8) | 239,452,781 | (116,611,153) |
| **Result for the year** | **(192,560,909)** | **108,007,241** |

**The accompanying Notes 1 to 11, Exhibits A, B, C, D, E, F and G, Tables 1 and 2 along with the attached consolidated financial statements are an integral part of these financial statements.**

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

## STATEMENT OF CHANGES IN EQUITY

**For the period ended December 31, 2015, in comparative format with the previous year.**

**Amounts stated in pesos.**

| Items | Shareholders' contributions | Accumulated results | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share Capital | Reserved profits | | | Technical revaluation allowance (Note 10) | Other reserves (Notes 8 and 10) | Deferred result | Retained earnings | Total |
| | | Reserves | | | | | | | |
| | Subscribed capital | Legal | For future dividends | Total | | | Temporary translation differences | | |
| **Balances at December 31, 2013 - According to the previous year financial statements** | **374,000,000** | **74,800,000** | **8,692,314** | **83,492,314** | **-** | **-** | **6,146,450** | **54,647,020** | **518,285,784** |
| **Distribution of retained earning according to the Ordinary Shareholders' Meeting held on April 14, 2014:** - Reserve for future dividends | - | - | 54,647,020 | 54,647,020 | - | - | - | (54,647,020) | - |
| **Payment of dividends according to the Board of Directors' Meeting held on May 5, 2014:** | - | - | (63,339,000) | (63,339,000) | - | - | | - | (63,339,000) |
| Prepayment of dividends according to the Board of Directors' Meeting held on November 10, 2014 (1): | - | - | - | - | - | - | - | (93,600,000) | (93,600,000) |
| Net decrease of deferred result Income for the year | - | - | - | - | - | - | (28,527,881) | - | (28,527,881) |
| Result for the year | - | - | - | - | - | - | - | 108,007,241 | 108,007,241 |
| **Balances at December 31, 2014** | **374,000,000** | **74,800,000** | **334** | **74,800,334** | **-** | **-** | **(22,381,431)** | **14,407,241** | **440,826,144** |
| **Distribution of retained earning according to the Ordinary Shareholders' Meeting held on April 14, 2015:** - Reserve for future dividends | - | - | 14,407,241 | 14,407,241 | - | - | - | (14,407,241) | - |
| Share capital increase according to<br>Extraordinary Shareholders' Meeting held on July 31, 2015<br>Extraordinary Shareholders' Meeting held on December 30, 2015 | 260,000,000<br>390,000,000 | - | - | - | - | - | - | - | 260,000,000<br>390,000,000 |
| revaluation and effect of deferred income tax (2) | - | - | - | - | 587,997,450 | (205,799,108) | - | - | 382,198,342 |
| Net increase of deferred result | - | - | - | - | - | - | 31,617,186 | - | 31,617,186 |
| Result for the year (loss) | - | - | - | - | - | - | - | (192,560,909) | (192,560,909) |
| **Balances at December 31, 2015** | **1,024,000,000** | **74,800,000** | **14,407,575** | **89,207,575** | **587,997,450** | **(205,799,108)** | **9,235,755** | **(192,560,909)** | **1,312,080,764** |

(1) Reported to the Superintendency of Commercial Companies as established in its legal framework. Prepaid dividends were confirmed by the Shareholders' Meeting that analyzed the financial statements at December 31, 2014.
(2) The revaluation performed in fiscal year 2015 was registered once approval was obtained from the Superintendency of Commercial Companies under number 7597.

**The accompanying Notes 1 to 11, Exhibits A, B, C, D, E, F and G, Tables 1 and 2 and Consolidated Financial Statements are an integral part of these financial statements**

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

## CASH FLOW STATEMENT
**For the period ended December 31, 2015, in comparative format with the previous year.**

**Amounts stated in pesos.**

| | 12.31.15 | 12.31.14 |
|---|---|---|
| **Changes in cash** | | |
| Cash at the beginning of year (1) | 103,727,523 | 143,892,191 |
| Cash at year end (1) | 144,844,194 | 103,727,523 |
| **Increase/Decrease in cash** | **41,116,671** | **(40,164,668)** |
| **Operating activities** | | |
| **(Loss)/Income for the year** | **(192,560,909)** | **108,007,241** |
| Adjustments to arrive at net cash flows provided by operating activities (2) | | |
| Depreciation of fixed assets | 535,754,165 | 388,322,742 |
| Amortization of other assets | 46,431,508 | 12,767,465 |
| Income tax charge | (239,452,781) | 116,611,153 |
| Interest and exchange differences from asset retirement obligation | 85,812,312 | 119,469,888 |
| Interest paid | 249,966,538 | 62,483,637 |
| Allowance variation and other liabilities | 12,506,882 | 12,098,503 |
| Income from the sale of fixed assets | (3,429,336) | (1,750,128) |
| Result from other Investments | (11,294,003) | (17,326,956) |
| Result from investment in subsidiaries, under significant influence and other related parties | (206,040,116) | 98,454,695 |
| Financial and holding results generated by cash and banks | (54,424,341) | (30,505,644) |
| Income tax payments | (142,033,004) | (172,709,589) |
| Dividends from subsidiaries | 21,376,029 | 7,434,960 |
| **Changes in assets and liabilities:** | | |
| Increase in inventories | (13,380,239) | (46,794,781) |
| Increase in investments and other investments | (275) | (202,573) |
| Increase in other receivables | (236,954,729) | (99,548,520) |
| Decrease (Increase) in trade receivables | 18,856,073 | (143,903,603) |
| (Decrease) Increase in trade payables | (172,553,765) | 343,904,125 |
| Increase in Social Security and tax payables | 128,823,138 | 171,586,576 |
| Decrease in other liabilities | (10,554,196) | (5,358,264) |
| **Net cash total (applied to) generated by operations** | **(183,151,049)** | **923,040,927** |
| **Investment activities** | | |
| Dividends collected from other investments | 11,294,003 | 17,326,956 |
| Addition of fixed assets, net | (1,133,936,083) | (1,083,080,255) |
| Increase in other assets | (19,098,208) | (214,746,407) |
| Proceeds from the sale of fixed assets | 4,262,197 | 1,964,083 |
| **Total cash applied to investment activities** | **(1,137,478,091)** | **(1,278,535,623)** |
| **Financing activities** | | |
| Net increase of borrowings | 1,263,352,297 | 499,049,872 |
| Interest paid | (216,030,827) | (57,286,488) |
| Capital increase | 260,000,000 | - |
| Cash dividends | - | (156,939,000) |
| **Total cash generated by financing activities** | **1,307,321,470** | **284,824,384** |
| **Financial and holding results generated by cash and banks** | | |
| Gains from financial deposits and mutual funds | 35,427 | 4,298,418 |
| Interest | 9,885,094 | 14,332,140 |
| Exchange differences | 44,503,820 | 11,875,086 |
| **Increase in cash and banks generated by financial and holding results** | **54,424,341** | **30,505,644** |
| **Increase/(Decrease) in cash** | **41,116,671** | **(40,164,668)** |
| **Non-cash transactions:** | | |
| Technical revaluation of Fixed assets (net of income tax) | 382,198,342 | - |
| Capital increase not yet paid up | 390,000,000 | - |

(1) Includes balances under the item Cash and banks and Other current investments.
(2) The difference between the interest income and collected is not significant.
**The accompanying Notes 1 to 11, Exhibits A, B, C, D, E, F and G, Tables 1 and 2 and Consolidated Financial Statements are an integral part of these financial statements**

.

# Notes to the financial statements at December 31, 2015 and 2014

## Note 1 – General information

Tecpetrol S.A. (the "Company") was incorporated on June 5, 1981 and its main activity is the exploration and exploitation of oil and gas in Argentina and other Latin American countries through subsidiaries. In Argentina, the Company operates in hydrocarbon areas in Golfo de San Jorge, Neuquina and Noroeste basins.

## Note 2 – Preparation and presentation of financial statements

These financial statements are stated in Argentine pesos and were prepared in accordance with disclosure and valuation standards contained in the Technical Pronouncements issued by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE, for its acronym in Spanish), as approved by the Professional Council in Economic Sciences of the City of Buenos Aires (CPCECABA), and the regulations issued by enforcement authorities.

Balances at December 31, 2014, recognized for comparative purposes, arise from the financial statements at that date.

Certain reclassifications have been made to the information as of December 31, 2014 to conform it to the current period presentation.

## Note 3 – Accounting standards

The most significant accounting standards used in the preparation of these financial statements are shown below:

### 3.1. Consideration of the effects of inflation

In accordance with the methodology established by professional accounting standards in force in Argentina, these financial statements recognize the changes in the purchasing power of the Argentine peso until August 31, 1995. Between that date and December 31, 2001, the adjustment for inflation of financial statements was discontinued, as the economy underwent a period of monetary stability. From January 1, 2002 to March 1, 2003, the effects of inflation were recognized due to the existence of a new inflationary period. The adjustment for inflation has been discontinued since that date, as required by National Executive Branch Decree 664/03 and by the professional accounting standards in effect at that time.

In accordance with the regulations of the Superintendency of Commercial Companies, since March 1, 2003, financial statements have not been restated in constant currency as per Technical Resolution No. 6, as amended and approved by the Professional Council in Economic Sciences of the Autonomous City of Buenos Aires.

Professional accounting standards in Argentina establish that the adjustment for inflation should be made when there is an inflationary context. Requirements are established to determine where an inflationary context exists, but these are not met at the time of issuance of these financial statements.

### 3.2. Accounting estimates

The preparation of financial statements at a given date requires that Management makes estimates and evaluations affecting the amount of assets and liabilities recorded and contingent assets and liabilities disclosed at the date of the issuance of the financial statements, as well as income and expenses recorded during the fiscal year. Company Management makes estimates to calculate, at a given moment, for example, hydrocarbon reserves, depreciation and amortization charges, the recoverable value of assets, the income tax charge, asset retirement obligation and well plugging, long-term benefit plans, and provisions for contingencies. Actual future results may differ from the estimates and evaluations made at the date of preparation of these financial statements.

### Note 3 – Accounting standards (Cont'd)

#### 3.3. Measurement and disclosure criteria

The main valuation and disclosure criteria used in the preparation of these financial statements, which are consistent with criteria used in the prior fiscal year, are detailed below.

**a) Cash and banks**

Available cash has been stated at nominal value.

**b) Foreign currency assets and liabilities**

Foreign currency assets and liabilities have been valued at year-end exchange rates.

**c) Other investments**

Time deposits and deposits held at call with banks have been valued in accordance with the amount delivered at the time of the transaction plus financial results accrued at year end. Mutual funds and government securities have been valued at their market price at year-end.

**d) Trade receivables and payables**

Trade receivables and payables have been stated at nominal value. Their present value, if applicable, calculated at the estimated discount rate at the time of the transaction, does not show significant differences.

The Company analyses its trade receivables on a regular basis. If there are signs of financial difficulties of the debtor, or the debtor is unable to make payments to the Company as they fall due, it recognizes an allowance for doubtful accounts. This allowance is periodically adjusted based on the aging of accounts receivable.

**e) Other receivables and payables**

Other receivables and payables have been stated at their nominal value plus interest accrued at year-end, net of impairment allowance, if applicable. Their present value, if applicable, calculated at the estimated discount rate at the time of the transaction, does not show significant differences.

**f) Inventories**

Hydrocarbon stocks have been valued at their net realizable value at the end of the year.

Materials and spare parts have been valued at replacement cost, which does not exceed their amounts recoverable as a whole.

**g) Investments**

Investments in subsidiaries and entities over which the Company has significant influence have been recognized at their equity value, calculated based on the financial statements of subsidiaries and associates at the dates detailed in Exhibit C.

The financial statements used for the calculation of the equity value are adjusted, if necessary, in line with accounting standards used by the Company.

Foreign companies have been classified as separate from the Company's operations due to the following reasons:

# Notes to the financial statements at December 31, 2015 and 2014

**Note 3 – Accounting standards (Cont'd)**

**3.3. Measurement and disclosure criteria (Cont'd)**

- Operations abroad are carried out with a considerable degree of autonomy from the investor;
- Labor, materials and other costs of the goods and services of operations abroad are mainly settled in local currency and/or in US dollars, and not in the currency of the investor's financial statements;
- Income from operations abroad is mainly obtained in a currency other than that of the investor's financial statements.

The assets and liabilities of the companies that issue their financial statements in foreign currency are translated into Argentine currency using effective exchange rates at the closing date of the financial statements. The results are converted into Argentine currency using the average exchange rates for the fiscal year. The exchange differences generated by the conversion are recognized in the Statement of Changes in Shareholders' Equity as "Temporary translation differences".

Companies in which there is no control or significant influence on their decisions have been valued at their cost restated in accordance with Note 3.1, which does not exceed their recoverable value.

**h) Fixed assets**

Fixed assets acquired have been valued at their acquisition cost restated according to Note 3.1 net of accumulated depreciation. The Company decided to measure drilled wells and wells repair at their revaluation value (see Note 10) in this fiscal year. The revalued carrying amount is the amount for which an asset could be exchanged between knowledgeable willing parties, in an arm's length transaction.

Exploration and evaluation costs are initially capitalized and accumulated individually per area. In the case of exclusive exploration areas, these costs include geological studies and other costs directly attributable to the activity. Subsequently, if the results of the commercial evaluation of the area are not positive, they will be allocated to results in the period in which the absence of reserves is confirmed by the technical reports and studies.

The costs of exploratory drilling are initially capitalized until the existence of proven reserves justifying their commercial development is determined. During that period and, if there is production associated with those wells, the value of the exploratory investment decreases due to the net book value of the commercialization of extracted hydrocarbons. If those reserves are found, the drilling costs mentioned are allocated to results in the period in which the absence of reserves is confirmed.

Occasionally, an exploratory well can determine the existence of reserves, but they cannot be classified as proven when the drilling is finished. In those cases, such costs continue to be capitalized, provided that enough reserves were found in the well to justify its completion/end as a producing well and that the Company is making enough progress in the economic and operating evaluation of the project viability.

During the exploration and evaluation stages, the assets are not depreciated.

Tangible and intangible drilling costs corresponding to development wells (including dry wells) are capitalized as incurred. The Company considers development wells those which are not drilled in production areas and which are aimed at the development of proven reserves.

Workover in wells which develop reserves and/or increase the production are capitalized and depreciated according to their average useful life. Maintenance expenses are recognized in the Income Statement when they are incurred.

The asset retirement obligation is calculated and depreciated according to the guidelines described in Note 3.3.j) and included under the item Wells.

# Notes to the financial statements at December 31, 2015 and 2014

**Note 3 – Accounting Standards (Cont'd)**

**3.3. Measurement and disclosure criteria (Cont'd)**

The depreciation of wells, machinery, equipment and facilities is calculated by the reserves depletion method based on the developed proven reserves considered in each area from the month of start-up/placing into operation or completion.

The depreciation of the remaining fixed assets has been calculated following the straight-line method, applying annual rates sufficient to extinguish their values at the end of the estimated useful life.

The value of fixed assets, considered per area, does not exceed the estimated recoverable value based on the information available at the date of issuance of the financial statements.

**i) Other assets**

Exploitation and association rights over the areas have been valued at their acquisition cost restated according to Note 3.1 net of accumulated amortization.

The depreciation of the developing areas is calculated by the reserves depletion method based on the cubic meters of extracted hydrocarbons over the total proven reserves considered economically profitable in each area. The depreciation of exploratory areas has been calculated according to reasonable prudence based on the periodic restatements of their potential.

The value of fixed assets, considered per area, does not exceed the estimated recoverable value based on the information available at the date of issuance of the financial statements.

**j) Asset retirement obligation costs**

The present value of costs necessary for asset retirement obligation is calculated for each area on the basis of a cash flow that is discounted at an average interest rate applicable to the indebtedness of the industry in Argentina.

The present value determined is recognized as an opening asset and liability balance. Over time, liabilities increase until reaching their present value in each period, while assets are depreciated by the units of production method, considering developed proven reserves and production for the year. Liabilities are disclosed under Other liabilities - Non-current liabilities.

Adjustments to future plugging costs, if any, are recorded following the same criteria used for the initial estimate.

The capitalized balance at December 31, 2015 and 2014 for asset retirement obligations amounts to $215.4 million and $77.3 million, respectively, and the related accumulated depreciation is $61.9 million and $45.1 million, respectively.

**k) Borrowings**

Borrowings have been valued in accordance with the sum of money received, net of transaction costs, plus interest accrued at year end.

**l) Income tax**

The current income tax charge comprises the current tax that the Company determines by applying the 35% rate on the taxable profit, assessed on the basis of the tax laws in effect.

The Company determined its income tax charge using the deferred tax liability method, recognizing temporary differences between accounting and tax assets and liabilities measurements. The main temporary differences arise from different accounting and tax measurements of fixed assets, other assets, investments, other tax credits, losses and provisions.

# Notes to the financial statements at December 31, 2015 and 2014

**Note 3 – Accounting Standards (Cont'd)**

**3.3. Measurement and disclosure criteria (Cont'd)**

To determine deferred assets and liabilities, the tax rate expected to be in effect at the time of reversal or use has been applied to temporary differences identified, considering the regulations in effect at the date of issuance of these financial statements.

For deferred tax purposes, the Company may opt to recognize the inflation adjustments included in the book value of fixed assets as a temporary difference, along with the related liability, or maintain that difference as a permanent difference and disclose the resulting effect.

The Company decided to adopt the latter criterion and states this situation in a note to these financial statements. The accumulated difference resulting from the effect of the restatement at the tax rate amounts to $7.7 million and $8.9 million at December 31, 2015 and 2014, respectively. The charge to income/loss that would apply to the reversal of deferred tax liabilities amounts to $1.2 million at December 31, 2015 and $1.8 million at December 31, 2014.

The amounts and terms of reversal, estimated based on production and reserve levels, are shown below with the information available at this date:

| 2016 | 2017 | 2018 | Balance | Total |
|---|---|---|---|---|
| 0.7 | 0.7 | 0.1 | 6.2 | 7.7 |

**m) Minimum notional income tax**

In addition, the Company determines minimum notional income tax by applying the effective 1% rate to the computable assets at year end. This tax complements income tax. The Company's tax obligation for each year will be the higher of the two taxes. If in a fiscal year, however, minimum notional income tax obligation exceeds income tax liability, the surplus will be computable as a payment on account of income tax over the next ten fiscal years.

The accumulated balance of the Company is $23 million at December 31, 2015. At December 31, 2014 the Company did not set up a provision for Minimum Notional Income Tax, as this tax was lower than the income tax determined.

**n) Royalties and exports withholding systems**

Royalties ranging from 12% to 22.7% are paid on the production of crude oil and natural gas, based on the price actually obtained from the sale of hydrocarbons of the area, less deductions set forth in the legislation for packaging of the product for delivery to third parties. Royalties are shown in the Operating costs line in the Income Statement.

From 2007 to 2014 the Ministry of Economy established variable export duties at rates that varied according to the international price of crude, under which the State withheld any difference between a cutoff value of USD 70 per barrel and the international price of crude. This caused the domestic price of crude to be much lower than the international market price. At the end of 2014 the international price of crude fell below the reference value used to determine the tax rates; consequently, the Ministry established fixed rates. In December 2014, the Ministry of Economy issued resolution No. 1077/14, effective on January 1, 2015, which repealed Resolution No. 394/07 and its modifications, and established a fixed 1% rate for export duties when the reference price is below USD 71 per barrel, and a variable rate when the price was equal to or above USD 71 per barrel.

**Note 3 – Accounting Standards (Cont'd)**

**3.3. Measurement and disclosure criteria (Cont'd)**

Export duties paid are not deducted from the price for the calculation of royalties. Export duties are recognized in the line "Export duties and other expenses" from the Income Statement.

Export duties and royalties are recognized as mentioned in Note 3.3.r).

**o) Non-current social security debts**

a) *Retirement benefit and other plans*

The Company has two benefit plans in place: "unfunded defined benefits" and "other long-term benefits" which, under certain conditions, are granted over working life and after retirement and are recorded following the guidelines of current accounting standards.

The main actuarial premises are based on real average discount rates of 6% to 7%, and a salary increase rate of 2% and 3%, respectively. The amounts under these plans are the following:

| | At December 31, 2015 | At December 31, 2014 |
|---|---|---|
| Present value of unfunded liabilities | 164,594,468 | 140,175,645 |
| Unrecognized cost of services rendered in the past | (15,280,081) | (3,353,158) |
| Unrecognized actuarial gains/(losses) | 44,732,992 | 26,438,019 |
| Net recognized liabilities | 194,047,379 | 163,260,506 |

Liabilities corresponding to these benefits are recorded at the present value of future cash flows, and they are charged to income during the remaining years of service of the beneficiaries involved, until all the conditions for the vesting period of each benefit have been met. Such liabilities are calculated at least once a year by independent actuaries using the "Projected credit unit" method.

Net liabilities recognized for those benefits have been disclosed under the item "Social security charges", in non-current liabilities, there being no claimable debt at year end. The charge to income, amounting to $23,134,202 for the fiscal year ended December 31, 2015 ($30,194,308 at December 31, 2014), has been recognized in the Salaries and social security contributions line of Exhibit G.

b) *Long-term employee retention and incentive program*

Tecpetrol International S.A. (indirect parent company of Tecpetrol S.A.) implemented a long-term retention and incentive program for certain employees of select subsidiaries. Pursuant to this program, certain senior managers of Tecpetrol S.A. will receive a number of units valued at the carrying amount of equity per share of Tecpetrol International S.A. (excluding the non-controlling interest).

# Notes to the financial statements at December 31, 2015 and 2014

**Note 3 – Accounting Standards (Cont'd)**

**3.3. Measurement and disclosure criteria (Cont'd)**

The credit units will accrue over a four-year period and Tecpetrol S.A. will pay the compensation equivalent to the attributed units after a 10-year period has elapsed from the date of receipt, with the employee having an option to request it as payment from the seventh year, or upon termination from the Company, at the carrying value of the latest equity per share of Tecpetrol International S.A. published (excluding the non-controlling interest) at the moment of payment. Beneficiaries will also receive cash payments equivalent to the dividends paid per share, each time that Tecpetrol International S.A. pays dividends in cash to its shareholders.

Based on calculations made by independent actuaries, the Company recognized at December 31, 2015 and 2014, liabilities for $90,583,260 and $61,823,294, respectively. The charge to income for the benefit plan accrual at December 31, 2015 and 2014 amounts to $2,706,510 (profit) and $16,059,585 (loss), respectively, and has been recognized in the Salaries and social security contributions line of Exhibit G.

**p) Allowances and provisions**

Allowances and provisions were set up to face any contingent situation that may give rise to obligations, provided that they are likely to happen and may be reasonably quantified, taking into consideration Management's expectations and the opinion of the Company's legal counsel.

**q) Equity**

Activity in equity accounts was restated following the guidelines detailed in Note 3.1.

**r) Revenue recognition**

Income from sale of hydrocarbons is recognized when the entity has transferred the significant risks and rewards of ownership to the buyer.

Income from sales for oil and natural gas production activities, in which the Company has a joint participation with other producers, is recognized on the basis of the contractual participation that the Company in each Joint arrangement (UTE) irrespective of the actual allocation.

Dividends earned are recognized when the right to collect is awarded.

**s) Costs and expenses**

Costs and expenses are recognized in the Income Statement on an accrual basis.

**t) Other taxes**

Other taxes relates to tax on credits and debits in current accounts (Law No. 25,413).

**u) Derivative financial instruments**

Derivative financial instruments are initially recognized at fair value on the date when the contract is executed. Financial assets/ liabilities at fair value through profit and loss

In fiscal year 2015, the Company executed financial derivatives contracts, which was not the case in fiscal year 2014. At December 31, 2015, there are no remaining assets or liabilities arising from transactions with derivatives.

### 3.4. Interest in joint arrangement (UTE) and consortia

The financial statements of Tecpetrol S.A. include in each item the Company's share in the assets, liabilities, costs and expenses of the joint arrangements and consortia in which it participates.

Table 1 shows the joint arrangement and consortia in which the Company participates, as well as its share in their assets and liabilities, valued following the same criteria as adopted by Tecpetrol S.A.

### Note 4 – Investment commitments and guarantees - Contingencies

### a – Investment commitments and guarantees

At the date of issuance of these financial statements, Tecpetrol S.A. has assumed the following guarantees for investment commitments (in millions of dollars, according to the share of each area):

| Company | Area | Commitment | Expiration |
|---|---|---|---|
| Tecpetrol S.A. | Río Colorado | 0.57 | End of the first exploration period |
| Tecpetrol S.A. | Río Atuel | 2.97 | End of the first exploration period |
| Tecpetrol S.A. | Agua Salada | 2.85 | December 2016 |
| Tecpetrol S.A. | Loma Ancha | 25.72 | December 2019 |

Further, below we mention the main commitments undertaken by Tecpetrol S.A.:

- Joint, unconditional and irrevocable guarantee for providing Tecpetrol de Bolivia S.A. with all the technical and financial resources required for the latter to fully and appropriately comply with its obligations pursuant to the contracts for the exploitation of the Blocks of Aquío and Ipati.

- Guarantee of compliance with work obligations (phase I) from the contracts executed by Tecpetrol Colombia S.A.S. in CPO6, CPO7 and CPO13 areas, in Colombia, for a total amount of USD 0.87 million falling due between July 2016 and 2017 (phase I), and for an amount of USD 0.2 million falling due between July 2019 and July 2020 (phase II).

- Guarantee for the obligations in connection with environmental remediation liabilities in the areas of Río Colorado and Río Atuel, for USD 0.7 million and USD 0.8 million, falling due at the end of the first exploration period.

- Guarantee of judicial counter-surety policies in favor of the Commercial Court of Original Jurisdiction in and for the City of Buenos Aires No. 3 in relation to provisional remedies, for USD 1.60 million.

### b – Contingencies

The Company has contingent liabilities related to tax claims arising in the ordinary course of business. Also, there are certain interpretations of the regulatory authorities as to the calculation and payment of certain taxes that differs from the criteria applied by Tecpetrol.

**Note 4 – Investment commitments and guarantees - Contingencies (cont'd)**

**b – Contingencies (cont'd)**

The local tax authority, Federal Administration of Public Revenue (AFIP, for its acronym in Spanish), has notified the Company of a jeopardy assessment amounting to $ 9.6 million corresponding to Income tax, plus interest and fines, claiming a presumably incorrect treatment of results accrued on certain crude oil derivatives and other deductions, for fiscal years 2000 and 2001. In July 2006, an appeal was filed with suspensive effect on the demand for payment. In May 2011, the Company was notified of the Tax Court's decision, which ruled in favor of the Company with regards to the treatment of oil derivative instruments, and against it in connection with certain deductions. As the suspensive effect of the appeal to the Tax Court had expired, in

November 2011 the Company paid up the amount corresponding to the items detailed in the ruling (approximately $ 0.4 million of taxes plus interest); notwithstanding this, the Company has filed an appeal with the Cámara Nacional de Apelaciones en lo Contencioso, Administrativo Federal. In July 2013 the Court of Appeals passed judgment in favor of Tecpetrol S.A. and the AFIP lodged an appeal against this decision with the Argentine Supreme Court of Justice.

Based on Management's assessment and the advice of the legal counsels, it is not anticipated that any material expenses will arise from the contingent liabilities other than those provided for in these financial statements.

**Note 5 – Hydrocarbon reserves**

Reserves are the volumes of oil and gas (expressed in m3 of oil equivalent) which generate or are related to an economic gain in the areas where the Company operates or has an investment (direct or indirect) and on which it has rights over exploitation.

There are various factors that create uncertainty as to the estimate of proven reserves, future production profiles, and development costs and prices, including several factors beyond the control of the producer. The procedure for calculating reserves is a subjective process related to the estimate of crude oil and natural gas to be recovered from the subsoil, which causes certain level of uncertainty. Reserves are estimated based on the quality of the geological and engineering information at the date of calculation.

Proven developed and undeveloped hydrocarbon reserves estimated as of December 31, 2015 are disclosed below:

| | |
|---|---|
| Oil – million cubic meters | 4.5 |
| Gas – thousands of millions cubic meters | 2.2 |

Technical Company staff prepared the estimates of reserves; this may be different from the estimates prepared by third parties for specific purposes.

The estimates of reserve were prepared by Company technical personnel, and are based on technological and economic conditions effective at June 30, 2015, considering the economic assessment and having as their horizon the expiry of the concession to determine the term for recoverability. Reserve estimates are adjusted if changes in the factors considered in the evaluation justify adjustment, or at least, once a year.

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# Notes to the financial statements at December 31, 2015 and 2014

**Note 6 – Detailed list of the main balance sheet items**
Amounts stated in pesos

| | 12.31.15 | 12.31.14 |
|---|---|---|
| **CURRENT ASSETS** | | |
| **a) Trade receivables** | | |
| Regular | 269,209,646 | 314,128,304 |
| With other related companies | 75,458,711 | 49,396,126 |
| Allowance for doubtful accounts | (75,011,544) | (50,598,095) |
| | **269,656,813** | **312,926,335** |
| **b) Other receivables** | | |
| Tax | 194,739,764 | 81,118,115 |
| Accounts receivable | 98,450,141 | 30,214,674 |
| With shareholders | 390,000,000 | - |
| With other related companies | 79,434,286 | 54,540,425 |
| Employees loans and advances | 7,692,790 | 9,355,062 |
| Controlled companies: | | |
| - Tecpetrol de Bolivia S.A. | 14,255,810 | 5,624,224 |
| - Dapetrol S.A. | 1,926,986 | 599,049 |
| - GEA-GEO Energy Alternatives S.A. | 20,016 | |
| Companies over which it has significant influence: | | |
| - Tecpetrol Colombia S.A.S. | - | 10,409,816 |
| Advances to suppliers | 5,171,033 | 13,702,088 |
| Insurance, expenses and other items to accrue | 10,802,223 | 6,222,027 |
| Others | 47,247,554 | 20,953,185 |
| Allowance for doubtful accounts | (2,135,848) | (2,176,242) |
| | **847,604,755** | **230,562,423** |
| **c) Inventories** | | |
| Hydrocarbon | 106,811,054 | 97,465,436 |
| Materials and spare parts | 50,017,947 | 45,983,326 |
| | **156,829,001** | **143,448,762** |
| **NO CURRENT ASSETS** | | |
| **d) Other receivables** | | |
| Tax credits | 23,031,243 | - |
| Controlled companies: | | |
| - Tecpetrol de Bolivia S.A. | - | 25,653,000 |
| Accounts receivable | 16,302,424 | 12,274,602 |
| Employees loans | 20,107,380 | 10,891,810 |
| Expenses to be accrued | 1,080,467 | 1,749,311 |
| Others | 47,603 | 47,603 |
| Allowance for doubtful accounts | (583,113) | (583,113) |
| | **59,986,004** | **50,033,213** |
| **e) Deferred tax** | | |
| Deferred tax asset (Note 8) | 278,368,319 | 246,907,383 |
| | **278,368,319** | **246,907,383** |

## Notes to the financial statements at December 31, 2015 and 2014

**Note 6 – Detailed list of main balance sheet items (Cont'd)**
Amounts stated in pesos

| | 12.31.15 | 12.31.14 |
|---|---|---|
| **f) Investments** | | |
| At the beginning of year | 47,657,931 | 39,115,759 |
| Capital contribution | 275 | 256,530 |
| Write-off | - | (53,957) |
| Dividends | (21,376,029) | (7,434,960) |
| Gain/loss | 206,040,116 | (98,454,695) |
| Reclassification (from)/to Other liabilities | (217,170,584) | 142,757,135 |
| Translation differences | 31,617,186 | (28,527,881) |
| At year end | **46,768,895** | **47,657,931** |
| | | |
| **CURRENT LIABILITIES** | | |
| | | |
| **g) Trade payables** | | |
| Regular | 548,693,591 | 676,834,361 |
| Controlled companies: | | |
| - GEA-GEO Energy Alternatives S.A. | 4,408 | 1,967 |
| With other related companies | 16,640,474 | 61,055,910 |
| | **565,338,473** | **737,892,238** |
| | | |
| **h) Borrowings** | | |
| Bank borrowings | 668,116,970 | 337,292,820 |
| Current account overdrafts | 406,612,705 | 184,746,438 |
| Other borrowings | 202,120,000 | - |
| With other related companies | 77,458 | - |
| | **1,276,927,133** | **522,039,258** |
| | | |
| **i) Social security and tax charges** | | |
| Tax credits | 79,522,690 | 161,367,835 |
| Social security charges | 26,656,446 | 18,835,279 |
| | **106,179,136** | **180,203,114** |
| | | |
| **j) Other liabilities** | | |
| Equity restructuring commitments - Permanent investments (Exhibit C) | 22,689,276 | 239,859,860 |
| Provision for Directors and Statutory Auditors' fees | 1,021,000 | 2,204,500 |
| Others | 1,733,250 | 28,237,562 |
| | **25,443,526** | **270,301,922** |

## Notes to the financial statements at December 31, 2015 and 2014

**Note 6 – Breakdown of main balance sheet items (Cont'd)**
Amounts stated in pesos

**NON-CURRENT LIABILITIES**

| | 12.31.15 | 12.31.14 |
|---|---|---|
| **k) Borrowings** | | |
| Bank borrowings | 551,930,002 | 262,557,776 |
| Other borrowings | 129,096,000 | - |
| With other related companies | 123,931,907 | - |
| | **804,957,909** | **262,557,776** |
| **l) Social security and tax charges** | | |
| Social security charges | 284,630,639 | 225,083,800 |
| Tax payables - Law No. 26,476 (part I) | 1,888,397 | 2,813,861 |
| | **286,519,036** | **227,897,661** |
| **m) Other liabilities** | | |
| Asset retirement obligation | 575,240,608 | 351,258,704 |
| Others | 49,771,072 | 32,637,457 |
| | **625,011,680** | **383,896,161** |

**Note 7 – Related parties balances and transactions**

During the year, the following transactions with related parties have been conducted:

Amounts stated in pesos

| Fiscal year commenced January 1, 2015 and ended December 31, 2015 | Controlled companies | Other related companies | Total |
|---|---|---|---|
| Net sales | - | 51,804,028 | 51,804,028 |
| Interest income | 582,601 | 878,192 | 1,460,793 |
| Interest cost | (461,562) | - | (461,562) |
| Acquisition of fixed assets | - | (174,237,551) | (174,237,551) |
| Third-party services | - | (11,169,075) | (11,169,075) |

| Fiscal year commenced on January 1, 2014 and ended December 31, 2014 | Controlled companies | Other related companies | Total |
|---|---|---|---|
| Net sales | - | 18,802,959 | 18,802,959 |
| Interest income | 936,641 | 1,007,008 | 1,943,649 |
| Interest cost | (3,329,100) | - | (3,329,100) |
| Acquisition of fixed assets | - | (123,198,980) | (123,198,980) |
| Third-party services | - | (7,511,393) | (7,511,393) |

# Notes to the financial statements at December 31, 2015 and 2014

**Note 8 - Income tax**

Below is a reconciliation of the income tax charged to earnings to that resulting from applying the statutory income tax rate to the accounting profits:

| | 12.31.15 | 12.31.14 |
|---|---|---|
| Result for the year before income tax | (432,013,690) | 224,618,394 |
| Current tax rate | 35% | 35% |
| **Loss for the year at tax rate** | **151,204,791** | **(78,616,438)** |
| Permanent differences at the tax rate | | |
| - Result from controlled companies under significant influence and other related parties | 72,114,041 | (34,459,143) |
| - Effect from monetary restatement and others | 16,133,950 | (3,535,572) |
| **Total income tax charge** | **239,452,782** | **(116,611,153)** |
| - Deferred tax - charge to results | 237,260,044 | 63,709,237 |
| - Difference between provision and tax return/ Tax determined in this fiscal year | 2,192,738 | (180,320,390) |
| | **239,452,782** | **(116,611,153)** |

The following table shows the changes and detailed list of deferred tax assets and liabilities:

| | Deferred assets - provisions and fixed assets | Deferred assets - tax losses | Deferred liabilities - investments and other receivables | Deferred liabilities - technical revaluation of fixed assets | Total |
|---|---|---|---|---|---|
| Balances at the beginning of the year | 252,264,796 | - | (5,357,413) | - | 246,907,383 |
| Charge to income/loss | 55,851,120 | 177,576,862 | 3,832,062 | - | 237,260,044 |
| Charge to Other reserves (Note 10) | - | - | - | (205,799,108) | (205,799,108) |
| Balances at year end | **308,115,916** | **177,576,862** | **(1,525,351)** | **(205,799,108)** | **278,368,319** |

At December 31, 2015 the Company has tax losses amounting to $507 million, which will become statute-barred in 2021.

**Note 9 – Capital status**

At December 31, 2015, subscribed capital amounts to $ 1,024,000,000, represented by ordinary shares with a par value of $ 1 each.

At December 31, 2014, subscribed and paid-in capital registered with the Public Registry of Commerce amounts to $374,000,000, represented by ordinary shares with a par value of $ 1 each. On July 31, 2015 and December 30, 2015 the Extraordinary Shareholders' Meetings of the Company approved capital increases of $ 260,000,000 and $ 390,000,000, respectively. The first increase was fully paid in and registered with the Public Registry of Commerce while the second capital increase was partly paid in January 2016 and at the date of these financial statements registration has not been completed.

# Notes to the financial statements at December 31, 2015 and 2014

**Note 10 – Revaluation of fixed assets**

At December 31, 2015 the Company hired external independent experts to carry out a technical revaluation of the wells already drilled (drillings) and repairs of wells (workover) included in the item Wells. The Company's management considers that accounting for this item at its revalued amount is the most appropriate way to disclose these assets in the financial statements of the Company. For this purpose, the valuations performed by the external independent experts were obtained and approved, considering that the resulting value is close to market value, which does not exceed recoverable value.

When a revaluation is performed on an item of Fixed assets, the same criteria must be applied to all the items belonging to the same class of assets within each item. A class of revalued items is a grouping of assets of a similar nature and use in an entity's operations.

To obtain the revalued amounts, the following methods were applied, as described below:

a) The *Sales Comparison approach* analyzes recent sales (or offers) involving similar ("comparable") properties, to determine the value of the asset. If no comparable items identical to the analyzed asset are available, the selling price of the former is adjusted to equal the characteristics of the asset under revaluation.

b) The *Cost approach* estimates the value of the asset by comparison to the cost of producing a new asset or a substitute property item, as considered appropriate in the market. The cost is compared with the value of the existing asset and adjusted according to differences in the age, condition and usefulness of the asset. In its simplest form, the cost approach is represented by the replacement cost of a new item, minus all types of depreciation or obsolescence. Depreciation for valuation purposes is defined as the difference between the value of an existing property and a hypothetical new property taken as comparison standard.

c) The *Income approach* considers that the value can be estimated based on the future benefits expected by the owner. This approach is used for the valuation of physical assets when it is possible to determine a certain income directly related to the asset. However, it is not widely used in the valuation of fixed assets, basically due to the difficulty in determining the income that can be directly allocated to a specific asset.

In particular, drillings and workover included in Wells and forming part of the assets located in the different areas for the production of hydrocarbons are not usually the matter of individual bargaining transactions; most of them become fixtures and therefore their disassembly and relocation cannot be considered. Therefore, there are no stable markets of similar assets in use, or conditions offered for sale where the valuation can be performed through the sale of comparable items, only isolated lots of surplus material or clearance sales of equipment can be found, and these do not, reflect the revalued amount under the assumption of a going concern or business continuity. For this reason, the cost method was the method used mainly to determine their value.

However, when performing the checks, it was verified that the revaluation value of the existing assets in the El Tordillo, La Tapera and Puesto Quiroga areas, valued under the Cost Approach, exceeded the recoverable value that was determined under the Income Approach. Therefore, in order to record the fixed assets of these areas at their recoverable value, an additional write-off coefficient has been applied for economic obsolescence, at the time of establishing the revaluation value.

Revaluations must be implemented on a regular basis so that it ensures that the accounting amount recorded does not differ significantly from the recoverable value at closing date of each fiscal year.

The increase in value of drilled wells and workover, included under Wells as a result of the revaluation performed at December 31, 2015 amounted to $587,997,450 and has been recorded, net of tax effects, for $205,799,108 under the Technical Revaluation allowance and Other reserves lines, respectively, in the Statement of Changes in Shareholders' Equity.

# Notes to the financial statements at December 31, 2015 and 2014

### Note 10 – Revaluation of fixed assets (Cont'd)

Should drillings and repairs have been valued at their historical cost, their net value would have been $ 1,369,304,710.

The Technical revaluation allowance is reversed, net of tax effects, by means of (i) the deletion of the revalued wells and workover, or (ii) depreciation charges.

On May 19, 2016 the Superintendency of Commercial Companies, under number 7597, granted administrative approval to the technical revaluation performed at December 31, 2015.

### Note 11 – Subsequent events

No events, situations or circumstances that have or could have a significant impact on the equity, economic or financial position of the Company have occurred subsequent to December 31, 2015, aside from those referred to in Note 9 and Note 10 to these financial statements.

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

Exhibit A

**BALANCE SHEET**
**At December 31, 2015 and 2014**

**FIXED ASSETS**
**Amounts stated in pesos.**

| Items | Original values | | | | | | Depreciation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | At the beginning of the year | Increases | Reclassifications | Technical revaluation (Note 10) | Decreases | At year end | Accumulated at the beginning of the year | For the year | Decreases | Accumulated at year end | Net book value at 12.31.15 | Net book value at 12.31.14 |
| Wells | 4,062,395,486 | 138,169,592 | 839,830,510 | 587,997,450 | (1,298,129) | 5,627,094,909 | 3,031,097,429 | 485,125,106 | - | 3,516,222,535 | 2,110,872,374 | 1,031,298,057 |
| Exploratory investments | 183,561,283 | - | 107,566,764 | - | (16,697,313) | 274,430,734 | - | - | - | - | 274,430,734 | 183,561,283 |
| Installations | 656,789,851 | - | 70,440,468 | - | - | 727,230,319 | 558,950,785 | 35,239,715 | - | 594,190,500 | 133,039,819 | 97,839,066 |
| Machinery and equipment | 134,898,720 | 30,655 | - | - | - | 134,929,375 | 124,698,126 | 1,458,684 | - | 126,156,810 | 8,772,565 | 10,200,594 |
| Furniture and office equipment | 55,122,140 | 20,167,775 | - | - | - | 75,289,915 | 45,920,832 | 7,451,996 | - | 53,372,828 | 21,917,087 | 9,201,308 |
| Vehicles | 27,661,075 | 9,823,257 | - | - | (3,300,048) | 34,184,284 | 15,341,791 | 6,478,664 | (2,467,187) | 19,353,268 | 14,831,016 | 12,319,284 |
| Works in progress | 274,246,529 | 1,079,956,232 | (1,017,837,742) | - | - | 336,365,019 | - | - | - | - | 336,365,019 | 274,246,529 |
| **Subtotal** | **5,394,675,084** | **1,248,147,511** | **-** | **587,997,450** | **(21,295,490)** | **7,209,524,555** | **3,776,008,963** | **535,754,165** | **(2,467,187)** | **4,309,295,941** | **2,900,228,614** | **1,618,666,121** |
| **Advances to suppliers** | | | | | | | | | | | **739,948** | **9,743,578** |
| **Materials and spare parts** | | | | | | | | | | | **80,624,248** | **29,667,012** |
| **Total** | | | | | | | | | | | **2,981,592,810** | **1,658,076,711** |

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.

Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**Exhibit B**

**BALANCE SHEET**

**At December 31, 2015 and 2014**

**Other assets**
**Amounts stated in pesos.**

| Main account | Original values | | | Amortization | | | Net book value at 12.31.15 | Net book value at 12.31.14 |
|---|---|---|---|---|---|---|---|---|
| | At the beginning of year | Increases | At year-end | Accumulated at the beginning of year | For the year | Accumulated at year-end | | |
| Exploitation rights | 704,247,188 | 19,098,208 | 723,345,396 | 414,074,482 | 46,431,508 | 460,505,990 | 262,839,406 | 290,172,706 |
| **Total** | **704,247,188** | **19,098,208** | **723,345,396** | **414,074,482** | **46,431,508** | **460,505,990** | **262,839,406** | **290,172,706** |

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with the Superintendency of Commercial Companies: 802.207,
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Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**BALANCE SHEET**
**At December 31, 2015 and 2014**

**INVESTMENTS**
**Investments in shares and in other companies**
**Amounts stated in pesos.**

| Type | Issuer | Class | Value | Amount | Adjusted cost value | Equity value | Book value at 12.31.15 | Book value at 12.31.14 |
|---|---|---|---|---|---|---|---|---|
| **Non-current investments** | | | | | | | | |
| **Controlled companies** | | | | | | | | |
| Shares | Dapetrol S.A. | Common Class A shares, 1 vote | $ 1 | 8,845,543 | 9,855,407 | 36,760,407 | 36,760,407 | 32,097,396 |
| Shares | Tecpetrol de Bolivia S.A. | Common shares, 1 vote | Bolivian 1,000 | 105,898 | 36,054,359 | (22,689,276) (6) | (22,689,276) | (6,576,254) |
| Shares | GEA-GEO Energy Alternatives S.A. | Common Class A shares, 1 vote | $ 1 | 461,115 | 2,415,000 | 1,833,656 | 1,833,656 | 1,427,786 |
| **- Other related entities** | | | | | | | | |
| **a- under significant influence** | | | | | | | | |
| Shares | Tecpetrol Colombia S.A.S. (1) | - | - | - | - | - | - | (233,283,606) |
| **b- without significant influence** | | | | | | | | |
| Shares | Tecpetrol Colombia S.A.S. (1) | Common shares, 1 vote | Colombian pesos 1000 | 255,000 | 21,758 | 21,758 | 21,758 | - |
| Shares | Tecpetrol de Venezuela S.A.(2) | Common shares, 1 vote | Bolívar fuerte $1 | 15 | 408 | 317 | 408 | 133 |
| Shares | Tecpetrol del Perú S.A.C. (3) | Common shares, 1 vote | USD 2.88 | 61,538 | 424,478 | 29,049,076 | 424,478 | 1 |
| Shares | Tecpetrol de México S.A. de C.V.(4) | Common Class I shares, 1 vote | $ 1 (Mexico) | 57,519 | 214,455 | 6,930,384 | 214,455 | 214,455 |
| Shares | Burgos Oil Services S.A. de C.V.(5) | Common classes I and II shares, 1 vote | $ 1 (Mexico) | 25,800,001 | 1,916,749 | 1,916,765 | 1,916,749 | 7,896,699 |
| Shares | Oleoductos del Valle S.A. | Common Class A shares, 1 vote | $ 10 | 231,156 | 5,579,508 | 7,287,959 | 5,579,508 | 5,579,508 |
| Shares | Tecpetrol Bloque 56 S.A.C. | Common shares, 1 vote | USD 1 | 65,600 | 5,793 | 24,867,266 | 5,793 | 5,793 |
| Shares | Tecpecuador S.A. | Common shares, 1 vote | USD 1 | 1 | 14 | 65 | 14 | 14 |
| Shares | Norpower S.A. de C.V. | Series CMF-A and CV-A | $ 1 (Mexico) | 39,300 | 11,621 | 1,410,943 | 11,621 | 11,621 |
| Shares | Tecpetrol Lote 174 S.A.C. (3) | - | - | - | - | - | - | 424,477 |
| Shares | Pardaliservices S.A. | Common shares, 1 vote | USD 1 | 1 | 4 | 28 | 4 | 4 |
| Shares | Tecpeservices S.A. | Common shares, 1 vote | USD 1 | 10 | 44 | 5,938 | 44 | 44 |
| **Subtotal** | | | | | | | **24,088,394** | **(192,201,929)** |
| Reclassification to Other liabilities - current (4) | | | | | | | 22,689,276 | 239,859,860 |
| **Total non-current investments** | | | | | | | **46,768,895** | **47,657,931** |

(1) On December 22, 2015 the Shareholders' Meeting of Tecpetrol Colombia S.A.S. decided a capital increase. The Company did not participate; therefore, its percentage of interest in the equity of Tecpetrol Colombia has decreased.
(2) On September 9, 2015 the Shareholders' Meeting of Tecpetrol de Venezuela S.A. approved a capital increase.
(3) On October 5, 2015 the Shareholders' Meeting of Tecpetrol Lote 174 S.A.C decided a merger through absorption with Tecpetrol del Perú S.AC. (as merged company), with effective date November 1, 2015.
(4) On October 10, 2014, the Shareholders' Meetings of Tecpetrol de México S.A. de C.V. and TGT de México S.A. de C.V. approved the merger of these companies, with Tecpetrol de México S.A. de C.V. as the absorbing and subsisting company.
(5) On December 29, 2015 the Shareholders' Meeting of Burgos Oil Services S.A de C.V. approved a capital increase on which the Company has waived its residual preemptive right; as a result, its percentage of interest in the equity of Burgos Oil Services has decreased. In addition, an adjustment to the recoverable value of this investment has been recorded.
(6) Corresponds to interests in subsidiaries in which the equity value is negative, with the relevant balance reclassified to the Other liabilities - current line.

**TECPETROL SOCIEDAD ANONIMA**
Registration number with the Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**Exhibit C**

**BALANCE SHEET**
**At December 31, 2015 and 2014**

**INVESTMENTS (Cont'd)**
**Investments in shares and in other companies**
**Amounts stated in pesos.**

| Type and characteristics of securities | Issuer | Country | Information on the issuer: Principal line of business | Latest accounting information (1) (2): Date | Capital | | Gain/loss | Shareholders' equity | Participation % on Capital |
|---|---|---|---|---|---|---|---|---|---|
| **Non-current investments** | | | | | | | | | |
| **Controlled companies** | | | | | | | | | |
| Shares | Dapetrol S.A. | Argentina | Exploration, discovery, operating and sale of hydrocarbons | 12/31/2015 | ARS | 9,072,352 | 26,706,707 | 37,702,981 | 97.50 |
| Shares | Tecpetrol de Bolivia S.A. | Bolivia | Exploration, discovery, operating and sale of hydrocarbons | 12/31/2015 | BOB | 108,000,000 | (8,941,548) | (23,139,642) | 98.05 |
| Shares | GEA-GEO Energy Alternatives S.A. | Argentina | Operation of gas pipes and oil pipes; transport and distribution of hydrocarbons and energy in general | 12/31/2015 | ARS | 658,736 | 579,815 | 2,619,509 | 70.00 |
| **- Other related entities** | | | | | | | | | |
| **a- without significant influence** | | | | | | | | | |
| Shares | Tecpetrol Colombia S.A.S. | Colombia | Exploration, discovery, operating and sale of hydrocarbons | 12/31/2015 | COP | 107,300,000,000 | (249,914,653) | 9,155,488 | 0.24 |
| Shares | Tecpetrol de Venezuela S.A. | Venezuela | Exploration, discovery, operating and sale of hydrocarbons | 12/31/2015 | VEF | 50,000 | (4,146,461) | 1,057,762 | 0.03 |
| Shares | Tecpetrol del Perú S.A.C. | Peru | Exploration, discovery, operating and sale of hydrocarbons | 12/31/2015 | USD | 8,861,452 | 354,216,695 | 1,452,453,815 | 2.00 |
| Shares | Tecpetrol de México S.A. de C.V. | Mexico | Provision of services relating to development, infrastructure and maintenance of gas areas. | 12/31/2015 | MXN | 3,252,000 | 108,696,890 | 391,830,470 | 1.7687 |
| Shares | Burgos Oil Services S.A. de C.V. | Mexico | Provision of services relating to development, infrastructure and maintenance of gas areas. | 12/31/2015 | MXN | 474,976,001 | (271,830,680) | 204,534,564 | 0.937135 |
| Shares | Oleoductos del Valle S.A. | Argentina | Transportation of hydrocarbons and supplementary activities | 12/31/2015 | ARS | 110,074,290 | 51,455,311 | 347,045,659 | 2.10 |
| Shares | Tecpetrol Bloque 56 S.A.C. | Peru | Exploration, discovery, operating and sale of hydrocarbons | 12/31/2015 | USD | 3,280,000 | 108,592,986 | 1,243,363,322 | 2.00 |
| Shares | Tecpecuador SA | Ecuador | Exploration, discovery, operating and sale of hydrocarbons | 12/31/2015 | USD | 4,500,000 | 90,393,436 | 292,634,761 | 0.0000002 |
| Shares | Norpower S.A. de C.V. | Mexico | Execution of works relating to pipe maintenance technical assistance (System 3) | 12/31/2015 | MXN | 6,550,000 | 75,195,662 | 235,157,181 | 0.60 |
| Shares | Pardaliservices S.A. | Ecuador | Provision of hydrocarbon exploration, evaluation and development services. . | 12/31/2015 | USD | 18,410,000 | 67,497,322 | 511,440,262 | 0.0000054 |
| Shares | Tecpeservices S.A. | Ecuador | Provision of design, engineering and construction services of works in areas or any other type of oil facilities. | 12/31/2015 | USD | 159,000 | 63,763,761 | 94,406,340 | 0.0063 |

(1) Information on the issuer, except for capital stock, is stated at the currency value at closing.
(2) It relates to annual financial statements.

**TECPETROL SOCIEDAD ANONIMA**

Exhibit D

Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.

Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**BALANCE SHEET**

**At December 31, 2015 and 2014**

**OTHER INVESTMENTS**

**Amounts stated in pesos.**

| Main account and characteristics | Book value at 12.31.15 | Book value at 12.31.14 |
|---|---|---|
| **CURRENT** | | |
| Call deposits - other related companies | 17,807,789 | 9,016,737 |
| Call deposits - ordinary | 1,550 | - |
| Other financial deposits - ordinary | 95,502,079 | 14,799,555 |
| Securities | 364,468 | 11,432,760 |
| **Total** | **113,675,886** | **35,249,052** |

**TECPETROL SOCIEDAD ANONIMA**

**Exhibit E**

Correlative registration number with Superintendency of Commercial Companies: 802.207,
Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**BALANCE SHEET**
**At December 31, 2015 and 2014**

**ALLOWANCES AND PROVISIONS**
**Amounts stated in pesos.**

| Items | Balances at the beginning of the year | | Increases / (Decreases) | Balances at year end |
|---|---|---|---|---|
| **Deducted from assets** | | | | |
| **Current** | | | | |
| For doubtful accounts (Notes 6.a and 6.b) | 52,774,337 | (a) | 24,373,055 | 77,147,392 |
| **Non-Current** | | | | |
| For doubtful accounts (Note 6.d) | 583,113 | | - | 583,113 |
| **Total deducted from assets at 12.31.15** | **53,357,450** | | **24,373,055** | **77,730,505** |
| **Total as of 12.31.14** | **42,319,078** | | **11,038,372** | **53,357,450** |
| **Included in liabilities** | | | | |
| **Current** | | | | |
| Provision for contingencies (Note 4.b) | 22,024,656 | (b) | (15,913,734) | 6,110,922 |
| **Non-Current** | | | | |
| Provision for contingencies (Note 4.b) | 35,874,057 | (c) | 4,047,561 | 39,921,618 |
| **Total included in liabilities at 12.31.15** | **57,898,713** | | **(11,866,173)** | **46,032,540** |
| **Total as of 12.31.14** | **56,838,582** | | **1,060,131** | **57,898,713** |

(a) Recognized in selling expenses and financial results generated by assets.

(b) Recognized in operating costs and financial results generated by liabilities.

(c) Recognized in other income and expenses and financial results generated by liabilities.

**TECPETROL SOCIEDAD ANONIMA**

**Exhibit F**

Correlative registration number with the Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**BALANCE SHEET**
**At December 31, 2015 and 2014**

**FOREIGN CURRENCY ASSETS AND LIABILITIES**

| Items | 12.31.15 | | | | 12.31.14 |
|---|---|---|---|---|---|
| | Foreign currency | | Prevailing exchange rate $ (2) | Amount in Argentine currency and recorded | Amount in Argentine currency and recorded |
| | Class (1) | Amount | | | |
| **ASSETS** | | | | | |
| **CURRENT ASSETS** | | | | | |
| **CASH AND BANKS** | USD | 213,104 | 13.04 | 2,778,871 | 1,930,414 |
| **OTHER INVESTMENTS** | | | | | |
| Securities | USD | 27,950 | 13.04 | 364,468 | 11,432,760 |
| Call deposits | USD | 1,365,747 | 13.04 | 17,809,339 | 9,016,737 |
| **TRADE RECEIVABLES** | | | | | |
| Ordinary | USD | 20,809,642 | 13.04 | 243,413,377 | 288,431,096 |
| Other related companies | USD | 5,781,062 | 13.04 | 75,385,048 | 46,781,204 |
| Allowance for doubtful accounts | USD | (5,552,156) | 13.04 | (72,400,115) | (48,648,718) |
| **OTHER RECEIVABLES** | | | | | |
| Other related companies | USD | 5,913,934 | 13.04 | 77,117,697 | 54,540,425 |
| Controlled companies | USD | 1,093,237 | 13.04 | 14,255,810 | 5,624,224 |
| Accounts receivable | USD | 551,160 | 13.04 | 7,187,126 | 602,144 |
| Allowance for doubtful accounts | USD | (163,792) | 13.04 | (2,135,848) | (50,126) |
| Companies over which it has significant influence | USD | - | 13.04 | - | 10,409,816 |
| **NON-CURRENT ASSETS** | | | | | |
| **OTHER RECEIVABLES** | | | | | |
| Accounts receivable | USD | 167,906 | 13.04 | 2,189,494 | 1,923,223 |
| Controlled companies | USD | - | 13.04 | - | 25,653,000 |
| **Total Assets** | | | | **365,965,268** | **407,646,199** |
| **LIABILITIES** | | | | | |
| **CURRENT LIABILITIES** | | | | | |
| **TRADE PAYABLES** | USD | 29,839,728 | 13.04 | 389,110,053 | 583,503,061 |
| **BORROWINGS** | | | | | |
| Borrowings | USD | 18,047,953 | 13.04 | 235,345,307 | - |
| Other related companies | USD | 5,940 | 13.04 | 77,458 | - |
| **NON-CURRENT LIABILITIES** | | | | | |
| **BORROWINGS** | | | | | |
| Borrowings | USD | 26,885,063 | 13.04 | 350,581,222 | - |
| Other related companies | USD | 9,503,981 | 13.04 | 123,931,907 | - |
| **OTHER LIABILITIES** | | | | | |
| Asset retirement obligation | USD | 14,381,695 | 13.04 | 187,537,303 | 351,258,704 |
| **Total Liabilities** | | | | **1,286,583,250** | **934,761,765** |

(1) USD= United States Dollar.

(2) US dollar quotation: exchange rate from Banco de la Nación Argentina in force at year end.

**TECPETROL SOCIEDAD ANONIMA**

Exhibit G

Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**INFORMATION REQUIRED BY SECTION 64.I sub-sect. b) OF LAW 19550**
**For the period ended December 31, 2015, in comparative format with the previous year.**

**Amounts stated in pesos.**

| | Operating costs | Exploration costs | Selling expenses | Administrative expenses | Total at 12.31.15 | Total at 12.31.14 |
|---|---|---|---|---|---|---|
| Remuneration to Directors and Surveillance Committee | - | - | - | 1,021,000 | 1,021,000 | 2,204,500 |
| Salaries and social security contributions | 168,242,808 | - | - | 381,886,985 | 550,129,793 | 494,857,305 |
| Other personnel expenses | 13,088,180 | - | - | 20,199,458 | 33,287,638 | 32,560,018 |
| Royalties, rates, contributions and stamps | 441,788,949 | - | 67,738,880 | 6,233,317 | 515,761,146 | 565,421,216 |
| Third-party services | 85,678,557 | - | - | 108,339,189 | 194,017,746 | 163,335,351 |
| Insurance | 8,771,813 | - | - | 193,718 | 8,965,531 | 8,439,970 |
| Chemical supplies and materials | 28,918,009 | - | - | - | 28,918,009 | 23,715,542 |
| Electricity, fuels and lubricants | 102,822,495 | - | - | - | 102,822,495 | 86,724,177 |
| Wells service and maintenance operations | 668,826,535 | - | - | - | 668,826,535 | 596,542,370 |
| Exploratory wells, seismic and other exploratory costs | - | 20,146,400 | - | - | 20,146,400 | 22,144,458 |
| Transportation | - | - | 11,755,280 | - | 11,755,280 | 12,099,551 |
| Treatment, storage and loading | 87,777,934 | - | 13,962,399 | - | 101,740,333 | 87,609,962 |
| Travel expenses | 14,535,730 | - | - | 9,866,753 | 24,402,483 | 26,551,173 |
| Fee and easements | 20,676,872 | - | - | - | 20,676,872 | 15,213,295 |
| Amortization of other assets | 46,431,508 | - | - | - | 46,431,508 | 12,767,465 |
| Depreciation of fixed assets | 528,788,835 | - | - | 6,965,330 | 535,754,165 | 388,322,742 |
| Others | 59,463,068 | - | (486,059) | 72,408,046 | 131,385,055 | 137,288,329 |
| Reimbursement of expenses (*) | - | - | - | (207,884,380) | (207,884,380) | (170,536,573) |
| **Total at 12.31.15** | **2,275,811,293** | **20,146,400** | **92,970,500** | **399,229,416** | **2,788,157,609** | - |
| **Total at 12.31.14** | **1,959,684,432** | **22,144,458** | **88,083,999** | **435,347,962** | - | **2,505,260,851** |

(*) These are not liable to association or proration in connection with each line involved in the costs and/or expenses table, but rather in connection with the tasks which make up the function of the operator.

**TECPETROL SOCIEDAD ANONIMA**

Table 1

Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**BALANCE SHEET**
**At December 31, 2015**

**INTEREST IN JOINT ARRANGEMENT (UTE) AND CONSORTIA**

## a) Areas operated by Tecpetrol S.A.

| Name | Location | Interest % | Assignment date | Term (years) |
|---|---|---|---|---|
| Agua Salada | Río Negro | 70.00 | September 1990 | 35 (6) |
| Atuel Norte | Mendoza | 50.00 (1) | September 1990 | 25 |
| El Tordillo | Chubut | 52.13 | June 1991 | 35 (5) |
| Aguaragüe | Salta | 23.00 | November 1992 | 35 (2) |
| La Tapera - Puesto Quiroga | Chubut | 52.13 | July 1994 | 35 (3)(5) |
| Rio Atuel | Mendoza | 33.33 | December 2008 | (4) |
| Loma Ancha | Neuquén | 95.00 | December 2014 | 25 (7) |

(1) At October 1, 2006 and as a result of the execution of an agreement to participate in the CNQ2 area "Atuel Norte", the economic benefit in the Atuel Norte joint arrangement was 33.34%. During fiscal year 2013 the parties Petrobras Energía S.A. and Petrolera El Trébol S.A. announced their decision to leave the joint arrangement and during 2014 Petrolera El Trébol S.A. completed the administrative withdrawal process, so that, the economic usufruct in the UTE is 66.67% since May 2014. At the date of issuance of these financial statements, the withdrawal of the partner Petrobras Argentina S.A. has not been formalized.

(2) For San Antonio Sur concession, this term has been in effect since November 2001 and includes the extension of the term obtained in 2012.

(3) This term has been considered as from July 21, 1992, when the area was awarded to Glacco S.A. Tecpetrol S.A. acquired the are in July 1994.

(4) It will have the necessary duration to enable compliance with the obligations assumed in the contract stating the purpose of the joint arrangements.

(5) In 2013, the concession was extended 10 more years in addition to the original 25 years.

(6) In 2014, the concession was extended 10 more years in addition to the original 25 years.

(7) Tecpetrol S.A. assumes 100% of the costs and investments as a result of an agreement with its partner Gas y Petróleo del Neuquén S.A.

## (b) Areas operated by third parties

| Name | Location | Interest % | Assignment date | Term (years) |
|---|---|---|---|---|
| Ramos | Salta | 25.00 | January 1991 | 35 (*) |

(*) On June 20, 1996, the maturity date of the concession was extended until January 21, 2026.

**TECPETROL SOCIEDAD ANONIMA**

Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.

Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**Table 1**

**BALANCE SHEET**

**INTEREST IN JOINT ARRANGEMENT AND CONSORTIA (Cont'd)**
**Amounts stated in pesos (according to the percentage of interest of Tecpetrol S.A.)**

| Name | 12.31.15 | | 12.31.14 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Agua Salada | 170,940,734 | 138,147,574 | 43,332,263 | 58,316,777 |
| El Tordillo | 1,374,024,592 | 659,500,123 | 919,172,808 | 499,991,776 |
| Aguaragüe | 179,894,559 | 89,697,936 | 85,182,420 | 55,249,829 |
| Ramos | 160,782,226 | 55,022,547 | 55,398,862 | 77,296,577 |
| La Tapera - Puesto Quiroga | 49,749,035 | 22,264,643 | 42,702,658 | 22,579,200 |
| Atuel Norte | 1,629,912 | 8,340,261 | 3,693,415 | 8,852,521 |
| Rio Atuel | 34,579,591 | 2,693,968 | 12,914,648 | 2,693,968 |

**TECPETROL SOCIEDAD ANONIMA**

Table 2

Registration number with the Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**BALANCE SHEET**
**At December 31, 2015**

**OTHER INVESTMENTS, RECEIVABLES AND DEBTS: DUE DATES AND RATES**
**Amounts stated in pesos.**

**CURRENT**

| Items | Without due date | Quarter I | Quarter II | Quarter III | Quarter IV | Subtotals | Totals |
|---|---|---|---|---|---|---|---|
| **OTHER INVESTMENTS** | | | | | | | |
| With fixed rate | - | 17,809,339 | - | - | - | 17,809,339 | |
| With floating rate | - | 95,866,547 | - | - | - | 95,866,547 | **113,675,886** |
| **TRADE RECEIVABLES** | | | | | | | |
| Without rate | - | 269,656,813 | - | - | - | 269,656,813 | **269,656,813** |
| **OTHER RECEIVABLES** | | | | | | | |
| Without rate (1) | - | 685,323,664 | 41,919,055 | 41,919,055 | 56,494,381 | 825,656,155 | |
| With fixed rate | - | 525,905 | 525,905 | 420,724 | 631,084 | 2,103,618 | |
| With floating rate | - | 1,863,058 | 1,397,293 | 1,117,834 | 15,466,797 | 19,844,982 | **847,604,755** |
| **LIABILITIES** | | | | | | | |
| Without rate (2) | 6,180,922 | 664,496,636 | 26,152,329 | 3,121,086 | 3,121,084 | 703,072,057 | |
| With fixed rate | - | 336,313,804 | 558,188,220 | 213,488,889 | 56,393,997 | 1,164,384,910 | |
| With floating rate | - | 20,166,667 | 21,555,556 | 28,500,000 | 42,320,000 | 112,542,223 | **1,979,999,190** |

(1) Includes tax credits, other operating credits and with partners.
(2) Includes trade payables, social security charges, tax payables, other liabilities and allowances.

**NON-CURRENT**

| Items | Without due date | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 4 years | More than 4 years | Subtotals | Totals |
|---|---|---|---|---|---|---|---|
| **OTHER RECEIVABLES** | | | | | | | |
| Without rate | 23,031,243 | - | - | - | 13,402,122 | 36,433,365 | |
| With fixed rate | - | 787,597 | 787,597 | 787,597 | 2,395,381 | 4,758,172 | |
| With floating rate | - | 4,698,616 | 4,698,616 | 4,698,616 | 4,698,616 | 18,794,467 | **59,986,004** |
| **DEFERRED TAX** | | | | | | | |
| Without rate | 100,791,457 | - | - | - | 177,576,862 | 278,368,319 | **278,368,319** |
| **LIABILITIES** | | | | | | | |
| Without rate (3) | 951,452,334 | - | - | - | - | 951,452,334 | |
| With fixed rate | - | 262,055,687 | - | - | - | 262,055,687 | |
| With floating rate | - | 412,320,000 | 66,693,333 | 33,333,333 | 30,555,556 | 542,902,222 | **1,756,410,243** |

(3) Includes social security and tax payables, other liabilities and allowances.

## Complementary information
## Consolidated Financial Statements at December 31, 2015 and 2014

**Consolidated Balance Sheet**

**Consolidated Income Statement**

**Consolidated Cash Flow Statement**

**Notes**

**Tables**

I - Fixed assets and other assets

II - Other investments, receivables and payables: due dates and rates

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**COMPLEMENTARY INFORMATION**
**CONSOLIDATED BALANCE SHEET**
**At December 31, 2015 and 2014**
**Amounts stated in pesos.**

| **ASSETS** | **12.31.15** | **12.31.14** |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and banks | 42,497,445 | 92,360,985 |
| Other investments (Note 4 a)) | 153,643,063 | 61,923,613 |
| Trade receivables (Note 4 b)) | 282,330,944 | 319,229,707 |
| Other receivables (Note 4 c)) | 832,964,207 | 225,488,871 |
| Inventories (Note 4 d)) | 171,278,502 | 150,278,264 |
| **Total current assets** | **1,482,714,161** | **849,281,440** |
| **NON-CURRENT ASSETS** | | |
| Other receivables (Note 4 e)) | 516,962,709 | 215,192,849 |
| Deferred tax (Note 4 f)) | 278,368,319 | 246,907,383 |
| Investments (Note 4 g)) | 10,560,345 | 16,120,351 |
| Fixed assets (Table I) | 6,628,096,509 | 3,360,667,021 |
| Other assets (Table I) | 262,839,406 | 290,172,706 |
| **Total non-current assets** | **7,696,827,288** | **4,129,060,310** |
| **Total Assets** | **9,179,541,449** | **4,978,341,750** |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Debts | | |
| Trade payables (Note 4 h)) | 697,701,477 | 847,808,531 |
| Borrowings (Note 4 i)) | 1,342,152,320 | 564,797,610 |
| Social security and tax payables (Note 4 j)) | 124,088,712 | 189,885,172 |
| Other liabilities (Note 4 k)) | 3,658,769 | 264,393,445 |
| Total debts | 2,167,601,278 | 1,866,884,758 |
| Allowances and provisions (Note 4 l)) | 6,110,922 | 22,720,651 |
| **Total current liabilities** | **2,173,712,200** | **1,889,605,409** |
| **NON-CURRENT LIABILITIES** | | |
| Debts | | |
| Borrowings (Note 4 m)) | 4,686,006,298 | 1,976,816,340 |
| Social security and tax payables (Note 4 n)) | 286,519,036 | 227,897,661 |
| Other liabilities (Note 4 o)) | 680,023,472 | 406,017,755 |
| Total debts | 5,652,548,806 | 2,610,731,756 |
| Allowances and provisions (Note 4 p)) | 39,921,618 | 35,874,057 |
| **Total Non-Current Liabilities** | **5,692,470,424** | **2,646,605,813** |
| **Total liabilities** | **7,866,182,624** | **4,536,211,222** |
| **MINORITY INTEREST IN SUBSIDIARIES** | **1,278,061** | **1,304,384** |
| **SHAREHOLDERS' EQUITY** | | |
| **As per related statement** | **1,312,080,764** | **440,826,144** |
| **Total liabilities plus Shareholders' equity** | **9,179,541,449** | **4,978,341,750** |

**The accompanying Notes 1 to 6 and tables I and II are an integral part of these consolidated financial statements.**

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**COMPLEMENTARY INFORMATION**
**CONSOLIDATED INCOME STATEMENT**
**For the period ended December 31, 2015, in comparative format with the previous year.**

**Amounts stated in pesos.**

| | 12.31.15 | 12.31.14 |
|---|---|---|
| Net sales | 2,884,458,185 | 3,443,395,604 |
| Export duties and other exports costs | (3,846,483) | (391,639,290) |
| Operating costs | (2,315,368,321) | (1,986,751,776) |
| **Gross profit** | **565,243,381** | **1,065,004,538** |
| Result for valuation of inventories at net realizable value | 64,149,383 | 51,067,922 |
| Selling expenses | (93,785,922) | (88,562,144) |
| Administrative expenses | (420,841,416) | (463,602,329) |
| Exploration costs | (23,285,910) | (24,999,411) |
| Result from investment in subsidiaries under significant influence and other related parties | 188,350,954 | (105,954,033) |
| Other taxes | (64,482,652) | (51,386,373) |
| Financial and holding results generated by assets | | |
| Interest net of bank commissions and charges | 17,385,363 | 22,107,590 |
| Exchange differences | 100,567,007 | 100,348,070 |
| Result on securities holding | 30,527,034 | (16,732,267) |
| Financial and holding results generated by liabilities | | |
| Interest | (382,952,223) | (165,183,726) |
| Bank commissions and charges | (7,470,664) | (4,143,975) |
| Exchange differences | (428,553,892) | (194,183,528) |
| Other net income and expenses | 23,803,675 | 101,199,522 |
| **(Loss)/Income before tax** | **(431,345,882)** | **224,979,856** |
| Income tax (Note 3) | 239,452,781 | (116,611,153) |
| Minority interest in controlled companies | (667,808) | (361,462) |
| **(Loss)/Income for the year** | **(192,560,909)** | **108,007,241** |

**The accompanying Notes 1 to 6 and tables I and II are an integral part of these consolidated financial statements.**

**TECPETROL SOCIEDAD ANONIMA**
Correlative registration number with Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**COMPLEMENTARY INFORMATION**
**CONSOLIDATED CASH FLOW STATEMENT**
**For the period ended December 31, 2015, in comparative format with the previous year.**

**Amounts stated in pesos.**

| | 12.31.15 | 12.31.14 |
|---|---|---|
| **Changes in cash** | | |
| Cash at the beginning of year (1) | 154,284,598 | 179,016,118 |
| Cash at year end (1) | 196,140,508 | 154,284,598 |
| **Increase/(Decrease) in cash** | **41,855,910** | **(24,731,520)** |
| **Operating activities** | | |
| **(Loss)/Income for the year** | **(192,560,909)** | **108,007,241** |
| Adjustments to arrive at net cash flows provided by operating activities (2) | | |
| Depreciation of fixed assets | 537,232,065 | 383,943,722 |
| Amortization of other assets | 46,431,508 | 12,767,465 |
| Income tax charge | (239,452,781) | 116,611,153 |
| Interest and exchange differences for asset retirement obligation | 91,571,017 | 115,546,166 |
| Interest paid | 317,735,524 | 113,981,667 |
| Allowance variation and other liabilities | 12,089,227 | (62,480,390) |
| Income from the sale of fixed assets | (3,429,336) | (1,750,128) |
| Result from other Investments | (11,294,003) | (17,326,956) |
| Result from investment in entities under significant influence | (188,350,954) | 105,954,033 |
| Financial and holding results generated by cash and banks | (62,008,835) | (33,094,253) |
| Income tax payments | (142,033,004) | (172,709,589) |
| **Changes in assets and liabilities:** | | |
| Increase in inventories | (21,000,238) | (51,764,164) |
| Decrease in investments | 8,357,562 | 7,834,071 |
| Decrease (Increase) in trade receivables | 12,206,974 | (139,162,377) |
| Increase in other receivables | (519,204,801) | (179,109,664) |
| (Decrease) Increase in trade payables | (150,107,054) | 403,730,209 |
| Decrease in other liabilities | (26,430,477) | (10,676,013) |
| Increase in Social Security and tax payables | 137,050,656 | 252,882,021 |
| (Decrease) Increase in minority interest in controlled companies | (26,323) | 204,574 |
| **Total cash generated by operations** | **(393,224,182)** | **953,388,788** |
| **Investment activities** | | |
| Dividends collected from other investments | 11,294,003 | 17,326,956 |
| Increase in fixed assets, net | (3,052,195,879) | (2,054,478,510) |
| Increase in other assets | (19,098,208) | (214,746,407) |
| Proceeds from the sale of fixed assets | 4,262,197 | 1,964,083 |
| **Total cash applied to investment activities** | **(3,055,737,887)** | **(2,249,933,878)** |
| **Financing activities** | | |
| Net increase of borrowings | 3,452,608,957 | 1,504,442,835 |
| Interest paid | (283,799,813) | (108,784,518) |
| Capital increase | 260,000,000 | - |
| Cash dividends | - | (156,939,000) |
| **Total cash generated by financing activities** | **3,428,809,144** | **1,238,719,317** |
| **Financial and holding results generated by cash and banks** | | |
| Gains from financial deposits and mutual funds | 3,850,611 | 6,376,272 |
| Interest | 9,997,806 | 14,342,006 |
| Exchange differences | 48,160,418 | 12,375,975 |
| **Increase in cash and banks generated by financial and holding** | **62,008,835** | **33,094,253** |
| **Increase in cash** | **41,855,910** | **(24,731,520)** |
| **Non-cash transactions:** | | |
| Technical revaluation of Fixed assets (net of income tax) | 382,198,342 | - |
| Capital increase not yet paid up | 390,000,000 | - |
| Capital increase in related companies not yet paid up | 300,000 | - |

(1) Includes balances under the item Cash and banks and Other current investments.
(2) The difference between the interest income and collected is not significant.

**The accompanying Notes 1 to 6 and tables I and II are an integral part of these consolidated financial statements.**

# Notes to the Consolidated Financial Statements at December 31, 2015 and 2014

**Note 1 - Basis for preparation of the Consolidated Financial Statements**

The Consolidated Financial Statements have been prepared in accordance with the valuation criteria explained in Notes 2 and 3 to the Company's Separate Financial Statements and should be read in conjunction with these notes.

**NOTE 2 - Basis for consolidation of the Consolidated Financial Statements**

The Company has effective control over all consolidated companies and the necessary votes to form the corporate will.

At December 31, 2015 and 2014, the Company has consolidated the following subsidiaries:

| Company | Participation % in the capital and votes | Financial Statements used |
|---|---|---|
| Dapetrol S.A. | 97.50% | 12-31 |
| Tecpetrol de Bolivia S.A. | 98.05% | 12-31 |
| GEA-GEO Energy Alternatives S.A. | 70.00% | 12-31 |

These companies are engaged in the exploration, exploitation and development of hydrocarbon areas, as well as the transportation, distillation, refining, industrial use and sale activities involving hydrocarbons and related by-products. In addition, GEA – GEO Energy Alternatives S.A. is engaged in performing tasks associated to the operation of oil and gas pipelines, the development of projects and new business related to gas, oil and energy transport, distribution and sale, as well as the development of advisory and consulting services on these activities. This Company also has the ability to be the holder of concessions of gas and/or other public utilities transportation and distribution.

GEA – GEO Energy Alternatives S.A. holds 20% interest of Parque Eólico Pampa S.A. capital. This Company is engaged in the design, development, construction, start-up, operation and maintenance of wind power farms, as well as the sale of wind power.

Through its subsidiaries, the Company participates in the following projects of hydrocarbon areas exploration and exploitation:

| Areas | Interest (1) | Country | Operator |
|---|---|---|---|
| José Segundo (2) | 100.00% | Argentina | Dapetrol S.A. |
| Ipati (3) | 20.00% | Bolivia | Total Exploration & Production Bolivia |
| Aquio (3) | 20.00% | Bolivia | Total Exploration & Production Bolivia |

(1) Direct interest of the subsidiaries in each area.

(2) The José Segundo areas is a mining concession.

**Note 2 – Basis for preparation of the Consolidated Financial Statements (Cont'd)**

(3) The operation contracts of the blocks of Ipati and Aquío set forth that private partners will be responsible for executing the oil operation (exploration, evaluation, development, exploitation and retirement) at their own risk, in exchange for receiving a compensation from Yacimientos Petrolíferos Fiscales Bolivianos (YPFB, for its Spanish acronym) based on the production obtained and delivered to YPFB, the latter assuming no risk or responsibility regarding the oil operations or their results. In this context, Tecpetrol de Bolivia will not have any ownership right to the hydrocarbon areas or the hydrocarbons produced, which will remain under the ownership of YPFB.

The assets of Tecpetrol de Bolivia S.A. related to the exploration and production amount to $4,073 million at December 31, 2015, and to $1,700 million at December 31, 2014.

### Note 3 – Income Tax

Below there is a reconciliation between income tax expensed and the amount that would result from applying the prevailing tax rate of each country to the accounting results:

| Amounts stated in pesos | 12.31.15 | 12.31.14 |
|---|---|---|
| Result for the year before tax | (431,345,882) | 224,979,856 |
| Deletion of results of subsidiaries which do not pay taxes (*) | (26,706,707) | (21,924,132) |
| Deletion of results of investments in companies with tax loss carry forward which do not recognize deferred assets | 72,669,785 | 120,327,846 |
| Net income | (385,382,804) | 323,383,570 |
| | | |
| Result for the year at tax rate | 216,897,043 | (113,202,093) |
| Permanent differences at the tax rate | | |
| - Effect of monetary restatement and others | 22,555,738 | (3,409,060) |
| **Total income tax charge** | **239,452,781** | **(116,611,153)** |
| | | |
| - Deferred tax - charge to results | 237,260,044 | 63,709,237 |
| - Difference between provision and tax return/ Tax determined in this fiscal year | 2,192,737 | (180,320,390) |
| | **239,452,781** | **(116,611,153)** |

(*) Corresponds to the results of José Segundo area exploitation originated in the subsidiary Dapetrol S.A. Such activity is not subject to the income tax.

The subsidiary Tecpetrol de Bolivia S.A. calculates the net income for the year before tax according to the generally accepted accounting standards in Bolivia and is subject to the Tax on Corporate Income, after giving effect to certain adjustments established due to its regulatory framework. The tax rate is 25%, while the income for the year is subject to the Corporate Income Tax – Foreign beneficiaries Tax (IUE-BE, by its acronym in Spanish) with a 12.5% tax rate over the amount referred to.

Tax-loss carry forwards can be deducted from future taxable earnings for up to five years from their generation. At the date of these financial statements, tax-loss carry forwards pending use from controlled companies amount to $798 million.

# Notes to the Consolidated Financial Statements at December 31, 2015 and 2014

**Note 4 – Detailed list of Balance Sheet items**

Amounts stated in pesos

| | 12.31.15 | 12.31.14 |
|---|---|---|
| **CURRENT ASSETS** | | |
| **a) Other Investments** | | |
| Call deposits - other related companies | 57,774,966 | 35,691,298 |
| Call deposits - ordinary | 1,550 | - |
| Other financial deposits - ordinary | 95,502,079 | 14,799,555 |
| Government securities | 364,468 | 11,432,760 |
| | **153,643,063** | **61,923,613** |
| **b) Trade receivables** | | |
| Regular | 282,412,801 | 320,682,360 |
| With related companies | 75,458,711 | 49,396,126 |
| Allowance for doubtful accounts | (75,540,568) | (50,848,779) |
| | **282,330,944** | **319,229,707** |
| **c) Other receivables** | | |
| Accounts receivable | 98,450,141 | 30,214,674 |
| Tax | 194,854,099 | 81,121,156 |
| With shareholders | 390,000,000 | - |
| With related companies | 79,434,286 | 54,540,425 |
| Companies over which it has significant influence: | | |
| - Tecpetrol Colombia S.A.S. | - | 10,409,816 |
| Employees loans and advances | 7,692,790 | 9,355,062 |
| Expenses to be accrued | 12,146,443 | 7,155,475 |
| Advances to suppliers | 5,171,033 | 13,881,391 |
| Others | 47,351,263 | 20,987,114 |
| Allowance for doubtful accounts | (2,135,848) | (2,176,242) |
| | **832,964,207** | **225,488,871** |
| **d) Inventories** | | |
| Hydrocarbons | 119,614,813 | 102,043,272 |
| Materials and spare parts | 51,663,689 | 48,234,992 |
| | **171,278,502** | **150,278,264** |
| **NON-CURRENT ASSETS** | | |
| **e) Other receivables** | | |
| Tax | 480,007,948 | 190,812,636 |
| Accounts receivable | 16,302,424 | 12,274,602 |
| Staff loans | 20,107,380 | 10,891,810 |
| Expenses to be accrued | 1,080,467 | 1,749,310 |
| Others | 47,603 | 47,604 |
| Allowance for doubtful accounts | (583,113) | (583,113) |
| | **516,962,709** | **215,192,849** |

# Notes to the Consolidated Financial Statements at December 31, 2015 and 2014

**Note 4 – Detailed list of main balance sheet items (Cont'd)**

| | 12.31.15 | 12.31.14 |
|---|---|---|
| **f) Deferred tax** | | |
| Deferred tax assets | 278,368,319 | 246,907,383 |
| | **278,368,319** | **246,907,383** |
| **g) Investments** | | |
| Interest in: | | |
| Oleoductos del Valle S.A. | 5,579,508 | 5,579,508 |
| Terminales Marítimas Patagónicas S.A. | 1,471,159 | 1,471,159 |
| Burgos Oil Services S.A. de C.V. | 1,916,749 | 7,896,699 |
| Parque Eólico Pampa S.A. | 913,130 | 516,125 |
| Tecpetrol del Perú S.A.C. (1) | 424,478 | 1 |
| Tecpetrol Lote 174 S.A.C.(1) | - | 424,477 |
| Tecpetrol de México S.A. de C.V. | 214,455 | 214,455 |
| Norpower S.A. de C.V. | 11,621 | 11,621 |
| Tecpetrol de Colombia S.A.S. | 21,758 | - |
| Tecpetrol Bloque 56 S.A.C. | 5,793 | 5,793 |
| Euroamérica Hardwoods Technology S.A. | 1,224 | 318 |
| Tecpetrol de Venezuela S.A. | 408 | 133 |
| Tecpeservices S.A. | 44 | 44 |
| Tecpecuador S.A. | 14 | 14 |
| Pardaliservices S.A. | 4 | 4 |
| | **10,560,345** | **16,120,351** |

(1) On October 5, 2015, the Shareholders' Meeting of Tecpetrol Lote 174 S.A.C. approved the merger through absorption with Tecpetrol del Perú S.AC. (the continuing Company), with effective date November 1, 2015.

| **CURRENT LIABILITIES** | 12.31.15 | 12.31.14 |
|---|---|---|
| **h) Trade payables** | | |
| Regular | 681,052,769 | 786,752,621 |
| With related companies | 16,648,708 | 61,055,910 |
| | **697,701,477** | **847,808,531** |
| **i) Borrowings** | | |
| Current account overdraft | 406,612,705 | 184,746,438 |
| Bank borrowings | 668,136,984 | 337,294,077 |
| Other borrowings | 202,120,000 | - |
| With related companies | 65,282,631 | 42,757,095 |
| | **1,342,152,320** | **564,797,610** |
| **j) Social security and tax payables** | | |
| Tax credits | 97,203,397 | 170,873,589 |
| Social security charges | 26,885,315 | 19,011,583 |
| | **124,088,712** | **189,885,172** |

# Notes to the Consolidated Financial Statements at December 31, 2015 and 2014

**Note 4 – Detailed list of main balance sheet items (Cont'd)**

| | 12.31.15 | 12.31.14 |
|---|---|---|
| **k) Other liabilities** | | |
| Equity restructuring commitments - Permanent investments (Exhibit C) | - | 233,283,606 |
| Provision for Directors and Statutory Auditors' fees | 1,609,000 | 2,741,000 |
| Others | 2,049,769 | 28,368,839 |
| | **3,658,769** | **264,393,445** |
| **l) Allowances and Provisions** | | |
| Provision for contingencies | 6,110,922 | 22,720,651 |
| | **6,110,922** | **22,720,651** |
| **NON-CURRENT LIABILITIES** | | |
| **m) Borrowings** | | |
| Bank borrowings | 551,930,002 | 262,557,776 |
| Other borrowings | 129,096,000 | - |
| With other related companies | 4,004,980,296 | 1,714,258,564 |
| | **4,686,006,298** | **1,976,816,340** |
| **n) Social security and tax payables** | | |
| Social security charges | 284,630,639 | 225,083,800 |
| Tax payables - Law No. 26,476 (part I) | 1,888,397 | 2,813,861 |
| | **286,519,036** | **227,897,661** |
| **o) Other liabilities** | | |
| Asset retirement obligation | 630,252,400 | 373,380,298 |
| Others | 49,771,072 | 32,637,457 |
| | **680,023,472** | **406,017,755** |
| **p) Allowance and provisions** | | |
| Provision for contingencies | 39,921,618 | 35,874,057 |
| | **39,921,618** | **35,874,057** |

**Note 5 – Related parties balances and transactions**

During the year, the following transactions with related parties have been conducted:

Amounts stated in pesos

| **Financial year commenced on January 1, 2015 and ended December 31, 2015** | **Other related companies** |
|---|---|
| Net sales | 51,804,028 |
| Interest income | 892,179 |
| Acquisition of fixed assets | 174,237,551 |
| Third-party services | (11,510,037) |

# Notes to the Consolidated Financial Statements at December 31, 2015 and 2014

**Note 5 – Related parties balances and transactions (Cont'd)**

| Fiscal year commenced on January 1, 2014 and ended December 31, 2014 | Other related companies |
|---|---|
| Net sales | 18,802,959 |
| Interest income | 1,020,995 |
| Adquisition of fixed assets | 123,198,980 |
| Third-party services | (7,852,355) |

**Note 6 - Events subsequent to the closing date**

After December 31, 2015, no events, situations or circumstances other than those mentioned in these financial statements that affect or may significantly affect the Company's financial or economic position have occurred.

**TECPETROL SOCIEDAD ANONIMA**

Table I

Registration number with the Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**COMPLEMENTARY INFORMATION**
**CONSOLIDATED BALANCE SHEET**
**At December 31, 2015 and 2014**
**Amounts stated in pesos.**

**FIXED ASSETS**

| Main account | 12.31.15 Net book value | 12.31.14 Net book value |
|---|---|---|
| Wells | 2,139,107,713 | 1,032,240,486 |
| Exploratory investments | 3,891,079,905 | 1,883,456,874 |
| Machinery, equipment and installations | 143,109,635 | 109,315,078 |
| Mining property | 321,938 | 415,975 |
| Furniture and office equipment | 21,917,087 | 9,201,308 |
| Vehicles | 14,831,016 | 12,340,990 |
| Works in progress | 336,365,019 | 274,246,529 |
| **Subtotal** | **6,546,732,313** | **3,321,217,240** |
| Advances to suppliers | 739,948 | 9,743,578 |
| Materials and spare parts | 80,624,248 | 29,706,203 |
| **Total** | **6,628,096,509** | **3,360,667,021** |

| | | |
|---|---|---|
| The evolution of fixed assets during the year are detailed below: | | |
| Net additions/disposals/transfers | 2,324,273,586 | 1,752,267,403 |
| Technical revaluation | 587,997,450 | - |
| Depreciation | (537,232,065) | (383,943,722) |
| Translation differences of subsidiaries abroad | 892,390,517 | 223,918,177 |

**OTHER ASSETS**

| Main account | 12.31.15 Net book value | 12.31.14 Net book value |
|---|---|---|
| Exploitation rights | 262,839,406 | 290,172,706 |
| **Total** | **262,839,406** | **290,172,706** |

| | | |
|---|---|---|
| The evolution of Other assets during the year are detailed below: | | |
| Net additions/disposals/transfers | 19,098,208 | 214,746,407 |
| Amortization | (46,431,508) | (12,767,465) |

**TECPETROL SOCIEDAD ANONIMA**

Table II

Registration number with the Superintendency of Commercial Companies: 802.207, Registration No. 247 of Book 94, Volume A of Corporations.
Legal domicile: Pasaje Della Paolera 299/297 - 16th floor - City of Buenos Aires

**COMPLEMENTARY INFORMATION**
**CONSOLIDATED BALANCE SHEET**
**At December 31, 2015**

**OTHER INVESTMENTS, RECEIVABLES AND DEBTS: DUE DATES AND RATES**
**Amounts stated in pesos.**

**CURRENT**

| Items | Without due date | Quarter I | Quarter II | Quarter III | Quarter IV | Subtotals | Totals |
|---|---|---|---|---|---|---|---|
| **OTHER INVESTMENTS** | | | | | | | |
| With fixed rate | - | 57,776,516 | - | - | - | 57,776,516 | |
| With floating rate | - | 95,866,547 | - | - | - | 95,866,547 | **153,643,063** |
| **TRADE RECEIVABLES** | | | | | | | |
| Without rate | - | 282,330,944 | - | - | - | 282,330,944 | **282,330,944** |
| **OTHER RECEIVABLES** | | | | | | | |
| Without rate (1) | - | 670,625,948 | 41,976,223 | 41,919,055 | 56,494,381 | 811,015,607 | |
| With fixed rate | - | 525,905 | 525,905 | 420,724 | 631,084 | 2,103,618 | |
| With floating rate | - | 1,863,058 | 1,397,293 | 1,117,834 | 15,466,797 | 19,844,982 | **832,964,207** |
| **LIABILITIES** | | | | | | | |
| Without rate (2) | 6,180,922 | 793,004,473 | 26,152,329 | 3,121,086 | 3,121,084 | 831,579,894 | |
| With fixed rate | - | 336,313,804 | 558,188,220 | 213,488,889 | 56,393,997 | 1,164,384,910 | |
| With floating rate | - | 20,166,667 | 21,555,556 | 28,500,000 | 107,525,173 | 177,747,396 | **2,173,712,200** |

(1) Includes tax credits, other operating credits and with partners.
(2) Includes social security and tax payables, trade payables, other liabilities and allowances.

**NON-CURRENT**

| Items | Without due date | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 4 years | More than 4 years | Subtotals | Totals |
|---|---|---|---|---|---|---|---|
| **OTHER RECEIVABLES** | | | | | | | |
| Without rate | 23,031,243 | 394,205 | - | - | 13,402,122 | 36,827,570 | |
| With fixed rate | - | 787,597 | 787,597 | 787,597 | 2,395,381 | 4,758,172 | |
| With floating rate | - | 461,281,119 | 4,698,616 | 4,698,616 | 4,698,616 | 475,376,967 | **516,962,709** |
| **DEFERRED TAX** | | | | | | | |
| Without rate | 100,791,457 | - | - | - | 177,576,862 | 278,368,319 | **278,368,319** |
| **LIABILITIES** | | | | | | | |
| Without rate (3) | 1,006,464,126 | 1,257 | - | - | - | 1,006,465,383 | |
| With fixed rate | | 262,055,687 | - | - | - | 262,055,687 | |
| With floating rate | - | 4,293,367,132 | 66,693,333 | 33,333,333 | 30,555,556 | 4,423,949,354 | **5,692,470,424** |

(3) Includes social security and tax payables, other liabilities and allowances.

Free translation from the Spanish version originally prepared for publication in Argentina

# Tecpetrol Sociedad Anónima

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**At September 30, 2017**
and for the nine-month period ended September 30, 2017

## Tecpetrol Sociedad Anónima

## Contents

### CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**TECPETROL SOCIEDAD ANÓNIMA**

## SUMMARY OF INFORMATION

In accordance with the terms of the National Securities Commission (CNV, for its acronym in Spanish) regulations, the Company´s Board has approved this summary of information for the nine-month period ended September 30, 2017.

**1. Company's activity**

The Company´s operating results are principally affected by the production levels, sale prices, the market demand for oil, gas and derivative products, fluctuations in Company´s costs of sales and operating expenses, the economic conditions in Argentina and changes in government regulations.

*Third quarter of 2017 analysis*

During the third quarter of 2017, net sales totaled $1,330.8 million, which represents a 34% increase in relation to the same period of the previous year. It is mainly caused by a significant rise in gas production accompanied by a slight increase in sale prices and the effect of the devaluation of the Argentine peso with respect to the U.S. dollar.

The oil production volumes amounted to 100 thousand $m^3$ (60% of it corresponds to escalante crude oil and the remaining 40% to medanito crude oil), which is a decreased of 20% with respect to the third quarter of 2016 in which the oil production totaled 125 thousand $m^3$.In the third quarter of 2017, the whole crude oil production was destined for domestic market, whereas in the same period of 2016, 29% of the production was exported.

The gas production rose up to 241 million $m^3$, which represents an increase of 62% in relation to the third quarter of 2016 which was of 149 million $m^3$. In both periods the gas production was destined for domestic market.

As regards revenues from escalante crude oil sales, they decreased by $61 million, mainly due to the decrease in production together with a slight drop in the sale prices. This decrease is partially offset by the effect of the devaluation of the Argentine peso with respect to the U.S. dollar.

The revenues from medanito crude oil sales were increased in $36 million compared to the amount of the third quarter of 2016, as a result of the effect of the devaluation of the Argentine peso with respect to the U.S. dollar.

The revenues from gas sales grew $364.9 million, because of the significant increase in production, primarily in Fortin de Piedra and Punta Senillosa areas, both located in Neuquina basin, and due to a 9% price rise in relation to the same period of 2016.

Operating costs totaled $1,112.9 million in the third quarter of 2017, representing an increase of 52% compared to the $733.5 million recorded in the third quarter of 2016. This increase is mainly due to the increase in labor costs, the increase in maintenance operations and well services costs and the depreciation of property, plant and equipment.

Selling and administrative expenses for the third quarter of 2017 were $ 283.4 million, 32% higher than the $214.9 million recorded for the same quarter of 2016. This increase is principally due to the increment in labor costs and in tax charges which is related to the bigger volume of operations carried out in the third quarter of 2017.

The net financial results showed a loss of $42.8 million in the third quarter of 2017, compared to a loss of $51.9 million during the third quarter of 2016. This decrease is mainly because of the decrease in interest loss as a result of a reduction in borrowings.

During the third quarter of 2017, there were no discontinued operations, while in the same period of the previous year, this result showed a loss of $86.9 million, which was mainly generated by the results of Tecpetrol de Bolivia S.A.

The net result of the third quarter of 2017 showed a loss of $182.4 million, while in the same period of 2016 the net loss amounted to $93.1 million.

*Analysis of the nine-month period ended September 30, 2017*

Revenues from sales, for the nine-month period ended September 30, 2017, reached $ 3,330.7 million, increasing by 18% with respect to the same period of the previous year.

During the first nine months of 2017, crude oil production volumes amounted to 295 thousand $m^3$ (62% of it corresponds to escalante crude oil and the remaining 38% to medanito crude oil) which represents a 26% decrease with respect to crude oil production of the same period of 2016, which was 396 thousand $m^3$. In the nine-month period ended September 30, 2017, 20% of oil production was destined for exports, compared to 40% destined for it during the first nine months of 2016.

Regarding gas production, it amounted to 619 million $m^3$, being 39% higher than the production of the same period of the previous year, which amounted to 445 million $m^3$. The gas production of the period was entirely destined to the domestic market.

Revenues from escalante crude oil sales decreased by $ 244.3 million, mainly due to a decrease in production in Golfo San Jorge basin, an effect partially offset by the exchange rate fluctuation of the Argentine peso against the US dollar. The average sale prices of escalante crude oil remained in line with the average prices for the same period of 2016.

As regards medanito crude oil, the increase in production offsets the effect of the decrease in sale prices in the domestic market, which dropped from an average of USD 66 per barrel in the nine-month period ended September 2016 to USD 55 in the same period of 2017. This downward trend in sale prices has been observed since the second half of 2016, as a result of an increase in stocks and over-supply of crude oil that pushed for sales prices in the domestic market to fall.

Revenues from gas sale increased $ 751.8 million, due to a significant increment in production mainly from Fortín de Piedra area in Neuquina basin, which corresponds to the development of the area, and an 11% increase in the average sale prices of the area compared to the same period of 2016.

Operating costs totaled $ 3,229 million in the first nine months of 2017, which is an increase of $ 1,072.6 million compared to the $ 2,156.5 million recorded in the first nine months of 2016. This increase is mainly generated as a result of the following effects: i) an increase in the depreciation of property, plant and equipment due to more investments made during the period principally because of the development of Fortín de Piedra area; ii) recognition of a devaluation charge on production and development assets and equipment in El Tordillo area, mainly caused by the current context of the hydrocarbon sector, which was affected by the drop in international oil prices; iii) increment in maintenance operations and well services costs, especially in Agua Salada, Fortín de Piedra and El Tordillo areas; and iv) due to the increase in labor costs.

Selling and administrative expenses in the first nine months of 2017 amounted to $ 744.4 million, higher than the $ 657.3 million in the first nine months of 2016. This increase is mainly generated by the increment in labor costs, and is partially offset by a decrease in the allowance for doubtful debts.

Net financial results showed a loss of $196.8 million during the first nine months of 2017, compared to a loss of $161.4 million for the same period of 2016. The variation in financial results is principally due to the exchange differences (loss) generated by the effect of the devaluation of the Argentine peso with respect to the U.S. dollar, which was partially offset by a lower charge of interest loss, as a result of a decrease in borrowings.

The result from discontinued operations for the nine-month period of 2017 showed a loss of $ 164.2 million compared to the loss of $ 188.9 million recorded during the same period of the previous year. In both periods, the loss corresponds mainly to the results of Tecpetrol de Bolivia S.A.

The consolidated net loss for the nine-month period of 2017 was $ 920.1 million, exceeding by $ 613.4 million the consolidated net loss for the same period of 2016 which was $306.7 million.

*Liquidity and cash flows*

Net cash generated by operating activities in the first nine months of 2017 was $ 1,237.8 million.

During the nine-month period ended September 30, 2017, the Company has had cash flows from bank borrowings and borrowings from related parties. These borrowings were obtained at similar interest rates to other companies in the Argentine market, considering comparable solvency, solidity, fund generation and risk characteristics.

Furthermore, Tecpetrol S.A. has received capital contributions from its shareholders in order to strengthen its financial situation and provide the Company with a better financial structure that allows the development of its operations.

As of September 30, 2017, the Company's borrowings amounted to $3,089 million and the equity to $4,261.8 million.

Investments in property, plant and equipment during the nine-month period ended September 30, 2017 amounted to $ 4,575.5 million, corresponding mainly to the development of Fortín de Piedra area.

2. **Structure of Condensed Consolidated Financial Position** (comparative at September 30, 2016 – amounts stated in thousands of pesos)

| | At September 30, | |
|---|---|---|
| | **2017** | **2016** |
| Non-current assets | 10,288,884 | 9,500,519 |
| Current assets | 1,597,204 | 1,641,598 |
| **Total Assets** | **11,886,088** | **11,142,117** |
| Equity attributable to Company Shareholders | 4,262,163 | 1,273,943 |
| Non-controlling interest | (351) | (13,195) |
| **Total Equity** | **4,261,812** | **1,260,748** |
| Non-current liabilities | 4,658,437 | 6,556,473 |
| Current liabilities | 2,965,839 | 3,324,896 |
| **Total Liabilities** | **7,624,276** | **9,881,369** |
| **Total Equity and Liabilities** | **11,886,088** | **11,142,117** |

3. **Structure of Condensed Consolidated Results and Comprehensive Results** (comparative with the same period ended at September 30, 2016 – amounts stated in thousands of pesos)

| | Nine-month period ended September 30, | |
|---|---|---|
| | **2017** | **2016** |
| Operating result | (627,204) | (34,292) |
| Financial result | (196,813) | (161,398) |
| Result of equity accounted investments | (60) | (2) |
| Result before income tax | **(824,077)** | **(195,692)** |
| Income tax | 68,123 | 77,963 |
| Net result from continuing operations | **(755,954)** | **(117,729)** |
| Result from discontinuing operations | (164,172) | (188,934) |
| Result for the period | **(920,126)** | **(306,663)** |
| **Condensed Consolidated Interim Statement of Comprehensive Income** | | |
| Result for the period | (920,126) | (306,663) |
| Other comprehensive results from continuing operations | 317,598 | 309,102 |
| Other comprehensive results from discontinuing operations | 121,215 | (90,510) |
| Comprehensive results for the period | **(481,313)** | **(88,071)** |

4. **Condensed Consolidated Cash Flow Structure** (comparative with the same period ended at September 30, 2016 – amounts stated in thousands of pesos)

| | Nine-month period ended September 30, 2017 | 2016 |
|---|---|---|
| Cash generated by operating activities | 1,237,761 | 590,999 |
| Cash used in investment activities | (4,535,402) | (1,185,881) |
| Cash generated by financial activities | 3,326,439 | 930,685 |
| **Total cash generated in the period** | **28,798** | **335,803** |

5. **Consolidated Statistical Data** (comparative situation with the same period ended at September 30, 2016 – amounts stated in thousands of pesos)

| | Nine-month period ended September 30, 2017 | 2016 |
|---|---|---|
| **Production volume** | | |
| Production in equivalent units (*) (thousands of m3 of oil and gas) | 914 | 841 |
| Domestic market | 854 | 684 |
| Exports | 60 | 157 |
| Oil production | 295 | 396 |
| Gas production | 619 | 445 |

(*) Caloric equivalence (1.000 $m^3$ gas = 1 $m^3$ oil)

6. **Consolidated Indicators** (comparative at September 30, 2016)

| | Nine-month period ended September 30, 2017 | 2016 |
|---|---|---|
| Liquidity (1) | 0.54 | 0.49 |
| Solvency (2) | 0.56 | 0.13 |
| Locked-up capital (3) | 0.87 | 0.85 |

(1) Liquidity: Current assets/Current liabilities
(2) Solvency: Total Equity/Total liabilities
(3) Locked up capital: Non-current assets/Total assets

## 7. Perspectives

During the fourth quarter of 2017, Tecpetrol estimates a level of crude oil sales similar to the level reached in the third quarter of the year, assigning the production to the domestic market.

In relation to gas production and sales, it is expected an increase of them during the fourth quarter of 2017 and at the beginning of 2018, due to the start-up of wells that are currently in the drilling stage in Fortín de Piedra area and because of the incentives provided by resolution 46/2017 of the Ministry of Energy and Mining. This will generate an increase in the operating margin in the upcoming quarters.

Additionally, the development of Vaca Muerta (located in Fortín de Piedra area) is expected to generate activity throughout the value chain of goods and services associated with hydrocarbons production and it wouldl provide energy under competitive conditions to support the economic and industrial development of Argentina as well as achieve energy self-sufficiency of the country.

In October, 2017, the Company initiated the fracturing and testing of wells drilled in Fortín de Piedra area. The drilling campaign will continue and, at the same time, the Company will keep progressing on surface infrastructure works, including the construction of locations, laying of flow lines, construction of batteries, construction and expansion of treatment and dehydration plants, laying and connection of export pipelines, among others, with the purpose of increasing the gas treatment and delivery capacity of the area.

***Recent indebtedness***

On September 18, 2017 Tecpetrol S.A., together with Tecpetrol del Perú S.A.C. and Tecpetrol Bloque 56 S.A.C., as co-borrowers, have entered into a club facility agreement for up to USD 200 million with Banco de Crédito del Perú S.A., BBVA Banco Continental, Citibank N.A. and J.P. Morgan Chase Bank, N.A., as lenders. The quarter interest rate is LIBO plus 150 bps per annum and the borrowing will be repaid in 13 installments commencing 24 months after the date of the request. As of the date of these financial statements no amounts have been borrowed.

***Negotiable Obligations Issuance***

The Ordinary Shareholders´ Meeting and the Extraordinary Shareholders´ Meeting held on May 15, 2017 approved the request of admission of Tecpetrol S.A. to the Public Offering Regime regulated by law 26.831, as well as the issued of a Global Program of simple Negotiable Obligation, not convertible into shares, for up to an amount of USD 1,000 million or its equivalent in any other currency, (“the Program”). On August 30, 2017 the Board approved the Program´s Prospectus draft.

On October 30, 2017, by means of CNV´s Resolution N° RESFC-2017-18994-APN-DIR#CNV, CNV authorized the admission of the Company in the Public Offering Regime and the creation of the program mentioned above.

***Potential Merger with América Petrogas Argentina S.A.***

According to information provided by the Parent Guarantor (Tecpetrol Internacional S.L.U.), it intends to merge the Company with Américas Petrogas Argentina S.A. ("APASA"), which is also controlled by the Parent Guarantor and participates in areas of exploration of unconventional hydrocarbons in Neuquen Province.

If the merger occurs, which the Company believes would be carried out using the financial statements of each of the companies as of December 31, 2017, Tecpetrol S.A. would absorb APASA, which would be dissolved without being liquidated, consolidating as one equity.

Buenos Aires City, November 7, 2017.

## JURIDICAL INFORMATION

### Condensed Consolidated Interim Financial Statements at September 30, 2017

| | |
|---|---|
| **Legal domicile:** | Pasaje Della Paolera 299/297 - piso 16 - Ciudad Autónoma de Buenos Aires |
| **Fiscal year** | No. 38 |
| **Company's main line of business:** | Exploration, exploitation and development of hydrocarbon fields; transport, distribution, transformation, distillation and industrial use of hydrocarbons and by-products and hydrocarbons trade; electric power generation and commercialization through the construction, operation and exploitation in any manner of power plants and equipment for the generation, production, self-generation and/or co-generation of electric power. |
| **Date of registration with the Public Registry:** | By-laws: registered under number 247of Book 94, Volume of Companies by Shares, on June 19, 1981<br><br>Amendments to by-laws: March 25, 1983, October 16, 1985, July 1, 1987, February 24, 1989, December 12, 1989, August 18, 1992, December 21, 1992, April 6, 1993, December 14, 1995, October 30, 1997, October 13, 2000, September 14, 2005, November 16, 2007, March 23, 2009, September 20, 2010, March 2, 2016, November 25, 2016, and September 28, 2017. |
| **Date of expiry of Company´s by-laws:** | June 19, 2080 |
| **Correlative registration number with the Superintendency of Commercial Companies (IGJ)** | 802,207 |
| **Name of Parent Company:** | Tecpetrol Internacional SLU |
| **Legal domicile of Parent Company:** | Calle García de Paredes 94, 1°A, 28010 Madrid, España. |
| **Parent Company's main line of business:** | Investment |
| **Equity interest held by the Parent Company:** | 95.98% |
| **Percentage of votes of the Parent Company:** | 98.3346% |

| **Capital status (Note 21)** | **Class of shares** | **At September 30, 2017**<br>**Total Subscribed and paid-in**<br>**$** |
|---|---|---|
| | **Book-entry shares** | |
| | Class A ordinary shares of $1 par value -1 Vote per share | 2,459,102,936 |
| | Class B ordinary shares of $1 par value -5 Votes per share | 1,340,897,064 |
| | | 3,800,000,000 |

### CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
**for the three-month and nine-month periods ended September 30, 2017 and 2016**
(Amounts stated in thousands of pesos, unless otherwise specified)

| | Notes | Three-month period ended September 30, 2017 | Three-month period ended September 30, 2016 | Nine-month period ended September 30, 2017 | Nine-month period ended September 30, 2016 |
|---|---|---|---|---|---|
| | | (Unaudited) | | (Unaudited) | |
| **Continuing operations** | | | | | |
| Net sales | 5 | 1,330,789 | 990,910 | 3,330,687 | 2,827,050 |
| Operating costs | 6 | (1,112,917) | (733,494) | (3,229,029) | (2,156,457) |
| **Gross margin** | | **217,872** | **257,416** | **101,658** | **670,593** |
| Selling expenses | 7 | (46,619) | (32,688) | (138,390) | (173,467) |
| Administrative expenses | 8 | (236,816) | (182,258) | (605,980) | (483,828) |
| Exploration costs | | (176) | (4,492) | (784) | (35,239) |
| Other operating income | 10 | 1,507 | 1,350 | 19,222 | 2,352 |
| Other operating expenses | 10 | (1,676) | (440) | (2,930) | (14,703) |
| **Operating result** | | **(65,908)** | **38,888** | **(627,204)** | **(34,292)** |
| Financial income | 11 | 4,866 | 11,407 | 15,371 | 34,219 |
| Financial costs | 11 | (37,010) | (51,274) | (158,930) | (188,218) |
| Other financial results, net | 11 | (10,632) | (12,027) | (53,254) | (7,399) |
| **Loss before result of equity-accounted investments and before income tax** | | **(108,684)** | **(13,006)** | **(824,017)** | **(195,690)** |
| Result of equity-accounted investments | | (56) | (1) | (60) | (2) |
| **Loss before income tax** | | **(108,740)** | **(13,007)** | **(824,077)** | **(195,692)** |
| Income tax | 12 | (73,698) | 6,778 | 68,123 | 77,963 |
| **Loss for the period from continuing operations** | | **(182,438)** | **(6,229)** | **(755,954)** | **(117,729)** |
| **Discontinued operations** | | | | | |
| Loss for the period from discontinued operations | 32 | - | (86,875) | (164,172) | (188,934) |
| **Loss for the period** | | **(182,438)** | **(93,104)** | **(920,126)** | **(306,663)** |
| **Loss attributable to:** | | | | | |
| Owners of the parent | | (182,047) | (91,441) | (916,203) | (302,679) |
| Non-controlling interest | | (391) | (1,663) | (3,923) | (3,984) |
| Basic and diluted loss per share ($ per share) | 22 | (0.05) | (0.09) | (0.46) | (0.30) |
| Basic and diluted loss of continuing operations per share ($ per share) | 22 | (0.05) | (0.02) | (0.38) | (0.12) |

The accompanying notes 1 to 33 form an integral part of these Condensed Interim Consolidated Financial Statements. These Condensed Interim Consolidated Financial Statements should be read along with Exhibit I - Complementary Information at December 31, 2016.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
### for the three-month and nine-month periods ended September 30, 2017 and 2016
(Amounts stated in thousands of pesos, unless otherwise specified)

| | Notes | Three-month period ended September 30, 2017 | Three-month period ended September 30, 2016 | Nine-month period ended September 30, 2017 | Nine-month period ended September 30, 2016 |
|---|---|---|---|---|---|
| | | (Unaudited) | | (Unaudited) | |
| **Loss for the period** | | **(182,438)** | **(93,104)** | **(920,126)** | **(306,663)** |
| **Other comprehensive results:** | | | | | |
| **Items that may be subsequently reclassified to profit or loss:** | | | | | |
| **Continuing operations** | | | | | |
| Currency translation differences | | 61 | 1,680 | 55 | 6,266 |
| Changes in the fair value of available-for-sale financial assets | **15** | 4,151 | 1,511 | 10,269 | (7,019) |
| Income tax related to components of other comprehensive income (i) | **27** | (2,631) | (646) | (2,798) | 1,188 |
| **Discontinued operations** | | | | | |
| Currency translation differences | | - | (12,845) | 121,215 | (90,510) |
| **Items that will not be reclassified to profit or loss:** | | | | | |
| **Continuing operations** | | | | | |
| Currency translation differences - Tecpetrol S.A. | | 174,187 | 35,365 | 309,256 | 307,038 |
| Remeasurement of post employment benefit obligations | | (127) | - | 1,255 | 2,506 |
| Income tax related to components of other comprehensive income (ii) | **27** | 45 | - | (439) | (877) |
| **Total other comprehensive results for the period** | | **175,686** | **25,065** | **438,813** | **218,592** |
| **Total comprehensive results for the period** | | **(6,752)** | **(68,039)** | **(481,313)** | **(88,071)** |
| **Loss attributable to:** | | | | | |
| Owners of the parent | | (6,351) | (66,167) | (479,897) | (82,454) |
| Non-controlling interest | | (401) | (1,872) | (1,416) | (5,617) |
| | | **(6,752)** | **(68,039)** | **(481,313)** | **(88,071)** |
| **Comprehensive income attributable to Owners of the parent** | | | | | |
| Continuing operations | | (6,351) | 31,612 | (318,915) | 191,551 |
| Discontinued operations | | - | (97,779) | (160,982) | (274,005) |
| | | **(6,351)** | **(66,167)** | **(479,897)** | **(82,454)** |

(i) Generated by the changes in the fair value of available-for-sale financial assets.

(ii) Generated by the remeasurement of post-employment benefit obligations.

The accompanying notes 1 to 33 form an integral part of these Condensed Interim Consolidated Financial Statements. These Condensed Interim Consolidated Financial Statements should be read along with Exhibit I - Complementary Information at December 31, 2016.

### CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
**At September 30, 2017 and December 31, 2016**
(Amounts stated in thousands of pesos, unless otherwise specified)

| ASSETS | Notes | At September 30, 2017 (Unaudited) | At December 31, 2016 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment. Exploration, evaluation and development assets | 13 | 8,990,063 | 9,507,575 |
| Investments in entities accounted for using the equity method | 14 | 1,232 | 1,190 |
| Available-for-sale financial assets | 15 | 249,418 | 219,043 |
| Deferred tax asset | 27 | 195,575 | 104,832 |
| Other receivables and prepayments | 16 | 768,802 | 570,726 |
| Income tax credit | | 83,794 | 32,733 |
| **Total Non-current assets** | | **10,288,884** | **10,436,099** |
| **Current assets** | | | |
| Inventories | 18 | 193,741 | 271,129 |
| Other receivables and prepayments | 16 | 430,819 | 788,586 |
| Income tax credit | | 3,568 | 22,290 |
| Trade receivables | 17 | 724,116 | 632,295 |
| Cash and cash equivalents | 19 | 244,960 | 218,641 |
| **Total Current assets** | | **1,597,204** | **1,932,941** |
| **Total assets** | | **11,886,088** | **12,369,040** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | | 3,800,000 | 1,024,000 |
| Capital contributions | | 897,941 | - |
| Special reserve | | 435,751 | 435,751 |
| Other reserves | | 709,913 | 273,607 |
| Retained earnings | | (1,581,442) | (665,239) |
| **Total equity attributable to Company Shareholders** | | **4,262,163** | **1,068,119** |
| Non-controlling interest | | (351) | (15,729) |
| **Total Equity** | | **4,261,812** | **1,052,390** |
| **Non-current liabilities** | | | |
| Borrowings | 23 | 3,046,317 | 5,102,686 |
| Employee benefits programs | 24 | 338,513 | 304,040 |
| Provisions | 25 | 1,272,823 | 1,103,837 |
| Trade and other payables | 26 | 784 | 825 |
| **Total Non-current liabilities** | | **4,658,437** | **6,511,388** |
| **Current liabilities** | | | |
| Borrowings | 23 | 42,717 | 3,464,918 |
| Provisions | 25 | 48,622 | 43,057 |
| Trade and other payables | 26 | 2,874,500 | 1,297,287 |
| **Total Current liabilities** | | **2,965,839** | **4,805,262** |
| **Total liabilities** | | **7,624,276** | **11,316,650** |
| **Total equity and liabilities** | | **11,886,088** | **12,369,040** |

The accompanying notes 1 to 33 form an integral part of these Condensed Interim Consolidated Financial Statements. These Condensed Interim Consolidated Financial Statements should be read along with Exhibit I - Complementary Information at December 31, 2016.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY for the nine-month periods ended September 30, 2017 and 2016**
(Amounts stated in thousands of pesos, unless otherwise specified)

| | | Attributable to Company shareholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Shareholders´ contributions | | Accumulated results | | | | | |
| | | Share capital | | Reserved profits | | | | | |
| | Notes | Subscribed capital | Capital contributions | Special reserve (i) | Other reserves | Retained earnings | Total | Non-controlling interest | Total |
| | | | | | | | | | (Unaudited) |
| **Balance at December 31, 2016** | | **1,024,000** | **-** | **435,751** | **273,607** | **(665,239)** | **1,068,119** | **(15,729)** | **1,052,390** |
| Result for the period | | **-** | **-** | **-** | **-** | **(916,203)** | **(916,203)** | **(3,923)** | **(920,126)** |
| Currency translation difference | | - | - | - | 428,166 | - | 428,166 | 2,360 | 430,526 |
| Changes in the fair value of available-for-sale financial assets | **15** | - | - | - | 10,122 | - | 10,122 | 147 | 10,269 |
| Remeasurement of post employment benefit obligations | | - | - | - | 1,255 | - | 1,255 | - | 1,255 |
| Income tax related to components of other comprehensive income | **27** | - | - | - | (3,237) | - | (3,237) | - | (3,237) |
| **Other comprehensive results for the period** | | **-** | **-** | **-** | **436,306** | **-** | **436,306** | **2,507** | **438,813** |
| **Total comprehensive results for the period** | | **-** | **-** | **-** | **436,306** | **(916,203)** | **(479,897)** | **(1,416)** | **(481,313)** |
| Effect from transference of subsidiary's share interest (ii) | | - | 897,941 | - | - | - | 897,941 | - | 897,941 |
| Deconsolidation of non-controlling interest in subsidiaries | | - | - | - | - | - | - | 16,794 | 16,794 |
| Resolution of the Extraordinary Shareholders' Meeting held on June 26, 2017: | | | | | | | | | |
| - Share capital increase | **21** | 2,776,000 | - | - | - | - | 2,776,000 | - | 2,776,000 |
| **Balance at September 30, 2017** | | **3,800,000** | **897,941** | **435,751** | **709,913** | **(1,581,442)** | **4,262,163** | **(351)** | **4,261,812** |

(i) Corresponds to General Resolution 609/12 of the CNV (see Note 29. iii).
(ii) Corresponds to the effect of the transference of share interest in Tecpetrol de Bolivia S.A. to Tecpetrol Internacional S.L.U. (See Note 32).

The accompanying notes 1 to 33 form an integral part of these Condensed Interim Consolidated Financial Statements. These Condensed Interim Consolidated Financial Statements should be read along with Exhibit I - Complementary Information at December 31, 2016.

**CONDENSED SEPARATE INTERIM STATEMENT OF CHANGES IN EQUITY for the nine-month periods ended September 30, 2017 and 2016**
(Amounts stated in thousands of pesos, unless otherwise specified)

| | | Attributable to Company shareholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Shareholders´ contributions | Accumulated results | | | | | | | |
| | | Share capital | Reserved profits | | | | | | | |
| | Notes | Subscribed capital | Legal reserve | Future dividends´ reserve | Special reserve (i) | Other reserves | Retained earnings | Total | Non-controlling interest | Total |
| | | | | | | | | | | (Unaudited) |
| **Balance at January 1, 2016** | | **1,024,000** | **74,800** | **14,408** | **435,751** | **-** | **(192,561)** | **1,356,398** | **(7,578)** | **1,348,820** |
| | | | | | | | | - | | - |
| **Result for the period** | | **-** | **-** | **-** | **-** | **-** | **(302,679)** | **(302,679)** | **(3,984)** | **(306,663)** |
| Currency translation difference | | - | - | - | - | 224,398 | - | 224,398 | (1,604) | **222,794** |
| Changes in the fair value of available-for-sale financial assets | 15 | | | | | (6,990) | - | (6,990) | (29) | **(7,019)** |
| Remeasurement of post employment benefit obligations | | - | - | - | - | 2,506 | - | 2,506 | - | **2,506** |
| Income tax related to components of other comprehensive income | 27 | - | - | - | - | 311 | - | 311 | - | **311** |
| **Other comprehensive results for the period** | | **-** | **-** | **-** | **-** | **220,225** | **-** | **220,225** | **(1,633)** | **218,592** |
| **Total comprehensive results for the period** | | **-** | **-** | **-** | **-** | **220,225** | **(302,679)** | **(82,454)** | **(5,617)** | **(88,071)** |
| Appropriation of retained earnings approved by Shareholders' Meeting held on June 3, 2016: | | | | | | | | | | |
| - Future dividends' reserve and legal reserve | | - | (74,800) | (14,408) | - | - | 89,208 | - | - | **-** |
| **Balance at September 30, 2016** | | **1,024,000** | **-** | **-** | **435,751** | **220,225** | **(406,032)** | **1,273,944** | **(13,195)** | **1,260,749** |

(i) Corresponds to CNV's General Resolution 609/12 (see Note 29. iii).

The accompanying notes 1 to 33 form an integral part of these Condensed Interim Consolidated Financial Statements. These Condensed Interim Consolidated Financial Statements should be read along with Exhibit I - Complementary Information at December 31, 2016.

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

### for the nine-month periods ended September 30, 2017 and 2016

(Amounts stated in thousands of pesos, unless otherwise specified)

| | Notes | Nine-month period ended September 30, 2017 | 2016 |
|---|---|---|---|
| | | (Unaudited) | |
| **OPERATING ACTIVITIES** | | | |
| Result for the period | | (920,126) | (306,663) |
| *Adjustments for :(*)* | | | |
| Depreciation of property, plant and equipment | **13** | 1,286,431 | 789,916 |
| Result from the sale of property, plant and equipment | **10** | (2,769) | (1,094) |
| Impairment of property, plant and equipment | **13** | 106,941 | - |
| Exploration costs | | 784 | 25,580 |
| Income tax | **12** | (68,123) | (77,963) |
| Accrued interest not paid | | 71,514 | 202,080 |
| Dividend income | **11** | (641) | (3,242) |
| Provisions | | 44,032 | 124,983 |
| Result from sale of equity interest in subsidiaries | **32** | (24) | - |
| Result from equity-accounted investments | **14** | 60 | 2 |
| Result from retirement benefit plans and other plans | **9** | 53,315 | 19,786 |
| *Changes in operating assets and liabilities:* | | | |
| Increase in trade and other receivables | | (999,639) | (304,891) |
| Decrease / (Increase) in inventories | | 77,388 | (214,760) |
| Increase in trade and other payables | | 1,666,893 | 276,720 |
| Others, including currency translation differences | | (8,213) | 117,953 |
| Employee benefits plans payments | | (35,610) | (28,213) |
| Income tax payments | | (34,452) | (29,195) |
| **Cash generated by operating activities** | | **1,237,761** | **590,999** |
| **INVESTING ACTIVITIES** | | | |
| Investment in property, plant and equipment | | (4,575,510) | (1,190,930) |
| Collection from the sale of property, plant and equipment | | 34,302 | 2,086 |
| Acquisition and contribution to associated companies | 14 | (100) | (279) |
| Collection from the sale of equity in subsidiaries | | 5,265 | - |
| Dividends received | | 641 | 3,242 |
| **Cash used in investing activities** | | **(4,535,402)** | **(1,185,881)** |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | 3,259,543 | 2,360,166 |
| Repayment of borrowings | | (1,931,896) | (1,533,185) |
| Cash received from capital increases of the period | | 1,987,294 | - |
| Cash received from capital increases of the previous years | | 11,498 | 103,704 |
| **Cash generated by financing activities** | | **3,326,439** | **930,685** |
| **Increase in cash and cash equivalents** | | **28,798** | **335,803** |
| **Changes in cash and cash equivalents** | | | |
| Cash and cash equivalents at the beginning of the period/ (Banks overdraft) | | 216,288 | (210,270) |
| Increase in cash and cash equivalents | | 28,798 | 335,803 |
| Deconsolidation of subsidiaries | | (20,531) | - |
| Currency translation adjustment | | 20,405 | 31,438 |
| **Cash and cash equivalents at period-end** | | **244,960** | **156,971** |

| | At September 30, 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents | 244,960 | 159,324 |
| Banks overdrafts | - | (2,353) |
| **Cash and cash equivalents at period-end** | **244,960** | **156,971** |
| **Non-cash transactions** | | |
| Debt capitalization with controlling Company | 788,706 | - |
| Integration in kind from capital increases in previous years | 274,798 | - |

(*) The difference between the interest earned and collected is not significant.

The accompanying notes 1 to 33 form an integral part of these Condensed Interim Consolidated Financial Statements. These Condensed Interim Consolidated Financial Statements should be read along with Exhibit I - Complementary Information at December 31, 2016

### Contents of notes to the condensed consolidated interim financial statements

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

(Amounts stated in thousands of pesos, unless otherwise specified)

## 1. General Information

Tecpetrol S.A. (the "Company") was incorporated on June 5, 1981 and its main activity is the exploration and exploitation of oil and gas in Argentina.

The Company has an important presence in Vaca Muerta area, through (i) no conventional exploitation concessions in Fortin de Piedra and Punta Senillosa areas, which were granted in July, 2016 for a period of 35 years and where the Company holds the exploitation rights and; (i) the exploration permission in Loma Ancha area.

In addition, the Company operates in conventional hydrocarbon areas in Neuquina, Noroeste and San Jorge basins through joint operations (see Note 31) and holds the exploitation rights of the area Los Bastos in the province of Neuquén.

At September 30, 2017 and December 31, 2016, the Company has consolidated the following subsidiaries:

| | | | % interest | |
|---|---|---|---|---|
| **Company** | **Country** | **Main line of business** | **Sep-17** | **Dec-16** |
| Dapetrol S.A. | Argentina | Exploration, discovery, exploitation and sale of gas and liquid hydrocarbons. | 97.50% | 97.50% |
| Tecpetrol de Bolivia S.A. (i) | Bolivia | Exploration, exploitation, production and sale of oil and gas. | - | 98.05% |
| GEA-GEO Energy Alternatives S.A. (i) | Argentina | Operation of gas pipes and oil pipes; transport and distribution. | - | 70% |

(i) Included as discontinued operations (see Note 32).

Reference to "Tecpetrol" in the financial statements includes Tecpetrol S.A. and its consolidated subsidiaries.

The Company is incorporated and domiciled in Argentina. Its legal address is Pasaje Della Paolera 299/297, 16th floor, City of Buenos Aires.

The Condensed Consolidated Interim Financial Statements were approved for their issue by the Board of Directors on November 7, 2017.

## 2. Basis for preparation

These Condensed Consolidated Interim Financial Statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), under a historical cost convention, modified by the revaluation of financial assets and liabilities at fair value.

The National Securities Commission (CNV, for its acronym in Spanish), by means of General Resolution No. 622/13, the CNV has established the application of Technical Resolutions Nos. 26 and 29 issued by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE, for its acronym in Spanish), which adopt IFRS issued by the IASB, for entities included in the public offering regime under Law No. 17811 and amendments, either for their capital stock or corporate bonds, or which have requested authorization to be included in that regime.

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**2. Basis for preparation (Cont.)**

The Condensed Consolidated Interim Financial Statements of the Company and its subsidiaries for the nine-month period ended September 30, 2017 have been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim financial reporting'.

The financial statements have been prepared following the same accounting policies as those used in the preparation of the Exhibit I - Complementary Information at December 31, 2016; therefore they should be read along with this complementary information.

The Company has established the US dollar (USD) as its functional currency since it best shows the economic substance of its transactions. The presentation currency of the financial statements is the Argentine peso.

These Condensed Consolidated Interim Financial Statements are disclosed in thousands of argentine pesos, unless otherwise stated.

Amounts and other unaudited information for the nine-month period ended September 30, 2016 are an integral part of these financial statements as of September 30, 2017 and are presented for comparative purposes only.

The preparation of these Condensed Consolidated Interim Financial Statements in accordance with IFRS requires the management to make certain estimates that may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the income and expense figures for the reported period. Actual future results might differ from these estimates.

**3. New Accounting Standards**

*(a) New standards, interpretations and modifications to the published standards in force as from the current year:*

*- IAS 12 "Income tax" (Amendments)*

In January 2016, the IASB issued certain amendments to IAS 12 "Income Tax" with the aim of clarifying the accounting of deferred tax in case an asset is valued at its fair value and this value is lower than its tax base. These modifications explain, among other aspects, that when estimating future taxable profit, an entity can estimate the recovery of the asset for a value higher than its carrying value.

The application of the amendments to IAS 12 did not have a material impact on these Condensed Consolidated Interim Financial Statements.

*- IAS 7 "Cash Flow Statement" (Amendments)*

In January 2016, the IASB issued certain amendments to IAS 7 "Cash Flows Statement", which require more disclosure of the changes in liabilities from financing activities with the aim of providing the necessary information so that the financial statements´ users can assess their evolution throughout the year, including the breakdown of changes arising from cash flows (drawdowns and repayments of borrowings), changes in liabilities related to obtaining or losing control in subsidiaries or other business, the exchange difference effect, changes in fair values and other changes.

The application of the amendments to IAS 7 did not have a material impact on these Condensed Consolidated Interim Financial Statements.

Management assessed the relevance of other new published standards, interpretations and amendments to the standards in force as from the current year and concluded that they are irrelevant for the Company.

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**3. New Accounting Standards (Cont'd)**

*New standards, interpretations and modifications to the published standards not yet effective and not early adopted:*

*- IFRS 9 "Financial instruments"*

IFRS 9 "Financial Instruments", issued in July 2014, replaces the current IAS 39 "Financial Instruments" and introduces principles for the classification and valuation of financial instruments, and simplifies its valuation in three main categories: amortized cost, fair value with changes in other comprehensive income and fair value with changes in profit or loss. Additionally, IFRS 9 simplifies the requirements related to the effectiveness measurement hedge accounting and introduces a new model for the impairment of financial assets. This standard is applicable for annual periods commencing on or after January 01, 2018.

The Management is estimating the potential impact the application of IFRS 9 will have on the Financial Statements.

*- IFRS 15,"Revenue from Contracts with Customers"*

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which sets forth principles of disclosure of information related to revenue recognition and requirements for the accounting of revenue from contracts with customers based on the principle that revenues are recognized when the control of goods or services is transferred to the client. IFRS 15 is applicable for annual periods commencing on or after January 01, 2018.

The Management is estimating the potential impact the application of IFRS 15 will have on the Financial Statements.

*- IFRS 16 "Leases"*

In January 2016, the IASB issued IFRS 16 *"Leases"*, which modifies the accounting of these operations, basically by removing the distinction between operating and financial leases. This modification will entail changes for most lease agreements both in assets recognition, given the right to use the leased item, and in liabilities, due to the payment of the lease. There is an optional exemption for short-term and low value leases. IFRS 16 is applicable for annual periods commencing on or after, January 01, 2019.

The Management has not yet estimated the potential impact the application of IFRS 16 will have on the financial statements.

The Management assessed the relevance of other new published standards, interpretations and amendments to the standards not yet effective and concluded that they are irrelevant for the Company.

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

### 4. Segment information

| | Nine-month period ended September 30, 2017 (Unaudited) | | | |
|---|---|---|---|---|
| | **Neuquina Basin** | **Noroeste y San Jorge Basin** | **Others** | **Total continuing operations** |
| Net sales - IFRS | 1,761,483 | 1,564,680 | 4,524 | 3,330,687 |
| Operating result - Managerial vision | 182,194 | (544,296) | 45,533 | (316,569) |
| Depreciation differences | 1,776 | 271,119 | - | 272,895 |
| Administrative expenses (*) | | | | (583,530) |
| Operating result - IFRS | | | | **(627,204)** |
| | | | | |
| Property, plant and equipment - Managerial vision | 6,042,679 | 2,827,848 | 155,842 | 9,026,369 |
| Depreciation differences | | | | (36,306) |
| Property, plant and equipment - IFRS | | | | **8,990,063** |
| | | | | |
| Investments in property, plant and equipment | 4,324,914 | 197,429 | 14,625 | 4,536,968 |
| Investments in property, plant and equipment - Tecpetrol de Bolivia S.A. | | | | 38,542 |
| | | | | **4,575,510** |

| | Nine-month period ended September 30, 2016 (Unaudited) | | | |
|---|---|---|---|---|
| | **Neuquina Basin** | **Noroeste y San Jorge Basin** | **Others** | **Total continuing operations** |
| Net Sales - IFRS | 1,035,146 | 1,789,623 | 2,281 | 2,827,050 |
| Operating result - Managerial vision | 206,414 | 403,690 | (27,370) | 582,734 |
| Depreciation differences | (4,862) | (138,889) | - | (143,751) |
| Administrative expenses (*) | | | | (473,275) |
| Operating result - IFRS | | | | **(34,292)** |
| Property, plant and equipment - Managerial vision | 1,589,931 | 2,903,298 | 165,565 | 4,658,794 |
| Depreciation differences | | | | (202,504) |
| Property, plant and equipment - Tecpetrol de Bolivia S.A. | | | | 4,116,939 |
| Property, plant and equipment - IFRS | | | | **8,573,229** |
| | | | | |
| Investments in property, plant and equipment | 556,185 | 259,202 | 9,497 | 824,884 |
| Investments in property, plant and equipment - Tecpetrol de Bolivia S.A. | | | | 366,046 |
| | | | | **1,190,930** |

(*) Corresponds to expenses not allocated in segment reporting.

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

## 5. Net sales

| | Nine-month period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Gas | 1,890,789 | 929,776 |
| Oil | 1,676,712 | 1,922,491 |
| Other services | 10,000 | 802 |
| | **3,577,501** | **2,853,069** |
| Discontinued operations | (246,814) | (26,019) |
| | **3,330,687** | **2,827,050** |

## 6. Operating costs

| | Nine-month period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Materials and spare parts at the beginning of the period | 125,816 | 100,930 |
| Purchases and production costs | 3,404,356 | 2,215,356 |
| Materials and spare parts at the end of the period | (134,499) | (124,786) |
| Currency translation differences | 11,077 | 17,808 |
| **Cost of sales** | **3,406,750** | **2,209,308** |
| Revenue from discontinued operations | (177,721) | (52,851) |
| | **3,229,029** | **2,156,457** |
| | | |
| Labor costs | 285,036 | 172,319 |
| Fees and services | 115,668 | 81,081 |
| Depreciation of property, plant and equipment | 1,263,981 | 779,363 |
| Impairment of property, plant and equipment | 106,941 | - |
| Maintenance and service costs | 917,009 | 666,072 |
| Treatment, storage and loading | 90,251 | 79,099 |
| Royalties and other taxes | 491,654 | 399,629 |
| Others | 136,210 | 31,745 |
| | 3,406,750 | 2,209,308 |
| Discontinued operations | (177,721) | (52,851) |
| | **3,229,029** | **2,156,457** |

## 7. Selling expenses

| | Nine-month period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Taxes | 89,339 | 62,258 |
| Treatment, storage and loading | 51,241 | 32,126 |
| Allowance for doubtful accounts | 1,752 | 78,522 |
| Others | 1,469 | 561 |
| | **143,801** | **173,467** |
| Discontinued operations | (5,411) | - |
| | **138,390** | **173,467** |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

### 8. Administrative expenses

| | Nine-month period ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (Unaudited) | |
| Labor costs | 479,263 | 401,618 |
| Fees and services | 123,966 | 89,963 |
| Depreciation of property, plant and equipment | 22,450 | 10,553 |
| Taxes | 96,019 | 87,125 |
| Office expenses | 84,941 | 100,004 |
| Reimbursement of expenses (*) | (193,850) | (192,838) |
| | **612,789** | **496,425** |
| Discontinued operations | (6,809) | (12,597) |
| | **605,980** | **483,828** |

(*) These are not liable to association or proration in connection with each line involved in the costs and/or expenses notes, but rather in connection with the tasks which make up the function of the operator.

### 9. Labor costs (included in Operating costs and Administrative expenses)

| | Nine-month period ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (Unaudited) | |
| Salaries, wages and other costs | 606,741 | 486,629 |
| Social security costs | 104,243 | 67,522 |
| Employee benefits programs (Note 24) | 53,315 | 19,786 |
| | **764,299** | **573,937** |

### 10. Other operating results, net

| | Nine-month period ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (Unaudited) | |
| *Other operating income* | | |
| Income from other sales | 1,102 | 672 |
| Reversal of allowances | 14,659 | - |
| Result from the sale of property, plant and equipment | 2,769 | 1,094 |
| Others | 716 | 10,834 |
| | **19,246** | **12,600** |
| Discontinued operations | (24) | (10,248) |
| | **19,222** | **2,352** |
| *Other operating expenses* | | |
| Allowance for legal claims and contingencies | (2,410) | (746) |
| Others | (637) | (14,034) |
| | **(3,047)** | **(14,780)** |
| Discontinued operations | 117 | 77 |
| | **(2,930)** | **(14,703)** |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

### 11. Financial results, net

| | Nine-month period ended September 30, 2017 | Nine-month period ended September 30, 2016 |
|---|---|---|
| | (Unaudited) | |
| Dividend income | 641 | 3,242 |
| Interest income | 14,754 | 30,977 |
| **Financial income** | **15,395** | **34,219** |
| Interest cost | (266,260) | (339,006) |
| **Financial costs** | **(266,260)** | **(339,006)** |
| Net result from exchange differences - (Loss) / Profit | (51,167) | 203 |
| Other financial result, net - (Loss) | (2,859) | (8,058) |
| **Other financial result, net - (Loss)** | **(54,026)** | **(7,855)** |
| **Financial results, net - (Loss)** | **(304,891)** | **(312,642)** |
| Discontinued operations - (Loss) | 108,078 | 151,244 |
| | **(196,813)** | **(161,398)** |

Each item included in this note differs from their respective line in the Condensed Consolidated Interim Income Statement, as it includes the result from discontinued operations.

### 12. Income tax

| | Nine-month period ended September 30, 2017 | Nine-month period ended September 30, 2016 |
|---|---|---|
| | (Unaudited) | |
| Current income tax - Loss | 2,140 | 1,043 |
| Deferred income tax - (Profit) (Note 27) | (70,263) | (79,006) |
| | **(68,123)** | **(77,963)** |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**13. Property, plant and equipment. Exploration, evaluation and development assets**

| | Nine-month period ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | | | | | | 2016 |
| | Development/Productive assets | Machinery and equipment | Asset retirement obligation | Exploration and evaluation | Work in progress | Others | Total | Total |
| Cost | | | | | | | (Unaudited) | |
| At the beginning of the period | 15,248,818 | 5,243,721 | 480,913 | 736,327 | 1,397,149 | 519,809 | 23,626,737 | 17,578,282 |
| Currency translation differences | 1,307,201 | 256,289 | 46,517 | 23,459 | 188,312 | 48,766 | 1,870,544 | 3,097,506 |
| Additions | - | - | 161,143 | - | 4,499,689 | 75,821 | 4,736,653 | 1,190,930 |
| Transfers | 1,542,958 | 262,659 | - | (428,281) | (1,474,317) | 96,981 | - | - |
| Disposals | (99,968) | (44,340) | (1,127) | - | - | (5,966) | (151,401) | (16,601) |
| Deconsolidation of subsidiaries | (1,713,667) | (2,244,405) | (134,539) | - | (308,674) | (153,457) | (4,554,742) | - |
| At period end | 16,285,342 | 3,473,924 | 552,907 | 331,505 | 4,302,159 | 581,954 | 25,527,791 | 21,850,117 |
| | | | | | | | | |
| Depreciation | | | | | | | | |
| At the beginning of the period | 11,187,059 | 2,570,858 | 197,504 | - | - | 163,741 | 14,119,162 | 10,613,962 |
| Currency translation differences | 1,071,959 | 196,464 | 19,587 | - | - | 55,886 | 1,343,896 | 1,878,959 |
| Depreciation for the period | 1,057,160 | 134,863 | 49,508 | - | - | 44,900 | 1,286,431 | 789,916 |
| Impairment for the period | 86,801 | 20,140 | - | - | - | - | 106,941 | - |
| Transfers | - | (34,940) | - | - | - | 34,940 | - | - |
| Disposals | (70,011) | (3,851) | (1,127) | - | - | (4,686) | (79,675) | (5,949) |
| Deconsolidation of subsidiaries | (172,907) | (55,725) | (10,395) | - | - | - | (239,027) | - |
| At period end | 13,160,061 | 2,827,809 | 255,077 | - | - | 294,781 | 16,537,728 | 13,276,888 |
| **Residual value** | **3,125,281** | **646,115** | **297,830** | **331,505** | **4,302,159** | **287,173** | **8,990,063** | **8,573,229** |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**13. Property, plant and equipment Exploration, evaluation and development assets (Cont'd)**

**Impairment of long-term assets**

The Company analyzes the Property, plant and equipment for impairment periodically or when there are events or changes in the circumstances that indicate a potential evidence of impairment.

The recoverable value of each CGU (considering CGU as each area the Company has interest in) is estimated by the Company as the highest between the fair value of assets less direct costs to sell and the value in use of assets. The value in use is calculated based on the cash flows discounted, applying a discount rate based on the weighted average cost of capital (WACC), which considers the risks of the country where the CGU operates and its specific characteristics.

The determination of the discounted cash flows is based on projections approved by the Management and includes a set of sensitive estimates and assumptions, such as changes in hydrocarbons production levels, sales prices, hydrocarbons future market prices, inflation, exchange rates, costs and other cash expenditures, on the basis of the best estimate the Company foresees regarding its operations and the available market information.

Cash flows derived from the different CGUs are usually projected for a period that covers the existence of commercially exploitable reserves and is limited to the existence of reserves for the term of the concession or contract.

During the second quarter of 2017, the Company has recognized impairment charges in productive and development equipment and assets in El Tordillo area (Noroeste and San Jorge Basins segment) for $ 106.9 million, mainly caused by the current context of the hydrocarbon sector, which was affected by the decrease of international oil prices. The recoverable value of CGU, which amounted to $ 1,827.3 million, was estimated based on its value in use, using a discount rate before tax of 16.88%. The impairment charge is recognized in *Operating costs* in the Condensed Consolidated Interim Income Statement at September 30, 2017.

A variation of 100 basis points in the discount rate would have generated an increase / (decrease) of 5.7% in the recoverable value, and a variation of USD 1 per barrel of the crude oil price would generate an increase / (decrease) of 4.7% in the recoverable value.

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**14. Investments in entities accounted for using the equity method**

The detailed list of .investments in entities accounted for using the equity method is as follows:

***Investments in associated companies***

| | | | | | | Lastest financial information | | | |
|---|---|---|---|---|---|---|---|---|---|
| Company | Main line of business | Country | % of share interest | Value at September 30, 2017 (Unaudited) | Value at December 31, 2016 | Date | Share capital | Results for the period | Equity |
| Parque eólico Pampa S.A. (i) | Design, development, construction and maintenance wind farms. | Argentina | 20% | 1,232 | 1,190 | 09.30.2017 | 6,500 | (301) | 6,148 |
| **Total** | | | | **1,232** | **1,190** | | | | |

(i) On February 22, 2017 Tecpetrol S.A. acquired from GEA-GEO Energy Alternatives S.A. a 20% interest in Parque Eólico Pampa S.A. for USD 75 thousand. On October 18, 2017, Tecpetrol S.A. sold its interest in Parque Eólico Pampa S.A. for USD 1,014 thousand, USD 50 thousand of which were collected on the date of the contract and the rest, subject to certain clauses, will be collected until January 2, 2020.

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**14. Investments in entities accounted for using the equity method (Cont'd)**

***Investments in associated companies***

| | Nine-month period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| At the beginning of the period | 1,190 | 913 |
| Currency translation differences | 2 | 1 |
| Contributions | 100 | 279 |
| Result on investments in associated companies | (60) | (2) |
| **At period end** | **1,232** | **1,191** |

**15. Available-for-sale financial assets**

| | At September 30, 2017 | At December 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| Non-quoted investments | 249,418 | 219,043 |

The evolution of available-for-sale financial assets is as follows:

| | Nine-month period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| At the beginning of the period | 219,043 | 185,408 |
| Currency translation differences | 20,185 | 31,920 |
| Changes in fair value | 10,269 | (7,019) |
| Write-offs for deconsolidation of subsidiaries | (79) | - |
| **At period end** | **249,418** | **210,309** |

The detailed list of the main investments in available-for-sale financial assets is as follows:

| Company | Country | % share interest | | Value at September 30, 2017 (Unaudited) | Value at December 31, 2016 |
|---|---|---|---|---|---|
| Tecpetrol del Perú S.A.C. | Perú | 2.00 | 2.00 | 138,327 | 126,841 |
| Tecpetrol Bloque 56 S.A.C. | Perú | 2.00 | 2.00 | 45,482 | 42,421 |
| Oleoducto del Valle S.A. | Argentina | 2.10 | 2.10 | 35,167 | 27,817 |
| Terminales marítimas Patagónicas S.A. | Argentina | 4.20 | 4.20 | 10,785 | 3,933 |
| Tecpetrol de México S.A. de C.V. | México | 1.77 | 1.77 | 9,911 | 9,325 |
| Norpower S.A de C.V. | México | 0.60 | 0.60 | 5,248 | 4,381 |
| Burgos Oil Services S.A. de C.V. | México | 0.94 | 0.94 | 2,111 | 2,123 |
| Other investments | | | | 2,387 | 2,202 |
| **Total** | | | | **249,418** | **219,043** |

### Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)

#### 15. Available-for-sale financial assets (Cont´d)

The fair value of the available-for-sale financial assets was estimated on the basis of discounted cash flows, which includes a set of sensitive estimates and assumptions, such as changes in hydrocarbons production levels, sale prices, curve of future prices of oil, inflation, exchange rates, collection of dividends, costs and other cash expenditures, on the basis of the best estimate the Company foresees regarding its operations and the available market information.

#### 16. Other receivables and prepayments

| | At September 30, 2017 | At December 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| **Non - current** | | |
| Trade receivables | 11,144 | 11,435 |
| Other receivables from related parties (Note 30) | 25,527 | 22,713 |
| Expenses paid in advance | 279,221 | 2,863 |
| Tax credits | 442,869 | 532,952 |
| Employees loans and advances | 24,302 | 14,455 |
| | **783,063** | **584,418** |
| Allowance for doubtful accounts | (14,261) | (13,692) |
| | **768,802** | **570,726** |
| **Current** | | |
| Trade receivables | 187,333 | 202,953 |
| Expenses paid in advance | 32,813 | 13,100 |
| Tax credits | 89,585 | 134,049 |
| Other receivables | 3,582 | 42,479 |
| Employees loans and advances | 79,789 | 17,126 |
| Other receivables from related parties (Note 30) | 54,734 | 398,216 |
| | **447,836** | **807,923** |
| Allowance for doubtful accounts | (17,017) | (19,337) |
| | **430,819** | **788,586** |

The evolution of the allowance for doubtful accounts is disclosed below:

| | Nine-month period ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (Unaudited) | |
| At the beginning of the period | (33,029) | (9,740) |
| Exchange and translation differences | 4,108 | 355 |
| Net additions | (2,357) | (16,347) |
| Reclassification | - | (2,552) |
| **At period end** | **(31,278)** | **(28,284)** |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

### 17. Trade receivables

| | At September 30, 2017 | At December 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| **Non - current** | | |
| Trade receivables from related parties (Note 30) | 92,752 | 83,613 |
| | **92,752** | **83,613** |
| Allowance for doubtful accounts | (92,752) | (83,613) |
| | **-** | **-** |
| **Current** | | |
| Trade receivables | 758,559 | 700,909 |
| Trade receivables from related parties (Note 30) | 41,220 | 273 |
| | **799,779** | **701,182** |
| Allowance for doubtful accounts | (75,663) | (68,887) |
| | **724,116** | **632,295** |

The evolution of the allowance for doubtful accounts is disclosed below:

| | Nine-month period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| At the beginning of the period | (152,500) | (75,349) |
| Exchange and translation differences | (16,520) | (15,622) |
| Recoveries / (Additions) | 605 | (62,175) |
| Reclassification | - | 2,552 |
| Used | - | 740 |
| **At period end** | **(168,415)** | **(149,854)** |

### 18. Inventories

| | At September 30, 2017 | At December 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| Hydrocarbons | 59,242 | 145,313 |
| Materials and spare parts | 134,499 | 125,816 |
| | **193,741** | **271,129** |

### 19. Cash and cash equivalents

| | At September 30, 2017 | At December 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| Cash and banks | 47,628 | 29,645 |
| Mutual funds | 26,291 | 77,816 |
| Short-term deposits in related parties (Note 30) | 171,041 | 111,180 |
| | **244,960** | **218,641** |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

## 20. Financial instruments

### 20.1 Financial instruments by category

Financial instruments by category are shown below:

| At September 30, 2017 | At fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale financial assets | - | - | 249,418 | 249,418 |
| Other receivables | - | 251,042 | - | 251,042 |
| Trade receivables | - | 724,116 | - | 724,116 |
| Cash and cash equivalents | 26,291 | 218,669 | - | 244,960 |
| **Total** | **26,291** | **1,193,827** | **249,418** | **1,469,536** |

| At September 30, 2017 | Other financial liabilities | Total |
|---|---|---|
| **Liabilities** | | |
| Borrowings | 3,089,034 | 3,089,034 |
| Trade and other payables | 2,602,065 | 2,602,065 |
| **Total** | **5,691,099** | **5,691,099** |

| At December 31, 2016 | At fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale financial assets | - | - | 219,043 | 219,043 |
| Other receivables | - | 644,767 | - | 644,767 |
| Trade receivables | - | 632,295 | - | 632,295 |
| Cash and cash equivalents | 77,816 | 140,825 | - | 218,641 |
| **Total** | **77,816** | **1,417,887** | **219,043** | **1,714,746** |

| At December 31, 2016 | Other financial liabilities | Total |
|---|---|---|
| **Liabilities** | | |
| Borrowings | 8,567,604 | 8,567,604 |
| Trade and other payables | 1,154,915 | 1,154,915 |
| **Total** | **9,722,519** | **9,722,519** |

At September 30, 2017 Tecpetrol records a deficit of $ 1,368.6 million in its working capital; this situation is continuously monitored by the Board of Directors and Management so as to comply with the commitments undertaken. The Management estimates this situation will be reversed with the development of the project in Vaca Muerta which is currently in progress.

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**20. Financial instruments (Cont'd)**

**20.2 Fair value estimate**

From December 31, 2016 to the date of these Condensed Consolidated Interim Financial Statements there have been no major changes in the economic or commercial circumstances which affect the fair value of assets and liabilities of Tecpetrol. Furthermore, there were no transfers between the different hierarchies used to determine the fair value of Tecpetrol's financial instruments during the nine-month period ended September 30, 2017.

Financial instruments measured at fair value can be classified into the following hierarchical levels, depending on how fair value is estimated:

Level 1 – Based on quoted prices in active markets for identical assets and liabilities. The fair value of financial instruments traded in active markets is based on the market quoted price as of the reporting date. A market is considered active when the quoted prices are available and such prices show transactions regularly performed between independent parties.

Level 2 – Based on inputs (other than quoted market prices included within Level 1) that are observable for the asset or liability, either directly or indirectly. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques which maximize the use of observable market data.

Level 3 – Based on information not observable in the market (for example, discounted cash flows).

The assets measured at fair value at September 30, 2017 and December 31, 2016, classified in accordance with the hierarchical level are detailed below:

| **At September 30, 2017** | **Level 1** | **Level 3** |
|---|---|---|
| **Assets** | | |
| Available-for-sale financial assets | - | 249,418 |
| Cash and cash equivalents | 26,291 | - |
| **Total** | **26,291** | **249,418** |

| **At December 31, 2016** | **Level 1** | **Level 3** |
|---|---|---|
| **Assets** | | |
| Available-for-sale financial assets | - | 219,043 |
| Cash and cash equivalents | 77,816 | - |
| **Total** | **77,816** | **219,043** |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

### 21. Share capital

On June 26, 2017, the Extraordinary Shareholders' Meeting approved a share capital increase from $ 2,776,000 to $ 3,800,000, which is subscribed, paid-in and registered in the Public Registry at the date of these Financial Statements.

At September 30, 2017, the Company's capital amounts to $3,800,000 and is represented by 3,800,000,000 shares of $1 par value each.

### 22. Dividends and earnings per share

The weighted average number of outstanding shares during the nine-month period ended September 30, 2017 was 2,010,344, whereas during the nine-month period ended September 30, 2016 it was 1,024,000.

| | 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Loss from continuing operations attributable to owners of the parent | (755,221) | (117,423) |
| Loss from discontinued operations attributable to owners of the parent | (160,982) | (185,256) |
| Loss attributable to the owners of the parent | (916,203) | (302,679) |
| Weighted average of ordinary shares | 2,010,344 | 1,024,000 |
| Basic and diluted loss per share ($ per share) of continuing operations attributable to owners of the parent | (0.38) | (0.12) |
| Basic and diluted loss per share ($ per share) of discontinued operations attributable to owners of the parent | (0.08) | (0.18) |
| Basic and diluted loss per share ($ per share) attributable to owners of the parent | (0.46) | (0.30) |

During the nine-month periods ended September 30, 2017 and 2016 there was no distribution of dividends.

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**23. Borrowings**

| | At September 30, 2017 (Unaudited) | At December 31, 2016 |
|---|---|---|
| **Non - current** | | |
| Bank borrowings | 911,216 | - |
| Borrowings from related parties (Note 30) | 2,135,101 | 5,005,464 |
| Other financial liabilities | - | 97,222 |
| | **3,046,317** | **5,102,686** |
| **Current** | | |
| Bank borrowings | 40,143 | 858,115 |
| Borrowings from related parties (Note 30) | 2,574 | 2,447,139 |
| Bank overdrafts | - | 2,353 |
| Other financial liabilities | - | 157,311 |
| | **42,717** | **3,464,918** |

At September 30, 2017 and December 31, 2016, the Company had no secured liability. The Company must comply with certain obligations such as maintaining financial ratios in accordance with the conditions set forth in loan agreements, which have been fulfilled at September 30, 2017 and December 31, 2016.

The main bank borrowings and from related parties are detailed below:

*Bank borrowings*

| Society | Lender | 09.30.2017 | 12.31.2016 | Interest rate | Contract's currency |
|---|---|---|---|---|---|
| Tecpetrol S.A. | Banco Santander Río | 495,571 | - | 3.50% | USD |
| Tecpetrol S.A. | Banco HSBC | 259,650 | - | 3.50% | USD |
| Tecpetrol S.A. | Banco Provincia | 109,722 | 148,811 | BADLAR + 2.0% | ARS |
| Tecpetrol S.A. | ICBC | - | 373,415 | between 1.85% y 2% | USD |
| Tecpetrol S.A. | Banco Galicia | - | 190,680 | 1.95% | USD |
| Tecpetrol S.A. | Banco Patagonia S.A. | - | 230,405 | between 1.75% y 2.15% | USD |

*Borrowings from related parties*

| Society | Lender | 09.30.2017 | 12.31.2016 | Interest rate | Contract's currency |
|---|---|---|---|---|---|
| Tecpetrol S.A. | Tecpetrol Internacional S.L.U. | 2,081,347 | 1,092,447 | 2017: Libor 12M +1.13% / 2016: 5.75% | USD |
| Tecpetrol S.A. | Tecpetrol Libertador B.V. | 56,328 | 605,641 | 2017: 5.92% / 2016: 7.30% | USD |
| Tecpetrol S.A. | Americas Petrogas Argentina S.A. | - | 55,882 | 7.50% | USD |
| Tecpetrol de Bolivia S.A. | Tecpetrol Internacional S.L.U. | - | 1,288,689 | 4.16% | USD |
| Tecpetrol de Bolivia S.A. | Tecpegas S.A. | - | 4,409,944 | 4.40% | USD |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

### 23. Borrowings (Cont´d)

On September 18, 2017 Tecpetrol S.A., together with Tecpetrol del Perú S.A.C. and Tecpetrol Bloque 56 S.A.C., as co-borrowers, have entered into a club facility agreement for up to USD 200 million with Banco de Crédito del Perú S.A., BBVA Banco Continental, Citibank N.A. and J.P. Morgan Chase Bank, N.A., as lenders. The quarter interest rate is LIBO plus 150 bps per annum and the borrowing will be repaid in 13 installments commencing 24 months after the date of the request. As of the date of these financial statements no amounts have been borrowed.

The Ordinary Shareholders´ Meeting and the Extraordinary Shareholders´ Meeting held on May 15, 2017 approved the request of admission of Tecpetrol S.A. to the Public Offering Regime regulated by law 26.831, as well as the issued of a Global Program of simple Negotiable Obligation, not convertible into shares, for up to an amount of USD 1,000 million or its equivalent in any other currency, ("the Program"). On August 30, 2017 the Board approved the Program´s Prospectus draft.

On October 30, 2017, by means of CNV´s Resolution N° RESFC-2017-18994-APN-DIR#CNV, CNV authorized the admission of the Company in the Public Offering Regime and the creation of the program mentioned above.

### 24. Employee benefit programs

The liability recognized in the Condensed Consolidated Interim Statement of Financial Position and the amounts disclosed in the Condensed Consolidated Interim Income Statement are down as follows:

| | At September 30, 2017 | At December 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| Pension plan and others (i) | 194,108 | 183,712 |
| Long-term employee retention and incentive program | 144,405 | 120,328 |
| **Total liability** | **338,513** | **304,040** |

(i) There is no claimable debt at September 30, 2017 and December 31, 2016.

| | Nine-month period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Pension plan and others | 29,279 | 15,705 |
| Long-term employee retention and incentive program | 24,036 | 4,081 |
| **Total included in Labor costs (Note 9)** | **53,315** | **19,786** |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**25. Provisions**

| | At September 30, 2017 | At December 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| **Non - current** | | |
| Asset retirement obligations | 1,178,027 | 1,001,907 |
| Provision for other contingencies | 94,796 | 101,930 |
| | **1,272,823** | **1,103,837** |
| **Current** | | |
| Asset retirement obligations | 41,772 | 38,077 |
| Provision for other contingencies | 6,850 | 4,980 |
| | **48,622** | **43,057** |

The evolution of provisions is disclosed below:

*Asset retirement obligations*

| | Nine-month period ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (Unaudited) | |
| At the beginning of the period | 1,039,984 | 630,252 |
| Exchange and translation differences | 102,792 | 110,576 |
| Net additions | 214,249 | 38,773 |
| Write-offs for deconsolidation of subsidiaries | (137,226) | - |
| Used | - | (10,838) |
| **At period end** | **1,219,799** | **768,763** |

*Other contingencies*

| | Nine-month period ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (Unaudited) | |
| At the beginning of the period | 106,910 | 95,805 |
| Exchange and translation differences | 5,562 | 8,904 |
| Net recoveries | (10,826) | (831) |
| **At period end** | **101,646** | **103,878** |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

### 26. Trade and other payables

| | At September 30, 2017 | At December 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| **Non - current** | | |
| Tax payables | 784 | 825 |
| | **784** | **825** |
| **Current** | | |
| Trade payables | 2,388,804 | 1,032,782 |
| Payables to related parties (Note 30) | 210,366 | 33,373 |
| Social security debts and other taxes | 272,435 | 142,372 |
| Other liabilities | 2,895 | 88,760 |
| | **2,874,500** | **1,297,287** |

### 27. Deferred income tax

The evolution of the deferred income tax is as follows:

| | Nine-month period ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (Unaudited) | |
| At the beginning of the period - Net deferred asset | 104,832 | 45,138 |
| Charged directly to Other comprehensive income | (3,237) | 311 |
| Result for the period | 70,263 | 79,006 |
| Currency translation differences | 23,717 | 12,369 |
| **At period end - Net deferred asset** | **195,575** | **136,824** |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

### 28. Assets and liabilities in currency other than the Argentine peso

| Item | 09.30.2017 | | | | 12.31.2016 |
|---|---|---|---|---|---|
| | Foreign currency (1) | | Current exchange rate | Amount in local currency and reported amount | Amount in local currency and reported amount |
| | Type (2) | Amount (3) | $ (4) | | |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Other receivables | USD | 15,140 | 17.31 | 262,073 | 4,398 |
| | BOL | - | - | - | 532,951 |
| **Current assets** | | | | | |
| Other receivables | USD | 14,186 | 17.31 | 245,560 | 220,555 |
| Trade receivables | USD | 31,897 | 17.31 | 552,134 | 539,707 |
| Cash and cash equivalents | USD | 10,106 | 17.31 | 174,935 | 134,803 |
| **Total assets** | | | | **1,234,702** | **1,432,414** |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | USD | 171,835 | 17.31 | 2,974,464 | 5,005,464 |
| Provisions | USD | 68,055 | 17.31 | 1,178,027 | 1,001,907 |
| **Current liabilities** | | | | | |
| Borrowings | USD | 335 | 17.31 | 5,802 | 3,398,950 |
| Provisions | USD | 2,809 | 17.31 | 48,622 | 38,078 |
| Trade and other payables | USD | 118,039 | 17.31 | 2,043,255 | 846,208 |
| | BOL | - | - | - | 26,486 |
| **Total liabilities** | | | | **6,250,170** | **10,317,093** |

(1) Information submitted to comply with the provisions of the CNV. Foreign currency is the currency which is different from the Company´s presentation currency.

(2) USD = US dollar / BOL= Bolivianos.

(3) Amounts stated in thousands.

(4) US dollar quotation: Banco de la Nación Argentina exchange rate in force at September 30, 2017.

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**29. Contingencies, commitments and restrictions on the distribution of profits**

(i) Contingencies

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. Also, there are certain interpretations of the regulatory authorities as to the calculation and payment of certain taxes that differ from the criteria applied by the Company.

Based on the management's assessment and the advice of the legal counsels, the Company does not anticipate that it will incur considerable expenses from contingent liabilities other than those provided for in these financial statements.

*Tecpetrol S.A – Income tax assessment*

In September 2017, the National Supreme Court of Justice pronounced sentence in favor of Tecpetrol S.A. and the costs were imposed to the Federal Administration of Public Revenue ("AFIP", for its acronym in Spanish), about an assessment notified to Tecpetrol S.A. by AFIP, who was claiming a presumably incorrect treatment of results accrued on certain crude oil derivatives for fiscal years 2000 and 2001. This assessment amounted to $ 9.6 million (plus interest and fines). AFIP had lodged an appeal against this decision with the Argentine Supreme Court of Justice.

(ii) Main investment commitments and guarantees

At September 30, 2017 the Company carries the following guarantees for investment commitments:

(Amounts stated in millions of dollars, according to the interest in each area):

| Company | Area | Commitment | Expiration |
|---|---|---|---|
| Tecpetrol S.A. | Río Colorado | 0.57 | End of the first exploration period |
| Tecpetrol S.A. | Loma Ancha | 25.72 | December 2019 |

Further, below we mention the main commitments undertaken by Tecpetrol S.A.:

- Guarantee for compliance with labor obligations of Tecpetrol Colombia S.A.S. in the CPO6, CPO7 and CPO13 areas in Colombia for USD 0.2 million falling due between July 2019 and July 2020 (phase II); in the CP07 area in Colombia for USD 0.12 million (commercial phase) falling due in April 2021; and in the CP013 area in Colombia for USD 0.03 million (subsequent exploratory phase) falling due in January 2022.

- Guarantee for the obligations in connection with environmental remediation liabilities in the area of Río Colorado for USD 0.7 million, falling due at the end of the first exploration period.

- Guarantee of judicial counter-bond insurance policies in favor of the Commercial Court of Original Jurisdiction in Argentina No. 3 in relation to provisional remedies, for USD 1.60 million.

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**29. Contingencies, commitments and restrictions on the distribution of profits (Cont´d)**

(ii) Main investment commitments and guarantees (Cont´d)

- Guarantee of rent policies and other policies in favor of the Province of Salta Directorate of Roads, of the Federal Court in and for Río Negro, of the Secretary of State for Energy of Rio Negro, of Customs Administration and of the Labor Court in and for Neuquén, for USD 0.46 and USD 0.33 million, respectively.

Furthermore, the Company has the following investment commitments in the areas where it operates:

| Área | Pending investment commitments |
|---|---|
| Tordillo y La Tapera-Puesto Quiroga | · Implementation of 30 months of activity of drilling equipment, until December 2021<br>· Drilling of 3 wells P2/P3 until December 2021<br>· Keeping three items of workover equipment and three items of pulling (or workover) equipment active until March 2019 |
| Aguaragüe | · Drilling of two development wells for an amount of USD 26 million and one exploration well for USD 4 million to be performed before July, 2018 |
| Agua Salada | · Development investments for USD 13.6 million to be executed before 2025 consisting of facilities, 5 workovers and well conversion<br>· Exploratory investments for USD 51.1 million to be executed before 2025 consisting of drilling four exploratory wells and ten extension wells |
| Los Bastos | · Exploratory investments for USD 9.6 million to be executed until 2026 outside the exploitation area |
| Fortin de Piedra | · Investments for USD 83.3 million consisting of a pilot plan to be executed before June 2021 |
| Loma Ancha | · Drilling of a 1,500 m deep pilot well with a 3,000 m horizontal line, with unconventional completion to be performed in 2018 |
| Lago Argentino | · Perform one workover before May 2018 |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**29. Contingencies, commitments and restrictions on the distribution of profits (Cont'd)**

(iii) Restrictions on the distribution of profits

In accordance with the General Companies Law, the Company's by-laws and CNV General Resolution No. 622/13, 5% of the net profit for the year plus (less) prior year adjustments must be appropriated to a legal reserve until such reserve equals 20% of the adjusted capital.

CNV General Resolution No. 609/12 sets forth that the difference between the initial balance of retained earnings disclosed in the financial statements of the first year-end closing under IFRS implementation and the final balance of retained earnings at the end of the last fiscal year under the previous accounting standards in force is allocated to a Special Reserve. This Reserve cannot be released from making distributions in cash or in kind among the shareholders or owners of the entity; it can only be released for its capitalization or to absorb negative balances from "Retained earnings". The Ordinary Shareholders' Meeting must discuss the setting up of this reserve and the restrictions for its use.

**30. Related party balances and transactions**

Tecpetrol S.A. is controlled by Tecpetrol Internacional S.L.U., which holds 95.98% of the Company's shares.

San Faustin S.A. ("San Faustin"), a *Société Anonyme* based in Luxemburgo, owns the Company through its subsidiaries.

Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, a Dutch private foundation (Stichting) ("R&P STAK") holds voting shares in San Faustin sufficient in number to control it. No person or group of persons controls RP STAK.

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

### 30. Related party balances and transactions (Cont'd)

*Main transactions with related parties (including discontinued operations)*

| | Nine-month period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| **Net sales** | | |
| Other related companies | 100,659 | 8,548 |
| **Purchases of goods and services** | | |
| Other related companies | (431,638) | (141,304) |
| **Reimbursement of expenses** | | |
| Other related companies | 45,548 | 27,744 |
| **Other income/expenses** | | |
| Other related companies | 24 | - |
| **Interest income** | | |
| Other related companies | 3,973 | 1,173 |
| **Interest cost** | | |
| Tecpetrol International S.A. | (15,122) | (150,502) |
| Tecpetrol Internacional S.L.U. | (30,393) | (41,163) |
| Other related companies | (130,949) | (8,511) |
| | (176,464) | (200,176) |

*Balances with related parties*

| | At September 30, 2017 | At December 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| **Other receivables from related parties (Note 16 ) (i):** | | |
| Non-current - Other related companies | 25,527 | 22,713 |
| Current - Tecpetrol Internacional S.L.U. | 476 | 274,798 |
| Current - Tecpetrol International S.A. | - | 11,498 |
| Current - Other related companies | 54,258 | 111,920 |
| | 54,734 | 398,216 |
| **Trade receivables from related parties (Note 17):** | | |
| Non-current - Other related companies | 92,752 | 83,613 |
| Current - Other related companies | 41,220 | 273 |
| **Short-term deposit with related parties (Note 19):** | 171,041 | 111,180 |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**30. Related party balances and transactions (Cont'd)**

*Balances with related parties (Cont'd)*

| | At September 30, 2017 | At December 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| **Borrowings from related parties (Note 23):** | | |
| Non-current - Other related companies | 53,754 | 5,005,464 |
| Non-current - Tecpetrol Internacional S.L.U. | 2,081,347 | - |
| | 2,135,101 | 5,005,464 |
| Current - Other related companies | 2,574 | 1,354,692 |
| Current - Tecpetrol Internacional S.L.U. | - | 1,092,447 |
| | 2,574 | 2,447,139 |
| **Trade and other payables with related parties (Note 26) (ii):** | | |
| Current - Tecpetrol International S.A. | 224 | - |
| Current - Other related companies | 210,142 | 33,373 |
| | 210,366 | 33,373 |

(i) Mainly includes balances from advances for purchases of property, plant and equipment and reimbursement of expenses.

(ii) Mainly includes balances from purchases of materials.

**31. Main joint operations**

Joint operations

a) Areas operated by Tecpetrol

| Name | Location | % at September 30, 2017 | % at December 31,2016 | Expiration date of the concession |
|---|---|---|---|---|
| Agua Salada | Río Negro | 70.0 | 70.0 | Sep-25 |
| El Tordillo | Chubut | 52.1 | 52.1 | Nov-27 |
| Aguaragüe | Salta | 23.0 | 23.0 | Nov-27 |
| La Tapera-Puesto Quiroga | Chubut | 52.1 | 52.1 | Aug-27 |
| Rio Atuel (i) | Mendoza | - | 33.3 | n/a |
| Loma Ancha (ii) | Neuquén | 95.0 | 95.0 | Dec-18 |
| Lago Argentino (iii) | Santa Cruz | 74.6 | 74.6 | Nov-33 |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**31. Main joint operations (Cont´d)**

a) Areas operated by Tecpetrol (Cont'd)

(i) On August 16, 2017, the Company entered into an agreement for the sale of its interest in Río Atuel joint venture to Petrolera El Trébol S.A. which was signed for USD 1.75 million. Tecpetrol S.A. was the operator and manager of the joint venture until September 26, 2017, date in which the transaction became effective and Petrolera El Trebol S.A. was designated as the new joint venture's operator.

(ii) Tecpetrol S.A. assumes 100% of the costs and investments over the basic exploration period under an agreement with its partner Gas y Petróleo del Neuquén S.A.

(iii) Tecpetrol S.A. assumes 100% of the costs and investments under an agreement between private actors and Alianza Petrolera S.A. and an UT agreement between Fomento Minero de Santa Cruz S.E. and Alianza Petrolera S.A.

Additionally, on September 6, 2016, having expired the concession term of the exploitation of Atuel Norte where Tecpetrol S.A. was the operator, the Reversion´s Deed was signed, by means of which the Province of Mendoza took over the area

*b) Areas operated by third parties*

| Name | Location | % at September 30, 2017 | % at December 31,2016 | Expiration date of the concession |
|---|---|---|---|---|
| Ramos | Salta | 25 | 25 | Jan-26 |

**32. Discontinued operations**

On April 6, 2017, the Company sold its interest in GEA-GEO Energy Alternatives S.A. to Techint Inversiones S.A.I.F. for USD 145 thousand. The gain from the sale was recognized in *Discontinued operations*, in the Condensed Consolidated Interim Income Statement.

Abroad, the Company owned a 20% interest in the Ipati and Aquío Blocks through its subsidiary Tecpetrol de Bolivia S.A., in which it has a non-operator role. On May 23, 2017, the Company sold its interest in Tecpetrol de Bolivia S.A. to its parent company Tecpetrol Internacional S.L.U. for USD 189 thousand. The effect of the income from the sale of the interest was recognized in *Effect of transference of subsidiary´s share interest*, in the Condensed Consolidated Interim Statement of Changes in Equity, as it corresponds to a transaction conducted with the parent company.

The results were classified as *Discontinued operations*, in the Condensed Consolidated Interim Income Statement at September 30, 2017.

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**32. Discontinued operations (Cont´d)**

The results and net cash flows are disclosed below:

| | Nine-month period ended September 30, 2017 | Nine-month period ended September 30, 2016 |
|---|---|---|
| | (Unaudited) | |
| Result of discontinued operations of Tecpetrol de Bolivia S.A. | (164,159) | (188,934) |
| Result of discontinued operations of GEA-GEO Energy Alternatives S.A. | (13) | - |
| **Loss from discontinued operations for the period** | **(164,172)** | **(188,934)** |

*GEA-GEO Energy Alternatives S.A*

| | Nine-month period ended September 30, 2017 | Nine-month period ended September 30, 2016 |
|---|---|---|
| | (Unaudited) | |
| Other expenses, net | (106) | - |
| Gain from sale of equity interest in a subsidiary | 24 | - |
| **Loss from discontinued operations** | **(82)** | **-** |
| Effect of currency translation for the period | 67 | - |
| Reclassification of accumulated translation differences | 2 | - |
| **Loss from discontinued operations for the period** | **(13)** | **-** |

*Net cash flows*

| | Nine-month period ended September 30, 2017 | Nine-month period ended September 30, 2016 |
|---|---|---|
| | (Unaudited) | |
| Cash used in operating activities | (33) | - |
| Cash generated by investment activities | 1,156 | - |

*Tecpetrol de Bolivia S.A.*

| | Nine-month period ended September 30, 2017 | Nine-month period ended September 30, 2016 |
|---|---|---|
| | (Unaudited) | |
| Net sales | 246,814 | 26,019 |
| Operating costs | (177,721) | (52,851) |
| **Gross result** | **69,093** | **(26,832)** |
| Other operating results | (12,302) | (10,857) |
| Financial results, net | (108,007) | (151,245) |
| **Loss from discontinued operations** | **(51,216)** | **(188,934)** |
| Currency translation effect | 8,274 | - |
| Reclassification of accumulated translation differences | (121,217) | - |
| **Loss for the period from discontinued operations** | **(164,159)** | **(188,934)** |
| | | |
| Effect on equity of the transfer of interest in a subsidiary | 897,941 | - |

**Notes to the Condensed Interim Consolidated Financial Statements at September 30, 2017 (Cont'd)**

**32. Discontinued operations (Cont´d)**

*Net cash flows*

| | Nine-month period ended September 30, 2017 | Nine-month period ended September 30, 2016 |
|---|---|---|
| | (Unaudited) | |
| Cash generated by operating activities | 72 | (238,389) |
| Cash used in investment activities | (38,542) | (366,047) |
| Cash generated by financial activities | 36,672 | 603,983 |

**33. Subsequent events**

On November 3, 2017 and by means of RESOL-2017-271-APN-SECRH#MEM, the Ministry of Energy and Mining approved the incorporation of Tecpetrol S.A. into the Program to Incentive the development of natural gas production from non-conventional reservoirs, in its capacity as the exploitation concession holder of Fortin de Piedra area, in accordance with Res. N° 46, dated on March 2, 2017 and its amendments, which were issued by that Ministry.

No events, situations or circumstances have taken place since September 30, 2017 other than the one mentioned in the previous paragraph and those mentioned in the notes to these Condensed Consolidated Interim Financial Statements, which are publicly known, and affect or might significantly affect the economic and financial position of the Company.

## Exhibit I - Complementary information at December 31, 2016

## Contents

## Tecpetrol Sociedad Anónima
### Special-Purpose Consolidated Financial Statements at December 31, 2016

**SPECIAL-PURPOSE CONSOLIDATED INCOME STATEMENT for the year ended December 31, 2016**
(Amounts stated in pesos, unless otherwise specified)

| | Notes | December 31, 2016 |
|---|---|---|
| **Continuing operations** | | |
| Net sales | **7** | 3,728,307,049 |
| Operating costs | **8** | (2,934,582,758) |
| **Gross profit** | | **793,724,291** |
| Selling expenses | **9** | (205,356,698) |
| Administrative expenses | **10** | (641,741,692) |
| Exploration costs | | (60,312,507) |
| Other operating income | **12** | 3,513,611 |
| Other operating expenses | **12** | (15,581,357) |
| **Operating loss** | | **(125,754,352)** |
| Financial income | **13** | 41,288,576 |
| Financial costs | **13** | (242,110,073) |
| Other financial results, net | **13** | (22,831,922) |
| **Loss before result of equity-accounted investments and of income tax** | | **(349,407,771)** |
| Result of equity-accounted investments | **16** | (3,327) |
| **Loss before income tax** | | **(349,411,098)** |
| Income tax | **14** | 48,031,454 |
| **Loss for the year of continuing operations** | | **(301,379,644)** |
| **Discontinued operations** | | |
| Loss for the year of discontinued operations | **34** | (266,438,857) |
| **Loss for the year** | | **(567,818,501)** |
| **Loss for the year, attributable to:** | | |
| Owners of the parent | | (561,885,904) |
| Non-controlling interest | | (5,932,597) |
| Basic and diluted loss attributable to Shareholders of the parent company per share ($ per share) | **23** | (0.55) |
| Basic and diluted loss of continuing operations attributable to Shareholders of the parent company per share ($ per share) | **23** | (0.29) |

The accompanying Notes 1 to 34 form an integral part of these Special Consolidated Financial Statements.

# Tecpetrol Sociedad Anónima
## Special-Purpose Consolidated Financial Statements at December 31, 2016

### SPECIAL-PURPOSE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended December 31, 2016
(Amounts stated in pesos, unless otherwise specified)

| | | December 31, 2016 |
|---|---|---|
| **Loss for the year** | | **(567,818,501)** |
| **Other comprehensive income:** | | |
| ***Items that may be subsequently reclassified to profit or loss:*** | | |
| **Continuing operations** | | |
| Currency translation differences | | 6,886,119 |
| Changes in the fair value of available-for-sale financial assets | **18** | (6,380,033) |
| Income tax related to components of other comprehensive income (i) | **28** | 730,417 |
| **Discontinued operations** | | |
| Currency translation differences | | (121,217,045) |
| ***Items that will not be reclassified to profit or loss:*** | | |
| **Continuing operations** | | |
| Currency translation differences- Tecpetrol S.A. | | 378,845,488 |
| Remeasurements of post employment benefit obligations | **25** | 19,267,120 |
| Income tax related to components of other comprehensive income (i) | **28** | (6,743,503) |
| **Total comprehensive income for the year** | | **271,388,563** |
| **Total comprehensive results for the year** | | **(296,429,938)** |
| **Comprehensive income attributable to:** | | |
| Owners of the parent | | (288,279,002) |
| Non-controlling interest | | (8,150,936) |
| | | **(296,429,938)** |
| **Comprehensive income attributable to owners of the parent arises from:** | | |
| Continuing operations | | (27,025,835) |
| Discontinued operations | | (261,253,167) |
| | | **(288,279,002)** |

(i) Generated by the changes in the fair value of available-for-sale financial assets.
(ii) Generated by the remeasurements of post employment benefit obligations.

The accompanying Notes 1 to 34 form an integral part of these Special Consolidated Financial Statements.

# Tecpetrol Sociedad Anónima
## Special-Purpose Consolidated Financial Statements at December 31, 2016

### SPECIAL-PURPOSE CONSOLIDATED STATEMENT OF FINANCIAL POSITION at December 31, 2016 and January 1, 2016
(Amounts stated in pesos, unless otherwise specified)

| | Notes | December 31, 2016 | January 1, 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment. Exploration, evaluation and development assets | **15** | 9,507,575,197 | 6,964,319,861 |
| Investments in entities accounted for using the equity method | **16** | 1,190,256 | 913,125 |
| Available-for-sale financial assets | **18** | 219,042,824 | 185,407,793 |
| Deferred tax assets | **28** | 104,831,851 | 45,137,597 |
| Other receivables and prepayments | **19** | 570,725,562 | 433,861,351 |
| Income tax credit | | 32,733,179 | 23,032,109 |
| **Total Non-current assets** | | **10,436,098,869** | **7,652,671,836** |
| **Current assets** | | | |
| Inventories | **21** | 271,129,453 | 227,549,644 |
| Other receivables and prepayments | **19** | 788,585,488 | 771,557,240 |
| Income tax credit | | 22,290,444 | 60,049,096 |
| Trade receivables | **20** | 632,295,230 | 278,734,599 |
| Cash and cash equivalents | **22** | 218,640,807 | 196,342,498 |
| **Total Current assets** | | **1,932,941,422** | **1,534,233,077** |
| **Total Assets** | | **12,369,040,291** | **9,186,904,913** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | | 1,024,000,000 | 1,024,000,000 |
| Legal reserve | | - | 74,800,000 |
| Reserve for future dividends | | - | 14,407,575 |
| Other reserves | | 273,606,902 | - |
| Special reserve | | 435,751,201 | 435,751,201 |
| Retained earnings | | (665,239,238) | (192,560,909) |
| **Total Equity attributable to owner of the parent** | | **1,068,118,865** | **1,356,397,867** |
| Non-controlling interest | | (15,728,781) | (7,577,845) |
| **Total Equity** | | **1,052,390,084** | **1,348,820,022** |
| **Non-current liabilities** | | | |
| Borrowings | **24** | 5,102,686,015 | 4,686,006,298 |
| Employee benefits programs | **25** | 304,040,007 | 255,179,799 |
| Provisions | **26** | 1,103,837,098 | 679,247,235 |
| Trade and other payables | **27** | 825,215 | 1,888,466 |
| **Total Non-current liabilities** | | **6,511,388,335** | **5,622,321,798** |
| **Current liabilities** | | | |
| Borrowings | **24** | 3,464,918,049 | 1,342,152,320 |
| Provisions | **26** | 43,056,799 | 46,810,276 |
| Trade and other payables | **27** | 1,297,287,024 | 826,800,497 |
| **Total Current liabilities** | | **4,805,261,872** | **2,215,763,093** |
| **Total Liabilities** | | **11,316,650,207** | **7,838,084,891** |
| **Total Equity and Liabilities** | | **12,369,040,291** | **9,186,904,913** |

The accompanying Notes 1 to 34 form an integral part of these Special Consolidated Financial Statements.

Exhibit I

# Tecpetrol Sociedad Anónima

## Special-Purpose Consolidated Financial Statements at December 31, 2016

### SPECIAL-PURPOSE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended December 31, 2016

(Amounts stated in pesos, unless otherwise specified)

| | | Shareholders' contributions | Accumulated results | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Reserved earnings | | | | | | | |
| | Notes | Subscribed capital | Legal reserve | Reserve for future dividends | Other reserves (Note 2.9) | Special reserve (i) | Retained earnings | Total | Non-controlling interest | Total |
| **Balances at January 01, 2016** | | **1,024,000,000** | **74,800,000** | **14,407,575** | **-** | **435,751,201** | **(192,560,909)** | **1,356,397,867** | **(7,577,845)** | **1,348,820,022** |
| **Result for the year** | | **-** | **-** | **-** | **-** | **-** | **(561,885,904)** | **(561,885,904)** | **(5,932,597)** | **(567,818,501)** |
| Currency translation differences | | - | - | - | 266,700,950 | - | - | 266,700,950 | (2,186,388) | 264,514,562 |
| Changes in the fair value of available-for-sale financial assets | 18 | - | - | - | (6,348,082) | - | - | (6,348,082) | (31,951) | (6,380,033) |
| Remeasurements of post employment benefit obligations | 25 | - | - | - | 19,267,120 | - | - | 19,267,120 | - | 19,267,120 |
| Income tax related to components of other comprehensive income | 28 | - | - | - | (6,013,086) | - | - | (6,013,086) | - | (6,013,086) |
| **Other comprehensive income for the year** | | **-** | **-** | **-** | **273,606,902** | **-** | **-** | **273,606,902** | **(2,218,339)** | **271,388,563** |
| **Total comprehensive result for the year** | | **-** | **-** | **-** | **273,606,902** | **-** | **(561,885,904)** | **(288,279,002)** | **(8,150,936)** | **(296,429,938)** |
| Distribution of retained earnings according to Ordinary Shareholders' Meeting held on June 3, 2016: | | | | | | | | | | |
| - Reserve for future dividends and Legal reserve | | - | (74,800,000) | (14,407,575) | - | - | 89,207,575 | - | - | - |
| **Balances at December 31, 2016** | | **1,024,000,000** | **-** | **-** | **273,606,902** | **435,751,201** | **(665,239,238)** | **1,068,118,865** | **(15,728,781)** | **1,052,390,084** |

(i) Corresponds to General Resolution 609/12 of the CNV. See Note 31.

The accompanying Notes 1 to 34 form an integral part of these Special Consolidated Financial Statements.

## Tecpetrol Sociedad Anónima
### Special-Purpose Consolidated Financial Statements at December 31, 2016

**SPECIAL-PURPOSE CONSOLIDATED CASH FLOW STATEMENT for the year ended December 31, 2016**

(Amounts stated in pesos, unless otherwise specified)

| | Notes | December 31, 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Result for the year | | (567,818,501) |
| *Adjustments for: (*)* | | |
| Depreciation of property, plant and equipment | **15** | 1,114,048,778 |
| Impairment of property, plant and equipment | **15** | 16,035,345 |
| Result from the sale of property, plant and equipment | **12** | (1,233,341) |
| Exploration costs | | 29,394,564 |
| Income tax | **14** | (48,031,454) |
| Accrued interest not paid | | 62,682,147 |
| Dividends earned | **13** | (3,242,313) |
| Provisions | | 143,490,264 |
| Result of equity-accounted investments | **16** | 3,327 |
| Result of retirement benefit plans and other plans | **11** | 47,991,427 |
| *Changes in operating assets and liabilities:* | | |
| Increase in trade and other receivables | | (712,703,892) |
| Increase in inventories | | (43,579,809) |
| Increase in trade and other payables | | 516,549,822 |
| Others, including the currency translation differences | | 152,745,156 |
| Employee benefits plans payments | **25** | (42,398,613) |
| Income tax payments | | (29,195,190) |
| **Cash generated by operating activities** | | **634,737,717** |
| **INVESTMENT ACTIVITIES** | | |
| Capital contributions in associates | **16** | (279,858) |
| Increase in property, plant and equipment | | (1,929,418,783) |
| Collection from the sale of property, plant and equipment | | 2,496,638 |
| Dividends received | | 3,242,313 |
| **Cash used in investment activities** | | **(1,923,959,690)** |
| **FINANCING ACTIVITIES** | | |
| Proceeds from borrowings | | 7,567,328,986 |
| Repayment of borrowings | | (5,996,906,962) |
| Funds received from capital increases in previous years | | 103,704,000 |
| **Cash generated by financing activities** | | **1,674,126,024** |
| **Increase in cash and cash equivalents** | | **384,904,051** |
| **Changes in cash and cash equivalents** | | |
| Current account overdraft at the beginning of the year | | (210,270,207) |
| Increase in cash and cash equivalents | | 384,904,051 |
| Currency translation adjustment | | 41,653,963 |
| **Cash and cash equivalents at year end** | | **216,287,807** |

| | | December 31, 2016 | January 1, 2016 |
|---|---|---|---|
| Cash and cash equivalents | **22** | 218,640,807 | 196,342,498 |
| Bank overdrafts | **24** | (2,353,000) | (406,612,705) |
| **Cash and cash equivalents at year end** | | **216,287,807** | **(210,270,207)** |

(*) The difference between the interest earned and collected is not significant.

The accompanying Notes 1 to 34 form an integral part of these Special Consolidated Financial Statements.

## Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016

### 1. General Information

Tecpetrol S.A. (the "Company") was incorporated on June 5, 1981 and its main activity is the exploration and exploitation of oil and gas in Argentina and other Latin American countries through subsidiaries. In Argentina, the Company operates in conventional and unconventional hydrocarbon areas in the Neuquén and Noroeste/San Jorge basins (see Note 33). In addition, Tecpetrol S.A. holds the exploitation rights of the following areas in the province of Neuquén: Fortín de Piedra, Los Bastos and Punta Senillosa.

Reference to "Tecpetrol" in the Financial Statements includes Tecpetrol S.A. and its consolidated subsidiaries.

The Company is incorporated and domiciled in Argentina. Its legal address is Pasaje Della Paolera 299/297, 16th floor, City of Buenos Aires.

### 2. Summary of significant accounting policies

The main accounting policies applied in the preparation of these Special-Purpose Consolidated Financial Statements are set out below:

### 2.1 Basis for preparation

This exhibit contains the special-purpose condensed financial statements at December 31, 2016, prepared for their filing with the National Securities Commission ("CNV" for its acronym in Spanish). Therefore, they do not include comparative information and should not be used for any other purpose.

The Consolidated Financial Statements have been prepared under the historical cost convention modified, as required by the International Financial Reporting Standards (IFRS), by the valuation of financial assets and liabilities at fair value, except for the exclusion of comparative figures as mentioned above.

The CNV, by means of General Resolution No. 622/13, has established the application of Technical Resolutions Nos. 26 and 29 issued by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE), which adopt IFRS issued by the IASB, for entities included in the public offering regime of Law No. 17811 an amendments, due either to their capital stock or corporate bonds, or which requested listing authorization to be included in this regime.

The preparation of these financial statements in accordance with IFRS requires the Management to make certain accounting estimates and to use its judgment regarding the application of the Company's accounting policies. Note 5 discloses those areas which involve a higher degree of judgment or complexity, or those where the hypothesis and estimates are relevant to these financial statements.

**2.2 First-time adoption of IFRS**

Pursuant to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the transition date to IFRS is January 1, 2016. The Company has prepared its opening Consolidated Statement of Financial Position under IFRS at that date, which is presented for comparative purposes.

Exemptions and exceptions under IFRS 1 are included below, which were used in the conversion from ARG accounting standards in force to IFRS.

**Optional exemptions in IFRS**

Under IFRS 1, first-time adopters are allowed some exemptions relating to the retrospective application of IFRSs in force at the date of adoption of IFRS. These allowances are permitted by the IASB to make the first application easier.

The optional exemptions adopted by the Company under IFRS 1 are detailed below:

1. **Fair value as deemed cost:** At the date of transition to IFRS of the controlling company, the Company opted to measure its items of property, plant and equipment at fair value and has used fair value as deemed cost at that date.

2. **Cumulative translation differences:** All cumulative translation gains and losses are reset to zero at the date of transition to IFRS.

**Mandatory exceptions to IFRS**

The Company has applied mandatory exceptions established by IFRS 1 in preparing these financial statements.

**Reconciliation between IFRS and Argentine accounting standards**

Items and figures included in the reconciliations might change if, when preparing the financial statements at the end of the fiscal year in which IFRSs are adopted for the first time, the standards applied are different.

**2.2 First-time adoption of IFRS (Cont'd)**

a) Reconciliation between equity determined under Argentine accounting standards contained in the Technical Resolutions issued by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE), as approved by the Professional Council in Economic Sciences of the City of Buenos Aires (CPCECABA), and that determined under IFRS for the fiscal years ended December 31, 2016 and January 1, 2016 (in thousands of pesos):

| | 12.31.2016 | 01.01.2016 |
|---|---|---|
| **Total Equity under Argentine accounting standards (including non-controlling interest)** | 1,418,887 | 1,313,359 |
| Effect of transition to IFRS | | |
| Value of Property, plant and equipment | (647,206) | 8,360 |
| Value of Materials and spare parts | 35,176 | 56,272 |
| Value of Available-for-sale financial assets | 209,396 | 175,761 |
| Value of Employee benefits plans and Other liabilities | 73,712 | 28,300 |
| Tax effect of IFRS adjustments | (37,575) | (233,232) |
| **Total Equity under IFRS (including non-controlling interest)** | **1,052,390** | **1,348,820** |

**Explanations of adjustments**

- To the value of Property, plant and equipment: includes the following effects:
  - (i) difference between the fair value of the Property, plant and equipment caption determined at the date of transition to IFRS of the parent company and the value of this caption under Argentine accounting standards;
  - (ii) difference generated by the diverse functional currencies used by the Company and its subsidiaries (US dollar under IFRS and Argentine peso under Argentine accounting standards);
  - (iii) difference generated by the recognition of the inflation adjustment under Argentine accounting standards for the subsidiary Tecpetrol de Bolivia S.A.
- To the value of Materials and spare parts: mainly due to difference generated by the diverse functional currencies (US dollar under IFRS and Argentine peso under Argentine accounting standards).
- To the value of Available-for-sale financial assets: arising from the difference between the fair value measurement of available-for-sale financial assets under IFRS and the historical cost measurement of assets under Argentine accounting standards.
- To the value of Employee benefits plans and Other liabilities: arising from the difference between the recognition of actuarial gains and losses under IFRS in Other comprehensive income and the cost of services disclosed in the Income Statement.
- Tax effect of adjustments to IFRS: it shows the impact of the deferred income tax on the IFRS adjustments mentioned above and the effect on the deferred tax arising from the different functional currencies used by the Company.

## Tecpetrol Sociedad Anónima
### Special-Purpose Consolidated Financial Statements at December 31, 2016

**Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016 (Cont'd)**

**2.2 First-time adoption of IFRS (Cont'd)**

b) Reconciliation between income/loss determined under Argentine accounting standards contained in the Technical Resolutions issued by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE), as approved by the Professional Council in Economic Sciences of the City of Buenos Aires (CPCECABA), and comprehensive income determined under IFRS for the fiscal year ended December 31, 2016 (in thousands of pesos):

| | 12.31.2016 |
|---|---|
| **Total income/loss under Argentine accounting standards (including non-controlling interest)** | (553,495) |
| **Effect of transition to IFRS** | |
| Value of Property, plant and equipment - depreciation | (103,194) |
| Value of Available-for-sale financial assets | (6,380) |
| Employee benefits programs | 19,267 |
| Deferred tax adjustment | (181,738) |
| Effect of different functional currency | 529,110 |
| **Total comprehensive income under IFRS (including non-controlling interest)** | **(296,430)** |

c) Reconciliation between cash flows under Argentine accounting standards and IFRS:

In the statement of cash flows prepared under IFRS, cash and cash equivalents include current account overdrafts while under Argentine standards current account overdrafts are considered financing activities.

There are no other significant adjustments or reclassifications in the statement of cash flows arising from the difference between Argentine accounting standards and IFRS for the fiscal years ended December 31, 2016 and January 1, 2016.

**2.3 Basis for consolidation**

*(a) Subsidiaries*

Subsidiaries are all the entities over which the Company has control, either directly or indirectly. The Company controls an entity when is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is exercised by the Company and are no longer consolidated from the date that control ceases.

### Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016 (Cont'd)

#### 2.3 Basis for consolidation (Cont'd)

*(a) Subsidiaries (Cont'd)*

The Company applies the acquisition method to account business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at fair value at the acquisition date. Any non-controlling interest in the acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the cost of acquisition and the amount of any non-controlling interest in the acquiree, over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the Consolidated Income Statement.

Inter-company transactions, balances and unrealized gains (losses) on transactions between subsidiaries are eliminated for consolidation purposes. As the functional currency of some subsidiaries is its respective local currency, some financial gains (losses) arising from inter-company transactions are generated. These are included in Financial Income/Loss of the Consolidated Income Statement.

The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Company.

The companies whose Financial Statements have been included in these Consolidated Financial Statements are mentioned below:

| Company | Main business activity | Country | Percentage of interest at | |
|---|---|---|---|---|
| | | | Dec-2016 | Jan-2016 |
| Dapetrol S.A. | Exploration, discovery, exploitation and sale of gas and liquid hydrocarbons | Argentina | 97.5 % | 97.5 % |
| Tecpetrol de Bolivia S.A. (i) | Exploration, exploitation, production and sale of oil and gas | Bolivia | 98.05 % | 98.05 % |
| GEA-GEO Energy Alternatives S.A. (ii) | Operation of gas pipes and oil pipes; transport and distribution | Argentina | 70 % | 70 % |

(i) On May 23, 2017, the Company sold its interest in Tecpetrol de Bolivia S.A. to its parent company Tecpetrol International S.L.U. See Note 34.

(ii) On February 22, 2017 Tecpetrol S.A. acquired 20% of interest in Parque Eólico Pampa for USD 75,000 (associate of GEA-GEO Energy Alternatives S.A). Additionally, on April 7, 2017 the Company sold its interest in GEA-GEO Energy Alternatives S.A. to Techint Inversiones S.A.I.F. in USD 145,250.

**Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016 (Cont'd)**

**2.3 Basis for consolidation (Cont'd)**

*(a) Subsidiaries (Cont'd)*

Through its subsidiaries, the Company participates in the following projects of hydrocarbon fields exploration and exploitation:

| **Area** | **Interest** (1) | **Country** | **Operator** |
|---|---|---|---|
| José Segundo (2) | 100.00% | Argentina | Dapetrol S.A. |
| Ipati (3) | 20.00% | Bolivia | Total Exploration & Production Bolivie |
| Aquio (3) | 20.00% | Bolivia | Total Exploration & Production Bolivie |

(1) Direct interest of the subsidiaries in each area.
(2) José Segundo area is a mining concession.
(3) Joint transaction with Tecpetrol de Bolivia S.A. See Note 34.

*(b) Associates*

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are initially recognized at cost, and subsequently valued according to the equity method.

Investments in associated companies are recognized as "*Investments in entities accounted for using the equity method*" in the Consolidated Statement of Financial Position. Share of earnings and of other comprehensive income of associates is recognized as "*Gain/(loss) on equity-accounted investments"* and "*Other comprehensive income of equity-accounted" investments* in the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income, respectively.

Unrealized results on transactions between Tecpetrol and its associated companies are eliminated to the extent of Tecpetrol's interest in such arrangements.

The accounting policies of the associated companies have been modified when necessary, to ensure consistency with the accounting policies adopted by the Company. Additionally the Company includes, where significant, the subsequent operations when financial statements at different reporting dates are used to calculate the equity method of accounting.

Investments in associated companies, each one of which is considered a Cash Generating Unit ("CGU"), are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and, if appropriate, an impairment loss is recorded.

*(c) Participation in joint arrangements*

A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activities require the unanimous consent of the parties involved.

**2.3 Basis for consolidation (Cont'd)**

*(c) Interests in joint arrangements (Cont'd)*

Investments whereby two or more parties have joint control are classified as "joint operations" when the parties have contractual rights over the assets and obligations over liabilities of the joint arrangement. Joint operations are consolidated line by line with Tecpetrol's investment.

Accounting policies of joint operations and joint ventures have been modified where necessary to ensure consistency with the policies adopted by the Company.

Joint arrangements are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and, if appropriate, an impairment loss is recorded.

**2.4 Foreign currency translation**

*(a) Functional and presentation currency*

Items included in these Consolidated Financial Statements of the Company and each of its consolidated subsidiaries are measured using the currency of the primary economic environment in which the entity operates (functional currency). The functional currency of the Company is the United States Dollar (USD).

The presentation currency of the Consolidated Financial Statements is the Argentine peso.

Sales and prices of the main drilling costs are denominated and settled in USD or considering the exposure to currency fluctuations against the USD.

*(b) Transactions in currency other than the functional currency*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the Income Statement, except when deferred in the Consolidated Statement of Comprehensive Income as cash flow hedges. Translation differences on non-monetary balances, such as equity instruments held at fair value through profit or loss, are recognized in the Income Statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities, such as investments classified as available-for-sale financial assets are included in the Consolidated Statement of Comprehensive Income. The share capital account is translated at the exchange rate in effect at the date of each capital contribution. The legal reserve is translated at the exchange rate applicable at the date in which it is provided by shareholders.

**2.4 Foreign currency translation (Cont'd)**

*(c) Translation of financial statements*

All Tecpetrol's subsidiaries whose functional currency is different to the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate at each reporting date; income and expenses are translated at the average rate of the fiscal year;

(ii) resulting translation differences are recognized in the Consolidated Statement of Comprehensive Income as currency translation differences. When a subsidiary is disposed of or sold, the accumulated currency translation difference is recognized as profit or loss at the date of disposal or sale.

**2.5 Property, plant and equipment. Exploration, evaluation and development assets**

Exploration and exploitation rights and costs related to the acquisition of rights and concessions of proved reserves are capitalized.

Acquisition costs related to rights and concessions of probable and possible reserves is initially capitalized. Subsequently, if exploratory results are determined to be unsuccessful on completion and evaluation, these costs are charged to expense in the period in which this is confirmed definitively by studies, technical reports or additional drillings carried out.

Exploration and evaluation costs are initially capitalized and accumulated on a field-by-field basis. In the case of exploratory fields, exploration and evaluation costs include geological studies and other costs directly attributable to this activity. Subsequently, if results are determined to be unsuccessful on field commercial evaluation, these costs are charged to expense in the period in which this is confirmed definitively by studies and technical reports.

Costs related to drilling exploratory wells are initially capitalized until it is determined whether proved reserves that justify their commercial development are found. During this period, and subject to the existence of production associated to exploratory wells, capitalized costs are decreased by the net result of the sale of that production. If such proved reserves are not found, drilling costs are charged to expense in the period in which this determination is definitively confirmed. Occasionally, an exploratory well may determine the existence of reserves, but they cannot be classified as proved when the drilling is complete. In this case, these costs remain capitalized to the extent that the well had found a sufficient quantity of reserves in order to justify its completion as a productive well and if the Company is making sufficient progress in assessing the economic and operational viability of the project.

No depreciation is charged during the exploration and evaluation phases.

Field development costs are capitalized as Property, plant and equipment.

These costs include the acquisition and installation of production facilities, development drilling costs and project-related engineering.

**2.5 Property, plant and equipment. Exploration, evaluation and development assets (Cont'd)**

Wells drilled in producing fields for the purpose of developing proved reserves are considered development wells. Wells which are neither development wells nor service wells are considered exploratory wells.

Workovers used to develop reserves and/or increase production are capitalized and depreciated on the basis of their estimated average useful life. Maintenance costs are charged to expense when incurred.

Asset retirement obligations are calculated as explained in Note 2.13.

The Company re-evaluates the remaining useful lives of its assets, their residual value and the depreciation method and adjusts them, if necessary.

Depreciation of wells, machinery, equipment and installations is calculated using the depletion method over total proved developed reserves of each field as from the month production starts.

Depreciation of exploration and exploitation rights and of the cost of the acquisition of rights and concessions related to proved reserves is calculated using the depletion method over total proved reserves of each field.

Depreciation of the remaining Property, plant and equipment is calculated using the straight line method by applying such annual rates as required to write-off their value at the end of their estimated useful lives, as follows:

– Vehicles up to 5 years

– Furniture and office equipment up to 5 years

Gains and losses from disposals are determined by comparing the proceeds received with the carrying amount of the asset and are recognized within "Other operating income and expenses" in the Income Statement.

Productive and development fields assets and assets related to probable and possible reserves are reviewed for impairment whenever events or changes in circumstances indicates that the carrying amount may not be recoverable. Impairment losses are recognized when the carrying amount of the assets is higher than their recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

The value in use is determined on the basis of the present value of net future cash flows expected to arise from the remaining commercial reserves.

Assets which have suffered impairment losses in previous periods are reviewed at each reporting date in order to assess if the conditions which gave rise to the impairment loss have changed and, if appropriate, the previous recognized impairment loss is reverted.

**2.6 Inventories**

Hydrocarbon stocks are valued at their net realizable value at the end of each fiscal year.

**2.6 Inventories (Cont.)**

Supplies and spare parts are valued at cost, using the weighted average cost formula. The recoverable amount is calculated at each reporting date and an allowance is recognized in the Income Statement, if necessary.

**2.7 Trade and other receivables**

Trade, prepayments and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowances for doubtful accounts, if necessary.

An allowance for doubtful accounts of receivables is established when there is objective evidence that the Company will not be able to collect the amounts within the stipulated deadlines. Indicators that trade and other receivables may be impaired include debtors experiencing significant financial difficulties, the probability that the debtor will enter in bankruptcy or will be subject to insolvency proceedings, and default or significant delays in payments.

Furthermore, this allowance is adjusted periodically based on the aging of the receivables. The asset's carrying amount is shown net of allowances, where applicable. The allowance expense is recognized in the Income Statement under "Selling expenses".

**2.8 Cash and cash equivalents**

Cash and cash equivalents are carried at fair value or at historical cost, which approximates its fair value. For the purposes of the Consolidated Statement of Cash Flow, cash and cash equivalents includes cash in hand, bank deposits, short-term highly liquid investments with original maturities of less than three months and are readily convertible to known amounts of cash and bank overdrafts.

In the Consolidated Statement of Financial Position, bank overdrafts are shown within Borrowings in current liabilities.

**2.9 Equity**

*(a) Equity components*

The Consolidated Statement of Changes in Equity includes share capital, reserve for future dividends, legal reserve and special reserve (See note 31), other reserves, retained earnings and non-controlling interests.

*(b) Share capital*

At December 31, 2016 and January 1, 2016, the number of shares issued is 1,024,000,000, with a nominal value of $ 1 Argentine peso per share.

At December 31, 2016 the total capital is registered with the Public Registry of Commerce, but $ 286,296,000 have not been paid in, which were paid in during the 6-month period ended June 30, 2017.

**Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016 (Cont'd)**

**2.9 Equity (Cont'd)**

*(c) Distribution of dividends*

Dividends distributed to the Company's shareholder are based on the Separate Financial Statements and not on the Consolidated Financial Statements. Distributions of dividends to the sole shareholder are recognized as a liability in the Consolidated Financial Statements in the period in which those dividends are approved by the Company's Shareholders' Meeting.

*(d) Other reserves*

Other reserves includes the effect of foreign currency translation, changes in the fair value of available-for-sale financial assets, share of the other comprehensive income of equity-accounted investments, net actuarial gains and losses from employee benefits plans and income tax related to components of other comprehensive income.

The breakdown of Other reserves at December 31, 2016 is as follows

| | Currency translation reserve | Reserve for available-for-sale financial assets | Reserve for employee benefits programs | Reserve for income tax | Total |
|---|---|---|---|---|---|
| **At January 1, 2016** | - | - | - | - | - |
| Other comprehensive income for the year | 266,700,950 | **(6,348,082)** | **19,267,120** | **(6,013,086)** | **273,606,902** |
| **At December 31, 2016** | **266,700,950** | **(6,348,082)** | **19,267,120** | **(6,013,086)** | **273,606,902** |

**2.10 Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequently, they are valued at amortized cost, using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months at the reporting date.

**2.11 Income tax and minimum notional income tax**

The income tax expense for the year comprises current and deferred tax. Tax is recognized in the Consolidated Income Statement, except for those cases where it is related to items recognized in the Consolidated Statement of Comprehensive Income, in which case, tax is also recognized in the Consolidated Statement of Comprehensive.

**2.11 Income tax and minimum notional income tax (Cont'd)**

Current income tax charge is calculated according to tax laws enacted in the countries where the Company and its subsidiaries operate and generate taxable income. The Company periodically evaluates their tax returns with relation to those situations where tax legislation is subject to interpretation, and, accordingly, establishes provisions where considered appropriate.

Deferred income tax is recognized applying the liability method on temporary differences arising between the tax base of assets and liabilities, and their carrying amounts shown in the Consolidated Financial Statements. The main temporary differences arise from the effect of the difference on the functional currency, depreciation of property, plant and equipment, losses, valuation of inventories, allowances and provisions. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the related tax asset is realized or the liability is settled, based on tax laws promulgated at year end.

Deferred tax assets on tax loss carry-forwards are also recognized to the extent that it is probable that future taxable income will be available. Tecpetrol reassess unrecognized deferred tax assets at each reporting date and recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset at the level of each legal entity, when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax is levied by the same fiscal authorities.

Minimum notional income tax is levied on the potential income from certain productive assets at the 1% rate and is complementary to income tax, such that the tax liability of the Company will coincide with the higher of the two taxes. The law allows to compute that tax as a payment on account of the excess of income tax over minimum notional income tax. If in a given fiscal year, however, minimum notional income tax exceeds income tax, the surplus may be computable as a payment on account of the income tax surplus over minimum notional income tax in any of the next ten fiscal years. At December 31 and January 1, 2016, the Company has recorded minimum notional income tax for $33 million and $23 million, respectively, in the income tax credit account.

**2.12 Employee benefits programs**

*(a) Retirement benefit programs and others*

The Company and some subsidiaries has benefit programs such as unfunded defined benefits and other long-term benefits that, under certain established conditions, are granted after retirement and over an employee's working life, and are recorded according to current accounting standards.

The liability provision for such benefits is recorded at the present value of the defined benefit obligation at the reporting date, which is calculated at least once a year by independent actuaries using the "projected unit credit" method.

**2.12 Employee benefits programs (Cont'd)**

*(a) Retirement benefit programs and others (Cont'd)*

For unfunded defined benefits, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in the Consolidated Statement of Comprehensive Income in the year in which they arise. Past-service costs are recognized immediately in the Income Statement. Actuarial gains and losses related to other long-term benefits are recognized immediately in the Income Statement.

*(b) Employee retention and long-term incentive program*

Tecpetrol International S.A. (indirect parent company of Tecpetrol S.A.) has an employee retention and long-term incentive program for certain executives in some subsidiaries. According to this program, the beneficiaries will be granted with a number of units valued based on the equity book value per share of Tecpetrol International S.A. (excluding non-controlling interests). The units will be vested over a period of four years and the corresponding subsidiaries will redeem them after a period of ten years from the grant day, with the option for the employee to request the payment as from the seventh year onwards, or when the employee ceases employment from the subsidiary responsible for making the payment, at the equity book value per share attributable to Tecpetrol International S.A. shareholders at the date of payment. The beneficiaries of this program will also receive cash payments equivalent to the dividend paid per share, each time Tecpetrol International S.A. pays a cash dividend to its shareholders. Considering that the payment under the plan is related to the carrying value of the shares in Tecpetrol International S.A., the Company values that plan as other long-term benefits, as required by IAS 19.

The total value of the units granted under the program, considering both the number of units and the equity book value per share of Tecpetrol International S.A. amounts to USD 8 million and USD 6 million at December 31 and January 1, 2016, respectively. As of December 31 and January 1, 2016, the Company has recorded a liability of $120.3 million and $90.6 million and an expense charge of $14.8 million at December 31, 2016, based on actuarial calculations provided by independent advisors (see Note 25).

**2.13 Provisions**

Provisions are recognized when a) the Company has a present, legal or constructive obligation, as a result of past events; b) it is highly probable that an outflow of resources will be required to settle the obligation; and c) the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using the appropriate discount rate.

The provision for asset retirement obligations is calculated by establishing the present value of future costs related to the abandonment of each field. When the liability is initially recorded, the Company capitalizes these costs by increasing the carrying amount of the related asset. Over time, the liability is accreted to its present value during each period, and the initially capitalized cost is depreciated over the estimated useful life of the related asset, as detailed in Note 2.5.

**Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016**

**(Cont'd)**

**2.13 Provisions (Cont'd)**

The Company periodically re-evaluates the future costs of asset retirement obligations, based on changes in technology and variations in restoration costs necessary to protect the environment. The effects of these re-calculations are included in the Consolidated Financial Statements in which they are determined and disclosed as an adjustment to the liability and to "Property, plant and equipment. Exploration assets, evaluation and development".

**2.14 Trade and other payables**

Trade and other payables are recognized at fair value and subsequently re-measured at amortized cost, using the effective interest method. Trade and other payables are classified as current liabilities unless the Company has the unconditional right to defer the settlement of the liability for at least 12 months following the reporting date.

**2.15 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services to third parties net of value-added tax, withholding taxes and discounts. Revenue from the sale of hydrocarbons and other assets is recognized when all the significant risks and rewards of ownership are transferred to the buyer, at the fair value of the consideration received or receivable.

Other revenues are recognized on an accrual basis.

Revenues from interests are recognized on an accrual basis, using the effective interest rate method.

**2.16 Operating costs**

Costs of sales are recognized in the Consolidated Income Statement on an accrual basis of accounting.

**2.17 Financial Instruments**

Financial assets and liabilities are recognized and derecognized on their settlement date.

Financial assets and liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position, when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The Company classifies its non-derivative financial instruments into the following categories: at fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities. The classification depends on the nature of the financial instruments and the purpose for which they were acquired. The Company determines the classification of its financial instruments at the time of initial recognition, and reassesses their designation at each date of presentation of Consolidated Financial Statements.

**2.17 Financial assets (Cont'd)**

*(a) At fair value through profit or loss*

A financial asset is classified in this category if it is held for trading in the short term or if it is so initially designated by management. This category mainly includes investments in debt instruments, in fixed-income securities and in mutual funds.

*(b) Loans and other receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. This category includes cash, trade receivables and other receivables. In general, they are classified as current assets except for those with maturities greater than 12 months following the reporting date.

*(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial instruments that are not classified in any of the other categories. They are included in non-current assets unless management intends to sell the investment within a twelve-month period as from the balance sheet date. Available-for-sale financial assets are valued at fair value and their variations are recognized in the Consolidated Statement of Comprehensive Income.

The Company evaluates at each reporting date whether there are impairment indicators. In the case of equity instruments classified as available-for-sale, any significant or prolonged decline in their fair value below their cost is considered as an impairment indicator and, if appropriate, the accumulated losses in the Consolidated Statement of Comprehensive Income are reclassified to the Income Statement. In such case, impairments may not be reversed in subsequent periods.

*(d) Other financial liabilities*

This category includes borrowings and trade and other payables.

**2.18 Derivative financial instruments and hedging activities**

Derivative financial instruments are recognized at fair value. Specific tools are used to calculate the fair value of each instrument, which are tested for consistency on a regular basis. Market rates are used for all pricing operations. These include exchange rates, interest rates and other discount rates which mitigate the nature of the underlying risk.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, on the nature of the item being hedged. Changes in the fair value of derivative financial instruments that are not designated as hedging instruments are immediately recognized in the Consolidated Income Statement, as "*Other financial results, net*".

**2.18 Derivative financial instruments and hedging activities (Cont'd)**

The fair value of a hedging instrument is classified as a non-current asset or liability if the remaining hedge item has a maturity greater than 12 months, and as a current asset or liability, if the maturity of the remaining hedged item is less than 12 months. Derivatives not designated as hedging instruments are classified as current assets or liabilities.

*Cash flow hedges*

When a derivative financial instrument is designated as a hedging instrument, the Company documents the relationship between hedging instruments and hedged items at the inception of the transaction, as well as its risk management objectives and the strategy defined by management for undertaking various hedge transactions.The Company also documents its assessment, both at the hedge inception and on an ongoing basis, of the effectiveness of the derivative financial instruments designated as hedge items to offset changes in the cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the Consolidated Statement of Comprehensive Income. The profit or loss relating to the ineffective portion is recognized immediately in the Consolidated Income Statement under "*Other financial results, net*".

When a hedging instrument expires or is sold, or when at hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in the Consolidated Statement of Comprehensive Income remains in it and is reclassified to the Income Statement the forecast transaction is ultimately recognized in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the Consolidated Statement of Comprehensive Income is immediately transferred to the Income Statement.

**2.19 Earnings per share**

Earnings per share are calculated by dividing the net earnings attributable to the shareholders of the Company by the daily weighted average number of outstanding common shares during the fiscal period.

**2.20 Segment information**

The Company has identified the different oil and gas fields in which it participates as operating segments, and are added in two reportable segments: Neuquén Basin and Northwestern and San Jorge Basin. Each reportable segment is managed by an officer in charge, who is directly responsible for managing the operations in the oil fields of each basin.

The decision-making authority is the group of directors composed of the Chairman, the General Operations Director, the General Business Development Director and the General Corporate Areas Director, who hold periodical meetings with the officers in charge of the areas to assess the performance of each oil field and allocate resources.

The Neuquén Basin includes Company operations in the following oil and gas fields: Fortín de Piedra, Punta Senillosa, Loma Ancha, Los Bastos and Agua Salada, where Medanito crude oil and gas are produced.

**2.20 Segment reporting (Cont'd)**

Northwestern and San Jorge Basin includes Company operations in the fields Aguaragüe and Ramos in Salta, Tordillo, Tapera and Jose Segundo in Chubut and Lago Argentino in Santa Cruz. These are mature fields, with secondary and tertiary production of Escalante crude oil and gas.

**3. New Accounting Standards**

*(a) New standards, interpretations and amendments to published standards effective in current year ended December 31, 2016:*

- *IFRS 11 "Joint arrangements":* In May 6, 2014, the *International Accounting Standards Board* (IASB) issued amendments to IFRS 11 called "Accounting for Acquisitions of Interests in Joint Operations". These amendments specify that the appropriate accounting treatment for such acquisitions when the joint operation constitutes a business according to IFRS 3, should be made following the requirements of IFRS 3.

  Since there were no acquisitions of interests in joint operations during 2016, the application of these amendments to IFRS 11 did not have impact in the Financial Statements at December 31, 2016.

- *IAS 1 "Presentation of Financial Statements*": In December 2014, the IASB issued some amendments to IAS 1, with the objective of modifying the presentation and disclosure of information in the financial statements, encouraging the exercise of professional judgment in the determination of the information to be disclosed in the financial statements and specifying that the concept of materiality applies to the financial statements as a whole. Moreover, the amendment clarifies that the place and order of presentation of the information the financial statements is subject to the application of professional judgment.

  The application of the amendments to IAS 1 has had no impact on the December 31, 2016 Consolidated Financial Statements.

  Management evaluated the relevance of other new standards, interpretations or amendments to the standards in force as from the year ended December 31, 2016 and concluded that they are not relevant for the Company.

**3. New Accounting Standards (Cont'd)**

*(b) New standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted:*

- *IFRS 9 "Financial instruments"*: issued in July 2014, replaces IAS 39 and introduces principles for the classification and measurement of financial instruments. It also simplifies its valuation in three main categories: amortized cost, fair value with changes in other comprehensive income and fair value with changes in profit or loss. Also, IFRS 9 simplifies the requirements in relation to the effectiveness measurement of hedging activities and introduces a new model for the impairment of financial assets. This standard is applicable for periods beginning on January 01, 2018.

  Management is estimating the potential impact the application of IFRS 9 will have on the Consolidated Financial Statements.

- *IFRS 15 "Revenue from Contracts with Customers"*: In May 2014, the IASB issued IFRS 15, which establishes and accounting requirements for contracts with customers based on the principle that revenues are recognized when the customer obtains control of goods or services. IFRS 15 is applicable for annual periods beginning on January 01, 2018.

  Management is estimating the potential impact the application of IFRS 15 will have on the Consolidated Financial Statements.

- *IAS 12 "Income tax":* In January 2016, the IASB issued certain amendments to IAS 12 "Income Tax" with the aim of clarifying the accounting of deferred tax, in case an asset is valued at its fair value and this value is lower than its tax base. These modifications explain, among other aspects, that when estimating future taxable profit, an entity can estimate the recovery of the asset for a value higher than its carrying value. These modifications are applicable for annual periods commencing on or after January 1, 2017.

  Management estimates that the application of the amendments to IAS 12 will not have a significant impact on these Consolidated Financial Statements.

**3.New Accounting Standards (Cont'd)**

*(b) New standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted: (Cont'd)*

- *IAS 7 "Cash Flow Statement":* In January 2016, the IASB issued certain amendments to IAS 7, which require more disclosure of the changes in liabilities from financing activities with the aim of providing the necessary information so that the financial statements´ users can assess their evolution throughout the year, including the breakdown of changes arising from cash flows (draw downs and repayments of borrowings), changes in liabilities related to obtaining or losing control in subsidiaries or other business, the exchange difference effect, changes in fair values and other changes. These modifications are applicable for annual periods commencing on or after January 1, 2017.

  Management estimates that the application of the amendments to IAS 7 will not have a significant impact on these Consolidated Financial Statements.

- *IFRS 16 "Leases":* In January 2016, the IASB issued IFRS 16, which modifies the accounting of these operations, basically by removing the distinction between operating and financial leases. This modification will entail changes for most lease agreements both in assets recognition, given the right to use the leased item, and in liabilities, due to the payment of the lease. There is an optional exemption for short-term and low-value leases. IFRS 16 is applicable for annual periods commencing on or after January 01, 2019.

  Management has not estimated the potential impact the application of IFRS 16 will have on the Consolidated Financial Statements yet.

Management evaluated the relevance of other new standards, interpretations or amendments that are not yet effective and concluded that they are not relevant for the Company.

**4. Financial risk management**

**4.1 Financial risk factors**

Due to their activities, the Company and its subsidiaries are exposed to a series of financial risks, mainly related to market risks (including the effects of foreign exchange risk, interest rate risk and price risk), credit risk concentration, liquidity risk and capital risk.

The risk management plan is focused on the unpredictability of financial markets and aimed at minimizing the potential adverse effects on its financial performance.

#### 4.1 Financial risk factors (Cont'd)

*(i) Foreign exchange risk of foreign currency*

The Company and its subsidiaries are exposed to foreign exchange risk for those transactions in other than the functional currency. As the functional currency of the Company is the US dollar, the purpose of the foreign currency hedge program is to reduce the risk related to fluctuations in the exchange rate of other currencies against the US dollar.

Exposure to fluctuations in foreign exchange rate is reviewed periodically. The Company intends to counteract the potentially negative impact of variations in the value of other currencies with respect to its functional currency, using derivative financial instruments, if necessary.

Exposure to the Argentine peso as of December 31 and January 1, 2016 due to variations in the exchange rate, stated in thousands of USD, was 6,042 (liabilities) and 91,758 (liabilities), respectively.

Tecpetrol estimates that the impact of a favorable variation of 1% in the exchange rate would result in a gain of USD 0.06 million as of December 31, 2016.

*(ii) Interest rate risk*

Tecpetrol is exposed to interest rate volatility risk, mainly related to short-term investments and borrowings.

The following table shows the proportions of fixed-rate and floating-rate debt at the closing date of each year:

| | December 31, 2016 | | January 01, 2016, | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| Fixed rate | 8,418,797,340 | 98% | 5,337,318,992 | 89% |
| Floating rate | 148,806,724 | 2% | 690,839,626 | 11% |

If interest rates on the accumulated nominal average of borrowings held during the year had been 50 basis points higher with all other variables remaining constant, net income would have been $ 2.1 million less at December 31, 2016. Note 24 includes information concerning the interest rate applicable to main borrowings.

**4.1 Financial risk factors (Cont'd)**

*(iii) Credit risk concentration*

Tecpetrol's financial assets which are potentially exposed to concentrations of credit risk consist mainly in deposits with financial institutions and trade receivables.

As regards deposits in financial institutions, the Company reduces its exposure to significant concentrations of credit risk maintaining its deposits and placing its cash investments with top-class financial institutions, either directly or through a related company which acts as a financial agent.

With regard to trade receivables, the Company and its subsidiaries have policies in place to ensure that products are sold only to customers with an appropriate credit history, or letters of credit in its absence. At December 31, 2016, 42% of Tecpetrol's trade receivables are with Vitol Inc, and 19% with Shell. At January 1, 2016, 35% of Tecpetrol's trade receivables are with Tesoro Refining and marketing company LLC, and 16% with Y.P.F Sociedad Anónima. The Company does not have secured trade receivables at December 31 and January 1, 2016.

*(iv) Liquidity risk*

The financial strategy seeks to maintain adequate financial resources and access to credit facilities to finance its operations. During the year, Tecpetrol has used cash flows generated by its operations and also bank borrowings.

Tecpetrol has a conservative strategy as regards liquidity management, which consists in maintaining a substantial portion of its funds in cash, liquid funds and short-term investments with a maturity of no more than three months from the purchase date.

Below is an analysis of the Company's financial liabilities considering contractual due dates:

| | Less than one year | Between 1 and 2 years | Between 2 and 5 |
|---|---|---|---|
| **At December 31, 2016** | | | |
| Borrowings | 3,464,918,049 | - | 5,102,686,015 |
| Trade and other payables | 1,154,915,413 | - | - |
| Interest on borrowings not yet accrued | 99,794,187 | 53,037,086 | 601,416,362 |
| **Total** | **4,719,627,649** | **53,037,086** | **5,704,102,377** |
| | **Less than one year** | **Between 1 and 2** | **Between 2 and 5** |
| **At January 1, 2016** | | | |
| Borrowings | 1,342,152,320 | 4,686,006,298 | - |
| Trade and other payables | 701,701,898 | - | - |
| Interest on borrowings not yet accrued | 1,089,932,656 | 1,124,557,026 | - |
| **Total** | **3,133,786,874** | **5,810,563,324** | **-** |

**4.1 Financial risk factors (Cont'd)**

*(iv) Liquidity risk (Cont'd)*

At December 31, 2016 Tecpetrol records a deficit of $ 2,872.3 million in its working capital; this situation is continuously monitored by the Board of Directors and Management, so as to meet the commitments undertaken.

*(v) Price risk*

The change in trend in the international price of crude that commenced in November 2014 generates uncertainties for hydrocarbon sector activities. At the date of these Consolidated Financial Statements, Tecpetrol continues to exert its greatest efforts to sustain production and employment, without neglecting its long term commitment and striving to defend the viability of projects through the reduction and/or postponement of investments, cost optimization, renegotiation of contracts with suppliers and the governments of the different countries in which it operates, and focusing on efficiency and increased productivity in its operating, administrative and commercial processes.

A USD 1 variation in the reference price of the barrel of crude oil would imply an impact on the net income of Tecpetrol of USD 1.8 million at December 31, 2016; and a variation of USD 0.1 per million BTU in the reference price of gas would not imply a significant impact on Tecpetrol's income as of December 31, 2016. This sensitivity analysis takes into account the current context of the markets in which Tecpetrol operates.

At December 31 and January 1, 2016 the Company does not have derivative financial instruments hedging price risk.

*(vi) Capital risk*

The Company seeks to maintain an adequate level of debt to total equity considering the industry and markets in which it operates. The annual debt / total equity ratio (where "debt" comprises all financial borrowings and "total equity" is the aggregate of financial borrowings and equity) is 0.89 at December 31, 2016, compared with 0.82 at January 1, 2016. The Company is not obliged to comply with external capital requirements

**4.2 Financial instruments by category**

Financial instruments by category are shown below:

| At December 31, 2016 | At fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale financial assets | - | - | 219,042,824 | 219,042,824 |
| Other receivables | - | 644,766,561 | - | 644,766,561 |
| Trade receivables | - | 632,295,230 | - | 632,295,230 |
| Cash and cash equivalents | 77,816,389 | 140,824,418 | - | 218,640,807 |
| **Total** | **77,816,389** | **1,417,886,209** | **219,042,824** | **1,714,745,422** |

| At December 31, 2016 | Other financial liabilities | Total |
|---|---|---|
| **Liabilities** | | |
| Borrowings | 8,567,604,064 | 8,567,604,064 |
| Trade and other payables | 1,154,915,413 | 1,154,915,413 |
| **Total** | **9,722,519,477** | **9,722,519,477** |

| At January 1, 2016 | At fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Available-for-sale financial assets | - | - | 185,407,793 | 185,407,793 |
| Other receivables | - | 612,055,378 | - | 612,055,378 |
| Trade receivables | - | 278,734,599 | - | 278,734,599 |
| Cash and cash equivalents | 96,069,766 | 100,272,732 | - | 196,342,498 |
| **Total** | **96,069,766** | **991,062,709** | **185,407,793** | **1,272,540,268** |

| At January 1, 2016 | Other financial liabilities | Total |
|---|---|---|
| **Liabilities** | | |
| Borrowings | 6,028,158,618 | 6,028,158,618 |
| Trade and other payables | 701,701,898 | 701,701,898 |
| **Total** | **6,729,860,516** | **6,729,860,516** |

#### 4.3 Fair value estimate

Fair value hierarchies

Financial instruments measured at fair value can be classified into the following hierarchical levels, depending on the way in which fair value is estimated:

Level 1 – Based on quoted prices in active markets for identical assets and liabilities. The fair value of financial instruments traded in active markets is based on the market quoted price as of the year-end date. A market is considered active when the quoted prices are available and such prices show transactions regularly performed between independent parties..

Level 2 – Based on inputs (other than quoted market prices included within Level 1) that are observable for the asset or liability, either directly or indirectly. For the estimates of fair value, the Company applies a series of methods and assumptions based on the market conditions existing at the date of issuance of the Consolidated Financial Statements. The fair value of financial instruments that are not traded in an active market is determined by means of standard valuation techniques maximizing the use of observable market data.

Level 3 – Based on information not observable in the market (for example, discounted cash flows).

The following table presents the financial assets and liabilities measured at fair value by hierarchy level at December 31 and January 1, 2016:

| At December 31, 2016 | Level 1 | Level 3 |
|---|---|---|
| **Assets** | | |
| Available-for-sale financial assets | - | 219,042,824 |
| Cash and cash equivalents | 77,816,389 | - |
| **Total** | **77,816,389** | **219,042,824** |
| **At January 1, 2016** | **Level 1** | **Level 3** |
| **Assets** | | |
| Available-for-sale financial assets | - | 185,407,793 |
| Cash and cash equivalents | 96,069,766 | - |
| **Total** | **96,069,766** | **185,407,793** |

There were no transfers between levels 1, 2 and 3 in the course of the fiscal year ended December 31, 2016.

To estimate the fair value of cash equivalents, the Company generally uses the historical cost, as this approximates their fair value.

**4.3 Fair value estimate (Cont'd)**

The carrying value of cash, trade and other receivables and trade and other payables, minus the provision for impairment, if applicable, approximates their fair value. Also, the fair value of current and non-current borrowings does not significantly differ from the carrying value at December 31 and January 1, 2016. In all cases, fair value was determined based on discounted cash flows applying market rates, classified as Level 2.

**5. Critical accounting judgments and estimates**

The Company makes estimates and assumptions as to future, in the preparation of the Consolidated Financial Statements. Estimates and judgments are constantly assessed and are based on the historical experience and other factors, including the expectations of future events considered reasonable according to the circumstances. Actual future results might differ from those estimates. Below is a detail of the most significant estimates and assumptions:

*(a*) Hydrocarbon reserves (unaudited)

Reserves are the volumes of oil and gas (expressed in m3 of oil equivalent) which generate or are related to an economic gain in the areas where Tecpetrol operates or has an investment (direct or indirect) and on which it has rights over its exploitation.

There are various factors that create uncertainty as to the estimate of proven reserves and of future production profiles, development costs and prices, including several factors beyond the control of the producer. The procedure for calculating reserves is a subjective process for estimate of crude oil and natural gas to be recovered from the subsoil, which causes certain level of uncertainty. Reserves are estimated based on the quality of the geological and engineering information available at the date of calculation and interpretation.

**5. Critical accounting judgments and estimates (Cont'd)**

*(a) Hydrocarbon reserves (unaudited) (Cont'd)*

Proven developed and undeveloped hydrocarbon reserves estimated at December 31, 2016 are disclosed below:

*Argentina*

**Oil:** 3.8 million cubic meters

**Gas:** 2.6 billion cubic meters

*Bolivia*

**Oil:** 0.9 million cubic meters

**Gas:** 7.2 billion cubic meters

The reserves above mentioned are made up of the proven reserves liable to be extracted. Tecpetrol technical staff prepared the estimate of reserves; this may be different from the estimates prepared by third parties for specific purposes.

The estimates of reserves are based on technological and economic conditions in force at June 30, 2016, considering the economic assessment and having as their horizon the expiry of the concession to determine the term for recoverability. Reserve estimates are adjusted if changes in the aspects considered for their evaluation so justify it, or at least, once a year.

*(b) Impairment of long-term assets*

The assessment of the recoverability of long-term assets implies that the management uses a series of estimates and critical assumptions described in Note 17.

*(c) Provision for well abandonment*

Well abandonment obligations once operations have been completed led management to make estimates of long-term abandonment costs and of the remaining period up to abandonment. Technology, costs and political, environmental and safety considerations constantly change, giving rise to possible differences between actual future results and estimates.

**5. Critical accounting judgments and estimates (Cont'd)**

*(d) Contingencies*

Tecpetrol is subject to various complaints, lawsuits and other legal proceedings arising in the ordinary course of business. Liabilities relating to these complaints, lawsuits and other legal proceedings cannot be accurately estimated. The Company analyzes the status of each contingency and assesses the potential financial exposure. If the related potential loss is considered probable and the amount can be reasonably estimated, a provision is recorded. The management estimates the amount of this provision based on the information available and the assumptions and methods that are considered appropriate. Such estimates are made mainly with the assistance of legal counsel. Estimates are periodically reviewed and adjusted, as the Company obtains additional information.

**6. Segment Information**

| **In thousands** | **Neuquén Basin** | **Noroeste/San Jorge Basin** | **Others** | **Total continuing operations** |
|---|---|---|---|---|
| Net sales - IFRS | 1,376,676 | 2,347,007 | 4,624 | 3,728,307 |
| Operating result - Managerial vision | 259,916 | 474,373 | (32,823) | 701,466 |
| Depreciation differences | (27,261) | (170,793) | - | (198,054) |
| Administrative expenses (*) | | | | (629,166) |
| Operating result - IFRS | | | | **(125,754)** |
| Property, plant and equipment - Managerial vision | 2,149,729 | 3,031,054 | 162,326 | 5,343,109 |
| Depreciation differences | | | | (283,854) |
| Property, plant and equipment - Tecpetrol de Bolivia S.A. | | | | 4,448,320 |
| Property, plant and equipment - IFRS | | | | **9,507,575** |
| Additions of property, plant and equipment | 1,129,030 | 321,492 | 7,389 | 1,457,911 |
| Additions of property, plant and equipment Tecpetrol de Bolivia S.A. | | | | 471,508 |
| | | | | **1,929,419** |

(*) Corresponds to expenses which are not allocated in segment information.

## Tecpetrol Sociedad Anónima
### Special-Purpose Consolidated Financial Statements at December 31, 2016

### Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016 (Cont'd)

**7. Net sales**

| | December 31, 2016 |
|---|---|
| Oil | 2,489,216,701 |
| Gas | 1,344,268,429 |
| Other services | 4,231,735 |
| | **3,837,716,865** |
| From discontinued operations | (109,409,816) |
| | **3,728,307,049** |

**8. Operating costs**

| | December 31, 2016 |
|---|---|
| Materials and spare parts at the beginning of the year | 100,929,927 |
| Purchases and production costs | 3,083,556,735 |
| Materials and spare parts at year end | (125,816,054) |
| Inventory translation differences | 22,227,681 |
| | **3,080,898,289** |
| From discontinued operations | (146,315,531) |
| **Cost of sales** | **2,934,582,758** |

| | |
|---|---|
| Labor costs | 219,666,205 |
| Fees and services | 108,150,055 |
| Service costs | 35,353,102 |
| Depreciation of property, plant and equipment | 1,101,473,527 |
| Impairment of property, plant and equipment | 16,035,345 |
| Maintenance expenses | 878,201,429 |
| Treatment, storage and loading | 105,211,906 |
| Royalties and other taxes | 542,818,925 |
| Others | 73,987,795 |
| | **3,080,898,289** |
| From discontinued operations | (146,315,531) |
| | **2,934,582,758** |

**9. Selling expenses**

| | December 31, 2016 |
|---|---|
| Taxes | 83,926,868 |
| Allowance for doubtful accounts | 80,281,876 |
| Treatment, storage and loading | 40,198,956 |
| Others | 948,998 |
| | **205,356,698** |

**Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016**

**(Cont'd)**

### 10. Administrative expenses

| | December 31, 2016 |
|---|---|
| Fees and services | 121,709,621 |
| Labor costs | 541,832,413 |
| Depreciation of property, plant and equipment | 12,575,251 |
| Taxes | 108,914,616 |
| Other administrative expenses | 127,921,231 |
| Reimbursement of expenses (*) | (251,567,016 |
| | **661,386,116** |
| From discontinued operations | (19,644,424) |
| | **641,741,692** |

(*) These are not liable to association or proration in connection with each line involved in the costs and/or expenses Notes, but rather in connection with the tasks which make up the function of the operator.

### 11. Labor costs (included in Operating costs and Administrative expenses)

| | December 31, 2016 |
|---|---|
| Salaries, wages and others costs | 619,549,129 |
| Social security contributions costs | 93,958,062 |
| Retirement benefit and other programs (Note 25) | 47,991,427 |
| | **761,498,618** |

### 12. Other operating results, net

| | December 31, 2016 |
|---|---|
| *Other operating income* | |
| Income from other sales | 1,647,655 |
| Results from the sale of property, plant and equipment | 1,233,341 |
| Refunds | 87,007 |
| Others | 10,793,763 |
| | **13,761,766** |
| From discontinued operations | (10,248,155) |
| | **3,513,611** |
| *Other operating expenses* | |
| Provision for legal claims and contingencies | (1,371,137) |
| Others | (14,333,934) |
| | **(15,705,071)** |
| From discontinued operations | 123,714 |
| | **(15,581,357)** |

**Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016 (Cont'd)**

### 13. Financial results, net

| | December 31, 2016 |
|---|---|
| Dividends income | 3,242,313 |
| Interest income | 38,004,531 |
| **Financial income** | **41,246,844** |
| Interest cost | (452,634,610) |
| **Financial costs** | **(452,634,610)** |
| Income from derivative contracts | 1,752,531 |
| Net result from exchange differences - (loss) | (14,629,390) |
| Other financial result, net - (loss) | (10,422,090) |
| **Other financial result, net - (loss)** | **(23,298,949)** |
| **Financial result, net - (loss)** | **(434,686,715)** |
| From discontinued operations - (Loss) | 211,033,296 |
| | **(223,653,419)** |

Each item included in this note differs from their respective line in the Consolidated Income Statement, as it includes the result from discontinued operations.

### 14. Income tax

| | December 31, 2016 |
|---|---|
| Current income tax – Loss | 1,042,544 |
| Deferred income tax - (Profit) (Note 28) | (49,073,998) |
| | **(48,031,454)** |

Income tax on Company's pre-tax profit is different from the theoretical amount that would result from applying the tax rate effective in each country, as explained below:

| | December 31, 2016 |
|---|---|
| **Loss before income tax at tax rate** | **(122,293,884)** |
| Exempt income | 13,042,801 |
| Result of equity-accounted investments | (1,164) |
| Currency translation of the tax bases | 63,621,811 |
| Currency translation of the tax loss carry forward | 37,509,456 |
| Non-deductible expenses and other expenses | (39,910,474) |
| **Income tax charge for the year** | **(48,031,454)** |

## Tecpetrol Sociedad Anónima
### Special-Purpose Consolidated Financial Statements at December 31, 2016

### Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016 (Cont'd)

### 15. Property, plant and equipment. Exploration, evaluation and development assets

| | Development /Productive Assets | Machinery and equipment | Assets retirement obligation | Exploration and evolution | Works in progress | Others | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| At the beginning of year | 10,703,343,140 | 2,248,136,945 | 215,200,359 | 3,838,265,750 | 256,626,118 | 316,709,821 | 17,578,282,133 |
| Translation differences | 2,434,133,954 | 613,632,570 | 51,506,506 | 678,467,709 | 98,368,357 | 71,391,061 | 3,947,500,157 |
| Additions | 107,339,303 | - | 218,469,424 | 366,046,979 | 1,404,314,791 | 51,717,710 | 2,147,888,207 |
| Transfers | 2,006,388,611 | 2,382,585,990 | - | (4,115,535,849) | (362,159,945) | 88,721,193 | - |
| Disposals | (2,386,950) | (634,928) | (4,263,008) | (30,917,943) | - | (8,731,076) | (46,933,905) |
| At year end | 15,248,818,058 | 5,243,720,577 | 480,913,281 | 736,326,646 | 1,397,149,321 | 519,808,709 | 23,626,736,592 |
| Depreciation | | | | | | | |
| At the beginning of year | 8,384,632,410 | 1,997,267,245 | 118,419,917 | - | - | 113,642,700 | 10,613,962,272 |
| Translation differences | 1,891,405,823 | 443,625,535 | 28,507,404 | - | - | 26,328,903 | 2,389,867,665 |
| Depreciation for the year | 913,161,516 | 130,600,439 | 38,803,842 | - | - | 31,482,981 | 1,114,048,778 |
| Impairment for the year (i) | - | - | 16,035,345 | - | - | - | 16,035,345 |
| Disposals | (2,140,963) | (634,928) | (4,263,008) | - | - | (7,713,766) | (14,752,665) |
| At year end | 11,187,058,786 | 2,570,858,291 | 197,503,500 | - | - | 163,740,818 | 14,119,161,395 |
| **Residual value at December 31, 2016** | **4,061,759,272** | **2,672,862,286** | **283,409,781** | **736,326,646** | **1,397,149,321** | **356,067,891** | **9,507,575,197** |
| **Residual value at January 1, 2016** | **2,318,710,730** | **250,869,700** | **96,780,442** | **3,838,265,750** | **256,626,118** | **203,067,121** | **6,964,319,861** |

(i) Corresponds to Dapetrol S.A. assets impairment at December 31, 2016. See Note 17.

## Exhibit I



### 16. Investments in entities accounted for using the equity method

The breakdown of investments in subsidiaries is as follows:

| | | Ordinary Shares | | Share interest % | | | | Latest financial information | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Main business activity | 1 Vote | Country | Dec - 16 | Jan - 16 | Value at Dec 2016 | Value at Jan 2016 | Date | Capital | Results | Equity |
| Parque Eólico Pampa S.A. | Design, development, construction and maintenance of wind power farms | 1,200,000 | Argentina | 20% | 20% | 1,190,256 | 913,125 | 12.31.16 | 6,000,000 | (16,705) | 5,948,945 |
| | | | | | | 1,190,256 | 913,125 | | | | |

**Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016 (Cont'd)**

**16. Investments in entities accounted for using the equity method (Cont'd)**

The evolution of investments in entities accounted is disclosed below:

*Investments in associates*

| | December 31, 2016 |
|---|---|
| At the beginning of year | 913,125 |
| Currency translation differences | 600 |
| Capital contributions | 279,858 |
| Result of investments in associates | (3,327) |
| **At year end** | **1,190,256** |

**17. Impairment of long-term assets**

The Company analyzes the Property, plant and equipment for impairment periodically or when there are events or changes in the circumstances that indicate a potential evidence of impairment. This analysis is conducted in accordance with the criteria described in Note 2.5.

The recoverable value of each CGU (considering CGU as each area the Company has interest in) is estimated by the Company as the higher of assets' fair value less direct costs to sell and value in use. The value in use is calculated based on the cash flows discounted, applying a discount rate based on the weighted average cost of capital (WACC), which considers the risks of the country where the CGU operates and its specific characteristics.

The determination of the discounted cash flows is based on projections approved by the Management and includes a set of sensitive estimates and assumptions, such as changes in hydrocarbons production levels, sales prices, hydrocarbons future market prices, inflation, exchange rates, costs and other cash expenditures, on the basis of the best estimate the Company foresees regarding its operations and the available market information.

Cash flows derived from the different CGUs are usually projected for a period that covers the existence of commercially exploitable reserves and is limited to the existence of reserves for the term of the concession or contract.

At December 31, 2016 the Company recorded impairment charges for $ 16 million relating to productive and development assets and equipment in the Noroeste/San Jorge basin segment of the subsidiary Dapetrol S.A., mainly caused by the current context of the hydrocarbon sector, which was affected by the fall in international oil prices and the decline curve for the production of the field. These impairment charges are disclosed for $ 16 million under Operating costs, in the Consolidated Income Statement at December 31, 2016. The recoverable amount of the CGU at December 31, 2016 of $ 8.3 million, has been estimated based on value in use, applying a pre-tax discount rate of 13.6%.

**Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016**

**(Cont'd)**

**18. Available-for-sale financial assets**

| | December 31, 2016 | January 1, 2016 |
|---|---|---|
| Non-quoted investments | 219,042,824 | 185,407,793 |

The evolution of available-for-sale financial assets is as follows:

| | December 31, 2016 |
|---|---|
| At the beginning of year | 185,407,793 |
| Translation differences | 40,015,064 |
| Changes in fair value | (6,380,033) |
| **At year end** | **219,042,824** |

The detailed list of the main investments in available-for-sale financial assets is as follows:

| Company | Country | Interest % Dec-16 | Interest % Jan-16 | Value at December 31, 2016 | Value at January 1, 2016 |
|---|---|---|---|---|---|
| Tecpetrol del Perú S.A.C. | Perú | 2.00 | 2.00 | 126,841,194 | 112,527,966 |
| Tecpetrol Bloque 56 S.A.C. | Peru | 2.00 | 2.00 | 42,421,072 | 33,056,209 |
| Oleoducto del Valle S.A. | Argentina | 2.10 | 2.10 | 27,817,352 | 22,828,085 |
| Tecpetrol de México S.A. de C.V. | Mexico | 1.77 | 1.77 | 9,324,903 | 6,930,411 |
| Burgos Oil Services S.A. de C.V. | Mexico | 0.937 | 0.937 | 2,123,047 | 1,916,765 |
| Terminales Marítimas Patagónicas S.A. | Argentina | 4.20 | 4.20 | 3,932,918 | 4,370,043 |
| Norpower S.A. de C.V. | Mexico | 0.60 | 0.60 | 4,380,365 | 1,449,908 |
| Other investments | | | | 2,201,973 | 2,328,406 |
| **Total** | | | | **219,042,824** | **185,407,793** |

At December 31 and January 1, 2016, 14% and 15% of the assets available for sale, respectively, correspond to financial assets in Argentine pesos. The rest of the available assets for sale correspond to financial assets in US dollars.

The fair value of these investments was estimated on the basis of cash flows discounted, which includes a set of sensitive estimates and assumptions, such as changes in hydrocarbons production levels, sale price, curve of future prices of oil, inflation, exchange rates, collection of dividends, costs and other cash expenditures, on the basis of the best estimate the Company foresees regarding its operations and the available market information.

### 19. Other receivables and prepayments

| | December 31, 2016 | January 1, 2016 |
|---|---|---|
| **Non-Current** | | |
| Trade receivable | 11,432,664 | 10,486,403 |
| Other receivables from related parties (Note 32) | 22,712,626 | 12,727,288 |
| Advances | 2,863,394 | 2,307,597 |
| Other receivables | 1,573 | 48,863 |
| Tax credits | 532,951,393 | 395,786,936 |
| Employees loans and advances | 14,455,705 | 20,108,058 |
| | **584,417,355** | **441,465,145** |
| Allowance for doubtful accounts | (13,691,793) | (7,603,794) |
| | **570,725,562** | **433,861,351** |
| **Current** | | |
| Trade receivable | 202,952,959 | 110,443,117 |
| Advances | 13,098,365 | 18,794,865 |
| Tax credits | 134,050,153 | 148,672,861 |
| Other receivables | 42,479,120 | 18,655,141 |
| Employees loans and advances | 17,125,479 | 7,692,896 |
| Other receivables from related parties (Note 32) | 398,216,017 | 469,434,286 |
| | **807,922,093** | **773,693,166** |
| Allowance for doubtful accounts | (19,336,605) | (2,135,926) |
| | **788,585,488** | **771,557,240** |

The evolution in allowance for doubtful accounts is disclosed below:

| | December 31, 2016 |
|---|---|
| At the beginning of the year | (9,739,720) |
| Exchange and translation differences | (137,230) |
| Additions | (16,644,211) |
| Reclassifications | (6,874,500) |
| Uses | 367,263 |
| At year end | **(33,028,398)** |

### 20. Trade receivables

| | December 31, 2016 | January 1, 2016 |
|---|---|---|
| **Non-current** | | |
| Trade receivables from related parties (Note 32) | 83,612,910 | - |
| | **83,612,910** | **-** |
| Allowance for doubtful accounts | (83,612,910) | - |
| | **-** | - |
| **Current** | | |
| Trade receivables | 700,909,029 | 278,625,129 |
| Trade receivables from related parties (Note 32) | 272,958 | 75,458,711 |
| | **701,181,987** | **354,083,840** |
| Allowance for doubtful accounts | (68,886,757) | (75,349,241) |
| | **632,295,230** | **278,734,599** |

The following table shows the aging of trade receivables

| | | | Past due | |
|---|---|---|---|---|
| | **Total** | **Not yet due** | **1 - 180 days** | **> 180 days** |
| **At December 31, 2016** | | | | |
| Trade receivables | 784,794,897 | 618,980,833 | 13,314,397 | 152,499,667 |
| Allowance for doubtful accounts | (152,499,667) | - | - | (152,499,667) |
| **Net value** | **632,295,230** | **618,980,833** | **13,314,397** | **-** |
| **At January 1, 2016** | | | | |
| Trade receivables | 354,083,840 | 274,308,458 | 4,426,141 | 75,349,241 |
| Allowance for doubtful accounts | (75,349,241) | - | - | (75,349,241) |
| **Net value** | **278,734,599** | **274,308,458** | **4,426,141** | **-** |

The evolution of allowance for doubtful accounts is disclosed below:

| | December 31, 2016 |
|---|---|
| At the beginning of the year | (75,349,241) |
| Exchange and translation differences | (21,127,744) |
| Additions | (63,637,665) |
| Reclassifications | 6,874,500 |
| Uses | 740,483 |
| At year end | **(152,499,667)** |

### 21. Inventories

| | December 31, 2016 | January 1, 2016 |
|---|---|---|
| Hydrocarbons | 145,313,399 | 126,619,717 |
| Materials and spare parts | 125,816,054 | 100,929,927 |
| | **271,129,453** | **227,549,644** |

**22. Cash and cash equivalents**

| | December 31, 2016 | January 1, 2016 |
|---|---|---|
| Cash and banks | 29,645,066 | 42,490,732 |
| Mutual funds | 77,816,389 | 96,069,766 |
| Short-term deposits in related parties (Note 32) | 111,179,352 | 57,782,000 |
| | **218,640,807** | **196,342,498** |

On average, the effective interest rate on bank deposits and short-term placements was 0.6% at December 31 and January 1, 2016.

**23. Dividends and earnings per share**

At December 31, 2016, the capital amounted to $ 1,024,000,000.

| | 2016 |
|---|---|
| Loss from continuing operations attributable to Shareholders of the parent company | (300,632,737) |
| Loss from discontinued operations attributable to Shareholders of the parent company | (261,253,167) |
| Loss attributable to Shareholders of the parent company | (561,885,904) |
| Weighted average of ordinary shares | 1,024,000,000 |
| Basic and diluted loss of continuing operations attributable to Shareholders of the parent company per share ($ per share) | (0.29) |
| Basic and diluted loss from discontinued operations attributable to Shareholders of the parent company per share ($ per share) | (0.26) |
| Basic and diluted loss attributable to Shareholders of the parent company per share ($ per share) | (0.55) |

In the fiscal period ended December 31, 2016 there was not distribution of dividends.

**24. Borrowings**

| | December 31, 2016 | January 1, 2016 |
|---|---|---|
| **Non-current** | | |
| Bank borrowings | - | 551,930,002 |
| Other financial debts | 97,222,222 | 129,096,000 |
| Borrowings from related parties (Note 32) | 5,005,463,793 | 4,004,980,296 |
| | **5,102,686,015** | **4,686,006,298** |
| **Current** | | |
| Bank borrowings | 858,115,238 | 668,136,984 |
| Borrowings from related parties (Note 32) | 2,447,138,811 | 65,282,631 |
| Bank overdrafts | 2,353,000 | 406,612,705 |
| Other financial debts | 157,311,000 | 202,120,000 |
| | **3,464,918,049** | **1,342,152,320** |

**24. Borrowings (Cont'd)**

At December 31 and January 1, 2016, the Company does not have any secured liability. The Company must comply with certain obligations such as maintaining financial ratios in accordance with the conditions set forth in borrowings agreements, which have not been complied with at December 31 and January 1, 2016.

The main bank borrowings and with related parties are detailed below:

*Bank borrowings (i)*

| Lender | December 31, 2016 | January 1, 2016 | Interest rate | Contractual currency |
|---|---|---|---|---|
| ICBC | 373,415,000 | 346,885,579 | between 1.85% y 2% | USD |
| Banco Patagonia S.A. | 230,405,000 | - | between 1.75% y 2.15% | USD |
| Banco Galicia | 190,680,000 | 133,572,154 | 1.95% | USD |
| Banco Provincia | 148,810,819 | 210,979,125 | BADLAR + 2,0% | ARS |
| Banco BBVA Francés | - | 188,594,885 | BADCOR + 2% | ARS |
| Banco Santander Río | - | 180,662,436 | BADCOR + 4% | ARS |
| Banco BBVA Francés | - | 18,985,327 | 15.25% | ARS |
| Banco Santander Río | - | 10,045,722 | 15.25% | ARS |
| Banco Patagonia S.A. | - | 10,016,712 | 15.25% | ARS |
| ICBC | - | 8,955,738 | 15.25% | ARS |

(i) Correspond to bank borrowings taken by Tecpetrol S.A.

*Borrowings from related parties*

| Company | Lender | December 31, 2016 | January 1, 2016 | Interest rate | Contractual currency |
|---|---|---|---|---|---|
| Tecpetrol S.A. | Tecpetrol Internacional S.L.U. | 1,092,446,748 | - | 5.75% | USD |
| Tecpetrol S.A. | Americas Petrogas Argentina S.A. | 55,882,349 | 124,009,370 | 7.50% | USD |
| Tecpetrol S.A. | Tecpetrol Libertador B.V. | 556,149,997 | - | 7.30% | USD |
| Tecpetrol S.A. | Tecpetrol Libertador B.V. | 49,490,393 | - | 5.92% | USD |
| Tecpetrol de Bolivia S.A. | Tecpetrol International S.A. | 1,288,689,265 | 3,946,253,557 | 4.16% | USD |
| Tecpetrol de Bolivia S.A. | Tecpegas S.A. | 4,409,943,852 | - | 4.40% | USD |

**25. Employee benefits programs**

The liability recognized in the Consolidated Statement of Financial Position and the amounts disclosed in the Consolidated Income Statement are as follows:

| | December 31, 2016 | January 1, 2016 |
|---|---|---|
| Pension plan and others (i) | 183,711,520 | 164,596,539 |
| Long-term employee retention and incentive program | 120,328,487 | 90,583,260 |
| **Total liability** | **304,040,007** | **255,179,799** |

(i) There is no claimable debt as of December 31 and January 01, 2016.

| | Decembe31, 2016 |
|---|---|
| Pension plan and others | 38,448,654 |
| Long-term employee retention and incentive program | 9,542,773 |
| **Total included in Labor costs (Note 11)** | **47,991,427** |

Pension plan and others:

The main actuarial assumptions for the benefit programs in force "unfunded defined benefits" and "other long-term benefits" consider a discount rate ranging from 7% to 5% average and a salary increase rate ranging from 2% to 3%, respectively.

The amounts disclosed in the Consolidated Income Statement are as follow:

| | December 31, 2016 |
|---|---|
| Cost of the service | 6,644,082 |
| Interest | 31,804,572 |
| **Total** | **38,448,654** |

**25. Employee benefits programs (Cont'd)**

The evolution of liabilities disclosed in the Consolidated Statement of Financial Position is detailed below:

| | December 31, 2016 |
|---|---|
| At the beginning of the year | 164,596,539 |
| Total expenses | 38,448,654 |
| Actuarial results, net | (19,267,120) |
| Additions for the year | 18,750,452 |
| Exchange differences | (11,938,523) |
| Translation differences | 35,520,131 |
| Payments made | (42,398,613) |
| **At year end** | **183,711,520** |

At December 31, 2016, a 1% increase / (decrease) in the discount rate would have resulted in a (decrease) / increase in liabilities of ($ 8.6) / $ 9.7 million, respectively, while a 1% increase / (decrease) in the salary increase rate would have resulted in an increase / (decrease) of $ 7.0 y ($ 6.3) million, respectively. This sensitivity analysis is based on changes in each assumption at a time, keeping all the other variables constant. Nevertheless, in practice this is unlikely to occur, since changes in some assumptions should be correlated.

**26. Provisions**

| | December 31, 2016 | January 1, 2016 |
|---|---|---|
| Assets retirement obligations | 1,001,907,102 | 589,553,017 |
| Provision for other contingencies | 101,929,996 | 89,694,218 |
| **Total Non-current** | **1,103,837,098** | **679,247,235** |
| | | |
| Assets retirement obligations | 38,076,952 | 40,699,354 |
| Provision for other contingencies | 4,979,847 | 6,110,922 |
| **Total Current** | **43,056,799** | **46,810,276** |

**26. Provisions (Cont'd)**

The evolution of provisions is disclosed below:

| | December 31, 2016 |
|---|---|
| At the beginning of the year | 726,057,511 |
| Exchange and translation differences | 156,668,521 |
| Net additions | 281,677,811 |
| Uses | (17,509,946) |
| At year end | **1,146,893,897** |

At December 31 and January 1, 2016, the provision for well abandonment was estimated using inflation rates between 1.3% and 2.1% and discount rates between 7.9% and 9%.

**27. Trade and other payables**

| | December 31, 2016 | January 1, 2016 |
|---|---|---|
| Tax payables | 825,215 | 1,888,466 |
| **Total Non-current** | **825,215** | **1,888,466** |
| | | |
| Trade payables | 1,032,782,355 | 550,163,367 |
| Payables to related parties (Note 32) | 33,373,362 | 16,648,715 |
| Social security debts and other taxes | 142,371,611 | 125,098,599 |
| Other liabilities | 88,759,696 | 134,889,816 |
| **Total Current** | **1,297,287,024** | **826,800,497** |

**28. Deferred tax**

The evolution of the deferred income tax is as follows:

| | December 31, 2016 |
|---|---|
| At the beginning of the year -Net deferred assets | 45,137,597 |
| Charged directly to other comprehensive income | (6,013,086) |
| Result for the year | 49,073,998 |
| Translation differences | 16,633,342 |
| **At year-end - Net deferred assets** | **104,831,851** |

The evolution of the deferred tax assets and liabilities is detailed below:

| Deferred tax liabilities | Property, plant and equipment | Other | Total |
|---|---|---|---|
| **At January 1, 2016** | **(324,343,268)** | **(80,654,054)** | **(404,997,322)** |
| Direct charge to Other comprehensive income | - | 730,417 | 730,417 |
| Income / (loss) | 2,892,443 | (18,698,312) | (15,805,869) |
| Translation differences | (64,244,618) | (18,806,748) | (83,051,366) |
| **At December 31, 2016** | **(385,695,443)** | **(117,428,697)** | **(503,124,140)** |

| Deferred tax assets | Allowances / Provisions | Tax Losses | Other | Total |
|---|---|---|---|---|
| **At January 1, 2016** | **264,293,116** | **173,781,563** | **12,060,240** | **450,134,919** |
| Direct charge to Other comprehensive income | (6,743,503) | - | - | (6,743,503) |
| Income / (loss) | 32,413,883 | 5,553,217 | 26,912,767 | 64,879,867 |
| Translation differences | 57,138,489 | 37,509,456 | 5,036,763 | 99,684,708 |
| **At December 31, 2016** | **347,101,985** | **216,844,236** | **44,009,770** | **607,955,991** |

**28. Deferred tax (Cont'd)**

The following amounts are disclosed in the Consolidated Statement of Financial Position, after offsetting as described in Note 2.11:

| | December 31, 2016 | January 1, 2016 |
|---|---|---|
| Deferred tax assets | 104,831,851 | 45,137,597 |
| | **104,831,851** | **45,137,597** |

The term for reversal of deferred assets and liabilities is as follows:

| | December 31, 2016 | January 1, 2016 |
|---|---|---|
| Deferred tax assets to be recovered over more than 12 months | 216,844,236 | 173,781,563 |
| Deferred tax liabilities to be settled over more than 12 months | (385,695,443) | (324,343,268) |
| | | |
| Deferred tax assets to be recovered over less than 12 months | 391,111,755 | 276,353,356 |
| Deferred tax liabilities to be settled over less than 12 months | (117,428,697) | (80,654,054) |

**29. Assets and liabilities in currency other than the Argentine peso**

| | Currency | Amount in foreign currency (2) | Exchange rate used (1) | Amount in pesos at 12.31.16 | Currency | Amount in foreign currency (2) | Amount in pesos at 01.01.16 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Other receivables and prepayments | USD | 276,788 | 15.89 | 4,398,161 | USD | 167,906 | 2,189,494 |
| | BOL | 229,522,558 | 2.322 | 532,951,379 | BOL | 208,992,719 | 395,392,699 |
| **Current assets** | | | | | | | |
| Cash and cash equivalents | USD | 8,483,539 | 15.89 | 134,803,432 | USD | 4,746,763 | 61,897,790 |
| Other receivables and prepayments | USD | 13,880,138 | 15.89 | 220,555,390 | USD | 7,601,743 | 99,126,731 |
| Trade receivables | USD | 33,965,197 | 15.89 | 539,706,980 | USD | 19,867,518 | 259,072,441 |
| **Total assets** | | | | **1,432,415,342** | | | **817,679,155** |
| **LIABILITIES** | | | | | | | |
| **Non-current liabilities** | | | | | | | |
| Borrowings | USD | 315,000,025 | 15.89 | 5,005,350,397 | USD | 333,975,175 | 4,355,036,282 |
| Provisions | USD | 63,052,675 | 15.89 | 1,001,907,102 | USD | 40,992,428 | 534,541,260 |
| **Current liabilities** | | | | | | | |
| Borrowings | USD | 213,912,096 | 15.89 | 3,399,063,207 | USD | 23,053,893 | 300,622,765 |
| Trade and other payables | USD | 53,254,130 | 15.89 | 846,208,131 | USD | 39,402,596 | 513,809,850 |
| | BOL | 11,406,385 | 2.322 | 26,485,627 | BOL | 8,402,787 | 15,897,207 |
| Provisions | USD | 2,396,284 | 15.89 | 38,076,952 | USD | 3,121,116 | 40,699,354 |
| **Total liabilities** | | | | **10,317,091,416** | | | **5,760,606,718** |

(1) USD = US dollar. US dollar quotation: exchange rate from Banco de la Nación Argentina in force at December 31, 2016 and 2015. BOL=Bolivian. Bolivian quotation: exchange rate from Bolivia Central Bank in force at December 31, 2016 and 2015.

(2) Information submitted to comply with the provisions of the CNV. Foreign currency is the currency which is different from the Company´s presentation currency.

**30. Contingencies**

Tecpetrol has contingent liabilities in respect of tax legal claims arising in the ordinary course of business. Also, there are certain interpretations of the regulatory authorities as to the calculation and payment of certain taxes that differ from the criteria applied by the Company.

Based on Management's assessment and the advice opinion of the legal counsels, the Company does not anticipate to incur in material expenses derived from the contingent liabilities other than those provided for in these Consolidated Financial Statements.

*Tecpetrol S.A. – Income tax assessment*

The local tax authority, Federal Administration of Public Revenue (AFIP, for its acronym in Spanish), has notified the Company of an assessment amounting to $ 9.6 million corresponding to Income tax, plus interest and fines, claiming a presumably incorrect treatment of results accrued on certain crude oil derivatives and other deductions for fiscal years 2000 and 2001.

In July 2006, an appeal was filed with suspensive effect on the demand for payment. In 2011, the Company was notified of the Tax Court's decision, which ruled in favor of the Company as regards the treatment of oil derivative instruments and against it in connection with certain deductions. As the suspensive effect of the appeal to the Tax Court had expired, in November 2011 the Company paid up the amount corresponding to the items detailed in the ruling (approximately $ 0.4 million of taxes plus interest); notwithstanding this, the Company has filed an appeal with the Federal Court of Appeals with jurisdiction over Administrative Litigation Matters (Cámara Nacional de Apelaciones en lo Contencioso Administrativo Federal). In July 2013, the Court of Appeals passed judgment in favor of Tecpetrol S.A. and the AFIP lodged an appeal against this decision with the Argentine Supreme Court of Justice.

## Tecpetrol Sociedad Anónima

### Special-Purpose Consolidated Financial Statements at December 31, 2016

### Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016 (Cont'd)

**31. Main investment commitments, guarantees and restrictions on the distribution of profits**

(i) Commitments

At December 31, 2016 Tecpetrol S.A. has assumed the following guarantees for investment commitments (Amount disclosed in millions of dollars, according to the interest of each area):

| Company | Area | Commitment | Expiration |
|---|---|---|---|
| Tecpetrol S.A. | Río Colorado | 0.57 | End of the first exploration period |
| Tecpetrol S.A. | Río Atuel | 0.40 | End of the first exploration period |
| Tecpetrol S.A. | Agua Salada | 2.85 | End of works |
| Tecpetrol S.A. | Loma Ancha | 25.72 | December 2019 |

Further, below we mention the main commitments undertaken by Tecpetrol S.A.:

- Joint, unconditional and irrevocable guarantee for providing Tecpetrol de Bolivia S.A. with all the technical and financial resources required for the latter to fully and appropriately comply with its obligations pursuant to the contracts for the exploitation of the Blocks of Aquío and Ipati USD 17 million.

- Guarantee of compliance with work obligations (phase I) from the contracts executed by Tecpetrol Colombia S.A.S. in CPO6, CPO7 and CPO13 areas, in Colombia, for a total amount of USD 0.6 million falling due in July 2017 (phase I), and for an amount of USD 0.2 million falling due between July 2019 and July 2020 (phase II).

- Guarantee for the obligations in connection with environmental remediation liabilities in the areas of Río Colorado and Río Atuel, for USD 0.7 million and USD 0.04 million, respectively, falling due at the end of the first and second exploration periods.

- Guarantee of judicial counter-surety policies in favor of the Commercial Court of Original Jurisdiction in and for the City of Buenos Aires No. 3 in relation to provisional remedies, for USD 1.60 million.

- Guarantee of other policies in favor of the Province of Salta Directorate of Roads, of the Federal Court in and for Río Negro and of the Labor Court in and for Neuquén, for USD 0.4 million.

Further, the Company has investment commitments in the areas where it operates. At December 31, 2016, among the commitments that are pending, there is one in the Fortín de Piedra area (province of Neuquén) for USD 148 million, to be fulfilled before July 2021.

(ii) Restrictions on the distribution of profits

In accordance with the General Companies Law, the Company's by-laws and R.G./CNV No. 622/13, 5% of the net profit for the year plus (less) prior year adjustments must be appropriated to a legal reserve until such reserve equals 20% of the adjusted capital.

**31. Main investment commitments, guarantees and restrictions on the distribution of profits (Cont'd)**

R.G./CNV No. 609/12 sets forth that the difference between the initial balance of retained earnings disclosed in the financial statements of the first year-end closing under IFRS implementation and the final balance of retained earnings at year-end of the last fiscal period under the previous accounting standards in force is allocated to a Special Reserve. This Reserve cannot be released to perform distribution in cash or in kind among the shareholders or owners of the entity; it can only be released for its capitalization or to absorb negative balances from "Retained earnings". The Ordinary Shareholders' Meeting must discuss the setting up of this reserve and the restrictions for its use.

**32. Related party balances and transactions**

Tecpetrol S.A. is controlled by Tecpetrol Internacional S.L.U., which holds 95.98% of the Company's shares.

San Faustin S.A. ("San Faustin"), a *Société Anonyme* based in Luxemburgo, owns the Company through its subsidiaries.

Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, a Dutch private foundation (Stichting) ("R&P STAK") holds voting shares in San Faustin sufficient in number to control it. No person or group of persons controls RP STAK.

*Main transactions with related parties (including discontinued operations):*

| | December 31, 2016 |
|---|---|
| **Sales of goods and services** | |
| Other related companies | 11,798,385 |
| **Purchases of goods and services** | |
| Other related companies | (187,031,410) |
| **Reimbursement of expenses** | |
| Other related companies | 44,345,601 |
| **Interest income** | |
| Other related companies | 1,616,415 |
| **Interest cost** | |
| Tecpetrol Internacional S.L.U. | (56,013,278) |
| Tecpetrol International S.A. | (198,882,808) |
| Other related companies | (27,134,417) |

**Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016 (Cont'd)**

**32. Balances and transactions with related parties (Cont'd)**

*Balances with related parties*

| | December 31, 2016 | January 1, 2016 |
|---|---|---|
| **Short-term deposits in related parties (Note 22)** | 111,179,352 | 57,782,000 |
| **Trade receivables from related parties (Note 20):** | | |
| Non-current - other related companies | 83,612,910 | - |
| Current - other related companies | 272,958 | 75,458,711 |
| **Other receivables from related parties (Note 19 ) (i):** | | |
| Non-current - other related companies | 22,712,626 | 12,727,288 |
| Current - Tecpetrol Internacional S.L.U. | 274,798,393 | 374,243,951 |
| Current - Tecpetrol International S.A. | 11,497,607 | 15,756,049 |
| Current - other related companies | 111,920,017 | 79,434,286 |
| | **398,216,017** | **469,434,286** |
| **Borrowings from related parties (Note 24):** | | |
| Non-current - With other related companies | 5,005,463,793 | 4,004,980,296 |
| Current - Tecpetrol Internacional S.L.U. | 1,092,446,748 | - |
| Current - other related companies | 1,354,692,063 | 65,282,631 |
| | **2,447,138,811** | **65,282,631** |
| **Trade and other payables with related parties (Note 27) (ii):** | | |
| Current - With other related companies | 33,373,362 | 16,648,715 |

(i) It mainly includes balances from reimbursement of expenses.

(ii) It mainly includes balances from purchases of materials.

**32. Balances and transactions with related parties (Cont'd)**

*Remuneration of directors*

The fees of Directors accrued during the period ended at December 31, 2016, amounted to $1.1. million.

**33. Main joint operations**

*Joint operations – Argentina*

*a) Areas operated by Tecpetrol*

| Name | Location | Interest % | | Allocation date | Duration (years) |
|---|---|---|---|---|---|
| | | Dec-2016 | Jan-2016 | | |
| Agua Salada (i) | Río Negro | 70.00 | 70.00 | September 1990 | 35 |
| Atuel Norte (ii) | Mendoza | 50.00 | 50.00 | September 1990 | 25 |
| El Tordillo (iii) | Chubut | 52.13 | 52.13 | June 1991 | 35 |
| Aguaragüe(iv) | Salta | 23.00 | 23.00 | November 1992 | 35 |
| La Tapera-Puesto Quiroga (v) (iii) | Chubut | 52.13 | 52.13 | July 1994 | 35 |
| Río Atuel (vi) | Mendoza | 33.34 | 33.34 | December 2008 | (vi) |
| Loma Ancha (vii) | Neuquén | 95.00 | 95.00 | December 2014 | 25 |
| Lago Argentino (viii) | Santa Cruz | 74.62 | 74.62 | November 2008 | 25 |

(i) In 2014, the concession was extended 10 more years in addition to the original 25 years.

(ii) In 2013, the partners Petrolera el Trébol S.A. and Petrobras Argentina S.A. left the joint venture Atuel Norte. Tecpetrol S.A. assumed 100% of the costs and investments of Petrolera El Trébol S.A. as from May 15, 2014, the effective retirement date of the Company. Consequently, the economic benefit in the joint venture amounts to 66.67% as from that date. The concession term of the exploitation of the area expired on September 5, 2016. Thus, on September 6, 2016, the Deed of Reversion of Atuel Norte Area was signed, by means of which the Province of Mendoza took over the area.

(iii) In 2013, the concession was extended 10 more years in addition to the original 25 years.

(iv) The term is estimated as from November 2001 for "San Antonio Sur" concession and includes the extension of the term obtained in 2012.

(v) This term has been considered as from July 21, 1992, when the area was awarded to Glacco S.A. Tecpetrol S.A. acquired the are in July 1994.

(vi) It will have the necessary duration to enable compliance with the obligations assumed in the contract stating the purpose of the joint venture.

(vii) Tecpetrol S.A. assumes 100% of the costs and investments as a result of an agreement with its partner Gas y Petróleo del Neuquén S.A.

(viii) Tecpetrol S.A. assumes 100% of the costs and investments as a result of an agreement between private actors with Alianza Petrolera S.A. and an UT agreement between Fomento Minero de Santa Cruz S.E. and Alianza Petrolera S.A.

# Tecpetrol Sociedad Anónima

## Special-Purpose Consolidated Financial Statements at December 31, 2016

### Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016 (Cont'd)

**33. Main Joint Operations (Cont'd)**

*Joint operations – Argentina (Cont'd)*

*(b) Areas operated by third parties*

| Name | Location | % Dec. 2016 and Jan. | Allocation date | Duration (years) |
|---|---|---|---|---|
| Ramos (i) | Salta | 25.00 | January 1991 | 35 |

(i) On June 20, 1996, the maturity date of the concession was extended until January 21, 2026. *Joint operations - Other countries*

| Country | % Dec. 2016 | % Jan. 2016 | Area | Operator / Joint Representative | Allocation date | Duration (years) |
|---|---|---|---|---|---|---|
| Bolivia (i) | 20 | 20 | Ipatí and Aquío | Total Exploration & Production Bolivia | May 2007 | Ipati: 31<br>Aquío: 35 |

(i) The operation contracts of the blocks of Ipati and Aquío set forth that private partners will be responsible for executing the oil operation (exploration, evaluation, development, exploitation and retirement) at their own risk, in exchange for receiving a compensation from Yacimientos Petrolíferos Fiscales Bolivianos (YPFB, for its Spanish acronym) based on the production obtained and delivered to YPFB, the latter assuming no risk or responsibility regarding the oil operations or their results. In this context, Tecpetrol de Bolivia will not have any ownership right on the hydrocarbon fields or on the hydrocarbons produced, which will remain under the ownership of YPFB. As from August 2016, the regular commercial production of Incahuasi and Aquío fields began. In September 2016, the start-up of the gas treatment plant was conducted.

*Main joint operations – Assets and liabilities at the Company's percentage of interest*

| Type | Assets | | Liabilities | |
|---|---|---|---|---|
| | Dec-16 | Jan-2016 | Dec-16 | Jan-2016 |
| **ARGENTINA** | | | | |
| Agua Salada | 273,036,281 | 314,908,189 | 205,731,008 | 138,147,573 |
| El Tordillo | 2,011,437,375 | 1,755,712,850 | 740,208,291 | 659,394,410 |
| Atuel Norte | 540,206 | 5,695,155 | 4,311,056 | 8,340,345 |
| Aguaragüe | 242,588,022 | 303,033,822 | 122,205,859 | 89,697,935 |
| Ramos | 116,108,230 | 215,303,583 | 98,823,883 | 71,974,176 |
| La Tapera – Puesto Quiroga | 60,986,788 | 73,628,169 | 14,878,059 | 20,966,534 |
| Río Atuel | 73,716,931 | 143,888,198 | 21,126,290 | 44,552,229 |
| **BOLIVIA** | | | | |
| Aquio | 423,642,646 | 441,312,446 | 12,225,870 | 24,349,892 |
| Ipati | 4,528,548,326 | 3,173,518,668 | 684,665,650 | 112,757,858 |

# Tecpetrol Sociedad Anónima

## Special-Purpose Consolidated Financial Statements at December 31, 2016

### Notes to the Special-Purpose Consolidated Financial Statements at December 31, 2016

### (Cont'd)

**34. Discontinued operations**

Abroad, the Company owned a 20% interest in the Ipati and Aquío Blocks through its subsidiary Tecpetrol de Bolivia S.A., in which it has a non-operator role. On May 23, 2017, the Company sold its interest in Tecpetrol de Bolivia S.A. to its parent company Tecpetrol International S.L.U. for USD 189,345.

The result corresponding to Tecpetrol de Bolivia S.A. classified as *Discontinued operations* in the Consolidated Income Statement at December 31, 2016 are shown below.

| | December 31, 2016 |
|---|---|
| Net sales | 109,409,816 |
| Operating costs | (146,315,531) |
| **Gross loss** | **(36,905,715)** |
| Other operating income | (18,499,846) |
| Financial results, net | (211,033,296) |
| **Loss from discontinued operations for the year** | **(266,438,857)** |

*Cash flows, net*

| | December 31, 2016 |
|---|---|
| Cash used in operating activities | (141,368,954) |
| Cash used in investment activities | (471,509,536) |
| Cash generated by financing activities | 630,272,322 |

# TECPETROL INTERNACIONAL, S.L. (SOLE SHAREHOLDER COMPANY) AND SUBSIDIARIES

Independent auditor's report and Consolidated Annual Accounts for the years ended December 31, 2016 and 2015

Consolidated Board of Directors' Report as of December 31, 2016

*Translation of a document originally issued in Spanish in accordance with Spanish regulations. In the event of a discrepancy, the Spanish-language version prevails.*

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# INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the Sole Shareholder of Tecpetrol Internacional, S.L. (Sole Shareholder Company):

## Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Tecpetrol Internacional, S.L. (Sole Shareholder Company) and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes for the year then ended.

*Directors' Responsibility for the Consolidated Annual Accounts*

The parent company´s directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Tecpetrol Internacional, S.L. (Sole Shareholder Company) and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company´s directors preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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*Opinion*

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Tecpetrol Internacional, S.L. (Sole Shareholder Company) and its subsidiaries as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions of the financial reporting framework applicable in Spain.

## Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' Report for 2016 contains the explanations which the parent company´s directors consider appropriate regarding Tecpetrol Internacional, S.L. (Sole Shareholder Company) and its subsidiaries´ situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the directors' Report is in agreement with that of the consolidated annual accounts for 2016.Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Tecpetrol Internacional, S.L. (Sole Shareholder Company) and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Fernando Chamosa

May 31, 2017

# TECPETROL INTERNACIONAL, S.L. (SOLE SHAREHOLDER COMPANY) AND SUBSIDIARIES

Consolidated Annual Accounts for the years ended December 31, 2016 and 2015

## Contents

## TECPETROL INTERNACIONAL, S.L. (SOLE SHAREHOLDER COMPANY) AND SUBSIDIARIES

Consolidated Annual Accounts for the years ended December 31, 2016 and 2015
(All amounts in Euros, unless otherwise stated)

### Consolidated Statement of Financial Position

| | Note | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment. Exploration, evaluation and development assets | 13 | 912,397,788 | 828,242,402 |
| Intangible assets | 14 | 112,891,275 | 154,470,782 |
| Investments in entities accounted for using the equity method | 15 | 211,232,996 | 198,088,634 |
| Available-for-sale financial assets | 17 | 2,053,231 | 1,920,367 |
| Deferred tax assets | 27 | 17,195,221 | 15,723,037 |
| Other receivables and prepayments | 19 | 99,592,264 | 49,061,514 |
| Income tax credit | | 8,710,913 | 1,622,368 |
| Trade receivables | 20 | 55,808,765 | - |
| **Total non-current assets** | | **1,419,882,453** | **1,249,129,104** |
| **Current assets** | | | |
| Inventories | 18 | 34,603,211 | 34,363,081 |
| Other receivables and prepayments | 19 | 45,103,080 | 45,961,302 |
| Income tax credit | | 2,323,373 | 15,434,919 |
| Trade receivables | 20 | 148,008,074 | 120,675,234 |
| Cash and cash equivalents | 21 | 106,033,044 | 72,918,059 |
| **Total current assets** | | **336,070,782** | **289,352,595** |
| Assets of disposal group classified as held for sale | 34 | **-** | **26,057,895** |
| **Total assets** | | **1,755,953,235** | **1,564,539,594** |
| **EQUITY** | | | |
| **Capital and reserves attributable to owners of the parent** | | | |
| Share capital | 2.9 | 12,770,000 | 12,770,000 |
| Share premium | 2.9 | 187,081,840 | 233,831,372 |
| Other shareholders contributions | 2.9 | 1,029,270 | - |
| Legal reserve | 2.9 | 2,554,000 | 2,554,000 |
| Currency translation differences and revaluation reserve | | (66,387,967) | (86,821,889) |
| Retained earnings, voluntary and other reserves | | 502,198,862 | 415,727,115 |
| **Total equity attributable to owners of the parent** | | **639,246,005** | **578,060,598** |
| Non-controlling interests | | 47,016,061 | 33,657,346 |
| **Total equity** | | **686,262,066** | **611,717,944** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 23 | 556,094,018 | 462,178,316 |
| Deferred tax liabilities | 27 | 47,052,010 | 47,899,015 |
| Employee benefits | 24 | 19,963,685 | 18,922,408 |
| Provisions | 25 | 72,568,591 | 56,679,700 |
| Trade and other payables | 26 | 49,267 | 159,015 |
| **Total non-current liabilities** | | **695,727,571** | **585,838,454** |
| **Current liabilities** | | | |
| Borrowings | 23 | 205,195,140 | 205,375,923 |
| Provisions | 25 | 297,308 | 430,450 |
| Income tax liabilities | | 12,973,503 | 4,240,889 |
| Trade and other payables | 26 | 155,497,647 | 145,071,478 |
| **Total current liabilities** | | **373,963,598** | **355,118,740** |
| Liabilities of disposal group classified as held for sale | 34 | **-** | **11,864,456** |
| **Total liabilities** | | **1,069,691,169** | **952,821,650** |
| **Total equity and liabilities** | | **1,755,953,235** | **1,564,539,594** |

The accompanying notes 1 to 37 are an integral part of these consolidated annual accounts.

## TECPETROL INTERNACIONAL, S.L. (SOLE SHAREHOLDER COMPANY) AND SUBSIDIARIES

Consolidated Annual Accounts for the years ended December 31, 2016 and 2015

(All amounts in Euros, unless otherwise stated)

**Consolidated Income Statement**

| | Note | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| **Continuing operations** | | | |
| Net sales | | 599,544,392 | 663,196,663 |
| Operating costs | 6 | (426,627,572) | (519,079,749) |
| **Gross profit** | | **172,916,820** | **144,116,914** |
| Selling expenses | 7 | (9,667,655) | (31,074,401) |
| Administrative expenses | 8 | (47,814,797) | (58,486,592) |
| Exploration costs | | (2,836,809) | (11,469,957) |
| Other operating income | 10 | 1,115,155 | 6,277,773 |
| Other operating expenses | 10 | (8,824,092) | (10,086,515) |
| **Operating income** | | **104,888,622** | **39,277,222** |
| Interest income | | 5,123,247 | 2,675,927 |
| Interest expense | | (36,626,897) | (48,573,422) |
| Other financial results, net | 11 | (1,502,977) | 41,819,441 |
| **Income before equity in earnings of investments accounted for using the equity method and income tax** | | **71,881,995** | **35,199,168** |
| Equity in earnings of investments accounted for using the equity method | 15 | 12,178,607 | 32,758,134 |
| **Income before tax** | | **84,060,602** | **67,957,302** |
| Income tax | 12 | (33,550,321) | (28,761,100) |
| **Income for the year from continuing operations** | | **50,510,281** | **39,196,202** |
| **Discontinued operations** | | | |
| Result for the year from discontinued operations | 34 | - | (46,928,504) |
| **Result for the year** | | **50,510,281** | **(7,732,302)** |
| | | | |
| **Attributable to:** | | | |
| Owners of the parent | | 39,722,215 | (10,234,387) |
| Non-controlling interests | | 10,788,066 | 2,502,085 |

The accompanying notes 1 to 37 are an integral part of these consolidated annual accounts.

## TECPETROL INTERNACIONAL, S.L. (SOLE SHAREHOLDER COMPANY) AND SUBSIDIARIES

Consolidated Annual Accounts for the years ended December 31, 2016 and 2015

(All amounts in Euros, unless otherwise stated)

**Consolidated Statement of Comprehensive Income**

| | Note | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| **Result for the year** | | 50,510,281 | (7,732,302) |
| **Other comprehensive results:** | | | |
| *Items that will not be subsequently reclassified to profit or loss:* | | | |
| **Continuing operations** | | | |
| Remeasurements of post employment benefit obligations | | 1,134,177 | 464,013 |
| Income tax related to components of other comprehensive income | **27** | (396,661) | (122,252) |
| Share of comprehensive income from investments accounted for using the equity method | | 95 | (4,823) |
| | | 737,611 | 336,938 |
| *Items that may be subsequently reclassified to profit or loss:* | | | |
| **Continuing operations** | | | |
| Currency translation differences | | 17,157,515 | 33,412,674 |
| Changes/disposals of fair value of available-for-sale financial assets | **17** | 66,576 | (20,894,415) |
| Income tax related to components of other comprehensive income | **27** | 16,726 | (469,610) |
| Share of other comprehensive income of investments accounted for using the equity method | | 4,157,610 | 13,335,600 |
| **Discontinued operations** | | | |
| Currency translation differences | | - | (15,889,307) |
| | | 21,398,427 | 9,494,942 |
| **Other comprehensive results, net of income tax** | | **22,136,038** | **9,831,880** |
| **Total comprehensive income for the year** | | **72,646,319** | **2,099,578** |
| | | | |
| **Attributable to:** | | | |
| Owners of the parent | | 60,156,137 | (3,047,002) |
| Non-controlling interests | | 12,490,182 | 5,146,580 |
| **Total comprehensive income for the year** | | **72,646,319** | **2,099,578** |
| | | | |
| **Total comprehensive income attributable to owners of the parent arises from:** | | | |
| Continuing operations | | 60,156,137 | 43,598,797 |
| Discontinued operations | | - | (46,645,799) |
| | | **60,156,137** | **(3,047,002)** |

The accompanying notes 1 to 37 are an integral part of these consolidated annual accounts.

**TECPETROL INTERNACIONAL, S.L. (SOLE SHAREHOLDER COMPANY) AND SUBSIDIARIES**
Consolidated Annual Accounts for the years ended December 31, 2016 and 2015
(All amounts in Euros, unless otherwise stated)

**Consolidated Statement of Changes in Equity**

| | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Other shareholders contributions** | **Legal reserve** | **Voluntary reserve** | **Currency translation differences** | **Revaluation reserve** | **Other reserves** | **Retained earnings** | **Non controlling interests** | **Total equity** |
| **Balance at December 31, 2014** | **12,770,000** | **233,831,372** | **-** | **2,554,000** | **76,875,691** | **(113,872,530)** | **19,863,256** | **2,563,196** | **207,397,305** | **23,276,310** | **465,258,600** |
| **Comprehensive income** | | | | | | | | | | | |
| Result for the year | - | - | - | - | - | - | - | - | (10,234,387) | 2,502,085 | (7,732,302) |
| **Other comprehensive results** | | | | | | | | | | | |
| Currency translation differences | - | - | - | - | - | 14,918,548 | - | - | - | 2,604,819 | 17,523,367 |
| Fair value of available-for-sale financial assets (Note 17) | - | - | - | - | - | - | (20,941,670) | - | - | 47,255 | (20,894,415) |
| Remeasurements of post employment benefit obligations | - | - | - | - | - | - | 447,799 | - | - | 16,214 | 464,013 |
| Income tax related to items in other comprehensive income | - | - | - | - | - | - | (568,069) | - | - | (23,793) | (591,862) |
| Share of other comprehensive income of investments accounted for using the equity method | - | - | - | - | - | 13,335,600 | (4,823) | - | - | - | 13,330,777 |
| **Total other comprehensive results** | **-** | **-** | **-** | **-** | **-** | **28,254,148** | **(21,066,763)** | **-** | **-** | **2,644,495** | **9,831,880** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **-** | **28,254,148** | **(21,066,763)** | **-** | **(10,234,387)** | **5,146,580** | **2,099,578** |
| **Other changes in equity** | | | | | | | | | | | |
| Effect of loss of control over subsidiary (Note 17) | - | - | - | - | - | - | - | - | 139,125,310 | 1,591,440 | 140,716,750 |
| **Total other changes in equity** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **139,125,310** | **1,591,440** | **140,716,750** |
| **Transactions with owners** | | | | | | | | | | | |
| Increase of non-controlling interests | - | - | - | - | - | - | - | - | - | 3,643,016 | 3,643,016 |
| Distribution of profits | - | - | - | - | 50,442,042 | - | - | - | (50,442,042) | - | - |
| **Total transactions with owners** | **-** | **-** | **-** | **-** | **50,442,042** | **-** | **-** | **-** | **(50,442,042)** | **3,643,016** | **3,643,016** |
| **Balance at December 31, 2015** | **12,770,000** | **233,831,372** | **-** | **2,554,000** | **127,317,733** | **(85,618,382)** | **(1,203,507)** | **2,563,196** | **285,846,186** | **33,657,346** | **611,717,944** |
| **Comprehensive income** | | | | | | | | | | | |
| Result for the year | - | - | - | - | - | - | - | - | 39,722,215 | 10,788,066 | 50,510,281 |
| **Other comprehensive results** | | | | | | | | | | | |
| Currency translation differences | - | - | - | - | - | 15,476,791 | - | - | - | 1,680,724 | 17,157,515 |
| Fair value of available-for-sale financial assets (Note 17) | - | - | - | - | - | - | 69,680 | - | - | (3,104) | 66,576 |
| Remeasurements of post employment benefit obligations | - | - | - | - | - | - | 1,094,408 | - | - | 39,769 | 1,134,177 |
| Income tax related to items in other comprehensive income | - | - | - | - | - | - | (364,662) | - | - | (15,273) | (379,935) |
| Share of other comprehensive income of investments accounted for using the equity method | - | - | - | - | - | 4,157,610 | 95 | - | - | - | 4,157,705 |
| **Total other comprehensive results** | **-** | **-** | **-** | **-** | **-** | **19,634,401** | **799,521** | **-** | **-** | **1,702,116** | **22,136,038** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **-** | **19,634,401** | **799,521** | **-** | **39,722,215** | **12,490,182** | **72,646,319** |
| **Transactions with owners** | | | | | | | | | | | |
| Increase of non-controlling interests | - | - | - | - | - | - | - | - | - | 868,533 | 868,533 |
| Other shareholders contributions (Note 2.9) | - | - | 1,029,270 | - | - | - | - | - | - | - | 1,029,270 |
| Distribution of results (Note 22) | - | (46,749,532) | - | - | (127,317,733) | - | - | - | 174,067,265 | - | - |
| **Total transactions with owners** | **-** | **(46,749,532)** | **1,029,270** | **-** | **(127,317,733)** | **-** | **-** | **-** | **174,067,265** | **868,533** | **1,897,803** |
| **Balance at December 31, 2016** | **12,770,000** | **187,081,840** | **1,029,270** | **2,554,000** | **-** | **(65,983,981)** | **(403,986)** | **2,563,196** | **499,635,666** | **47,016,061** | **686,262,066** |

The accompanying notes 1 to 37 are an integral part of these consolidated annual accounts.

## TECPETROL INTERNACIONAL, S.L. (SOLE SHAREHOLDER COMPANY) AND SUBSIDIARIES
Consolidated Annual Accounts for the years ended December 31, 2016 and 2015
(All amounts in Euros, unless otherwise stated)

### Consolidated Cash Flow Statement

| | Note | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Result for the year | | 50,510,281 | (7,732,302) |
| Adjustments for (*): | | | |
| Depreciation of property, plant and equipment | 13 | 90,155,725 | 92,931,961 |
| Impairment of property, plant and equipment | | 934,081 | 42,018,083 |
| Amortization of intangible assets | 14 | 54,672,812 | 71,378,223 |
| Impairment of available-for-sale financial assets | 17 | - | 1,110,838 |
| Exploration costs | | 2,836,809 | 19,053,350 |
| Income tax | 12 | 33,550,321 | 28,761,100 |
| Accrued interest not paid | | 3,692,540 | 5,752,458 |
| Provisions | | 6,213,690 | 17,108,140 |
| Equity in earnings of investments accounted for using the equity method | 15 | (12,178,607) | (32,758,134) |
| **Changes in operating assets and liabilities** | | | |
| Trade receivables, other receivables and prepayments | | (80,439,708) | (49,861,904) |
| Inventories | | (240,130) | (7,335,139) |
| Trade and other payables | | 9,276,316 | (61,603,248) |
| Others – including currency translation differences | | 14,656,612 | 13,519,587 |
| Income tax payments | | (26,182,345) | (51,546,877) |
| **Net cash provided by operating activities** | | **147,458,397** | **80,796,136** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Increase in property, plant and equipment | | (139,818,190) | (188,961,255) |
| Increase in intangible assets | 14 | (9,971,819) | (45,166,079) |
| Reimbursements from (Cash used in) the acquisition of Americas Petrogas Argentina S.A. | 33 | 2,023,988 | (49,166,640) |
| Net sales income from discontinued operations | | 10,398,759 | - |
| Contributions in associated companies | 15 | (11,406,558) | (27,086,961) |
| Loans to associated companies | | (52,356,114) | (5,989,670) |
| Dividends received | | 15,912,380 | 27,904,345 |
| **Net cash used in investing activities** | | **(185,217,554)** | **(288,466,260)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | 642,179,322 | 422,085,099 |
| Repayment of borrowings | | (547,523,673) | (397,908,022) |
| Increase in non-controlling interests | | 868,533 | 3,643,016 |
| **Net cash provided by financing activities** | | **95,524,182** | **27,820,093** |
| **Net increase (decrease) in cash and cash equivalents** | | **57,765,025** | **(179,850,031)** |
| **Changes in cash and cash equivalents** | | | |
| Cash and cash equivalents less bank overdrafts at the beginning of the year | | 44,276,497 | 203,044,718 |
| Deconsolidation of subsidiary | | - | (1,157,750) |
| Currency translation differences | | 3,841,508 | 22,239,560 |
| Net increase (decrease) in cash and cash equivalents | | 57,765,025 | (179,850,031) |
| **Cash and cash equivalents less bank overdrafts at year end** | | **105,883,030** | **44,276,497** |

| | | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| Cash and cash equivalents | 21 | 106,033,044 | 72,918,059 |
| Bank overdrafts | 23 | (150,014) | (28,641,562) |
| | | **105,883,030** | **44,276,497** |

(**)The difference between interest expense and paid is not significant.

The accompanying notes 1 to 37 are an integral part of these consolidated annual accounts.

(All amounts in Euros, unless otherwise stated)

### Notes to the Consolidated annual accounts

## 1. General information

Tecpetrol Internacional, S.L.U. (the "Company") and its subsidiaries are principally dedicated to the exploration, development, production, transportation and sale of hydrocarbons in several countries in Latin America. The references in these Consolidated Annual Accounts to "Tecpetrol" refer to Tecpetrol Internacional S.L.U. and its subsidiaries.

Tecpetrol Internacional S.L.U. is incorporated and domiciled in Spain, with offices at Calle Garcia de Paredes 94, 1°A, 28010, Madrid, Spain. It is registered in the Madrid Companies Register on page M-362494, folio 31, section 8 of Companies Volume 20,485.

The principles applied in the preparation of the Company's consolidated annual accounts, are disclosed in Notes 2.1 and 2.2.

The Company is controlled by Tecpetrol International S.A. which owns 100% of the Company's shares (see Note 31).

## 2. Summary of significant accounting policies

The main accounting policies applied in the preparation of these Consolidated Annual Accounts are set out below. These policies have been consistently applied to all the years presented.

### 2.1. Basis of preparation

The Company's consolidated annual accounts as of December 31, 2016, have been prepared in accordance with International Financial Reporting Standards adopted by the European Union and approved by European Commission Regulations (EU-IFRS).

These consolidated annual accounts were drawn up by the Board of Directors on March 31, 2017. The Directors will submit these consolidated annual accounts to the Sole Shareholder for approval, who is expected to approve them with no changes. The consolidated annual accounts at December 31, 2015 were approved by the Sole Shareholder on June 30, 2016, without changes regarding the ones previously drawn up by the Board of Directors.

The consolidated annual accounts have been prepared under the historical cost convention modified, as required by the EU-IFRS, by the valuation of financial assets and liabilities at fair value, inventories and employee benefits.

Certain comparative amounts have been reclassified to conform to changes in presentation in the current year.

(All amounts in Euros, unless otherwise stated)

**2.1. Basis for preparation (cont.)**

The preparation of the consolidated annual accounts according to EU-IFRS requires management to make certain accounting estimates and to use its judgment regarding the application of Tecpetrol's accounting policies. Note 5 discloses those areas which involve a higher degree of judgment or complexity, or those where the hypothesis and estimates are relevant to the consolidated annual accounts.

**2.2. Consolidation**

(a) Subsidiaries

Subsidiaries are all entities over which Tecpetrol has control, either directly or indirectly. Tecpetrol controls an entity when is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is exercised by the Company and are no longer consolidated from the date that control ceases.

Tecpetrol applies the acquisition method to account business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at fair value at the acquisition date. Any non-controlling interest in the acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the cost of acquisition and the amount of any non-controlling interest in the acquiree, over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the Consolidated Income Statement.

Inter-company transactions, balances and unrealized gains (losses) on transactions between subsidiaries are eliminated for consolidation purposes. As the functional currency of some subsidiaries is its respective local currency, some financial gains (losses) arising from inter-company transactions are generated. These are included in the Consolidated Income Statement under Other financial results.

When Tecpetrol ceases to have control, any retained interest in the investment is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in the Consolidated Income Statement. Furthermore, any amount previously recognized in the Consolidated Statement of Other Comprehensive Income in respect of that entity is reclassified to the Consolidated Income Statement.

(All amounts in Euros, unless otherwise stated)

**2.2. Consolidation (cont.)**

(a) Subsidiaries (cont.)

The accounting policies of the subsidiaries have been modified where necessary to ensure consistency with the accounting policies adopted by Tecpetrol.

(b) Associated companies

Associates are all entities over which Tecpetrol has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are initially recognized at cost and subsequently valued according to the equity method.

Investments in associated companies are recognized as “Investments accounted for using the equity method” in the Consolidated Statement of Financial Position. Tecpetrol’s share of earnings and other comprehensive income is recognized as “Equity in earnings of investments accounted for using the equity method” and “Share of other comprehensive income of investments accounted for using the equity method” in the Consolidated Income Statement and in the Consolidated Statement of Comprehensive Income, respectively.

Unrealized results on transactions between Tecpetrol and its associated companies are eliminated to the extent of Tecpetrol’s interest in such arrangements.

The accounting policies of the associated companies have been modified when necessary, to ensure consistency with the accounting policies adopted by Tecpetrol. Additionally Tecpetrol includes, where significant, the subsequent operations when financial statements at different reporting dates are used to calculate the equity method of accounting.

Investments in associated companies, each one of which is considered a Cash Generating Unit (“CGU”), are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and if appropriate, an impairment loss is recorded.

(All amounts in Euros, unless otherwise stated)

**2.2. Consolidation (cont.)**

(c) Interests in joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activities require the unanimous consent of the parties involved.

Investments whereby two or more parties have joint control are classified as “joint operations” when the parties have contractual rights over assets and obligations over liabilities of the joint arrangement. Joint operations are accounted for using Tecpetrol’s proportionate consolidation.

Furthermore, investments whereby two or more parties have joint control are classified as “joint venture” when the parties have contractual rights over the net assets of the joint arrangement and are accounted for using the equity method, as described in b) Associated companies.

Investments classified as joint ventures are recognized as Investment accounted for using the equity method in the Consolidated Statement of Financial Position.

Unrealized results on transactions between Tecpetrol and its joint arrangements are eliminated to the extent of Tecpetrol’s interest in such arrangements.

Accounting policies of joint operations and joint ventures have been modified where necessary to ensure consistency with the policies adopted by the Company.

Joint arrangements are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and if appropriate, an impairment loss is recorded.

**2.3. Foreign currency translation**

(a) Functional and presentation currency

Items included in the annual accounts of the Company and each of its consolidated subsidiaries are measured using the currency of the primary economic environment in which the entity operates (functional currency). The functional currency of the Company is the United States dollar (US$). The consolidated annual accounts are presented in Euros (€), according to the Spanish legislation. The conversion of the functional currency to its presentation currency is carried out according to the procedures described in (c) below.

(All amounts in Euros, unless otherwise stated)

**2.3. Foreign currency translation (cont.)**

(a) Functional and presentation currency (cont.)

The functional currency of the main subsidiaries is the US$, as this is the currency which best reflects the economic substance of Tecpetrol's operations. Both sales and prices of the main drilling costs are denominated and settled in US$ or considering the exposure to currency fluctuations against the US$.

(b) Transactions in currency other than the functional currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the Consolidated Income Statement, except when deferred in the Consolidated Statement of Comprehensive Income as cash flow hedges. Translation differences on non-monetary balances, such as equity instruments held at fair value through profit or loss, are recognized in the Consolidated Income Statement as a part of the fair value gain or loss.

Translation differences on non-monetary financial assets and liabilities, such as investments classified as available-for-sale financial assets are included in the Consolidated Statement of Comprehensive Income. The share capital account is translated at the exchange rate in effect at the date of each capital contribution. The legal reserve is translated at the exchange rate applicable at the date in which it is provided by shareholders.

(c) Translation of financial statements

All Tecpetrol's subsidiaries whose functional currency is different to the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate at each reporting date; income and expenses are translated at the average rate of the period;
(ii) resulting translation differences are recognized in the Consolidated Statement of Comprehensive Income as currency translation differences. When a subsidiary is disposed of or sold, the accumulated currency translation difference is recognized as profit or loss at the date of disposal or sale.

**2.4. Property, plant and equipment. Exploration, evaluation and development assets**

Exploration and exploitation rights and costs related to the acquisition of rights and concessions of proved reserves are capitalized.

(All amounts in Euros, unless otherwise stated)

**2.4. Property, plant and equipment. Exploration, evaluation and development assets (cont.)**

Acquisition costs related to rights and concessions of probable and possible reserves are initially capitalized. Subsequently, if exploratory results are determined to be unsuccessful on completion and evaluation, these costs are charged to expense in the period in which this is confirmed definitively by studies, technical reports or additional drillings carried out.

Exploration and evaluation costs are initially capitalized and are accumulated on a field-by-field basis. In the case of exploratory fields, exploration and evaluation costs include geological studies and other related costs directly attributable to this activity. Subsequently, if results are determined to be unsuccessful on field commercial evaluation, these costs are charged to expense in the period in which this is confirmed definitively by studies and technical reports.

Costs related to drilling exploratory wells are initially capitalized until it is determined whether proved reserves that justify their commercial development are found. During this period, and subject to the existence of production associated to exploratory wells, capitalized costs are decreased by the net result of the sale of that production. If such proved reserves are not found, drilling costs are charged to expense in the period in which this determination is definitively confirmed. Occasionally, an exploratory well may determine the existence of reserves, but they cannot be classified as proved when the drilling is complete. In this case, these costs remain capitalized to the extent that the well had found a sufficient quantity of reserves in order to justify its completion as a productive well and if Tecpetrol is making sufficient progress in assessing the economic and operational viability of the project.

No depreciation is charged during the exploration and evaluation phases.

Field development costs are capitalized as Property, plant and equipment. These costs include the acquisition and installation of production facilities, development drilling costs and project-related engineering.

Wells drilled in producing fields for the purpose of developing proved reserves are considered development wells. Wells which are neither development wells nor service wells are considered exploratory wells.

Workovers used to develop reserves and/or increase production are capitalized and depreciated on the basis of their estimated average useful life. Maintenance costs are charged to expense when incurred.

Asset retirement obligations costs are calculated as explained in Note 2.14.

Tecpetrol periodically re-evaluates the remaining useful lives of its assets, their residual value and the depreciation method and adjusts them, if necessary.

Depreciation of wells, machinery, equipment and installations is calculated using the depletion method over total proved developed reserves of each field as from the month production starts.

(All amounts in Euros, unless otherwise stated)

**2.4. Property, plant and equipment. Exploration, evaluation and development assets (cont.)**

Depreciation of exploration and exploitation rights and of the cost of the acquisition of rights and concessions related to proved reserves is calculated using the depletion method over total proved reserves of each field.

Depreciation of the remaining Property, plant and equipment is calculated using the straight line method by applying such annual rates as required to write-off their value at the end of their estimated useful lives, as follows:

| | | |
|---|---|---|
| – | Vehicles | up to 5 years |
| – | Furniture and office equipment | up to 5 years |

Gains and losses from disposals are determined by comparing the proceeds received with the carrying amount of the asset and are recognized within "*Other operating income/expenses"* in the Consolidated Income Statement.

Productive and development fields assets and assets related to probable and possible reserves are reviewed for impairment whenever events or changes in circumstances indicates that the carrying amount may not be recoverable. Impairment losses are recognized when the carrying amount of the assets is higher than their recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

The value in use is determined on the basis of the present value of net future cash flows expected to arise from the remaining commercial reserves.

Assets which have suffered impairment losses in previous periods are reviewed at each reporting date in order to assess if the conditions which gave rise to the impairment loss have changed and, if appropriate, the previous recognized impairment loss is reverted.

**2.5. Intangible assets**

*Goodwill*

Goodwill has an indefinite useful life and is subject to an impairment test on an annual basis. For the purposes of the impairment test, goodwill is allocated to those CGUs expected to benefit from the business combination and which represent the lowest level at which goodwill is monitored for internal management purposes. Any impairment loss is allocated first to reduce the carrying amount of goodwill and then to the other non-financial assets of the CGU. Impairment losses on goodwill may not be reverted in subsequent periods.

(All amounts in Euros, unless otherwise stated)

**2.5. Intangible assets (cont.)**

*Investments in specific services contracts*

Tecpetrol recognizes as an intangible asset the contractual right originated in the contract to provide specific services in order to carry out activities aimed at optimizing production and improving recovery and exploration of Libertador and Atacapi fields, when it is likely that it will generate future economic benefits and these can be reliably measured. These assets are valued at cost less accumulated amortization and impairment losses, if appropriate.

The amortization of these assets is calculated using the depletion method over total estimated incremental oil generated by the contract activities in these fields, from the month of delivery of the provided services.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and if appropriate, an impairment loss is recognized.

**2.6. Inventories**

Hydrocarbon stocks are valued at their net realizable value at the end of each reporting period.

Supplies and spare parts are valued at cost, using the weighted average cost formula. The recoverable amount is calculated at each reporting date and an allowance is recognized in the Consolidated Income Statement, if necessary.

**2.7. Trade, other receivables and prepayments**

Trade, prepayments and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowances for doubtful accounts, if necessary. An allowance for doubtful accounts of receivables is established when there is objective evidence that Tecpetrol will not be able to collect the amounts within the stipulated deadlines. Indicators that trade and other receivables may be impaired include debtors experiencing significant financial difficulties, the probability that the debtor will enter in bankruptcy or will be subject to insolvency proceedings, and default or significant delays in payments.

Furthermore, this allowance is adjusted periodically based on the aging of the receivables. The asset's carrying amount is shown net of allowances, where applicable. The allowance expense is recognized in the Consolidated Income Statement under "*Selling expenses*".

(All amounts in Euros, unless otherwise stated)

**2.8. Cash and cash equivalents**

Cash and cash equivalents are carried at fair value or at historical cost, which approximates its fair value. For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents includes cash in hand, bank deposits, short-term highly liquid investments with original maturities of less than three months which are readily convertible to known amounts of cash and bank overdrafts.

In the Consolidated Statement of Financial Position, bank overdrafts are shown within *Borrowings* in current liabilities.

**2.9. Equity**

(1) Equity components

The Consolidated Statement of Changes in Equity includes share capital, share premium, other shareholders contributions, legal reserve, voluntary reserve, currency translation differences, revaluation and other reserves, retained earnings and non-controlling interests calculated according to EU-IFRS.

(2) Share capital, share premium and other capital contributions

At December 31, 2016 and 2015, the number of shares issued is 1,277,000,000 with a nominal value of 0.01 Euros per share. All shares issued are fully paid.

On June 30, 2016, the sole shareholder established the distribution of results for the year ended on December 31, 2015, according to the information included in Note 22. Consequently, as of December 31, 2016, the share premium amounts to 187,081,840 Euros.

On August 1, 2016, the sole shareholder made a contribution in kind to the Company’s equity by providing a credit amounting to 1,029,270 Euros, subscribed between the sole shareholder and the subsidiary Suizum-Servicios de Consultoria, S.L. This contribution was recognized under *Other shareholders contributions* in the Consolidated Statement of Changes in Equity.

The composition is as follows:

| | **Number of shares** | **Share capital** | **Share premium** | **Other capital contributions** | **Total** |
|---|---|---|---|---|---|
| Balance at December 31, 2015 | 1,277,000,000 | 12,770,000 | 233,831,372 | - | **246,601,372** |
| Balance at December 31, 2016 | 1,277,000,000 | 12,770,000 | 187,081,840 | 1,029,270 | **200,881,110** |

Following the Royal Legislative Decree 1/2010 of June 2nd, which approved the Companies Act, the Company was registered within the Companies Register as a sole shareholder company.

The Company is controlled by Tecpetrol International S.A., which owns 100% of the shares.

(All amounts in Euros, unless otherwise stated)

**2.9. Equity (cont.)**

(3) Legal reserve

The legal reserve, which amounts 2,554,000 Euros at December 31, 2016 and 2015, was endowed according to Article 274 of the Companies Act. Spanish legislation estipulate that, in all cases, a sum equal to 10% of net income shall be allocated to the legal reserve until it reaches at least 20% of the share capital. At December 31, 2016 and 2015, the legal reserve has already reached that amount.

Legal reserve may not be distributed, and if it is used to compensate losses when there are no other reserves available or sufficient for this purpose, it must be restored with future profits.

(4) Dividends distributed by the Company to its shareholders

Dividends distributed to the Company's sole shareholder are based on its separate annual accounts, rather than on its consolidated annual accounts**.** Distributions of dividends to the sole shareholder are recognized as a liability in the consolidated annual accounts in the period in which those dividends are approved by the Company's sole shareholder.

(5) Revaluation reserve

The revaluation reserve includes the effect of the changes in the fair value of available-for-sale financial assets, the effect of derivatives held as hedge instruments, remeasurements of post employment benefit obligations and income tax related to components of other comprehensive income**.**

**2.10. Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequently, they are valued at amortized cost, using the effective interest method.

Borrowings are classified as current liabilities unless Tecpetrol has the unconditional right to defer the settlement of the liability for at least 12 months following the reporting date.

**2.11. Income tax**

The income tax expense for the year comprises current and deferred tax. Tax is recognized in the Consolidated Income Statement, except for those cases where it is related to items recognized in the Consolidated Statement of Comprehensive Income, in which case, tax is also recognized in the Consolidated Statement of Comprehensive Income.

(All amounts in Euros, unless otherwise stated)

**2.11. Income tax (cont.)**

Current income tax charge is calculated according to tax laws enacted in the countries where the Company and its subsidiaries operate and generate taxable income. Tecpetrol periodically evaluates their tax returns with relation to those situations where tax legislation is subject to interpretation and, accordingly, establishes provisions where considered appropriate.

Deferred income tax is recognized applying the liability method on temporary differences arising between the tax base of assets and liabilities, and their carrying amounts. The main temporary differences arise from the depreciation of property, plant and equipment, net operating losses carry-forward and valuation of inventories and provisions. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the related tax asset is realized or the tax liability is settled, based on tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets on tax loss carry-forwards are also recognized to the extent that it is probable that future taxable income will be available. Tecpetrol reassess unrecognized deferred tax assets at each reporting date and recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset at the level of each legal entity, when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when deferred income tax is levied by the same fiscal authorities.

**2.12. Employee benefits**

(a) Retirement benefit programs and others

Some subsidiaries have benefit programs such as “unfunded defined benefits” and “other long-term benefits” that, under certain established conditions, are granted after retirement and over an employee’s working life, and are recorded according to current accounting standards. The liability provision for such benefits is recorded at the present value of the defined benefit obligation at the reporting date, which is calculated at least once a year by independent actuaries using the “projected unit credit” method.

For unfunded defined benefits, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in the Consolidated Statement of Comprehensive Income in the year in which they arise. Past-service costs are recognized immediately in the Consolidated Income Statement. Actuarial gains and losses related to other long-term benefits are recognized immediately in the Consolidated Income Statement.

(All amounts in Euros, unless otherwise stated)

**2.12. Employee benefits (cont.)**

(b) Employee retention and long-term incentive program

Tecpetrol International S.A. (sole shareholder) has an employee retention and long-term incentive program for certain senior executives in some subsidiaries. According to this program, the beneficiaries will be granted with a number of units valued based on the equity book value per share of Tecpetrol International S.A. (excluding non-controlling interests). The units will be vested over a period of four years and the corresponding subsidiaries will redeem them after a period of ten years from the grant day, with the option for the employee to request the payment as from the seventh year onwards, or when the employee ceases employment from the subsidiary responsible for making the payment, at the equity book value per share attributable to Tecpetrol International S.A. shareholders at the date of payment. The beneficiaries of this program will also receive cash payments equivalent to the dividend paid per share, each time Tecpetrol International S.A. pays a cash dividend to its shareholders. The total value of the units granted to date under the program, considering both the number of units and the equity book value per share of Tecpetrol International S.A. amounts to 7.3 million Euros and 7.4 million Euros at December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, Tecpetrol has recorded a liability of 7.3 million Euros and 6.4 million Euros and an expense charge of 1.4 million Euros and 0.4 million Euros, based on actuarial calculations provided by independent advisors (see Note 24).

**2.13. Trade and other payables**

Trade and other payables (except for those mentioned in Note 2.15) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Trade and other payables are classified as current liabilities unless Tecpetrol has the unconditional right to defer the settlement of the liability for at least 12 months following the reporting date.

**2.14. Provisions**

Provisions are recognized when: a) Tecpetrol has a present, legal or constructive obligation, as a result of past events; b) it is highly probable that an outflow of resources will be required to settle the obligation; and, c) the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using the appropriate discount rate.

(All amounts in Euros, unless otherwise stated)

**2.14. Provisions (cont.)**

The provision for asset retirement obligations is calculated by establishing the present value of future costs related to the abandonment of each field. When the liability is initially recorded, Tecpetrol capitalizes these costs by increasing the carrying amount of the related asset. Over time, the liability is accreted to its present value during each period, and the initially capitalized cost is depreciated over the estimated useful life of the related asset, as detailed in Note 2.4. Tecpetrol periodically re-evaluates the future costs of asset retirement obligations, based on changes in technology and variations in restoration costs necessary to protect the environment. The effects of these re-calculations are included in the financial statements in which they are determined and disclosed as an adjustment to the liability and to “Property, plant and equipment. Exploration, evaluation and development assets”.

**2.15. Employee’s statutory profit sharing**

In accordance with the laws in force in the countries where certain subsidiaries operate, an annual benefit based on their earnings must be paid to employees. The liability is calculated according to IAS 19 – “Employee benefits” and it is disclosed under Trade and other payables in the Consolidated Statement of Financial Position. The corresponding expense charge is classified as Labor costs in the Consolidated Income Statement.

**2.16. Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services to third parties net of value-added tax, withholding taxes and discounts. Revenue from the sale of hydrocarbons and other assets is recognized when all the significant risks and rewards of ownership are transferred to the buyer, at the fair value of the consideration received or receivable.

Other revenues are recognized on an accrual basis. Dividends received are recognized when the right to receive payment is established. Revenues from interests are recognized on an accrual basis, using the effective interest method.

**2.17. Operating costs**

Costs of sales are recognized in the Consolidated Income Statement on an accrual basis of accounting.

**2.18 Financial instruments**

Financial assets and liabilities are recognized and derecognized on their settlement date.

Financial assets and liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position, when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(All amounts in Euros, unless otherwise stated)

**2.18 Financial instruments (cont.)**

Tecpetrol classifies its non-derivative financial instruments into the following categories: at fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities. The classification depends on the nature of the financial instruments and the purpose for which they were acquired. Tecpetrol determines the classification of its financial instruments at the time of initial recognition, and reassesses their designation at each reporting date.

(a) *Financial assets at fair value through profit or loss*

A financial asset is classified in this category if it is held for trading in the short term or if it is so designated by management initially. This category mainly includes investments in common investment funds.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. This category includes cash, trade receivables and other receivables. In general, they are classified as current assets except for those with maturities greater than 12 months following the reporting date.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial instruments that are not classified in any of the other categories. They are included in non-current assets unless management intends to sell the investment within a twelve-month period as from the date of the consolidated annual accounts. Available-for-sale financial assets are valued at fair value and their variations are recognized in the Consolidated Statement of Comprehensive Income.

Tecpetrol evaluates at each reporting date whether there are impairment indicators. In the case of equity instruments classified as available-for-sale, any significant or prolonged decline in their fair value below their cost is considered as an impairment indicator and, if appropriate, the accumulated losses in the Consolidated Statement of Comprehensive Income are reclassified to the Consolidated Income Statement. In such case, impairments may not be reversed in subsequent periods.

(d) *Other financial liabilities*

This category includes borrowings and trade and other payables.

**2.19. Derivative financial instruments and hedging activities**

Derivative financial instruments are recognized at fair value. Specific tools are used to calculate the fair value of each instrument, which are tested for consistency on a regular basis. Market rates are used for all pricing operations. These include exchange rates, interest rates and other discount rates which mitigate the nature of the underlying risk.

(All amounts in Euros, unless otherwise stated)

**2.19. Derivative financial instruments and hedging activities (cont.)**

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, on the nature of the item being hedged. Changes in the fair value of derivative financial instruments that are not designated as hedging instruments are immediately recognized in the Consolidated Income Statement as *Other financial results, net.*

The fair value of a hedging instrument is classified as a non-current asset or liability if the remaining hedge item has a maturity greater than 12 months, and as a current asset or liability, if the maturity of the remaining hedged item is less than 12 months. Derivatives not designated as hedging instruments are classified as current assets or liabilities.

*Cash flow hedges*

When a derivative financial instrument is designated as a hedging instrument, Tecpetrol documents the relationship between hedging instruments and hedged items at the inception of the transaction, as well as its risk management objectives and the strategy defined by management for undertaking various hedge transactions. Tecpetrol also documents its assessment, both at the inception and on an ongoing basis, of the effectiveness of the derivative financial instruments designated as hedge items to offset changes in the cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the Consolidated Statement of Comprehensive Income. The profit or loss relating to the ineffective portion is recognized immediately in the Consolidated Income Statement under *Other financial results, net*.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in the Consolidated Statement of Comprehensive Income remains in it and is reclassified to the Consolidated Income Statement when the forecast transaction is ultimately recognized in the Consolidated Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the Consolidated Statement of Comprehensive Income is immediately transferred to the Consolidated Income Statement.

## 3. New accounting standards

*(a) New standards, interpretations and amendments to published standards effective in current reporting period:*

- IFRS 11 “Joint arrangements”: In May 6, 2014, the *International Accounting Standards Board* (IASB) issued amendments to IFRS 11 called “Accounting for Acquisitions of Interests in Joint Operations”. These amendments specify that the appropriate accounting treatment for such acquisitions when the joint operation constitutes a business according to IFRS 3, should be made following the requirements of IFRS 3.

(All amounts in Euros, unless otherwise stated)

### 3. New accounting standards (cont.)

*(a) New standards, interpretations and amendments to published standards effective in current reporting period (cont.):*

Since there were no acquisitions of interests in joint operations during 2016, the application of these amendments to IFRS 11 did not have impact in the Consolidated annual accounts as of December 31, 2016.

- IAS 1 “Presentation of Financial Statements”: In December 2014, the IASB issued some amendments to IAS 1, with the objective of modifying the presentation and disclosure of information in the annual accounts, encouraging the exercise of professional judgment in the determination of the information to be disclosed in those annual accounts and specifying that the concept of materiality applies to annual accounts as a whole. Moreover, the amendment clarifies that the place and order of presentation of the information in the annual accounts is subject to the application of professional judgment.

  The application of the amendments to IAS 1 did not have any material impact in the consolidated annual accounts at December 31, 2016.

Management evaluated the relevance of other new standards, interpretations or amendments that are effective for the first time in this period, and concluded that they are not relevant for Tecpetrol.

*(b) New standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted:*

- IFRS 9 “Financial instruments”, issued in July 2014, replaces NIC 39 and introduces principles for classification and measurement of financial instruments. It also simplifies its valuation in 3 main categories: amortized cost, fair value with changes in other comprehensive income and fair value with changes in profit or loss. Also, IFRS 9 simplifies the requirements in relation to the effectiveness measurement of hedging activities. This standard is applicable for periods beginning on January 1, 2018.

  Management has not yet assessed the potential impact that the application of IFRS 9 may have in the consolidated annual accounts.

- IFRS 15 “Revenue from Contracts with Customers: In May 2014, the IASB issued IFRS 15 , which establishes disclosure and accounting requirements for contracts with customers, based on the principle that revenues are recognized when the customer obtains control of goods or services. IFRS 15 is applicable for annual periods beginning on January 1, 2018.

  Management has not yet assessed the potential impact that the application of IFRS 15 may have in the consolidated annual accounts.

(All amounts in Euros, unless otherwise stated)

## 3. New accounting standards (cont.)

*(b) New standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted (cont.):*

Management evaluated the relevance of other new standards, interpretations or amendments that are not yet effective, and concluded that they are not relevant for Tecpetrol.

At the date of issuance of these consolidated annual accounts, the IASB and the IFRS Interpretations Committee had published, among others, the following standards, amendments and interpretations, which are not approved by the European Union:

• IFRS 16 “Leases”
• IAS 7 (Amendment) “Disclosure Initiative”
• IAS 12 (Amendment) “Recognition of Deferred Tax Assets for Unrealized Losses”

## 4. Financial risk management

### 4.1. Financial risk factors

Tecpetrol activities expose it to a variety of financial risks, mainly related to market risks (including the effects of changes in foreign currency exchange rates, interest rates and market prices), concentration of credit risk, liquidity risk and capital risk.

Tecpetrol’s risk management program focuses on the unpredictability of financial markets and seeks to minimize potentially adverse effects on its financial performance.

(i) Foreign exchange rate risk

The Company and its subsidiaries are exposed to the foreign exchange rate risk as a consequence of the transactions made in currencies other than their functional currencies. As the Company’s functional currency is US dollar, the purpose of the foreign currency hedging program is mainly to reduce the risk caused by changes in exchange rates of other currencies against the US dollar.

Tecpetrol’s exposure to currency fluctuations is reviewed periodically. Tecpetrol aims to neutralize the potentially negative impact of currency fluctuations using derivative financial instruments, if necessary.

The following table discloses the exposure (in thousands of Euros) to different currencies as of December 31, 2016 and 2015:

(All amounts in Euros, unless otherwise stated)

**4.1. Financial risk factors (cont.)**

(i) Foreign exchange rate risk (cont.)

| Foreign currency | Exposure to US$ | |
|---|---|---|
| | December 31, 2016 | December 31, 2015 |
| ARS | (6,042) | (84,283) |
| EUR | 8,670 | 1,171 |
| MXN | (3,588) | (2,678) |
| PEN | 16,573 | 22,345 |

Tecpetrol estimates that the impact of a favorable / unfavorable change in the exchange rates of 1% would result in a gain / loss of 0.3 million Euros at December 31, 2016 and 1.1 million Euros at December 31, 2015.

(ii) Interest rate risk

Tecpetrol is exposed to cash flow risk generated by interest rate volatility, mainly related to its short-term investments and borrowings.

The following table summarizes the proportions of fixed and variable rates debt at each reporting date:

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Amount in Euros | Percentage | Amount in Euros | Percentage |
| Fixed rate | 406,949,294 | 53% | 130,808,071 | 20% |
| Variable rate | 354,339,864 | 47% | 536,746,168 | 80% |

If interest rates on the accumulated nominal average of borrowings held during the year had been 50 basis points higher with all other variables remaining constant, the result for the period ended at December 31, 2016, would have been 2.6 million Euros lower (3 million lower at December 31, 2015). Note 23 include information concerning interest rates applicable to main borrowings.

The exposure to interest rates on borrowings is partially offset by financial investments exposed also to variable rates. Tecpetrol estimates that an increase in the average interest rates of 50 basis points with all other variables remaining constant, would lead to an increase in the net result of 0.2 million Euros at December 31, 2016 and 0.5 million Euros at December 31, 2015.

(iii) Concentration of credit risk

Tecpetrol's financial assets which are potentially exposed to concentrations of credit risk consist mainly in deposits with financial institutions and trade receivables.

(All amounts in Euros, unless otherwise stated)

**4.1. Financial risk factors (cont.)**

(iii) Concentration of credit risk (cont.)

Regarding the deposits in financial institutions, Tecpetrol reduces its exposure to significant concentrations of credit risk by maintaining its deposits and placing its cash investments with leading financial institutions, either directly or through a related company which acts as a financial agent.

With regard to trade receivables, Tecpetrol has policies in place to ensure that sales are only performed to customers with an appropriate credit history or requiring them letters of credit. At December 31, 2016, 54% of Tecpetrol's trade receivables are with Petroamazonas and 14% with PEMEX. At December 31, 2015, 48% of Tecpetrol's trade receivables were with Petroamazonas and 16% with PEMEX. Furthermore, Tecpetrol has guarantees over 5% and 3% of trade receivables at December 31, 2016 and 2015, respectively.

(iv) Liquidity risk

Tecpetrol's financial strategy aims to maintain adequate financial resources and access to credit facilities to finance its operations. During the year, Tecpetrol has counted on cash flows from its operations as well as bank financing.

Tecpetrol has a conservative approach to the management of its liquidity, by maintaining a significant portion of cash at banks, liquid funds and short-term investments, generally with a maturity of less than three months at the date of purchase.

The table below summarizes the financial liabilities of Tecpetrol according to their contractual due dates:

| | Less than a year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|
| **At December 31, 2016** | | | |
| Borrowings | 205,195,140 | 74,885,039 | 481,208,979 |
| Trades and other payables | 133,470,664 | 49,267 | - |
| Interests from borrowings to be accrued | 28,273,209 | 20,215,683 | 17,447,459 |
| **Total** | **366,939,013** | **95,149,989** | **498,656,438** |
| **At December 31, 2015** | | | |
| Borrowings | 205,375,923 | 408,146,995 | 54,031,321 |
| Trades and other payables | 124,022,213 | 159,015 | - |
| Interests from borrowings to be accrued | 19,233,173 | 9,429,595 | 1,611,046 |
| **Total** | **348,631,309** | **417,735,605** | **55,642,367** |

At December 31, 2016 and 2015, the Consolidated Statement of Financial Position shows a negative working capital amounting to 37,892,816 and 65,766,145 Euros, respectively. It is considered that the situation will be reversed in the short term, mainly by the dividend cash flows to be received from investments in entities accounted for using the equity method and the eventual disbursements to be made by the Sole Shareholder to finance the operations.

(All amounts in Euros, unless otherwise stated)

**4.1. Financial risk factors (cont.)**

(v) Price risk

The change in the trend of international crude oil prices initiated in November 2014 generates uncertainties in the hydrocarbon activities. At the date of issuance of these consolidated annual accounts, Tecpetrol continues making its best efforts to maintain production and employment, without losing sight the long-term commitment and defending the viability of projects through the reduction and / or delay of investments, costs optimization, renegotiation of contracts with suppliers and local governments where Tecpetrol operates, and focusing on increasing efficiency and productivity in the operational, administrative and commercial processes.

A variation of US$1 in the reference crude oil price, would have an impact in Tecpetrol's result of 3 million Euros and 2.7 million Euros at December 31, 2016 and 2015, respectively; and a variation of US$0.1 per million BTU in the reference gas price, would not have any significant impact in Tecpetrol's results at December 31, 2016 and 2015. This sensitivity analysis considers the current context of the markets where Tecpetrol operates. At December 31, 2016 and 2015, Tecpetrol does not have any financial instruments subject to price risk.

(vi) Capital risk

Tecpetrol seeks to maintain an adequate level of debt to total equity considering the industry and markets in which it operates. The annual debt / total net equity ratio (where "debt" comprises all financial borrowings and "net equity" is the aggregate of financial borrowings and net equity) is 0.53 at December 31, 2016 compared to 0.52 at December 31, 2015. Tecpetrol is not obliged to comply with regulatory capital requirements.

**4.2. Financial instruments by category**

The table below discloses the financial instruments by category:

| Assets at December 31, 2016 | Financial assets at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets |
|---|---|---|---|
| Trade receivables | - | 203,816,839 | - |
| Other receivables and prepayments (*) | - | 89,118,038 | - |
| Available-for-sale financial assets | - | - | 2,053,231 |
| Cash and cash equivalents | 4,936,579 | 101,096,465 | - |
| **Total** | **4,936,579** | **394,031,342** | **2,053,231** |

| Assets at December 31, 2015 | Financial assets at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets |
|---|---|---|---|
| Trade receivables | - | 120,675,234 | - |
| Other receivables and prepayments (*) | - | 33,168,514 | - |
| Available-for-sale financial assets | - | - | 1,920,367 |
| Cash and cash equivalents | 8,165,120 | 64,752,939 | - |
| **Total** | **8,165,120** | **218,596,687** | **1,920,367** |

(*) Assets and liabilities with government agencies, and certain receivables and prepayments have been excluded from this disclosure as they are not considered financial instruments.

(All amounts in Euros, unless otherwise stated)

**4.2. Financial instruments by category (cont.)**

| Liabilities at December 31, 2016 | Other financial liabilities |
|---|---|
| Borrowings | 761,289,158 |
| Trade and other payables (*) | 133,519,931 |
| **Total** | **894,809,089** |

| Liabilities at December 31, 2015 | Other financial liabilities |
|---|---|
| Borrowings | 667,554,239 |
| Trade and other payables (*) | 124,181,228 |
| **Total** | **791,735,467** |

(*) Assets and liabilities with government agencies, and certain receivables and prepayments have been excluded from this disclosure as they are not considered financial instruments.

**4.3. Fair value estimation**

Levels of hierarchy

Financial instruments valued at fair value may be classified within the following levels of hierarchy according to the way in which fair value is estimated:

Level 1 – Quoted prices in active markets for identical assets and liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the purposes of fair value estimation, Tecpetrol uses a variety of methods and assumptions based on market conditions existing at the reporting date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data as available.

Level 3 – Inputs for the asset or liability that are not based on observable market data (for example, discounted cash flows).

The following table presents the financial assets and liabilities measured at fair value by hierarchy level at December 31, 2016 and 2015:

(All amounts in Euros, unless otherwise stated)

### 4.3. Fair value estimation (cont.)

Levels of hierarchy (cont.)

| **Assets at December 31, 2016** | **Level 1** | **Level 3** |
|---|---|---|
| Available-for-sale financial assets | - | 2,053,231 |
| Cash and cash equivalents | 4,936,579 | - |
| **Total** | **4,936,579** | **2,053,231** |

| **Assets at December 31, 2015** | **Level 1** | **Level 3** |
|---|---|---|
| Available-for-sale financial assets | - | 1,920,367 |
| Cash and cash equivalents | 8,165,120 | - |
| **Total** | **8,165,120** | **1,920,367** |

There were no transfers between level 1 and 3 during the year.

The valuation techniques used to determine the fair value of available-for-sale financial assets and its evolution of the year are disclosed in Note 17.

For the purpose of estimating the fair value of cash equivalents, Tecpetrol usually chooses the historical cost as this approximates to their fair value.

The fair value of all derivative financial instruments is determined as established in Note 2.19.

The book value of trade and other receivables, prepayments, and trade and other payables, less any impairment provision, if appropriate, approximates to their fair value. Furthermore, the fair value of borrowings and financial debts does not differ significantly from their book value at December 31, 2016 and 2015. In all cases, the fair value was determined based on discounted cash flows using market rates and are categorized as Level 2.

## 5. Critical accounting estimates

Tecpetrol makes estimates and assumptions concerning the future when preparing the consolidated annual accounts. Estimates and judgments are periodically reviewed, and are based on past experience and other factors, including expectations over future events that are believed to be reasonable under the circumstances.

Actual results may differ from those estimated under different variables, assumptions or conditions. The most significant estimates and assumptions are addressed below:

(All amounts in Euros, unless otherwise stated)

## 5. Critical accounting estimates (cont.)

(a) Hydrocarbon reserves

Reserves refer to the volumes of oil and gas (in oil-equivalent cubic meters) which generates or are associated with revenues in the fields where each subsidiary operates or has a direct or indirect share interest and over which Tecpetrol owns exploitation rights. This includes hydrocarbons volumes related to the services contracts in which Tecpetrol does not have the ownership either of the reserves or of the hydrocarbons extracted and those which are expected to be produced for the contracting party under the works contracts.

There are several factors which generates uncertainty with respect to the estimation of proved reserves, future production profiles, development costs and prices, including diverse factors which are beyond the producer's control. This is a subjective process used to estimate crude oil and natural gas to be recovered from the ground, which cannot be accurately measured and is carried out based on the quality of geological and engineering data available and its interpretation.

Estimated proved reserves (developed and undeveloped) as of December 31, 2016, are:

| | |
|---|---|
| **Oil:** | 21 millions of cubic meters |
| **Gas:** | 38 billions of cubic meters |

The aforementioned reserves include proved reserves which may be extracted without deducting the corresponding royalties. The estimation has been prepared by Tecpetrol's technical staff and may differ from other estimations made by third parties for different purposes.

These reserves estimation are based on the technological and economic conditions in force at June 30, 2016, taking into account the economic evaluation over the term of the respective contracts or concessions, for the purpose of determining the terms of their recovery. Reserves estimations are adjusted whenever justified by changes in the key assumptions or at least once a year.

(b) Provision for asset retirement obligations

The liability provision related to asset retirement obligations, implies that management makes estimates concerning the long-term abandonment costs and the period of time until abandonment. Technologies and costs are constantly changing, as well as political, environmental and safety considerations. These changes can lead to differences between estimates and actual costs.

(c) Contingencies

Tecpetrol is subject to various claims, lawsuits and other legal proceedings in the normal course of its business. Liabilities with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty.

(All amounts in Euros, unless otherwise stated)

## 5. Critical accounting estimates (cont.)

(c) Contingencies (cont.)

Tecpetrol reviews the status of each significant matter and assesses the potential financial exposure. If the potential loss from the claim or proceedings is considered to be probable and the amount can be reasonably estimated, a provision is recorded. Management estimates the amount of these provisions based on the information available and the assumptions and methods it considers appropriate. These estimates are primarily constructed with the assistance of legal counsels. Tecpetrol periodically reviews and adjusts its estimates, as additional information becomes available.

(d) Recoverable amounts of non-financial assets

In order to evaluate the recoverability of non-financial assets, these are grouped at the lowest levels for which there are individually identifiable cash flows (cash generating units).

Estimates and key assumptions used in the impairment tests of non-financial assets are disclosed in Note 16.

(e) Fair value of available-for-sale financial assets

Estimates and key assumptions used in the determination of fair value of available-for-sale financial assets are disclosed in Note 17.

## 6. Operating costs

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Services and fees | 8,501,224 | 10,731,326 |
| Labor costs | 37,611,513 | 47,718,909 |
| Depreciation of property, plant and equipment | 89,083,816 | 83,322,485 |
| Impairment of property, plant and equipment | 934,081 | 26,207,231 |
| Amortization of intangible assets | 53,529,087 | 71,378,223 |
| Service costs | 61,449,975 | 59,159,884 |
| Maintenance costs | 56,776,570 | 83,506,483 |
| Treatment, storage and loading | 27,705,921 | 29,258,712 |
| Royalties and other taxes | 83,876,300 | 97,733,604 |
| Others | 7,159,085 | 10,062,892 |
| | **426,627,572** | **519,079,749** |

(All amounts in Euros, unless otherwise stated)

### 7. Selling expenses

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Treatment, storage and loading | 2,637,475 | 2,661,170 |
| Allowance for doubtful accounts | 1,465,293 | 21,316,497 |
| Taxes | 5,564,887 | 7,096,734 |
| | **9,667,655** | **31,074,401** |

### 8. Administrative expenses

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Fees and services | 11,371,461 | 17,037,777 |
| Labor costs | 36,081,485 | 42,942,321 |
| Depreciation of property, plant and equipment | 1,071,909 | 743,707 |
| Taxes | 2,298,093 | 720,510 |
| Other administrative expenses | 9,329,766 | 11,764,299 |
| Reimbursements | (12,337,917) | (14,722,022) |
| | **47,814,797** | **58,486,592** |

### 9. Labor costs

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Operating costs | 37,611,513 | 47,718,909 |
| Administrative expenses | 36,081,485 | 42,942,321 |
| | **73,692,998** | **90,661,230** |

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Salaries, wages and other costs | 62,244,928 | 79,971,635 |
| Social security costs | 6,499,824 | 7,780,685 |
| Employee benefits (Note 24) | 4,948,246 | 2,908,910 |
| | **73,692,998** | **90,661,230** |

The average number of Tecpetrol's employees is as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Men** | **Women** | **Men** | **Women** |
| Management | 59 | 5 | 60 | 5 |
| Staff | 563 | 121 | 623 | 141 |

At December 31, 2016 and 2015 Tecpetrol has 8 and 5 handicapped workers, respectively.

The number of Tecpetrol's employees at the reporting date by category and gender is as follows:

| | December 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| Management | 57 | 4 | 61 | 61 | 5 | 66 |
| Staff | 536 | 115 | 651 | 590 | 127 | 717 |
| | **593** | **119** | **712** | **651** | **132** | **783** |

(All amounts in Euros, unless otherwise stated)

### 10. Other operating income and expenses

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| *Other operating income* | | |
| Income from other sales | (105,051) | (756,609) |
| Reimbursements from third parties | (393,656) | (1,426) |
| Reversal of provisions | (148,729) | (4,613,482) |
| Others | (467,719) | (906,256) |
| | **(1,115,155)** | **(6,277,773)** |
| *Other operating expenses* | | |
| Impairment charges (Note 17) | - | 1,110,838 |
| Bank transactions taxes | 5,837,724 | 6,906,528 |
| Provision for legal claims and contingencies | 82,232 | 405,125 |
| Fees and services | 183,804 | 1,044,624 |
| Others | 2,720,332 | 619,400 |
| | **8,824,092** | **10,086,515** |

### 11. Financial results

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Net foreign exchange transactions results | (852,770) | (35,285,555) |
| Other net financial results | 2,355,747 | (6,533,886) |
| **Other financial results, net - Loss / (profit)** | **1,502,977** | **(41,819,441)** |

### 12. Income tax

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Current tax | 37,146,253 | 25,051,207 |
| Deferred tax (Note 27) | (3,595,932) | 3,709,893 |
| | **33,550,321** | **28,761,100** |

The tax levied on Tecpetrol's income before taxes differs from the theoretical amount that would be obtained using the statutory tax rate applicable in each country, as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Income before income tax** | **84,060,602** | **67,957,302** |
| Tax calculated at the rate in each country | 23,663,450 | 19,481,841 |
| Exempt income | (3,036,910) | (11,129,085) |
| Unrecognized tax losses | 7,031,688 | 3,750,991 |
| Non-deductible expenses and others (a) | 5,892,093 | 16,657,353 |
| **Tax charges** | **33,550,321** | **28,761,100** |

(a) Includes the currency translation of the tax base at December 31, 2016 and 2015.

The effective weighted average income tax was 40% in 2016 (2015: 42%).

(All amounts in Euros, unless otherwise stated)

## 12. Income tax (cont.)

**Periods available for inspection**

| | |
|---|---|
| Argentina | 2012 to 2016 |
| Peru | 2007 to 2016 |
| Venezuela | 2009 to 2016 |
| Ecuador | 2012 to 2016 |
| Mexico | 2012 to 2016 |
| Spain | 2012 to 2016 |

As consequence of the different possible interpretations of current fiscal legislation, among other factors, additional liabilities may arise following an inspection. Management considers that such liabilities, should they occur, would not have any significant impact on the consolidated annual accounts.

## 13. Property, plant and equipment. Exploration, evaluation and development assets

| | Development / productive assets | Machinery and equipment | Asset retirement obligation | Exploration and evaluation | Work in progress | Others | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Value at the beginning | 929,906,019 | 424,375,887 | 18,072,678 | 304,147,184 | 42,333,546 | 41,113,778 | 1,759,949,092 |
| Currency translation differences | 37,150,207 | 21,113,967 | 1,077,930 | (866,526) | 4,637,717 | 1,595,327 | 64,708,622 |
| Additions | 5,881,525 | 805,053 | 10,056,897 | 24,049,778 | 105,689,068 | 3,392,766 | 149,875,087 |
| Transfers | 132,176,126 | 144,645,359 | - | (241,609,961) | (39,976,782) | 4,765,258 | - |
| Disposals | (3,807,394) | (36,985) | (248,326) | (1,842,540) | - | (3,176,955) | (9,112,200) |
| Value at year end | 1,101,306,483 | 590,903,281 | 28,959,179 | 83,877,935 | 112,683,549 | 47,690,174 | 1,965,420,601 |
| **Depreciation** | | | | | | | |
| Accumulated at the beginning | 693,559,341 | 213,588,767 | 8,341,429 | - | - | 16,217,153 | 931,706,690 |
| Currency translation differences | 25,929,156 | 7,836,400 | 423,338 | - | - | 658,241 | 34,847,135 |
| Depreciation charge | 67,938,236 | 16,782,354 | 2,340,896 | - | - | 3,094,239 | 90,155,725 |
| Disposals | (3,792,151) | (36,895) | (248,326) | - | - | (543,446) | (4,620,818) |
| Impairments (1) | - | - | 934,081 | - | - | - | 934,081 |
| Accumulated at the end | 783,634,582 | 238,170,626 | 11,791,418 | - | - | 19,426,187 | 1,053,022,813 |
| **At December 31, 2016** | **317,671,901** | **352,732,655** | **17,167,761** | **83,877,935** | **112,683,549** | **28,263,987** | **912,397,788** |

(1) Corresponds to impairment losses recognized in Argentina (see Note 16).

(All amounts in Euros, unless otherwise stated)

## 13. Property, plant and equipment. Exploration, evaluation and development assets (cont.)

| | Development / productive assets | Machinery and equipment | Asset retirement obligation | Exploration and evaluation | Work in progress | Others | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Value at the beginning | 759,814,591 | 379,420,228 | 14,822,473 | 241,622,211 | 42,441,663 | 30,813,983 | 1,468,935,149 |
| Currency translation differences | 89,693,896 | 43,936,976 | 1,788,854 | 30,085,041 | 4,825,983 | 3,734,272 | 174,065,022 |
| Additions | 2,368,586 | 919,688 | 4,344,839 | 63,767,764 | 115,567,845 | 6,337,372 | 193,306,094 |
| Transfers | 94,928,535 | 12,021,186 | - | 13,491,855 | (118,895,758) | (1,545,818) | - |
| Disposals | - | (427,799) | - | (19,066,838) | - | (828,007) | (20,322,644) |
| Acquisition of subsidiary (Note 33) | 4,898,273 | - | - | 33,191,004 | - | 3,160,787 | 41,250,064 |
| Deconsolidation of subsidiary | (21,797,862) | (11,494,392) | (2,883,488) | (58,943,853) | (1,606,187) | (558,811) | (97,284,593) |
| Value at year end | 929,906,019 | 424,375,887 | 18,072,678 | 304,147,184 | 42,333,546 | 41,113,778 | 1,759,949,092 |
| | | | | | | | |
| Depreciation | | | | | | | |
| Accumulated at the beginning | 551,361,953 | 181,827,273 | 9,622,063 | - | - | 12,907,215 | 755,718,504 |
| Currency translation differences | 65,358,605 | 21,299,061 | 1,078,786 | - | - | 1,527,584 | 89,264,036 |
| Depreciation charge (1) | 76,101,474 | 15,746,098 | (1,570,623) | - | - | 2,655,012 | 92,931,961 |
| Disposals | - | (394,599) | - | - | - | (475,959) | (870,558) |
| Impairments (2) | 22,535,171 | 3,672,060 | - | - | - | - | 26,207,231 |
| Deconsolidation of subsidiary | (21,797,862) | (8,561,126) | (788,797) | - | - | (396,699) | (31,544,484) |
| Accumulated at the end | 693,559,341 | 213,588,767 | 8,341,429 | - | - | 16,217,153 | 931,706,690 |
| **At December 31, 2015** | **236,346,678** | **210,787,120** | **9,731,249** | **304,147,184** | **42,333,546** | **24,896,625** | **828,242,402** |

(1) Includes depreciations of Tecpetrol Colombia S.A.S. amounting to 8.9 million Euros classified as *Discontinued operations* in the Consolidated Income Statement at December 31, 2015.
(2) Corresponds to impairment losses recognized in Argentina (see Note 16).

All property, plant and equipment are located abroad.

Tecpetrol has taken out several insurance policies to cover the risks to which property, plant and equipment are exposed. The coverage of these policies is considered to be sufficient.

## 14. Intangible assets

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Goodwill (i) | 1,145,155 | 854,448 |
| Investments in specific services contracts (ii) | 111,746,120 | 153,616,334 |
| | **112,891,275** | **154,470,782** |

*(i) Goodwill*

Corresponds to goodwill generated in the acquisition of the subsidiary Americas Petrogas Argentina S.A. during 2015. The evolution of goodwill is as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Value at the beginning | 854,448 | - |
| Acquisition price adjustment/Acquisition of subsidiary | 250,296 | 825,546 |
| Currency translation differences | 40,411 | 28,902 |
| **Value at year-end** | **1,145,155** | **854,448** |

(All amounts in Euros, unless otherwise stated)

### 14. Intangible assets (cont.)

*(ii) Investments in specific services contracts*

The evolution of intangible assets originated in the service contract agreement of Libertador and Atacapi fields is as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Cost** | | |
| Value at the beginning | 302,837,434 | 230,297,355 |
| Currency translation differences | 10,347,068 | 27,374,000 |
| Additions | 9,971,819 | 45,166,079 |
| Disposals | (1,678,986) | - |
| **Value at the end** | **321,477,335** | **302,837,434** |
| **Amortization** | | |
| Accumulated at the beginning | 149,221,100 | 68,601,021 |
| Currency translation differences | 7,516,289 | 9,241,856 |
| Amortization charge | 53,529,087 | 71,378,223 |
| Disposals | (535,261) | - |
| Accumulated at the end | 209,731,215 | 149,221,100 |
| **Value at year-end, net** | **111,746,120** | **153,616,334** |

### 15. Investments accounted for using the equity method

Investments accounted for using the equity method in the Consolidated Statement of Financial Position are as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Investments in associated companies | 179,291,947 | 156,340,451 |
| Investments in joint ventures | 31,941,049 | 41,748,183 |
| **Investments accounted for using the equity method** | **211,232,996** | **198,088,634** |

Equity in earnings of investments accounted for using the equity method included in the Consolidated Income Statement is as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Equity in earnings of associated companies | 7,009,459 | 18,792,596 |
| Equity in earnings of joint ventures | 5,169,148 | 13,965,538 |
| **Equity in earnings of investments accounted for using the equity method** | **12,178,607** | **32,758,134** |

(All amounts in Euros, unless otherwise stated)

## 15. Investments accounted for using the equity method (cont.)

The evolution of investments accounted for using the equity method is as follows:

*a) Investments in associated companies*

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| At the beginning | 156,340,451 | 103,043,628 |
| Currency translation differences | 4,648,181 | 7,856,227 |
| Contributions | 11,406,558 | 27,086,961 |
| Equity in earnings of associated companies | 7,009,459 | 18,792,596 |
| Dividends received | (92,730) | (434,138) |
| Share of other comprehensive income from investments accounted for using the equity method | (19,972) | (4,823) |
| **At the end** | **179,291,947** | **156,340,451** |

*b) Investments in joint ventures*

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| At the beginning | 41,748,183 | 49,773,479 |
| Currency translation differences | 843,368 | 5,479,373 |
| Equity in earnings of joint ventures | 5,169,148 | 13,965,538 |
| Dividends received | (15,819,650) | (27,470,207) |
| **At the end** | **31,941,049** | **41,748,183** |

The following is the detailed list of investments in associated companies:

| Company | Country | % at Dec 31, 2016 | % at Dec 31, 2015 | Value at Dec 31, 2016 | Value at Dec 31, 2015 |
|---|---|---|---|---|---|
| Consorcio Shushufindi S.A. (1) | Ecuador | 25.00% | 25.00% | 143,684,137 | 116,683,036 |
| Kamana Services S.A. (2) | Ecuador | 40.00% | 40.00% | 18,514,243 | 19,892,675 |
| TIBSA Inversora S.A. (3) | Argentina | 30.00% | 30.00% | 7,945,530 | 5,131,258 |
| Energy Consulting Services S.A. ("ECS") | Argentina | 29.17% | 29.17% | 4,972,415 | 4,379,377 |
| Transportadora de Gas del Mercosur S.A. | Argentina | 21.79% | 21.79% | 2,782,392 | 4,174,599 |
| Transportadora de Gas del Norte S.A. (4) | Argentina | 23.07% | 15.38% | 1,053,019 | 3,611,298 |
| Techgen S.A. de C.V. (5) | México | 30.00% | 30.00% | 269,178 | 2,403,888 |
| Parque Eólico Pampa S.A. | Argentina | 20.00% | 20.00% | 71,033 | 64,320 |
| Total | | | | **179,291,947** | **156,340,451** |

(1) The Company holds through its subsidiary Tecpetrol Servicios S.L. a 25% stake in Consorcio Shushufindi S.A. (“Shushufindi”), which provides specific integrated services in order to carry out activities aimed at optimizing production, exploration and providing technical advice, among others, in Shushufindi-Aguarico fields in Ecuador.

(2) The Company holds through its subsidiary Tecpetrol Servicios S.L. a 40% stake in Kamana Services S.A. (“Kamana”), which provides services in order to carry out activities aimed at optimizing production, consulting and other services related to the operation or maintenance of oil fields.

(All amounts in Euros, unless otherwise stated)

## 15. Investments accounted for using the equity method (cont.)

(3) The Company holds a stake of 27.50% in Litoral Gas S.A. through its investment in TIBSA Inversora S.A., which is in charge of natural gas distribution in Santa Fe and Buenos Aires provinces, Argentina.

(4) In March 2016, the *Ente Nacional Regulador del Gas* ("ENARGAS") approved the acquisition of 0.02% and 13.62% of the outstanding capital from Transportadora de Gas del Norte ("TGN") and Gasinvest S.A., respectively. Consequently, the Company holds a 23.07% stake in TGN (0.05% of direct stake and 23.02% of indirect stake, see Note 29) from that date on. TGN is listed on the Buenos Aires Stock Exchange (Argentina). The closing price of TGN's shares was ARS 13.7 per share (0.82 Euros per share) at December 31, 2016 and ARS 7.28 (0.46 Euros per share) at December 31, 2015.

(5) The subsidiary Tecpower S.A. holds a 30% stake in Techgen S.A. de C.V ("Techgen"). Techgen aims to perform all necessary acts to carry out the supply of electric power to its shareholders, through a combined cycle power plant located in Pesquería, Mexico and fueled by natural gas.

Joint venture investments are as follows:

| Company | Country | % at Dec 31, 2016 | % at Dec 31, 2015 | Value at Dec 31, 2016 | Value at Dec 31, 2015 |
|---|---|---|---|---|---|
| Servicios Múltiples de Burgos S.A. de C.V. ("SMB") | Mexico | 50% | 50% | 31,941,049 | 41,748,183 |

Servicios Multiples de Burgos S.A. de C.V ("SMB") provides services to PEMEX Exploración y Producción related to development, infrastructure and maintenance of gas fields in Bloque Mision, Mexico**.**

Summarized selected financial information of main investments is as follows:

| | In thousands of Euros at December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | **Consorcio Shushufindi** | **Kamana** | **TIBSA Inversora** | **TGN** | **SMB** |
| Non-current assets | 1,015,739 | 83,839 | 18,269 | 221,141 | 10,443 |
| Current assets | 429,650 | 41,480 | 87,317 | 52,575 | 85,405 |
| **Total assets** | **1,445,389** | **125,319** | **105,586** | **273,716** | **95,848** |
| | | | | | |
| Non-current liabilities | 645,096 | - | 1,005 | 204,030 | 25,698 |
| Current liabilities | 225,559 | 79,032 | 75,690 | 66,349 | 6,268 |
| **Total liabilities** | **870,655** | **79,032** | **76,695** | **270,379** | **31,966** |
| | | | | | |
| Net sales | 544,731 | 39,557 | 115,694 | 111,181 | 37,771 |
| Result for the year | 88,311 | (21,963) | 9,849 | (15,680) | 10,338 |
| | | | | | |
| Dividends paid | - | - | - | - | (31,639) |

(All amounts in Euros, unless otherwise stated)

## 15. Investments accounted for using the equity method (cont.)

| | In thousands of Euros at December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | **Consorcio Shushufindi** | **Kamana** | **TIBSA Inversora** | **TGN** | **SMB** |
| Non-current assets | 976,042 | 89,239 | 21,697 | 220,499 | 23,941 |
| Current assets | 243,228 | 20,730 | 21,828 | 52,484 | 128,495 |
| **Total assets** | **1,219,270** | **109,969** | **43,525** | **272,983** | **152,436** |
| Non-current liabilities | 587,859 | - | 7,364 | 203,519 | 33,529 |
| Current liabilities | 164,678 | 60,237 | 17,238 | 47,493 | 35,411 |
| **Total liabilities** | **752,537** | **60,237** | **24,602** | **251,012** | **68,940** |
| Net sales | 418,674 | 7,434 | 38,525 | 73,046 | 80,553 |
| Result for the year | 141,814 | (19,118) | 8,383 | (50,362) | 27,931 |
| Dividends paid | - | - | - | - | (54,941) |

Selected financial information concerning joint ventures is as follows (in thousands of Euros):

| | **December 31, 2016** | **December 31, 2015** |
|---|---|---|
| Cash and cash equivalents | 21,195 | 24,664 |
| Current borrowings | - | 13,497 |
| Non-current borrowings | - | 10,045 |
| Interest income | 1,461 | 1,541 |
| Interest expense | (386) | (968) |
| Income tax | (14,003) | (10,783) |

## 16. Impairment of long-term assets

Tecpetrol reviews Property, plant and equipment and Intangible assets for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These tests are performed as described in Notes 2.4 and 2.5.

The recoverable amount of each CGU is estimated by the Company as the higher of the asset's fair value less costs to sell and its value in use. The value in use is determined on the basis of the present value of net future cash flows, applying a discount rate based on a weighted average cost of capital (WACC) and considering the risks of the country where the CGU operates and its particular features.

Determining discounted cash flows bases on projections approved by management and involves making certain estimates and assumptions, such as the levels of hydrocarbons production, sales prices, hydrocarbons future market prices, inflation, foreign exchange rates, costs and other expenses. These estimates are based on the best assumptions that Tecpetrol has in relation to its future operations and the available market information.

Cash flows from the different CGUs are generally projected for a period that covers the existence of economically productive reserves and is limited to the existence of reserves in the term of the concessions or contracts.

(All amounts in Euros, unless otherwise stated)

### 16. Impairment of long-term assets (cont.)

At December 31, 2016 and 2015, Tecpetrol recognized impairment charges in development and productive assets in Argentinean subsidiaries amounting to 1 million and 26.2 million Euros, respectively, mainly due to the hydrocarbons market context, which has been significantly affected by the decrease of the international oil prices. The impairment charges were recognized in *Operating costs*, in the Consolidated Income Statement. The CGU's recoverable amounts at December 31, 2016 and 2015 were determined based on its value in use, using a discount pretax rate of 13.6% and 25%, respectively.

Additionally, at December 31, 2015 Tecpetrol recognized an impairment charge in development and productive assets from its subsidiary in the United States amounting to 15.8 million Euros, mainly due to the context of shale gas and shale oil production fields in the United States, which has significantly impacted on the price of gas, making certain projects less attractive and thus the investment. The impairment charge was disclosed as *Discontinued operations*, in the Consolidated Income Statement (see Note 34). The CGU's recoverable amount was determined based on its fair value less costs to sell and was disclosed as *Assets of disposal group classified as held for sale* in the Consolidated Statement of Financial Position. For purposes of calculating the fair value less costs to sell, Tecpetrol used the estimated value of future cash flows that a market participant could generate from the CGU.

### 17. Available-for-sale financial assets

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Non-current** | | |
| Non-quoted investments | 2,053,231 | 1,920,367 |
| | **2,053,231** | **1,920,367** |

The evolution of the available-for-sale financial assets is the following:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| At the beginning | 1,920,367 | 21,816,957 |
| Currency translation differences | 66,288 | 2,104,197 |
| Additions | - | 4,466 |
| Changes in fair value | 66,576 | (20,894,415) |
| Impairments (Note 10) | - | (1,110,838) |
| **At the end** | **2,053,231** | **1,920,367** |

Available-for-sale financial assets at December 31, 2016 and 2015 mainly comprise stakes in the following companies: Baripetrol S.A., Oleoductos del Valle S.A., Terminales Maritimas Patagonicas S.A. and Tecpetrol Colombia S.A.S.

(All amounts in Euros, unless otherwise stated)

### 17. Available-for-sale financial assets (cont.)

On December 28, 2015, Tecpetrol Colombia S.A.S. increased its share capital and share premium in the amount of US$135.000.000, which was fully subscribed by Tecpetrol International S.A., sole shareholder of the Company. As Tecpetrol did not exercise its preferential right to subscribe shares, its stake in Tecpetrol Colombia S.A.S. decreased from 98.87% to 0.7%, with a consequent loss of control over the subsidiary. At December 31, 2016 and 2015, the investment in Tecpetrol Colombia S.A.S. was valued at fair value and the effect of loss of control was recognized under *Other changes in equity*, in the Consolidated Statement of Changes in Equity as of December 31, 2015, as it is a transaction between related parties.

At December 31, 2016, 92% of these investments correspond to financial assets held in Argentine pesos. At December 31, 2015, 99.9% of them correspond to financial assets held in Argentine pesos.

The fair value of available-for-sale financial assets was calculated on the basis of discounted cash flows, which involves making certain estimates and assumptions, such as the levels of hydrocarbons production, sales prices, hydrocarbons future market prices, inflation, foreign exchange rates, dividends collection, costs and other expenses. These estimates are based on the best assumptions that Tecpetrol has in relation to its future operations and the available market information.

Among the main assumptions used in the calculation that are not observable in the market, is the estimation of dividends collection. Since there is a significant relationship between the assumptions, Tecpetrol's management estimates that a sensitivity analysis considering changes in one assumption at a time may not be representative.

As a consequence of the political and economic context of the country where Baripetrol S.A. operates, during 2015 Tecpetrol recognized an impairment loss of 1.1 million Euros. The charge was recognized under *Other operating expenses* in the Consolidated Income Statement. At December 31, 2015, the investment is fully impaired.

### 18. Inventories

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Hydrocarbons | 14,055,986 | 14,825,630 |
| Supplies and spare parts | 20,547,225 | 19,537,451 |
| | **34,603,211** | **34,363,081** |

(All amounts in Euros, unless otherwise stated)

## 19. Other receivables and prepayments

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Non-current** | | |
| Tax credits | 31,818,438 | 34,926,536 |
| Employees loans and advances | 1,029,784 | 1,794,737 |
| Advances | 1,011,591 | 781,164 |
| Other receivables | 5,848,957 | 7,154,141 |
| Other receivables from related parties (Note 31) | 62,374,451 | 6,876,133 |
| | 102,083,221 | 51,532,711 |
| Allowance for doubtful accounts | (2,490,957) | (2,471,197) |
| | **99,592,264** | **49,061,514** |

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Current** | | |
| Other receivables | 24,864,197 | 20,874,301 |
| Advances | 3,342,292 | 3,642,085 |
| Other receivables from related parties (Note 31) | 610,404 | 687,365 |
| Tax credits | 17,882,473 | 20,755,624 |
| Employees loans and advances | 2,269,062 | 2,061,426 |
| | 48,968,428 | 48,020,801 |
| Allowance for doubtful accounts | (3,865,348) | (2,059,499) |
| | **45,103,080** | **45,961,302** |

The evolution of the allowance for doubtful accounts is as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| At the beginning | (4,530,696) | (1,725,897) |
| Currency translation differences | 56,543 | 630,674 |
| Additions (1) | (1,882,152) | (674,424) |
| Acquisition of subsidiary | - | (2,761,049) |
| **At the end** | **(6,356,305)** | **(4,530,696)** |

(1) At December 31, 2015 includes net additions from the subsidiary Tecpetrol Corporation, classified as *Discontinued operations* in the Consolidated Income Statement.

## 20. Trade receivables

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Non-current** | | |
| Trade receivables | 55,808,765 | - |
| Trade receivables from related parties (Note 31) | 4,991,885 | - |
| | 60,800,650 | - |
| Allowance for doubtful accounts | (4,991,885) | - |
| | **55,808,765** | **-** |
| **Current** | | |
| Trade receivables | 170,583,402 | 149,238,384 |
| Trade receivables from related parties (Note 31) | 8,811,977 | 7,822,771 |
| | 179,395,379 | 157,061,155 |
| Allowance for doubtful accounts | (31,387,305) | (36,385,921) |
| | **148,008,074** | **120,675,234** |
| **Total** | **203,816,839** | **120,675,234** |

(All amounts in Euros, unless otherwise stated)

## 20. Trade receivables (cont.)

The following table details the maturity analysis of the trade receivables:

| | Total | Not due | Past due | |
|---|---|---|---|---|
| | | | 1 - 180 days | > 180 days |
| **At December 31, 2016** | | | | |
| Trade receivables | 240,196,029 | 199,458,636 | 11,434,467 | 29,302,926 |
| Allowance for doubtful accounts | (36,379,190) | (7,076,264) | - | (29,302,926) |
| **Net value** | **203,816,839** | **192,382,372** | **11,434,467** | **-** |
| **At December 31, 2015** | | | | |
| Trade receivables | 157,061,155 | 75,232,794 | 46,286,523 | 35,541,838 |
| Allowance for doubtful accounts | (36,385,921) | - | (844,083) | (35,541,838) |
| **Net value** | **120,675,234** | **75,232,794** | **45,442,440** | **-** |

The evolution of the allowance for doubtful accounts is as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| At the beginning | (36,385,921) | (13,942,184) |
| Currency translation differences | (1,125,382) | (1,838,188) |
| Reversals / (Additions), net | 416,859 | (20,647,052) |
| Used | 715,254 | 41,503 |
| **At the end** | **(36,379,190)** | **(36,385,921)** |

## 21. Cash and cash equivalents

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Cash at banks | 21,797,006 | 18,653,551 |
| Short-term bank deposits | 4,936,579 | 8,165,120 |
| Short-term deposits with related parties (Note 31) | 79,299,459 | 46,099,388 |
| | **106,033,044** | **72,918,059** |

The effective interest rate on short-term deposits during both periods averaged 0.5%.

## 22. Transactions with owners

### Availability of and restrictions on distribution of reserves and retained earnings

The proposal of distribution of earnings from the separate annual accounts as of December 31, 2016 to be presented to the Sole Shareholder, as well as the approved earnings distribution as of December 31, 2015, is as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Distribution base** | | |
| Result for the year | 13,619,297 | (174,067,265) |
| | **13,619,297** | **(174,067,265)** |
| **Distribution** | | |
| Voluntary reserve | 13,619,297 | (127,317,733) |
| Share premium | - | (46,749,532) |
| | **13,619,297** | **(174,067,265)** |

(All amounts in Euros, unless otherwise stated)

## 22. Transactions with owners (cont.)

**Dividends** - No dividends were distributed to the Sole Shareholder during the years ended on December 31, 2016, 2015 and 2014. During years ended on December 31, 2013 and 2012, Tecpetrol distributed dividends amounting 124,400,000 and 139,946,080 Euros, respectively.

## 23. Borrowings

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Non-current** | | |
| Bank borrowings | 131,131,467 | 150,243,376 |
| Other financial liabilities | 5,650,411 | 6,808,952 |
| Borrowings from related parties (Note 31) | 419,312,140 | 305,125,988 |
| | **556,094,018** | **462,178,316** |

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Current** | | |
| Bank overdrafts | 150,014 | 28,641,562 |
| Bank borrowings | 92,667,516 | 109,658,530 |
| Other financial liabilities | 2,928,888 | 1,482,569 |
| Borrowings from related parties (Note 31) | 109,448,722 | 65,593,262 |
| | **205,195,140** | **205,375,923** |

Total borrowings as of December 31, 2016 and 2015 includes secured liabilities amounting to 153 million Euros and 151 million Euros, respectively. Tecpetrol has to comply with covenants, such as the maintenance of certain financial ratios, according to the conditions established in the loan agreements. Management considers that these ratios have been fulfilled at December 31, 2016 and 2015.

Significant borrowings from banks and related parties are detailed below:

**Bank borrowings**

| Company | Lender | December 31, 2016 | December 31, 2015 | Interest rate | Currency |
|---|---|---|---|---|---|
| Pardaliservices S.A. | Banco Itaú | 112,285,996 | 109,228,555 | LIBOR + 3,1% | US$ |
| Pardaliservices S.A. | Banco Pichincha | 38,674,114 | 38,356,378 | Between 5,7% y 6,5% | US$ |
| Tecpetrol S.A. | ICBC | 22,293,745 | 24,434,418 | Between 1,85% y 2% | US$ |
| Tecpetrol S.A. | Banco Patagonia S.A. | 13,755,715 | - | Between 1,75% y 2,15% | US$ |
| Tecpetrol S.A. | Banco Galicia | 11,384,040 | 8,935,421 | 1.95% | US$ |
| Tecpetrol S.A. | Banco Provincia | 8,884,353 | 4,490,999 | BADLAR + 2,0% | ARS |
| Tecpetrol S.A. | Banco Santander Río | - | 11,974,701 | BADCOR + 4% | ARS |
| Tecpetrol S.A. | Banco BBVA Francés | - | 11,740,842 | BADCOR + 2% | ARS |

(All amounts in Euros, unless otherwise stated)

## 23. Borrowings (cont.)

**Borrowings with related parties**

| Company | Lender | December 31, 2016 | December 31, 2015 | Interest rate | Currency |
|---|---|---|---|---|---|
| Tecpetrol Internacional S.L.U. | Tecpetrol International S.A. | 381,765,741 | 21,349,773 | 3% | US$ |
| Tecpetrol de Bolivia S.A. | Tecpetrol International S.A. | 76,937,726 | 277,934,439 | LIBOR + 3,00% | US$ |
| Tecpetrol Libertador B.V. | Tecpetrol International S.A. | 37,946,800 | - | 5% | US$ |
| Tecpetrol del Perú S.A.C. | Tecpetrol International S.A. | 27,031,959 | 51,967,100 | LIBOR + 2,10% | US$ |
| Tecpetrol Bloque 56 S.A.C. | Tecpetrol International S.A. | 5,008,863 | 14,529,652 | LIBOR + 2,10% | US$ |
| Norpower S.A. de C.V. | Techint S.A. de C.V. | - | 3,845,187 | LIBOR + 3,33% | US$ |

## 24. Employee benefits

The amounts recognized in the Consolidated Statement of Financial Position and the Consolidated Income Statement are as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Pension plans and others | 10,968,006 | 11,594,083 |
| Employee retention and long term incentive programs | 7,325,971 | 6,435,003 |
| Other mandatory personnel benefits | 1,669,708 | 893,322 |
| **Total liabilities recognized (a)** | **19,963,685** | **18,922,408** |

(a) No debt is due as of December 31, 2016 and 2015.

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Pension plans and others | 2,308,501 | 1,986,332 |
| Employee retention and long term incentive programs | 1,352,697 | 412,826 |
| Other mandatory personnel benefits | 1,287,048 | 509,752 |
| **Total included in Labor costs (Note 9)** | **4,948,246** | **2,908,910** |

Pension plans and others:

Key actuarial assumptions of the employee benefit programs that are in place as “unfunded benefit plans” and “other long-term benefits” include an average real discount rate of 7% and 5% and a rate of compensation increase of 2% and 3%, respectively.

The amounts recognized in the Consolidated Income Statement are as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Service cost | 400,581 | 615,985 |
| Interest cost | 1,907,920 | 1,370,347 |
| **Total** | **2,308,501** | **1,986,332** |

(All amounts in Euros, unless otherwise stated)

## 24. Employee benefits (cont.)

Movements in the liability recognized in the Consolidated Statement of Financial Position are as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| At the beginning | 11,594,083 | 13,502,313 |
| Currency translation differences | 333,018 | 1,491,373 |
| Total expense | 2,308,501 | 1,986,332 |
| Exchange rate differences | (731,376) | (2,117,389) |
| Remeasurements | (1,133,315) | (438,154) |
| Additions / decreases, net | 1,182,381 | 1,644,743 |
| Contributions paid | (2,585,286) | (4,475,135) |
| **At the end** | **10,968,006** | **11,594,083** |

Management estimates that an increase/decrease of 1% in the discount rate or in the salary increase rate, while holding all other assumptions constant, would not generate a significant impact on the financial position or results of operations as of December 31, 2016 and 2015. However, in practice is unlikely that changes occur in one premise at a time, since changes in some of the premises should be correlated.

## 25. Provisions

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Asset retirement obligations | 65,982,363 | 49,666,422 |
| Provision for other contingencies | 6,586,228 | 7,013,278 |
| **Total non-current** | **72,568,591** | **56,679,700** |
| Provision for other contingencies | 297,308 | 430,450 |
| **Total current** | **297,308** | **430,450** |
| **Total** | **72,865,899** | **57,110,150** |

The evolution of the provisions is as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| At the beginning | 57,110,150 | 56,004,465 |
| Currency translation differences | 1,924,063 | 4,339,384 |
| Additions, net | 14,871,791 | 5,572,425 |
| Used | (1,040,105) | (1,855,928) |
| Deconsolidation of subsidiary | - | (4,548,499) |
| Transfer to disposal group classified as held for sale | - | (2,401,697) |
| **At the end** | **72,865,899** | **57,110,150** |

At December 31, 2016 and 2015, the provision related to asset retirement obligations was estimated using expected average inflation rates in a range between 1.3% and 2.1% and discount rates in a range between 3.4% and 12.9%, respectively.

(All amounts in Euros, unless otherwise stated)

## 26. Trade and other payables

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Non-current** | | |
| Trade payables | 49,267 | 159,015 |
| | **49,267** | **159,015** |

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Current** | | |
| Trade payables | 126,453,912 | 112,147,951 |
| Payables to related parties (Note 31) | 2,982,846 | 5,616,848 |
| Social security and other taxes | 22,026,983 | 21,049,265 |
| Other liabilities | 4,033,906 | 6,257,414 |
| | **155,497,647** | **145,071,478** |

At December 31, 2016 and 2015, there were no outstanding payments due to suppliers beyond the term established by the Law 3/2004.

**Information on the payment terms for suppliers. Disclosure obligations of Law 15/2010 of July 5th**

In compliance with the provisions established by Law 15/2010, the following information is provided:

| | 2016 | 2015 |
|---|---|---|
| Payments (Euros) | 213,191 | 1,299,417 |
| Pending payments (Euros) | 2,371 | 65 |
| Average payment period (days) | 18 | 5 |
| Paid transactions ratio (days) | 18 | 5 |
| Pending payments ratio (days) | 5 | 43 |

The calculation of these ratios does not include balances and transactions with related parties, as they may distort it.

## 27. Deferred income tax

The evolution of the deferred income tax balances is as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| At the beginning - Net deferred liability | 32,175,978 | 24,922,811 |
| Currency translation differences | 896,808 | 2,951,412 |
| (Credit) / Charge of the year (Note 12) | (3,595,932) | 3,709,893 |
| Charged directly to other comprehensive income | 379,935 | 591,862 |
| **At the end - Net deferred liability** | **29,856,789** | **32,175,978** |

(All amounts in Euros, unless otherwise stated)

### 27. Deferred income tax (cont.)

The evolution of deferred tax assets and liabilities during the year are as follows:

| **Deferred tax liabilities** | **Property, plant and equipment** | **Provisions** | **Others** | **Total** |
|---|---|---|---|---|
| At December 31, 2014 | 50,418,332 | - | 4,888,953 | 55,307,285 |
| Currency translation differences | 6,045,653 | - | 602,820 | 6,648,473 |
| Income statement charge - Loss / (Gain) | 12,696,809 | - | 1,644,984 | 14,341,793 |
| Charged directly to other comprehensive income | - | - | 469,610 | 469,610 |
| **At December 31, 2015** | **69,160,794** | **-** | **7,606,367** | **76,767,161** |
| Currency translation differences | 2,120,559 | 10,171 | 155,096 | 2,285,826 |
| Income statement charge - Loss / (Gain) | (3,010,671) | 205,739 | (1,894,586) | (4,699,518) |
| Charged directly to other comprehensive income | - | - | (16,726) | (16,726) |
| **At December 31, 2016** | **68,270,682** | **215,910** | **5,850,151** | **74,336,743** |

| **Deferred tax assets** | **Property, plant and equipment** | **Provisions** | **Tax losses** | **Others** | **Total** |
|---|---|---|---|---|---|
| At December 31, 2014 | (1,290,164) | (22,819,481) | (1,949,057) | (4,325,772) | (30,384,474) |
| Currency translation differences | (135,938) | (2,605,677) | (521,959) | (433,487) | (3,697,061) |
| Income statement charge - Loss / (Gain) | 674,393 | 1,086,393 | (15,841,322) | 3,448,636 | (10,631,900) |
| Charged directly to other comprehensive income | - | 122,252 | - | - | 122,252 |
| **At December 31, 2015** | **(751,709)** | **(24,216,513)** | **(18,312,338)** | **(1,310,623)** | **(44,591,183)** |
| Currency translation differences | (20,189) | (617,596) | (558,506) | (192,727) | (1,389,018) |
| Income statement charge - Loss / (Gain) | 90,615 | 3,184,240 | 857,283 | (3,028,552) | 1,103,586 |
| Charged directly to other comprehensive income | - | 396,661 | - | - | 396,661 |
| **At December 31, 2016** | **(681,283)** | **(21,253,208)** | **(18,013,561)** | **(4,531,902)** | **(44,479,954)** |

The following amounts, determined after appropriate set off in accordance with Note 2.12, are shown in the Consolidated Statement of Financial Position:

| | **December 31, 2016** | **December 31, 2015** |
|---|---|---|
| Deferred tax assets | (17,195,221) | (15,723,037) |
| Deferred tax liabilities | 47,052,010 | 47,899,015 |
| | **29,856,789** | **32,175,978** |

The estimated term of reversal of these deferred assets and liabilities is as follows:

| | **December 31, 2016** | **December 31, 2015** |
|---|---|---|
| Deferred tax assets to be recovered after 12 months | (18,694,844) | (19,064,047) |
| Deferred tax liabilities to be recovered after 12 months | 68,270,682 | 69,160,794 |
| Deferred tax assets to be recovered within 12 months | (25,785,110) | (25,527,136) |
| Deferred tax liabilities to be recovered within 12 months | 6,066,061 | 7,606,367 |

(All amounts in Euros, unless otherwise stated)

## 28. Contingencies

Tecpetrol has contingent liabilities in respect of legal claims arising in the ordinary course of business. Likewise, there are certain interpretations made by the regulators as to the calculation and payment of certain taxes than may differ from Tecpetrol's position. Based on management's assessment and the advice of legal counsels, it is not anticipated that the ultimate resolution of pending litigation will result in amounts in excess of recorded provisions in these Consolidated Annual Accounts.

*Argentina – Income tax assessment*

The Argentine tax authority *Administración Federal de Ingresos Públicos – AFIP*, has notified the subsidiary Tecpetrol S.A. of an income tax assessment amounting to 1.5 million Euros, in addition to the corresponding interests and fines, with the argument of improper treatment of the result of certain crude oil derivatives and other deductions for the fiscal years 2000 and 2001. In July 2006, Tecpetrol S.A. appealed, resulting in a stay of execution with respect to the demand for payment. In 2011, Tecpetrol S.A. was notified of the Tax Court's decision which ruled in favor of Tecpetrol S.A. as regards the treatment of oil derivative instruments and against Tecpetrol S.A. as regards certain deductions. As the suspense effect of the appeal to the Tax Court had expired, in November 2011, Tecpetrol S.A. paid up the amount corresponding to the items detailed in the ruling (approximately US$0.06 million of taxes plus interests); notwithstanding, the Argentine subsidiary has lodged an appeal with the *Cámara Nacional de Apelaciones en lo Contencioso Administrativo Federal* (National Appeal Court for Federal Administration Litigation). In July 2013, the National Appeal ruled in favor of Tecpetrol S.A. However, the AFIP appealed the decision to the *Corte Suprema de Justicia* (Supreme Court).

## 29. Situation of associated companies: Transportadora de Gas del Norte S.A. and Transportadora de Gas del Mercosur S.A.

*Transportadora de Gas del Norte S.A. ("TGN"):*

TGN began its operations at the end of 1992, operating two main gas pipelines connected to fields in the North and Mid-West of Argentina, whose location allows TGN to meet the gas needs of the countries in the Southern Cone.

The measures adopted by the Argentine Government during 2002 altered the legal and contractual conditions of the framework in which TGN conducted its business until December 2001. The tariff-freeze, the devaluation of the Argentine currency, added to a generalized increase of costs and the fall in export transportation revenues due to the lack of gas balances, caused a substantial imbalance in TGN's financial and equity structure. On December, 2008, the *Ente Nacional Regulador de Gas - ENARGAS* (Argentine Gas Regulator) took the decision to intervene TGN for 120 days and conduct an integral audit. At the end of this period, the intervention was successively extended by ENARGAS resolutions until December 15, 2015. It should be noted that TGN has continued providing the public service it has in charge, without affecting either its customers or general users.

(All amounts in Euros, unless otherwise stated)

## 29. Situation of associated companies: Transportadora de Gas del Norte S.A. and Transportadora de Gas del Mercosur S.A. (cont.)

*Transportadora de Gas del Norte S.A. ("TGN") (cont.):*

After exhausting all administrative and judicial instances in pursuit of restoring the economic-financial balance of its license agreement, in October, 2012, TGN's Board of Directors decided to sue the Argentine National State with the aim to obtain a compensation for the damages experienced as a result of devaluation and tariff-freeze. In September, 2016, the case was submitted for judgment.

In April 2014, ENARGAS implemented the interim rate adjustment agreement which was concluded in 2008 and ratified by the Argentine Executive Government in 2010 (Poder Ejecutivo Nacional), approving an increase in the transportation rates of 8% as from the April 1, 2014, 14% accumulated as from June 1, 2014 and 20% accumulated from August 1, 2014. The increasing income was used in investing activities approved by ENARGAS. Subsequently, on June 5, 2015, ENARGAS put in force, through Resolution I/3348, new tariff charts which includes an increase of 69.1%, effective from May 1, 2015.

In February 2016, TGN entered into a second interim rate adjustment agreement, subject to the execution of a comprehensive contractual renegotiation agreement and in March 2016, ENARGAS issued Resolution I/3723, which approves a new increase in TGN's tariffs of 289.2%, effective from April 1, 2016. This increase is subject to the compliance of a mandatory investment plan amounting to 1,041 million Argentine pesos, to be audited by ENARGAS.

As from May 2016 various courts from different jurisdictions began to issue several precautionary measures, suspending or limiting the temporary increases in the distribution rates, which include the price of gas and the carriage rates, generally based on the failure to conduct public hearings before their enforcement. In this context, in July 2016 the mentioned Resolution I/3723 was annulled for not complying with the requirement of prior public hearings. This judgment caused a break in the payments chain and forced TGN to suspend the mandatory investment plan as well as to delay payments to its suppliers. In August 2016 the National Supreme Court of Justice (Corte Suprema de Justicia) ratified its annulment, benefiting all residential users across the country. As a result, in September 2016, the Ministries of Finance and of Energy and Mining ("MINEM" – Ministerios de Hacienda y Finanzas y de Energía y Minería) and the ENARGAS conducted a public hearing in which the gas rate components were analyzed.

In October 2016, the MINEM issued the Resolution N° 212/16 approving new gas natural prices in the access points to the carriage systems. Likewise, the ENARGAS issued the Resolution I/4053 re-establishing the 289.2% temporary increase in TGN´s rates as from October 7, 2016 and maintaining the mandatory investment plan of $1,041 million.

## 29. Situation of associated companies: Transportadora de Gas del Norte S.A. and Transportadora de Gas del Mercosur S.A. (cont.)

*Transportadora de Gas del Norte S.A. ("TGN") (cont.):*

Although Resolution I/4053 provides certainty regarding future incomes, the uncertainty related to the collection of the carriage services provided by TGN from April to September, 2016, to the distribution companies in relation to their non-residential customers still remains.

The tariff increase implemented throughout 2016 has allowed TGN to finance its operating and maintenance expenses and works, in addition to paying off its financial maturities. However, TGN considers that it is necessary to complete the comprehensive tariff review process which is still pending and to maintain the new tariffs over time to meet the pipeline's operational and maintenance demands.

*Transportadora de Gas del Mercosur S.A. ("TGM"):*

TGM began its commercial operations in 2000, complying with its contractual obligations to provide YPF S.A. with the transportation capacity to up to 2.8 million m3/day of natural gas for delivery at the sub-fluvial frontier between Argentina and Brazil under the Uruguay river.

On the base of the rules adopted by the Argentine Government aimed at palliating the effects of the energy crisis in the short term, the Subsecretaría de Combustibles (Fuels Sub-secretariat) passed a series of measures suspending the export of certain volumes of natural gas in order to secure domestic supply. As a result, on April 2009, TGM announced the termination of the transport agreement with YPF, which is currently its only source of income and promoted legal actions in the Corte Internacional de Arbitraje de la Cámara de Comercio Internacional (International Court of Arbitration of the International Chamber of Commerce).

In May, 2013 the Tribunal Arbitral issued an initial award declaring that the early termination of the gas contract and transport agreement was due to YPF's responsibility breach and recognized TGM's right to collect unpaid invoices, plus another amount to be determined in respect of damages arising from the termination of the agreement. On December 17, 2013 the Tribunal Arbitral started with the second stage of the arbitral process, in order to discuss and determine the amounts of compensation to be received by TGM. However, YPF raised the annulment of the initial award, which was rejected by the Tribunal Arbitral, so YPF interposed a complaint appeal in the Argentine Justice.

In April, 2016, the Tribunal Arbitral issued the final award, forcing YPF to pay to TGM the amount of US$320 million including the compensation or the early termination of the gas contract and transport agreement, unpaid invoices, irrevocable contributions (and their corresponding interests until its effective payment) and expenses reimbursements related with the legal actions. In May, 2016, YPF raised the annulment of the final award, which was rejected by the Tribunal Arbitral in the same month, so YPF filled once again a complaint action in the Argentine Justice.

(All amounts in Euros, unless otherwise stated)

## 29. Situation of associated companies: Transportadora de Gas del Norte S.A. and Transportadora de Gas del Mercosur S.A. (cont.)

*Transportadora de Gas del Mercosur S.A. ("TGM") (cont.):*

Based in the opinion of their legal counsel, TGM considers that the Argentine Justice is incompetent to understand in any issue related to the initial award, because the location of the arbitration (Montevideo, Uruguay) determines the exclusive jurisdiction of the Uruguayan Justice.

The Company carried out impairment tests over the Company's stake in the share capital of TGN and TGM. The hypotheses and key assumptions over the future are based on the operating and commercial scenarios as regards the activities and prices projected by each of the operating companies, and takes into account the outlook projected by Tecpetrol's management concerning income tax considerations, different scenarios for the collection of dividends arising from these investments and the discount rate. These estimates are based on future assumptions. Actual results may differ from those estimated.

## 30. Main commitments, guarantees and restrictions

At the date of these consolidated annual accounts, the Company and its subsidiaries hold the following commitments and/or guarantees:

| Item | Company | Beneficiary | Amounts in US$ millions | Comments |
|---|---|---|---|---|
| Guarantee of compliance with the obligations of Consorcio Shushufindi S.A. under the integrated services contract. | Tecpetrol Internacional S.L.U. | Petroamazonas | 21 | Limited warranty up to 25% of the amount to be established in each annual work program. |
| Joint guarantee of compliance with the obligations of Tecpetrol del Peru SAC and Tecpetrol Bloque 56 SAC under the license contract to exploit hydrocarbons in Lote 88 and Lote 56, respectively. | Tecpetrol Internacional S.L.U. | Perupetro S.A. | - | No defined amount. |
| Guarantee of compliance with the obligations of Pardaliservices S.A. under the integrated services contract in Libertador fields. | Tecpetrol Internacional S.L.U. | Petroamazonas | 29 | Limited warranty up to 40% of the amount to be established in each annual work program. |
| Joint guarantee for compliance with the obligations of Tecpetrol Colombia S.A.S. enshrined in the contract for the exploration and exploitation of hydrocarbons with the Agencia Nacional de Hidrocarburos de Colombia ("ANH") and any damages occasioned by non-compliance with them. | Tecpetrol Internacional S.L.U. | Agencia Nacional de Hidrocarburos | - | No defined amount. |

(All amounts in Euros, unless otherwise stated)

### 30. Main commitments, guarantees and restrictions (cont.)

a) Main corporate guarantees:

| Item | Company | Beneficiary | Amounts in US$ millions | Comments |
|---|---|---|---|---|
| Joint, unconditional and irrevocable guarantee for providing Tecpetrol de Bolivia S.A. with all the technical and financial resources required for the latter to fully and appropriately comply with its obligations pursuant to the contracts for the exploitation of the Bloques Aquio and Ipati. | Tecpetrol S.A. | YPFB | 17 | - |
| Guarantee for compliance with the obligations of the associated company Kamana Services S.A. under the terms of the contract for the execution of optimization activities to improve production, enhanced recovery and for the exploration in Pañacocha, Tumali and Eden Yuturi fields from the Amazonic region of Ecuador. | Tecpetrol Internacional S.L.U. | Petroamazonas | 256 | Limited warranty up to 40% of the amount to be established in each annual work program. |

b) Main guarantees for financial entities and insurance companies

| Item | Applicant Company | Issuer | Beneficiary | Amounts in US$ Millions | Comments |
|---|---|---|---|---|---|
| Guarantee for compliance with the obligations arising from its contract with Loma Ancha area. | Tecpetrol S.A. | Fianzas y Crédito S.A. Compañía de Seguros | Gas y Petróleo del Neuquén S.A. | 26 | - |
| Guarantee for the payment of the acquisition price for the shareholding of Argentinean Pipeline Holding Company (“APHC”) in Gasinvest, TGM, TGN and related receivables. | Tecpetrol Internacional S.L.U. | Banco Santander | APHC | 5 | Compañia General de Combustibles S.A. issued an indemnity in favor of Tecpetrol Internacional S.L.U. for US$2 million. |
| Due compliance with the obligations arising from the works contract signed between Norpower S.A. de C.V. and PEP. | Norpower S.A. de C.V. | HSBC Mexico S.A. | Pemex Exploración y Producción | 6 | Tecpetrol Internacional S.L.U. signed a guarantee for up to US$6 million in favor of HSBC Mexico S.A. Also, TE&IC S.A. issued an indemnity in favor of Tecpetrol Internacional S.L.U. for up to US$2.5 million. |

### 30. Main commitments, guarantees and restrictions (cont.)

c) Main commitments

The associated company Techgen S.A. de C.V. is a party to transportation capacity agreements with Kinder Morgan Gas Natural de Mexico, S. de R.L. de C.V., Kinder Morgan Texas Pipeline LLC and Kinder Morgan Tejas Pipeline LLC for a purchasing gas capacity starting on August 1, 2016 and ending on July 31, 2036. As of December 31, 2016, the outstanding value of this commitment was approximately US$279 million. Tecpetrol's exposure to the mentioned commitment at this date amounts to US$83.7 million (79.4 million Euros), corresponding to the interest of Tecpetrol in the associated company (30%).

d) Restrictions to the share transfer and profits distribution

The terms and conditions of the transfer agreement for the privatization of *Gas del Estado S.E.* ("GdE") impose certain restrictions on the transfer of TGN's shares held by Gasinvest S.A. and the transfer of the latter's shares by its shareholders.

In accordance with such restrictions, any transfer or assignment or any other act leading to a decrease below 51% in the interests held by the former shareholders of Gasinvest, including any shortfall in the subscription by those shareholders of any capital increase in Gasinvest, requires prior approval of ENARGAS.

These restrictions do not apply to transfers between parties belonging to the same economic group as specified in the terms and conditions of the aforementioned agreement.

As established in the current financial agreements, TGN may not pay out dividends if it has incurred in default or grounds for default, and in any case, the dividend shall not be in excess of available basket amount (as defined in the contract). Also, TGN may not distribute dividends without the previous approval of ENARGAS.

Additionally, as established in the terms and conditions of the international public tender for the privatization of GdE, TIBSA Inversora S.A. may dispose of a portion of the majority shareholding in Litoral Gas provided that it does not reduce its interest in the capital stock and voting rights to less than 51%. The transfer of this percentage, as well as any act that reduces TIBSA's shareholding to an amount below this equity interest shall be subject to the prior authorization of the regulatory entity.

e) Restricted assets

A substantial majority of the assets transferred by GdE to TGN, mainly those included under the headings of gas pipelines, high-pressure branches, compressor plants and pressure regulation and/or measuring stations, has been defined in the License as "essential assets for rendering the service licensed''.

(All amounts in Euros, unless otherwise stated)

## 30. Main commitments, guarantees and restrictions (cont.)

e) Restricted assets (cont.)

In accordance with TGN license agreement, TGN is bound to repair and maintain all essential assets, including making any improvements and extensions as established by specific standards defined in the agreement. TGN may by no means dispose any essential assets, encumber, rent or otherwise give them in loan and restitution, nor may it use them for any other purpose than the rendering of the transportation service, without prior authorization from ENARGAS.

## 31. Related party balances and transactions

Tecpetrol Internacional S.L.U. is controlled by Tecpetrol International S.A., which owns 100% of the Company's shares.

San Faustin S.A. a Luxembourg *Société Anonyme* ("San Faustin") owns the Company through its subsidiaries.

Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, a Dutch private foundation (Stichting) ("RP STAK") holds voting shares in San Faustin sufficient to control San Faustin.

No person or group of persons controls RP STAK.

The main transactions carried out with related parties (includes operations disclosed as discontinued operations in the Consolidated Income Statement) are as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| *Sole shareholder:* | | |
| Interest expense | (19,542,509) | (16,691,104) |
| | | |
| *Associated companies:* | | |
| Service revenues | 12,651,992 | 20,728,664 |
| Interest income | 2,053,497 | 80,689 |
| | | |
| *Joint ventures:* | | |
| Service revenues | 4,391,883 | 6,810,392 |
| Fees and services | - | 863,775 |
| | | |
| *Other related parties:* | | |
| Sales of goods, services and others | 529,725 | 4,860,192 |
| Purchases of goods | (132,486) | (5,113,770) |
| Fees and services | (541,382) | (593,989) |
| Interest income | 2,501,365 | 645,189 |
| Interest expense | (144,547) | (286,647) |

(All amounts in Euros, unless otherwise stated)

### 31. Related party balances and transactions (cont.)

Main year-end balances with related parties are disclosed below:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| *Short-term deposit with related parties (Note 21)* | | |
| Other related parties | 79,299,459 | 46,099,388 |
| *Trade receivables from related parties (Note 20)* | | |
| Non-current - Associated companies | 4,991,885 | - |
| Current - Associated companies | 8,781,524 | 7,303,324 |
| Current - Joint ventures | 14,157 | 154,868 |
| Current - Other related parties | 16,296 | 364,579 |
| | **8,811,977** | **7,822,771** |
| *Receivables from related parties (Note 19)* | | |
| Non-current - Associated companies | 62,374,451 | 6,876,133 |
| Current - Associated companies | 220,562 | 117,889 |
| Current - Joint ventures | 313,559 | 153,899 |
| Current - Other related parties | 76,283 | 415,577 |
| | **610,404** | **687,365** |

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| *Payables to related parties (Note 26)* | | |
| Current - Associated companies | 128,953 | 416,985 |
| Current - Other related parties | 2,853,893 | 5,199,863 |
| | **2,982,846** | **5,616,848** |
| *Borrowings (Note 23)* | | |
| Non-current - Sole shareholder | 419,312,140 | 305,125,988 |
| Current - Sole shareholder | 109,379,646 | 61,592,574 |
| Current - Related parties | 69,076 | 4,000,688 |
| | **109,448,722** | **65,593,262** |

**Key management compensation**

Total compensation of Directors and key management amounted to 2.33 million Euros at December 31, 2016 and 3.26 million Euros at December 31, 2015.

(All amounts in Euros, unless otherwise stated)

## 32. Principal subsidiaries and jointly-controlled entities

### Subsidiaries

| Company | Main activity | Domicile | % Dec-16 | % Dec-15 |
|---|---|---|---|---|
| Tecpetrol S.A. | Exploration, exploitation, production and sale of oil and gas | Pasaje Della Paolera 299, 16th floor, Ciudad Autónoma de Buenos Aires, Argentina | 95.98 | 95.98 |
| Tecpetrol de Mexico S.A. de C.V. | Provision of services related to the development, infrastructure and maintenance of gas fields | Guillermo González Camarena N° 1200, 7th floor, Colonia Centro de Ciudad Santa Fe, DF, Mexico | 99.92 | 99.92 |
| Burgos Oil Services S.A. de C.V. | Provision of services related to the development, infrastructure and maintenance of gas fields | Guillermo González Camarena N° 1200, 7th floor, Colonia Centro de Ciudad Santa Fe, DF, Mexico | 99.98 | 99.96 |
| Tecpecuador S.A. | Exploration, exploitation, production and sale of oil and gas | Avenida 12 de octubre N° 26-97 y Abraham Lincoln, Edif. Torre 1492 – 2nd floor , Quito, Ecuador | 100 | 100 |
| Tecpetrol del Peru S.A.C. | Exploration, exploitation, production and sale of oil and gas | Av. Victor Andres Belaúnde N° 332, of. 102, Lima, Peru | 99.92 | 99.92 |
| Tecpetrol Bloque 56 S.A.C. | Exploration, exploitation, production and sale of oil and gas | Av. Victor Andres Belaúnde N° 332, of. 102, Lima, Peru | 99.92 | 99.92 |
| Techenergy Services S.A. de C.V. | Exploration, operation and maintenance of hydrocarbons fields | Boulevard 1° de mayo 34, Colonia Jose de Escandón, Reynosa, Mexico | 100 | 100 |
| Tecpetrol de Bolivia S.A. | Exploration, exploitation, production and sale of oil and gas. | Calle Sanchez Bustamante S/N, Ketal building, 4th floor, ap. 402, La Paz, Bolivia | 94.12 | 94.12 |
| Dapetrol S.A. | Exploration, discovery, exploitation and sale of oil and gas | Pasaje Della Paolera 299, 16th floor, Ciudad Autónoma de Buenos Aires, Argentina | 96.08 | 96.08 |
| Tecpetrol Corporation (a) | Exploration, exploitation and production of oil and gas | 2711 Centerville Road, Suite 400, Wilmington, Delaware, United States of America | 99.92 | 99.92 |
| Norpower S.A. de C.V. | Carrying out works related to the development, infrastructure and maintenance of the gas pipeline System 3 | Guillermo González Camarena N° 1200, 7th floor, Colonia Centro de Ciudad Santa Fe, DF, Mexico | 59.98 | 59.98 |
| Pardaliservices S.A. (b) | Provision of services of exploration, evaluation and development of hydrocarbons | Avenida 12 de octubre N° 26-97 y Abraham Lincoln, Edif. Torre 1492, 3rd floor, Quito, Ecuador | 40 | 40 |
| Tecpeservices S.A. | Provision of services of design, engineering and construction of works in fields or any other oil facilities | Avenida 12 de octubre N° 26-97 y Abraham Lincoln, Edif. Torre 1492 – 2nd floor , Quito, Ecuador | 100 | 100 |
| Tecsip S.A. | Provision of professional and technical services, mainly directed to the oil industry | Avenida 12 de octubre N° 26-97 y Abraham Lincoln, Edif. Torre 1492 – 2nd floor , Quito, Ecuador | 100 | 100 |
| Tecpegas S.A. | Holding and activities related to the hydrocarbons industry, among others | Aquilino de la Guardia N° 8, Edif. Igra, Ap. 4, Panama | 100 | 100 |
| Suizum - Servicios de Consultoria S.L. | Holding and provision of advisory services | Calle García de Paredes 94, 1˚ A, Madrid, Spain | 100 | 100 |
| Servicios Libertador S.L. (c) | Holding and provision of financial services | Calle García de Paredes 94, 1˚ A, Madrid, Spain | 40 | 40 |
| Tecpetrol Servicios S.L. | Holding | Calle García de Paredes 94, 1˚ A, Madrid, Spain | 100 | 100 |
| Americas Petrogas Argentina S.A. (d) | Exploration, discovery, exploitation, production and sale of oil and gas | Mitre 538, 4th floor, Mendoza, Argentina | 96 | 96 |
| Tecpeandina S.A. (e) | Holding and activities related to the hydrocarbons industry, among others. | Aquilino de la Guardia N° 8, Edif. Igra, Apto. 4, Panama | 100 | - |

(a) See Note 34.
(b) The subsidiary Servicios Libertador S.L. has a 99.99% stake in Pardaliservices S.A. at December 31, 2016 and 2015.
(c) The subsidiary Marble Properties B.V. has a 60% stake in Servicios Libertador S.L. at December 31, 2016 and 2015.
(d) See Note 33.

(All amounts in Euros, unless otherwise stated)

## 32. Principal subsidiaries and jointly-controlled entities (cont.)

**Joint operations – Argentina**

*a) Areas operated by Tecpetrol*

| Name | Location | % at Dec 31, 2016 | % at Dec 31, 2015 | Assignment date | Duration (years) |
|---|---|---|---|---|---|
| Agua Salada | Río Negro | 70.00 | 70.00 | September 1990 | 35 |
| Atuel Norte | Mendoza | 50.00 | 50.00 | September 1990 | 25 (i) |
| El Tordillo | Chubut | 52.13 | 52.13 | June 1991 | 35 |
| Aguaragüe | Salta | 23.00 | 23.00 | November 1992 | 35 (ii) |
| La Tapera-Puesto Quiroga | Chubut | 52.13 | 52.13 | July 1994 | 35 (iii) |
| Rio Atuel | Mendoza | 33.34 | 33.34 | December 2008 | (iv) |
| Medanito Sur (v) | La Pampa | 60.00 | 60.00 | August 2015 | 25 |
| Los Toldos (v) | Neuquén | 45.00 | 45.00 | August 2015 | 11 |
| Loma Ranqueles (v) | Neuquén | 65.00 | 65.00 | August 2015 | 10 (vi) |
| Loma Ancha (vii) | Neuquén | 95.00 | 95.00 | December 2014 | 25 |

(i) During 2013, the partners Petrolera El Trébol S.A. and Petrobras Argentina S.A. renounced to the temporary consortium Atuel Norte. Tecpetrol S.A. assumed 100% of the costs and investments of Petrolera El Trébol S.A. from May 15, 2014, date of its effective retirement. As a consequence, Tecpetrol's actual stake over Atuel Norte is 66.67% from that date. On September 6, 2016, after the end of the exploitation concession of the area, the parties signed the reversion agreement through which the province of Mendoza took possession of the same.

(ii) The term is calculated as from November 2001 for the "San Antonio Sur" field and includes the extension of the term awarded in 2012.

(iii) This term is calculated as from July 21, 1992, when the area was awarded to Glacco S.A. Tecpetrol S.A. purchased the area from Glacco S.A. in July, 1994.

(iv) This period will have the required duration to ensure compliance with the obligations arising from the contract.

(v) The areas were acquired through the acquisition of APASA (see Note 33). The term is calculated from March 2012, May and August 2007, award dates of Medanito Sur, Los Toldos y Loma Ranqueles areas, respectively, to APASA.

(vi) During March 2016, APASA's Board of Directors agreed with ExxonMobil Exploración Argentina SRL, a division agreement of Los Toldos area, by which it was established that blocks Los Toldos Bloque I Norte, Los Toldos Bloque II Este, Los Toldos Bloque III and Los Toldos Bloque IV will be explored and developed by APASA (with a 90% stake) together with Gas and Petróleo del Neuquén S.A. (10%). On March 8, 2017, the government of the Province of Neuquén issued Decree 333/17 which, among other issues, approved the division of the area and created two new UTEs.

(vii) On November 25, 2015, it was agreed with the government of the province of Neuquén, a 2 year extension of the exploration term of the area, until June 15, 2017.

(viii) Tecpetrol S.A. assumed 100% of the costs and investments of its partner, Gas y Petróleo del Neuquén S.A. as a result of an agreement between them.

(All amounts in Euros, unless otherwise stated)

## 32. Principal subsidiaries and jointly-controlled entities (cont.)

*b) Areas operated by third parties*

| Name | Location | % at Dec31, 2016 | % at Dec31, 2015 | Assignment date | Duration (years) |
|---|---|---|---|---|---|
| Ramos | Salta | 25.00 | 25.00 | January 1991 | 35 |
| Huacalera (ii) | Neuquén | 19.50 | 19.50 | August 2015 | 7 |

(i) The area was acquired through the acquisition of APASA (see Note 33). The term is calculated from November 2007, award date of Huacalera area to APASA. On November 22, 2016, an agreement for the dissolution of the UTE was signed by which the province of Neuquén took possession of the area.

**Joint operations – Other countries**

| Country | % Dec-2016 | % Dec-2015 | Area | Operator / Common representative | Assignment date | Duration |
|---|---|---|---|---|---|---|
| Venezuela | 43.75 | 43.75 | Colon (Tecpetrol - Coparex-CMS Oil and Gas Consortium) | Tecpetrol de Venezuela S.A. | December 1994 | Until the period and/or fulfillment of all rights and obligations related to "Convenio de Servicios de Operación" |
| Venezuela | 43.75 | 43.75 | Colon (Colon Consortium) | Suizum - Servicios de Consultoria S.L.U. | September 2010 | Until such time as the obligations related to the contract to convert this to a mixed company are fulfilled. |
| Peru | 10 | 10 | Camisea/Pagoreni (Bloques 88 y 56) | Pluspetrol Peru Corporation S.A. | December 2000 and September 2004 | 40 years |
| Bolivia | 20 | 20 | Ipati y Aquio | Total Exploration & Production Bolivie | May 2007 | Ipati: 31 years<br>Aquio: 35 years |

**Main joint operations - Assets and liabilities according to Tecpetrol's interest:**

| Designation | Assets | | Liabilities | |
|---|---|---|---|---|
| | Dec-16 | Dec-15 | Dec-16 | Dec-15 |
| **ARGENTINA** | | | | |
| Agua Salada | 16,300,902 | 22,181,949 | 12,282,620 | 9,731,035 |
| El Tordillo | 120,087,495 | 123,671,390 | 44,192,159 | 46,447,358 |
| Aguaragüe | 32,252 | 21,345,526 | 257,380 | 6,318,270 |
| Ramos | 14,483,070 | 15,165,859 | 7,295,974 | 5,069,819 |
| La Tapera - Puesto Quiroga | 6,931,932 | 5,186,325 | 5,900,016 | 1,476,871 |
| Atuel Norte | 3,641,053 | 401,164 | 888,255 | 587,489 |
| Rio Atuel | 4,401,072 | 10,135,400 | 1,261,289 | 3,138,233 |
| Medanito Sur | 2,421,955 | 23,945,714 | 8,645,230 | 9,367,296 |
| Los Toldos | 51,117,660 | 36,593,434 | 9,151,345 | 445,959 |
| **VENEZUELA** | | | | |
| Colon | 100,855 | 36,042 | 144,020 | 15,733 |
| **PERU** | | | | |
| Bloque 88 | 163,631,310 | 163,121,564 | 10,111,045 | 7,577,844 |
| Bloque 56 | 114,277,074 | 118,000,250 | 7,366,430 | 2,921,106 |
| **BOLIVIA** | | | | |
| Aquio | 25,292,452 | 31,085,792 | 729,913 | 1,715,192 |
| Ipati | 270,364,880 | 223,540,805 | 40,876,134 | 7,942,598 |

(All amounts in Euros, unless otherwise stated)

### 33. Acquisition of Americas Petrogas Argentina S.A.

On August 28, 2015, the Company completed the acquisition of 96% of the issued share capital of Americas Petrogas Argentina S.A. The Sole shareholder acquired the remaining 4% of the shared capital of APASA.

The total transaction price amounted to US$59.8 million (53.1 million Euros). With this transaction, Tecpetrol and its Sole shareholder have acquired the operation of various areas in the Neuquén basin, consolidating its positioning for the future development of shale resources.

Non-controlling interest of the acquired subsidiary was measured at the non-controlling interest's proportionate share of the acquiree's net assets.

The table below discloses the fair values of the acquired main assets and liabilities of APASA, which have been incorporated in the Consolidated Annual Accounts since the acquisition date:

| | **Fair value at acquisition date** |
|---|---|
| Property, plant and equipment | 41,250,064 |
| Inventories | 1,223,657 |
| Other receivables and prepayments | 19,395,312 |
| Trade receivables | 2,248,748 |
| Cash and cash equivalents | 3,917,911 |
| Borrowings | (2,152,865) |
| Trade and other payables | (13,943,431) |
| **Net identifiable assets acquired** | **51,939,396** |
| Goodwill (i) | 1,145,155 |
| **Subtotal** | **53,084,551** |
| Less: Non-controlling interests | (2,123,382) |
| **Net assets acquired** | **50,961,169** |

(i) Non-deductible for tax purposes.

At December 31, 2015, the Consolidated Income Statement includes net sales for 4.1 million Euros and a net loss of 1.3 million Euros, corresponding to APASA, for the period from August 28, 2015 to December 31, 2015.

If the acquisition had occurred on January 1, 2015, consolidated pro-forma net sales would have been 17.7 million Euros at December 31, 2015.

The net cash outflow used to acquire APASA is as follows:

| | |
|---|---|
| Cash used in the acquisition | 53,084,551 |
| *Less:* | |
| Cash and cash equivalents acquired | (3,917,911) |
| **Net cash used in the acquisition at December 31, 2015** | **49,166,640** |
| *Less:* | |
| Cash reimbursements (1) | (2,023,988) |
| **Net cash used in the acquisition at December 31, 2016** | **47,142,652** |

(1) Corresponding to the closing of the acquisition transaction.

(All amounts in Euros, unless otherwise stated)

### 33. Acquisition of Americas Petrogas Argentina S.A. (cont.)

Acquisition-related costs amounted to Euros 1,475,720 and were included in Other operating expenses in the Consolidated Income Statement at December 31, 2015.

### 34. Assets and liabilities of disposal group classified as held for sale and discontinued operations

Results from discontinued operations disclosed in the Consolidated Income Statement are as follows:

| | **December 31, 2015** |
|---|---|
| Results from discontinued operations - Tecpetrol Corporation | (23,610,561) |
| Results from discontinued operations - Tecpetrol Colombia S.A.S. | (23,317,943) |
| **Results from discontinued operations** | **(46,928,504)** |

*Tecpetrol Corporation*

In October 2015, Tecpetrol agreed with Bluefin Resources PropCo LLC the sale of certain assets and liabilities of the subsidiary Tecpetrol Corporation, which was effective on January 28, 2016. The price of the transaction amounted to US$15 million (Euros 13.5 million), subject to certain adjustments determined in the sale agreement, out of which US$4 million (Euros 3.8 million) were outstanding at December 31, 2016. At the date of issuance of these consolidated annual accounts, the outstanding credit is fully collected.

At December 31, 2015, the aforementioned assets and liabilities from the subsidiary Tecpetrol Corporation were classified as Assets and liabilities of disposal group classified as held for sale in the Consolidated Statement of Financial Position, and they were valued at their fair value less costs to sell (see Note 16). The results of the subsidiary were classified as *Discontinued operations* in the Consolidated Income Statement at December 31, 2015.

The aforementioned assets, liabilities and results are disclosed below:

| | **December 31, 2015** |
|---|---|
| *Assets of disposal group classified as held for sale* | |
| Property, plant and equipment | 25,985,503 |
| Inventories | 72,392 |
| **Total** | **26,057,895** |
| *Liabilities of disposal group classified as held for sale* | |
| Trade and other payables | 2,064,597 |
| Provisions | 9,799,859 |
| **Total** | **11,864,456** |
| *Results* | |
| Gross result | (21,240,891) |
| Other expenses, net | (2,369,670) |
| **Results from discontinued operations** | **(23,610,561)** |
| *Net cash flows* | |
| Cash flows used in operating activities | (4,289,663) |
| Cash flows used in investing activities | (1,292,155) |

(All amounts in Euros, unless otherwise stated)

## 34. Assets and liabilities of disposal group classified as held for sale and discontinued operations (cont.)

*Tecpetrol Colombia S.A.S.*

As a consequence of the loss of control over the subsidiary (see Note 17), the effect of the deconsolidation of its assets and liabilities was recorded in *Other changes in equity* of the Consolidated Statement of Changes in Equity. In addition, the corresponding results were classified as *Discontinued operations* in the Consolidated Income Statement at December 31, 2015.

The results and net cash flows of Tecpetrol Colombia S.A.S. are disclosed below:

| | December 31, 2015 |
|---|---|
| *Results* | |
| Gross result | (5,270,609) |
| Exploration costs | (7,583,393) |
| Other financial results, net | (6,431,668) |
| Other expenses, net | (4,032,273) |
| **Results from discontinued operations** | **(23,317,943)** |
| | |
| *Net cash flows* | |
| Cash flows used in operating activities | (64,603,677) |
| Cash flows used in investing activities | (7,783,825) |
| Cash flows provided by financing activities | 71,519,461 |

## 35. Audit fees

Audit fees accrued during the period for services provided by PricewaterhouseCoopers (PwC) to Tecpetrol amounts to approximately 514 thousand Euros (2015: 638 thousand Euros), of which 23.2 thousand Euros (2015: 23.2 thousand Euros) correspond to the firm PricewaterhouseCoopers Auditores, S.L. (Spain). Fees of other services provided to Tecpetrol under PwC brand, amounts to 157 thousand Euros (2015: 255 thousand Euros).

## 36. Other information

### Environment, health and occupational safety

Tecpetrol's priority objective is to carry out its operations safeguarding the physical integrity of its personnel and third parties, as well as ensuring that the environment is appropriately protected. Management is committed to this approach and supports the belief that injuries and occupational illness can be prevented as well as any incidents which have a negative impact on the environment; safety practices are the responsibility of each member of Tecpetrol; training is the base for ensuring continuous improvement in the operations, its safety and the relationship with the environment.

(All amounts in Euros, unless otherwise stated)

## 36. Other information (cont.)

### Environment, health and occupational safety (cont.)

Tecpetrol applies the best safety and environmental practices for the benefit of the community, the company employees and as a contributing factor for successful business operations. Moreover, places its trust in the ethical and responsible attitude of all its employees at work.

### Remuneration of the members of the board of directors

During the period, the Company accrued charges in favor of the members of its Board of Directors amounting to 13 thousand Euros, corresponding to its management remuneration.

The Company has not granted any loans to its Board members, nor has it assumed any obligations on their behalf as guarantor.

Moreover, there are no obligations assumed by the Company as regards pensions or insurance premium payments related to the former and current members of this Board of Directors.

The Board members of the Company have not informed any conflict of interest situation.

## 37. Subsequent events

No other events, situations or circumstances have occurred subsequent to December 31, 2016, other than those disclosed in the notes to the Consolidated Annual Accounts which are not public known, that may significantly affect the Company’s equity, economic and financial position.

(All amounts in Euros, unless otherwise stated)

# CONSOLIDATED BOARD OF DIRECTORS' REPORT AS OF DECEMBER 31, 2016

## THE COMPANY

TECPETROL INTERNACIONAL S.L.U. is an investment company for the energy businesses belonging to the Techint Organization, which owns shares in hydrocarbons production, transport and distribution companies in Argentina, Peru, Mexico, Bolivia, Ecuador and Venezuela.

The Company, in pursuit of its mission to contribute to industrial excellence through leadership, develops, operates and invests in businesses in the energy market through its subsidiaries, performing oil and gas ("E&P") exploration and production as well as gas transport and distribution ("G&P").

Over the course of nearly thirty years, the energy business unit of Techint Organization has consolidated its position as an investor in the Latin American energy sector and established itself as a qualified operator, strengthening its relationship with key international partners.

Tecpetrol Internacional S.L.U. is controlled by Tecpetrol International S.A., which owns 100% of the Company's shares. San Faustin S.A. a Luxembourg *Société Anonyme* ("San Faustin") owns the Company through its subsidiaries. Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, a Dutch private foundation (Stichting) ("RP STAK") holds voting shares in San Faustin sufficient to control San Faustin. No person or group of person controls RP STAK.

References in this report to "Tecpetrol" refer to Tecpetrol Internacional S.L.U. and its consolidated subsidiaries.

## INTERNATIONAL CONTEXT

Global growth in 2016 was slightly lower than in 2015. The UK's decision to leave the European Union (known as "Brexit") and lower growth rates than expected in the US both had an impact on the more advanced economies. While market reaction to the shock of Brexit was orderly, the effect it will ultimately have is not yet clear, as the fate of the institutional and trade agreements between the United Kingdom and the European Union is still uncertain.

Forced to adapt to falling commodity prices, a number of emerging and developing economies are currently facing huge challenges in terms of economic policy. In the case of Latin America a fall of 0.7% in GDP is estimated, largely due to Brazil being likely to end the year with a drop of about 3.5%.

WTI and Brent prices have remained similar to 2015 values, which means that the fall of 50% compared with mid-2014 prices has held. Annual averages in 2016 were US$ 44.9 to US$ 46.6 per barrel, respectively.

Regarding the gas market, Henry Hub prices showed an annual average of US$ 2.49 per million BTU, similar to 2015, although this implies an average drop of 43% compared to 2014.

(All amounts in Euros, unless otherwise stated)

**RATIOS AND FINANCIAL INDICATORS**

Tecpetrol's main ratios and financial indicators are disclosed below. The analysis is based on, and should be read in conjunction with the audited Consolidated Annual Accounts at December 31, 2016 prepared according to the International Financial Reporting Standards adopted for use in the European Union and approved by European Commission Regulations (EU-IFRS):

| *In millions of Euros* | **December 31, 2016** | **December 31, 2015** |
|---|---|---|
| Net sales | 599.5 | 663.2 |
| Gross profit | 172.9 | 144.1 |
| Operating result (1) | 104.9 | 39.3 |
| Result for the year (1) | 50.5 | (7.7) |
| Cash flows provided by operating activities | 147.5 | 80.8 |
| Additions in Property, plant and equipment and Intangible assets | 149.8 | 234.1 |
| Acquisition of subsidiaries and contributions in associated companies | 9.4 | 76.3 |

(1) Includes impairment charges amounting to 1 and 43.1 million Euros at December 31, 2016 and 2015, respectively.

Main financial indicators are as follows:

| | **December 31, 2016** | **December 31, 2015** |
|---|---|---|
| Current ratio | 0.90 | 0.81 |
| Equity to total liabilities | 0.64 | 0.64 |
| Fixed assets to total assets ratio | 0.81 | 0.80 |
| Net result margin over equity | 8% | -1% |

**Main risks associated with the business**

Tecpetrol carries out its business in a context which is vulnerable to certain risks which could affect its operations, as well as other risks inherent to the region where it operates.

The main risk factors are the change in the trend of international crude oil prices initiated in November 2014, which generates uncertainties in the hydrocarbon activities, the significant influence of local governments in the national economies, the devaluation of local currencies, unexpected changes in regulatory frameworks and social unrest.

Tecpetrol has identified, analyzed and carried out actions in order to mitigate the risks that influence or impact the investing and operating decisions which will allow Tecpetrol to meet its mission satisfactorily.

(All amounts in Euros, unless otherwise stated)

**HUMAN RESOURCES**

Tecpetrol considers that the priority for consolidating growth is training skilled and committed human resources with broad-based experience in the various business fields where it operates. Tecpetrol's strategy during this year, given the context of low world oil prices, has been to continue investing in training, a clear demonstration of its ongoing commitment in this regard.

Key corporate activities such as the Tecpetrol University Induction Camp program (TUIC) and the Leadership and Managers intensive training continued during this year. In addition, the first "Entrepreneurs" program was implemented and a new learning platform launched to enable staff to play a more active role in managing their training.

The average numbers of employees by category are as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Men** | **Women** | **Men** | **Women** |
| Management | 59 | 5 | 60 | 5 |
| Staff | 563 | 121 | 623 | 141 |

At December 31, 2016 and 2015 Tecpetrol has 8 and 5 handicapped workers, respectively.

**COMMUNITY RELATIONS, ENVIRONMENT AND SAFETY**

**Social development**

Tecpetrol works closely with the communities neighboring its operations, contributing to the development of each community and its institutions in areas such as education, health, sports, culture and social promotion. Accordingly, it carries out and supports social development programs in low-income rural and urban areas, communities and schools near its operations, involving both its employees and the local community in the development of its social programs.

Social development plans include a diverse range of programs such as education, sustainable development, cultural renovation, work training and health care. All of these programs are planned on the basis of a detailed analysis of the situation to be improved, as well as clear and efficient technical development actions.

**Safety and environmental protection**

Tecpetrol's Health, Safety and Environment (HSE) policy is founded on leadership and commitment through prevention programs, the investigation of accidents and incidents, risk management, improvement plans and initiatives for safety and environmental care, preventive observations and inspections of operations and activities. Safe operations and maintenance are a priority throughout the company.

(All amounts in Euros, unless otherwise stated)

**COMMUNITY RELATIONS, ENVIRONMENT AND SAFETY (cont.)**

**Safety and environmental protection (cont.)**

During 2016, the Company continued to implement the Health, Safety and Environment Management System, standardizing corporate rules and procedures. Worthy of note is the issuance of environmental conservation procedures as well as HSE management system audit procedures. In addition, a review was carried out of the company's safe work and waste management procedures and work continues on the development of management standards for contractors, as well as socio-cultural issues and an emergency response system.

The results of the indicators are monitored using the HSE Control Panel which records the evolution of accident/incident rates and the progress of the various proactive and preventive STOP tools, as well as field inspections, incidents/accidents reports, the closure of investigations and compliance with the annual training plan.

In the El Tordillo area, as part of actions taken after the fatal accident in 2015, the Company's subsidiary Tecpetrol S.A. issued specific documents relating to work permits and the lockout and tagout of energized systems, adapting the minimum corporate standard criteria to the particularities of the area. In addition, a project was undertaken to incorporate aspects of process safety into field operations. Tecpetrol continues with its processes to improve the handling and management of solid and liquid waste throughout its operations in the area, continuing with the on site treatment of oiled muds, drill cuttings and mud, wastewater and organic waste composting.

In Mexico, the migration process for the Bloque Mision contract to a Hydrocarbons Exploration and Extraction contract is ongoing, and hence work continues with the company's customer PEMEX to deal with the various studies requested in order to comply with the requirements of the Mexican Hydrocarbons Commission and Energy, Security and Environment Agency.

**HYDROCARBON RESERVES (E&P)**

Reserves refer to the volumes of oil and gas (in oil-equivalent cubic meters) which generate or are associated with revenues in the fields where Tecpetrol operates or has a direct or indirect share interest and over which Tecpetrol owns exploitation rights. This includes hydrocarbons volumes related to the services contracts in which Tecpetrol does not have the ownership either of the reserves or of the hydrocarbons extracted, and those which are expected to be produced for the contracting party under the works contracts.

Reserves estimation is a subjective process used to estimate crude oil and natural gas recovered from the ground which involves certain degree of uncertainty.

The estimation has been prepared by Tecpetrol's technical staff and may differ from other estimations made by third parties for different purposes.

(All amounts in Euros, unless otherwise stated)

**HYDROCARBON RESERVES (E&P) (cont.)**

Estimated proved reserves (developed and undeveloped) as of December 31, 2016, are as follows:

| | |
|---|---|
| **Oil:** | 21 millions of cubic meters |
| **Gas:** | 38 billions of cubic meters |

These reserves estimations are based on the technological and economic conditions in force at June 30, 2016, taking into account the economic evaluation, over the term of the respective contracts or concessions, for the purposes of determining the terms of their recovery. Reserves estimations are adjusted whenever justified by changes in key assumptions or at least once a year.

**GAS TRANSPORT CAPACITY (G&P)**

The gas transport capacity is shown below:

| | Total daily transport capacity | Utilization percentage | Daily transport |
|---|---|---|---|
| *Gas (in Mm3/day)* | | | |
| Transportadora de Gas del Norte S.A. (Argentina) | 59,000 | 89,3% | 52,700 |
| Litoral Gas S.A. (Argentina) | 8,687 | 92,7% | 8,051 |
| Transportadora de Gas del Mercosur S.A. (Argentina) | 2,830 | 0% | 0 |

**OUTLOOK AND PROJECTS**

Given the change in international oil price trends which began in November 2014, Tecpetrol continues to make its best efforts to sustain production and employment, without losing sight of its long-term commitments, seeking to defend the viability of its projects by reducing and/or deferring investments, optimizing costs, renegotiating contracts with suppliers and with the governments of those countries where it operates, and by focusing on efficiency and increasing productivity in its business, administrative and commercial processes.

Next year, attention will continue to focus on productivity, security concerns and the value of commitment.

**Argentina**

In July 2016, Tecpetrol S.A. was awarded the unconventional oil exploitation concession in Fortín de Piedra which lies in the Vaca Muerta formation, a world-class reservoir with high productivity levels from multi-fractured horizontal wells.

(All amounts in Euros, unless otherwise stated)

**OUTLOOK AND PROJECTS (Cont.)**

**Argentina (Cont.)**

The new framework established on the basis of the agreement concluded with the oil unions and the announcement made by the Argentine Government concerning gas price incentives, both of which happened at the start of 2017, in addition to the availability of equipment and qualified labor, prompted the Company to commit to investment plans for the next few years. The Company is planning to invest some US$ 2.3 billion until 2019 in the first phase of development in Fortín de Piedra, including drilling 150 wells and building gas treatment and transport facilities.

Tecpetrol ranks second among oil producers, taking into account the Company's own acreage in the Vaca Muerta wet gas window, and fourth in terms of the total acreage. The Vaca Muerta gas development is billed to generate activity throughout the value chain of goods and services associated with hydrocarbons production, and is expected to produce energy at competitive prices to promote economic and industrial development in Argentina and achieve energy self-sufficiency.

During 2016, in the Fortín de la Piedra field, a vertical well and two deep wells were drilled to depths of nearly 4,750 meters, with horizontal branches of 1,500 meters, while investments were made in a gas treatment plant and connecting pipelines to transport output in this area. The first tests carried out at the horizontal wells revealed a good flow rate and wellhead pressure, offering a promising production outlook.

In the area of Loma Ancha (province of Neuquén) 3D seismic data reprocessing was carried out in accordance with the commitments undertaken.

In the area of Loma Ranqueles (province of Neuquen), drilling started for a vertical exploration well which was completed in early 2017 and is currently at the testing stage.

Regarding the joint venture to explore the fields in Los Toldos (province of Neuquén), in March 2016, the provincial government modified the commitments that the joint venture has to undertake during the first evaluation period of 30 months ending in May 2018. The total commitment involves drilling three horizontal wells, conducting geological and geochemical surface studies and building some smaller facilities. During this financial year, two horizontal wells were drilled in Los Toldos I, and one horizontal well in Los Toldos II, while work also began on the construction of the Aguada Los Loros gas treatment plant in Los Toldos I.

The subsidiary company Americas Petrogas Argentina S.A. ("APASA") and ExxonMobil Exploration Argentina S.R.L. ("Exxon") agreed to divide up the units and operation of Blocks I, II, III and IV making up the Los Toldos field. As a result of this division, the parties agreed that the Los Toldos Block I Norte and Los Toldos Block II Este, Los Toldos Block III and Los Toldos Block IV be explored and developed by APASA (90%) together with Gas y Petróleo del Neuquén S.A. (10%).

(All amounts in Euros, unless otherwise stated)

**OUTLOOK AND PROJECTS (Cont.)**

**Argentina (Cont.)**

In January and March 2017, the Ministry of Energy of Neuquén and the Executive Branch of the Province of Neuquen accordingly approved the amendment to the Los Toldos joint venture contract and the creation of two new joint ventures, one for the Los Toldos I Sur involving Exxon (80%), APASA (10%) and Gas y Petróleo del Neuquén S.A. (10%), and one for the Los Toldos II Oeste field where Exxon has a stake of 90% and Gas y Petróleo del Neuquén S.A. has 10%.

During 2016, in the Agua Salada field in the province of Rio Negro, as part of the commitments undertaken to extend the concession in 2014, three new wells were drilled in the area of Aguada del Indio Sur as well as two new exploratory wells, while repairs were also carried out. In the Los Bastos area in Neuquén, repairs were performed and in July 2016, the company was awarded the concession for unconventional exploration in the Punta Senillosa reservoir, where a well had been drilled with good results.

The first two exploratory wells were drilled in the exploration area in Rio Atuel (Mendoza province) while a third well is expected to be drilled during next year after which the project will be evaluated.

In Aguaragüe (Salta province), the CD-1011 well was put back into production which boosted Tecpetrol's gas sales by 25%, from 180 Mm3/day to 240 Mm3/day. In August 2016, the planned pulling and workover campaign was launched. One exploratory well in Icua and two development wells in Campo Durán are expected to be drilled next year.

In February 2016, the area of Rinconada Norte in the province of La Pampa was returned while the Huacalera area (Neuquen province) is in the process of being returned.

In September 2016, after the end of the exploitation concession in the Atuel Norte field (Mendoza province), the parties signed the reversion agreement for the area, through which the province took possession of the same.

The development of hydrocarbons sales and marketing activities in Argentina is expected to continue as it has done in previous years, within the framework of prices agreed between the parties, with part of the production from fields in the province of Chubut earmarked for export while output from fields in other provinces will supply the domestic market. Reference prices in the domestic market have remained disconnected from international hydrocarbons prices thanks to general agreements in the industry promoted by the Ministry of Energy and Mining. However, these are expected to catch up with international prices towards the second half of 2017.

(All amounts in Euros, unless otherwise stated)

**OUTLOOK AND PROJECTS (Cont.)**

**Peru**

Camisea operations are expected to continue in Bloque 88 (San Martin and Cashiriari), and in Bloque 56 (Pagoreni and Mipaya). Production by the end of 2016 from both blocks was 1.501 MMSCFD (million standard cubic feet per day of gas) and approximately 81,900 barrels of NGLs.

In February 2016, Perupetro approved the request for the return of the license contract for Lote 174, which expired on March 16, 2016. On August 5, 2016, Tecpetrol and Perupetro signed the Completion Certificate for Lote 174 which states that there are no outstanding obligations.

**Mexico**

As a result of the country's energy reforms, enshrined in the Hydrocarbons Law approved in August 2014, the Bloque Misión Financed Public Works Contract ("FPWC") is in the process of migrating to an Exploration and Extraction Contract (EEC). Tecpetrol continues to work towards concluding this process as soon as possible.

Accordingly, and also due to Pemex budgetary restrictions, during 2016 Servicios Múltiples de Burgos S.A. de C.V. carried out limited activity in the area, only performing maintenance work as indicated under the FPWC scheme. The program approved by PEMEX did not include either drilling activities or major repairs.

Given the delays presented in the migration process of the current contract to an EEC, in October 2016 an Amended Agreement to the FPWC was signed adjusting the economic terms of the current contract to avoid its early termination.

During 2016, the company's subsidiary Norpower S.A. de C.V. ("Norpower") continued with pipeline maintenance and other works at System 3 in the context of the budgetary constraints imposed by PEMEX with minimum levels of activity, especially during the months of April to September, making a recovery in the last quarter with the installation of valves and chromatographs.

Through its participation in Techgen S.A. de C.V. ("Techgen"), Tecpetrol launched the new electricity power generation project in northeastern Mexico which will supply energy to Tenaris and Ternium's industrial facilities and the Mexican electricity grid. The project, which involved the construction and operation of a combined cycle thermoelectric power plant fueled by natural gas in Pesquería, Nuevo Leon, required an investment of over US$ 1 billion. The commissioning and final tests were conducted during the fourth quarter of 2016, paving the way for the launch of commercial operations by the end of that same year.

(All amounts in Euros, unless otherwise stated)

**OUTLOOK AND PROJECTS (Cont.)**

**Mexico (cont.)**

Additionally, Techgen put into operation an aqueduct and gas pipeline to supply the aforementioned plant with natural gas and water and also completed the assembly of a high voltage transmission line 75 km long linking to the point of interconnection with the national electricity grid.

**United States**

In January 2016, became effective the sale of certain assets and liabilities of the subsidiary Tecpetrol Corporation to Bluefin Resources PropCo LLC, amounting to US$15.4 million.

**Ecuador**

During this financial year, Tecpetrol continued to develop the contracts signed with the state-owned company Petroamazonas EP-Atacapi in the Libertador, Shushufindi-Aguarico and Eden Yuturi-Pañacocha fields. Tecpetrol is the operator in the first of these, through its subsidiary Pardaliservices S.A., while in the Shushufindi and Eden Yuturi fields it owns stakes of 25% and 40% through Consorcio Shushufindi S.A. and Kamana Services S.A., respectively. It should be noted that falling international oil prices have led to a delay in payments made by the Ecuadorian government for these contracts and this has forced the parties to initiate a process for the renegotiation of the deadlines, payment conditions and contract terms.

Pardaliservices S.A. is on track with its planned investment program but with a lower level of activity compared to previous years. During this financial year, good production levels were reached as a result of the workover and pulling activities as well as the optimizations achieved.

In February 2017, Pardaliservices S.A. received IOU notes with a Sovereign Guarantee from Petroamazonas EP for a total amount of US$ 117.6 million for the payment of accounts receivable as of November 2016.

In April 2016, in Kamana Services S.A., the controlling shareholder agreed to the new conditions required to adapt the contract to current oil price levels, including a reduction in investments in facilities, the adaptation to a variable rate scheme, the elimination of secondary recovery plan and the elimination of the Tumali field.

Meanwhile, Tecpecuador S.A. continued operating the Bermejo field which requires minimum investment levels according to contractual requirements, which is also because of the field's maturity.

(All amounts in Euros, unless otherwise stated)

**OUTLOOK AND PROJECTS (Cont.)**

**Ecuador (cont.)**

The operations of the Company's subsidiary Tecpeservices S.A. in 2016 consisted mainly of providing technical expertise in oil, including the provision of drilling and workover rigs, pulling and other related services, as well as technical personnel for Campo Libertador, in addition to the provision of qualified personnel to manage, coordinate and supervise projects for the Shushufindi and Kamana consortiums.

**Bolivia**

The drilling of the ICS-2 and ICS-3 wells has meant the incorporation of gas reserves in the Huamampampa formation lying in Ipati Block, where the subsidiary Tecpetrol de Bolivia S.A. has a 20% stake. There is more exploratory potential in deeper reservoirs (Icla and Santa Rosa formations) which needs to be investigated by the subsidiary and the operator. Commercial production began in August 2016. On September 16, the launch event to mark the start of production at the Incahuasi and Aquio fields was held at the processing plant. In addition, in the same month, Natural Gas Delivery Agreements were signed with YPFB establishing the terms and conditions governing the delivery of gas production to YPFB.

These state that after complying with its contribution to the domestic market in Bolivia according to current regulations, 90% of production will go to the Argentine market for the years 2016 to 2020 and the remaining 10% to the Brazilian market, and from the year 2021, 100% of gas deliveries will be allocated to the Argentine market.

When the first export compressor started up in November 2016, a production rate of 6.5 MMm3/d was reached.

**SUBSEQUENT EVENTS**

No other events, situations or circumstances have occurred subsequent to December 31, 2016, other than those disclosed in this Consolidated Board of Director’s Report which are not public known, that may significantly affect the Company’s equity, economic and financial position.

**OTHER INFORMATION**

The Company does not possess treasury shares. The Company has not incurred in any Research and Development costs during the period.

Main financial risks and its management procedures are disclosed in Note 4 of the consolidated annual accounts at December 31, 2016.

The Board of Directors thanks personnel for their dedication and achievements during this year.

**Members of the Board of Directors**

| | |
|---|---|
| **Chairman** | Alicia Lucía Móndolo |
| **Secretary** | John Edward Kiddell |
| **Advisor** | Gonzalo De Benito Fernández |
| **Advisor** | Enrico Luca María Bonatti |

**DRAWING UP OF THE CONSOLIDATED ANNUAL ACCOUNTS AND THE CONSOLIDATED BOARD OF DIRECTORS' REPORT CORRESPONDING TO THE YEAR ENDED ON DECEMBER 31, 2016**

At March 31, 2017, the Board Directors of the Company Tecpetrol Internacional S.L.U., in compliance with the requirements established in Article 253 of the Capital Companies Law and Article 37 of the Code of Commercial Law, presents the Consolidated Annual Accounts and the Consolidated Board of Director's Report corresponding to the year ended on December 31, 2016, comprised of the annexed documents preceding this written statement.

Alicia Lucía Móndolo

**Chairman**

John E. Kiddell

**Secretary**

Gonzalo De Benito Fernández

**Advisor**

Enrico Luca María Bonatti

**Advisor**

# TECPETROL INTERNACIONAL, S.L. (SOLE SHAREHOLDER COMPANY) AND SUBSIDIARIES

Independent auditor’s report and Consolidated Annual Accounts for the years ended December 31, 2015 and 2014

Consolidated Board of Directors’ Report as of December 31, 2015

*Translation of a document originally issued in Spanish in accordance with Spanish regulations. In the event of a discrepancy, the Spanish-language version prevails.*

pwc

# INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the Sole Shareholder of Tecpetrol Internacional, S.L. (Sole Shareholder Company):

## Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Tecpetrol Internacional, S.L. (Sole Shareholder Company) and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes for the year then ended.

*Directors' Responsibility for the Consolidated Annual Accounts*

The parent company´s directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Tecpetrol Internacional, S.L. (Sole Shareholder Company) and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company´s directors preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España*
*Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 915 685 400,* www.pwc.es



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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

*Opinion*

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Tecpetrol Internacional, S.L. (Sole Shareholder Company) and its subsidiaries as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions of the financial reporting framework applicable in Spain.

## Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' Report for 2015 contains the explanations which the parent company´s directors consider appropriate regarding Tecpetrol Internacional, S.L. (Sole Shareholder Company) and its subsidiaries´ situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the directors' Report is in agreement with that of the consolidated annual accounts for 2015.Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Tecpetrol Internacional, S.L. (Sole Shareholder Company) and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Iñaki Goiriena Basualdu

May 30, 2016

# TECPETROL INTERNACIONAL, S.L. (SOLE SHAREHOLDER COMPANY) AND SUBSIDIARIES

Consolidated Annual Accounts for the years ended December 31, 2015 and 2014

## Contents

## TECPETROL INTERNACIONAL, S.L. (SOLE SHAREHOLDER COMPANY) AND SUBSIDIARIES

Consolidated Annual Accounts for the years ended December 31, 2015 and 2014

(All amounts in Euros, unless otherwise stated)

### Consolidated Statement of Financial Position

| | Note | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment. Exploration, evaluation and development assets | 13 | 828,242,402 | 713,216,645 |
| Intangible assets | 14 | 154,470,782 | 161,696,334 |
| Investments in entities accounted for using the equity method | 15 | 198,088,634 | 152,817,107 |
| Available-for-sale financial assets | 17 | 1,920,367 | 21,816,957 |
| Deferred tax assets | 27 | 15,723,037 | 19,600,241 |
| Other receivables and prepayments | 19 | 49,061,514 | 28,502,127 |
| Income tax credit | | 1,622,368 | 2,283,476 |
| **Total non-current assets** | | **1,249,129,104** | **1,099,932,887** |
| **Current assets** | | | |
| Inventories | 18 | 34,363,081 | 26,847,920 |
| Other receivables and prepayments | 19 | 45,961,302 | 45,762,417 |
| Income tax credit | | 15,434,919 | 4,386,459 |
| Trade receivables | 20 | 120,675,234 | 99,115,015 |
| Cash and cash equivalents | 21 | 72,918,059 | 220,840,792 |
| **Total current assets** | | **289,352,595** | **396,952,603** |
| Assets of disposal group classified as held for sale | 35 | 26,057,895 | 43,194,976 |
| **Total assets** | | **1,564,539,594** | **1,540,080,466** |
| **EQUITY** | | | |
| **Capital and reserves attributable to owners of the parent** | | | |
| Share capital | 2.9 | 12,770,000 | 12,770,000 |
| Share premium | 2.9 | 233,831,372 | 233,831,372 |
| Legal reserve | 2.9 | 2,554,000 | 2,554,000 |
| Currency translation differences and revaluation reserve | | (86,821,889) | (94,009,274) |
| Retained earnings, voluntary and other reserves | | 415,727,115 | 286,836,192 |
| **Total equity attributable to owners of the parent** | | **578,060,598** | **441,982,290** |
| Non-controlling interests | | 33,657,346 | 23,276,310 |
| **Total equity** | | **611,717,944** | **465,258,600** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 23 | 462,178,316 | 637,090,564 |
| Deferred tax liabilities | 27 | 47,899,015 | 44,523,052 |
| Employee benefits | 24 | 18,922,408 | 20,198,453 |
| Provisions | 25 | 56,679,700 | 53,247,613 |
| Trade and other payables | 26 | 159,015 | 271,051 |
| **Total non-current liabilities** | | **585,838,454** | **755,330,733** |
| **Current liabilities** | | | |
| Borrowings | 23 | 205,375,923 | 97,887,391 |
| Provisions | 25 | 430,450 | 2,756,852 |
| Income tax liabilities | | 4,240,889 | 16,764,128 |
| Trade and other payables | 26 | 145,071,478 | 194,305,166 |
| **Total current liabilities** | | **355,118,740** | **311,713,537** |
| Liabilities of disposal group classified as held for sale | 35 | 11,864,456 | 7,777,596 |
| **Total liabilities** | | **952,821,650** | **1,074,821,866** |
| **Total equity and liabilities** | | **1,564,539,594** | **1,540,080,466** |

The accompanying notes 1 to 38 are an integral part of these consolidated annual accounts

**Consolidated Income Statement**

| | Note | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| **Continuing operations** | | | |
| Net sales | | 663,196,663 | 758,223,492 |
| Operating costs | 6 | (519,079,749) | (433,229,209) |
| **Gross profit** | | **144,116,914** | **324,994,283** |
| Selling expenses | 7 | (31,074,401) | (48,367,912) |
| Administrative expenses | 8 | (58,486,592) | (61,910,669) |
| Exploration costs | | (11,469,957) | (2,490,020) |
| Other operating income | 10 | 6,277,773 | 11,626,441 |
| Other operating expenses | 10 | (10,086,515) | (17,574,411) |
| **Operating income** | | **39,277,222** | **206,277,712** |
| Interest income | 11 | 2,675,927 | 3,869,951 |
| Interest expense | 11 | (48,573,422) | (28,574,061) |
| Other financial results, net | 11 | 41,819,441 | 1,830,732 |
| **Income before equity in earnings of investments accounted for using the equity method and income tax** | | **35,199,168** | **183,404,334** |
| Equity in earnings of investments accounted for using the equity method | 15 | 32,758,134 | 56,515,797 |
| **Income before tax** | | **67,957,302** | **239,920,131** |
| Income tax | 12 | (28,761,100) | (71,424,062) |
| **Income for the year from continuing operations** | | **39,196,202** | **168,496,069** |
| **Discontinued operations** | | | |
| Result for the year from discontinued operations | 35 | (46,928,504) | (55,066,265) |
| **Result for the year** | | **(7,732,302)** | **113,429,804** |
| | | | |
| **Attributable to:** | | | |
| Owners of the parent | | (10,234,387) | 102,226,458 |
| Non-controlling interests | | 2,502,085 | 11,203,346 |

The accompanying notes 1 to 38 are an integral part of these consolidated annual accounts

### Consolidated Statement of Comprehensive Income

| | Note | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| **Result for the year** | | (7,732,302) | 113,429,804 |
| **Other comprehensive income:** | | | |
| *Items that will not be subsequently reclassified to profit or loss:* | | | |
| **Continuing operations** | | | |
| Remeasurements of post employment benefit obligations | | 464,013 | 5,700,248 |
| Income tax related to components of other comprehensive income | | (122,252) | (1,988,537) |
| Share of comprehensive income from investments accounted for using the equity method | 15 | (4,823) | (6,545) |
| | | 336,938 | 3,705,166 |
| *Items that may be subsequently reclassified to profit or loss:* | | | |
| **Continuing operations** | | | |
| Currency translation differences | | 33,412,674 | 43,897,714 |
| Changes/disposals of fair value of available-for-sale financial assets | 17 | (20,894,415) | (664,658) |
| Income tax related to components of other comprehensive income | | (469,610) | (58,399) |
| Share of other comprehensive income of investments accounted for using the equity method - Currency translation differences | 15 | 13,335,600 | 14,588,448 |
| **Discontinued operations** | | | |
| Currency translation differences | | (15,889,307) | (8,911,560) |
| Cash flow hedges | 28 | - | (5,293,397) |
| | | 9,494,942 | 43,558,148 |
| **Other comprehensive income, net of income tax** | | **9,831,880** | **47,263,314** |
| **Total comprehensive income for the year** | | **2,099,578** | **160,693,118** |
| **Attributable to:** | | | |
| Owners of the parent | | (3,047,002) | 146,990,397 |
| Non-controlling interests | | 5,146,580 | 13,702,721 |
| **Total comprehensive income for the year** | | **2,099,578** | **160,693,118** |
| **Total comprehensive income attributable to owners of the parent arises from:** | | | |
| Continuing operations | | 43,598,797 | 201,642,470 |
| Discontinued operations | | (46,645,799) | (54,652,073) |
| | | **(3,047,002)** | **146,990,397** |

The accompanying notes 1 to 38 are an integral part of these consolidated annual accounts

**TECPETROL INTERNACIONAL, S.L. (SOLE SHAREHOLDER COMPANY) AND SUBSIDIARIES**
Consolidated Annual Accounts for the years ended December 31, 2015 and 2014
(All amounts in Euros, unless otherwise stated)

**Consolidated Statement of Changes in Equity**

| | Attributable to owners of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Legal reserve** | **Voluntary reserve** | **Currency translation differences** | **Revaluation reserve** | **Other reserves** | **Retained earnings** | **Non controlling interests** | **Total equity** |
| **Balance at December 31, 2013** | **12,770,000** | **233,831,372** | **2,554,000** | **47,799** | **(161,111,679)** | **22,338,466** | **2,563,196** | **181,998,739** | **10,146,537** | **305,138,430** |
| **Comprehensive income** | | | | | | | | | | |
| Result for the year | - | - | - | - | - | - | - | 102,226,458 | 11,203,346 | 113,429,804 |
| **Other comprehensive income** | | | | | | | | | | |
| Currency translation differences | - | - | - | - | 32,650,701 | - | - | - | 2,335,453 | 34,986,154 |
| Fair value of available-for-sale financial assets (Note 17) | - | - | - | - | - | (653,807) | - | - | (10,851) | (664,658) |
| Cash flow hedges (Note 28) | - | - | - | - | - | (5,293,397) | - | - | - | (5,293,397) |
| Remeasurements of post employment benefit obligations | - | - | - | - | - | 5,443,188 | - | - | 257,060 | 5,700,248 |
| Income tax related to items in other comprehensive income | - | - | - | - | - | (1,964,649) | - | - | (82,287) | (2,046,936) |
| Share of other comprehensive income of investments accounted for using the equity method | - | - | - | - | 14,588,448 | (6,545) | - | - | - | 14,581,903 |
| **Total other comprehensive income** | **-** | **-** | **-** | **-** | **47,239,149** | **(2,475,210)** | **-** | **-** | **2,499,375** | **47,263,314** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **47,239,149** | **(2,475,210)** | **-** | **102,226,458** | **13,702,721** | **160,693,118** |
| **Transactions with owners** | | | | | | | | | | |
| Distribution of profits | - | - | - | 76,827,892 | - | - | - | (76,827,892) | - | - |
| Dividends paid in cash | - | - | - | - | - | - | - | - | (572,948) | (572,948) |
| **Total transactions with owners** | - | - | - | 76,827,892 | - | - | - | (76,827,892) | (572,948) | (572,948) |
| **Balance at December 31, 2014** | **12,770,000** | **233,831,372** | **2,554,000** | **76,875,691** | **(113,872,530)** | **19,863,256** | **2,563,196** | **207,397,305** | **23,276,310** | **465,258,600** |
| **Comprehensive income** | | | | | | | | | | |
| Result for the year | - | - | - | - | - | - | - | (10,234,387) | 2,502,085 | (7,732,302) |
| **Other comprehensive income** | | | | | | | | | | |
| Currency translation differences | - | - | - | - | 14,918,548 | - | - | - | 2,604,819 | 17,523,367 |
| Fair value of available-for-sale financial assets (Note 17) | - | - | - | - | - | (20,941,670) | - | - | 47,255 | (20,894,415) |
| Remeasurements of post employment benefit obligations | - | - | - | - | - | 447,799 | - | - | 16,214 | 464,013 |
| Income tax related to items in other comprehensive income | - | - | - | - | - | (568,069) | - | - | (23,793) | (591,862) |
| Share of other comprehensive income of investments accounted for using the equity method | - | - | - | - | 13,335,600 | (4,823) | - | - | - | 13,330,777 |
| **Total other comprehensive income** | **-** | **-** | **-** | **-** | **28,254,148** | **(21,066,763)** | **-** | **-** | **2,644,495** | **9,831,880** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **28,254,148** | **(21,066,763)** | **-** | **(10,234,387)** | **5,146,580** | **2,099,578** |
| **Other changes in equity** | | | | | | | | | | |
| Effect of loss of control over subsidiary (Note 17) | - | - | - | - | - | - | - | 139,125,310 | 1,591,440 | 140,716,750 |
| **Total other changes in equity** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **139,125,310** | **1,591,440** | **140,716,750** |
| **Transactions with owners** | | | | | | | | | | |
| Increase of non-controlling interests | - | - | - | - | - | - | - | - | 3,643,016 | 3,643,016 |
| Distribution of profits (Note 22) | - | - | - | 50,442,042 | - | - | - | (50,442,042) | - | - |
| **Total transactions with owners** | - | - | - | 50,442,042 | - | - | - | (50,442,042) | 3,643,016 | 3,643,016 |
| **Balance at December 31, 2015** | **12,770,000** | **233,831,372** | **2,554,000** | **127,317,733** | **(85,618,382)** | **(1,203,507)** | **2,563,196** | **285,846,186** | **33,657,346** | **611,717,944** |

The accompanying notes 1 to 38 are an integral part of these consolidated annual accounts

### Consolidated Cash Flow Statement

| | Note | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Result for the year | | (7,732,302) | 113,429,804 |
| Adjustments for (*): | | | |
| Depreciation of property, plant and equipment | 13 | 92,931,961 | 71,500,588 |
| Impairment of property, plant and equipment | | 42,018,083 | 11,964,311 |
| Amortization of intangible assets | 14 | 71,378,223 | 38,659,574 |
| Impairment of available-for-sale financial assets | 17 | 1,110,838 | 10,857,456 |
| Exploration costs | | 19,053,350 | 26,171,073 |
| Income tax | 12 | 28,761,100 | 71,424,062 |
| Results from disposals of available-for-sale financial assets | | - | (1,075,287) |
| Accrued interest not paid | | 5,752,458 | 3,530,075 |
| Provisions | | 17,108,140 | 3,350,328 |
| Equity in earnings of investments accounted for using the equity method | 15 | (32,758,134) | (56,515,797) |
| Results from employee benefits | 24 | 2,908,910 | 4,349,478 |
| Results from derivative financial instruments | | - | (3,660,548) |
| **Changes in operating assets and liabilities** | | | |
| Trade receivables, other receivables and prepayments | | (49,861,904) | (14,472,803) |
| Inventories | | (7,335,139) | (4,814,350) |
| Trade and other payables | | (61,603,248) | 43,970,381 |
| Employee benefits | | (4,036,981) | (580,866) |
| Others – including currency translation differences | | 14,647,658 | 19,278,643 |
| Income tax payments | | (51,546,877) | (70,281,741) |
| **Net cash provided by operating activities** | | **80,796,136** | **267,084,381** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Increase in property, plant and equipment | | (188,961,255) | (218,833,793) |
| Increase in intangible assets | 14 | (45,166,079) | (111,242,527) |
| Acquisition of Americas Petrogas Argentina S.A. | 34 | (49,166,640) | - |
| Acquisitions and contributions in associated companies | 15 | (27,086,961) | (7,472,164) |
| Loans to associated companies | | (5,989,670) | - |
| Increase in non-controlling interests | | 3,643,016 | - |
| Proceeds from disposals of available-for-sale financial assets | | - | 1,547,627 |
| Dividends received | | 27,904,345 | 22,236,261 |
| **Net cash used in investing activities** | | **(284,823,244)** | **(313,764,596)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | 422,085,099 | 453,296,038 |
| Repayment of borrowings | | (397,908,022) | (366,897,149) |
| Dividends paid to non-controlling interests | | - | (572,948) |
| **Net cash provided by financing activities** | | **24,177,077** | **85,825,941** |
| **Net (Decrease) Increase in cash and cash equivalents** | | **(179,850,031)** | **39,145,726** |
| **Changes in cash and cash equivalents** | | | |
| Cash and cash equivalents less bank overdrafts at the beginning of the year | | 203,044,718 | 140,858,731 |
| Deconsolidation of subsidiary | | (1,157,750) | (1,414,899) |
| Currency translation differences | | 22,239,560 | 24,455,160 |
| (Decrease) Increase in cash and cash equivalents | | (179,850,031) | 39,145,726 |
| **Cash and cash equivalents less bank overdrafts at the end of the year** | | **44,276,497** | **203,044,718** |

| | Note | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Cash and cash equivalents | 21 | 72,918,059 | 220,840,792 |
| Bank overdrafts | 23 | (28,641,562) | (17,796,074) |
| | | **44,276,497** | **203,044,718** |

(**)The difference between interest expense and paid is not significant.

The accompanying notes 1 to 38 are an integral part of these consolidated annual accounts

(All amounts in Euros, unless otherwise stated)

### Notes to the Consolidated annual accounts

## 1. General information

Tecpetrol Internacional, S.L.U. (the "Company") and its subsidiaries are principally dedicated to the exploration, development, production, transportation and sale of hydrocarbons in several countries in America. The references in these Consolidated Annual Accounts to "Tecpetrol" refer to Tecpetrol Internacional S.L.U. and its subsidiaries.

Tecpetrol Internacional S.L.U. is incorporated and domiciled in Spain, with offices at Calle Garcia de Paredes 94, 1°A, 28010, Madrid, Spain. It is registered in the Madrid Companies Register on page M-362494, folio 31, section 8 of Companies Volume 20,485.

The principles applied in the preparation of the Company's consolidated annual accounts, are disclosed in Notes 2.1 and 2.2.

The Company is controlled by Tecpetrol International S.A., incorporated in Uruguay, which owns 100% of the Company's shares (see Note 32).

## 2. Summary of significant accounting policies

The main accounting policies applied in the preparation of these Consolidated Annual Accounts are set out below. These policies have been consistently applied to all the years presented.

### 2.1. Basis of preparation

The Company's consolidated annual accounts as of December 31, 2015, have been prepared in accordance with International Financial Reporting Standards adopted by the European Union and approved by European Commission Regulations (EU-IFRS).

These consolidated annual accounts were drawn up by the Board of Directors on March 24, 2016. The Directors will submit these consolidated annual accounts to the Sole Shareholder for approval, who is expected to approve them with no changes. The consolidated annual accounts at December 31, 2014 were approved by the Sole Shareholder on June 3, 2015, without changes regarding the ones previously drawn up by the Board of Directors.

The consolidated annual accounts have been prepared under the historical cost convention modified, as required by the EU-IFRS, by the valuation of financial assets and liabilities at fair value, inventories and employee benefits.

Whenever necessary, certain comparative amounts have been reclassified to conform to changes in presentation in the current year.

(All amounts in Euros, unless otherwise stated)

**2.1. Basis for preparation (cont.)**

The preparation of the consolidated annual accounts according to EU-IFRS requires management to make certain accounting estimates and to use its judgment regarding the application of Tecpetrol's accounting policies. Note 5 discloses those areas which involve a higher degree of judgment or complexity, or those where the hypothesis and estimates are relevant to the consolidated annual accounts.

**2.2. Consolidation**

(a) Subsidiaries

Subsidiaries are all entities over which Tecpetrol has control, either directly or indirectly. Tecpetrol controls an entity when is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is exercised by the Company and are no longer consolidated from the date that control ceases.

Tecpetrol applies the acquisition method to account business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at fair value at the acquisition date. Any non-controlling interest in the acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the cost of acquisition and the amount of any non-controlling interest in the acquiree, over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the Consolidated Income Statement.

Inter-company transactions, balances and unrealized gains (losses) on transactions between subsidiaries are eliminated for consolidation purposes. As the functional currency of some subsidiaries is its respective local currency, some financial gains (losses) arising from inter-company transactions are generated. These are included in the Consolidated Income Statement under Other financial results.

When Tecpetrol ceases to have control, any retained interest in the investment is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in the Consolidated Income Statement. Furthermore, any amount previously recognized in the Consolidated Statement of Other Comprehensive Income in respect of that entity is reclassified to the Consolidated Income Statement.

(All amounts in Euros, unless otherwise stated)

**2.2. Consolidation (cont.)**

(a) Subsidiaries (cont.)

The accounting policies of the subsidiaries have been modified where necessary to ensure consistency with the accounting policies adopted by Tecpetrol.

(b) Associated companies

Associates are all entities over which Tecpetrol has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are initially recognized at cost and subsequently valued according to the equity method.

Investments in associated companies are recognized as “Investments accounted for using the equity method” in the Consolidated Statement of Financial Position. Tecpetrol’s share of earnings and other comprehensive income is recognized as “Equity in earnings of investments accounted for using the equity method” and “Share of other comprehensive income of investments accounted for using the equity method” in the Consolidated Income Statement and in the Consolidated Statement of Comprehensive Income, respectively.

Unrealized results on transactions between Tecpetrol and its associated companies are eliminated to the extent of Tecpetrol’s interest in such arrangements.

The accounting policies of the associated companies have been modified when necessary, to ensure consistency with the accounting policies adopted by Tecpetrol. Additionally Tecpetrol includes, where significant, the subsequent operations when financial statements at different reporting dates are used to calculate the equity method of accounting.

Investments in associated companies, each one of which is considered a Cash Generating Unit (“CGU”), are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and if appropriate, an impairment loss is recorded.

(All amounts in Euros, unless otherwise stated)

**2.2. Consolidation (cont.)**

(c) Interests in joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activities require the unanimous consent of the parties involved.

Investments whereby two or more parties have joint control are classified as “joint operations” when the parties have contractual rights over assets and obligations over liabilities of the joint arrangement. Joint operations are accounted for using Tecpetrol’s proportionate consolidation.

Furthermore, investments whereby two or more parties have joint control are classified as “joint venture” when the parties have contractual rights over the net assets of the joint arrangement and are accounted for using the equity method, as described in b) Associated companies.

Investments classified as joint ventures are recognized as Investment accounted for using the equity method in the Consolidated Statement of Financial Position.

Unrealized results on transactions between Tecpetrol and its joint arrangements are eliminated to the extent of Tecpetrol’s interest in such arrangements.

Accounting policies of joint operations and joint ventures have been modified where necessary to ensure consistency with the policies adopted by the Company.

Joint arrangements are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and if appropriate, an impairment loss is recorded.

**2.3. Foreign currency translation**

(a) Functional and presentation currency

Items included in the annual accounts of the Company and each of its consolidated subsidiaries are measured using the currency of the primary economic environment in which the entity operates (functional currency). The functional currency of the Company is the United States dollar (US$). The consolidated annual accounts are presented in Euros (€), according to the Spanish legislation. The conversion of the functional currency to its presentation currency is carried out according to the procedures described in (c) below.

(All amounts in Euros, unless otherwise stated)

**2.3. Foreign currency translation (cont.)**

(a) Functional and presentation currency (cont.)

The functional currency of the main subsidiaries is the US$, as this is the currency which best reflects the economic substance of Tecpetrol's operations. Both sales and prices of the main drilling costs are denominated and settled in US$ or considering the exposure to currency fluctuations against the US$.

From January 1, 2014, the Argentine subsidiaries Tecpetrol S.A and Dapetrol S.A, and the company Tecpetrol Colombia S.A.S, a subsidiary of Tecpetrol until December 28, 2015 (see Note 17), changed their functional currency from its respective local currency to US$. The effect of these changes was accounted prospectively, translating all the items into the new functional currency at the exchange rate applicable at the moment of the change.

The management of the aforementioned companies have concluded that US$ is the most appropriate functional currency for those companies.

(b) Transactions in currency other than the functional currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the Consolidated Income Statement, except when deferred in the Consolidated Statement of Comprehensive Income as cash flow hedges. Translation differences on non-monetary balances, such as equity instruments held at fair value through profit or loss, are recognized in the Consolidated Income Statement as a part of the fair value gain or loss.

Translation differences on non-monetary financial assets and liabilities, such as investments classified as available-for-sale financial assets are included in the Consolidated Statement of Comprehensive Income. The share capital account is translated at the exchange rate in effect at the date of each capital contribution. The legal reserve is translated at the exchange rate applicable in the month in which it is provided by shareholders.

(c) Translation of financial statements

All Tecpetrol's subsidiaries whose functional currency is different to the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate at each reporting date; income and expenses are translated at the average rate of the period;

(All amounts in Euros, unless otherwise stated)

**2.3. Foreign currency translation (cont.)**

(c) Translation of financial statements (cont.)

(ii) resulting translation differences are recognized in the Consolidated Statement of Comprehensive Income as currency translation differences. When a subsidiary is disposed of or sold, the accumulated currency translation difference is recognized as profit or loss at the date of disposal or sale.

**2.4. Property, plant and equipment. Exploration, evaluation and development assets**

Exploration and exploitation rights and costs related to the acquisition of rights and concessions of proved reserves are capitalized.

Acquisition costs related to rights and concessions of probable and possible reserves are initially capitalized. Subsequently, if exploratory results are determined to be unsuccessful on completion and evaluation, these costs are charged to expense in the period in which this is confirmed definitively by studies, technical reports or additional drillings carried out.

Exploration and evaluation costs are initially capitalized and are accumulated on a field-by-field basis. In the case of exploratory fields, exploration and evaluation costs include geological studies and other related costs directly attributable to this activity. Subsequently, if results are determined to be unsuccessful on field commercial evaluation, these costs are charged to expense in the period in which this is confirmed definitively by studies and technical reports.

Costs related to drilling exploratory wells are initially capitalized until it is determined whether proved reserves that justify their commercial development are found. During this period, and subject to the existence of production associated to exploratory wells, capitalized costs are decreased by the net result of the sale of that production. If such proved reserves are not found, drilling costs are charged to expense in the period in which this determination is definitively confirmed. Occasionally, an exploratory well may determine the existence of reserves, but they cannot be classified as proved when the drilling is complete. In this case, these costs remain capitalized to the extent that the well had found a sufficient quantity of reserves in order to justify its completion as a productive well and if Tecpetrol is making sufficient progress in assessing the economic and operational viability of the project.

No depreciation is charged during the exploration and evaluation phases.

Field development costs are capitalized as Property, plant and equipment. These costs include the acquisition and installation of production facilities, development drilling costs and project-related engineering.

Wells drilled in producing fields for the purpose of developing proved reserves are considered development wells. Wells which are neither development wells nor service wells are considered exploratory wells.

(All amounts in Euros, unless otherwise stated)

**2.4. Property, plant and equipment. Exploration, evaluation and development assets (cont.)**

Workovers used to develop reserves and/or increase production are capitalized and depreciated on the basis of their estimated average useful life. Maintenance costs are charged to expense when incurred.

Asset retirement obligations costs are calculated as explained in Note 2.14.

Tecpetrol periodically re-evaluates the remaining useful lives of its assets, their residual value and the depreciation method and adjusts them, if necessary.

Depreciation of wells, machinery, equipment and installations is calculated using the depletion method over total proved developed reserves of each field as from the month production starts.

Depreciation of exploration and exploitation rights and of the cost of the acquisition of rights and concessions related to proved reserves is calculated using the depletion method over total proved reserves of each field.

Depreciation of the remaining Property, plant and equipment is calculated using the straight line method by applying such annual rates as required to write-off their value at the end of their estimated useful lives, as follows:

| | | |
|---|---|---|
| – | Vehicles | up to 5 years |
| – | Furniture and office equipment | up to 5 years |

Gains and losses from disposals are determined by comparing the proceeds received with the carrying amount of the asset and are recognized within "*Other operating income/expenses*" in the Consolidated Income Statement.

Productive and development fields assets and assets related to probable and possible reserves are reviewed for impairment whenever events or changes in circumstances indicates that the carrying amount may not be recoverable. Impairment losses are recognized when the carrying amount of the assets is higher than their recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

The value in use is determined on the basis of the present value of net future cash flows expected to arise from the remaining commercial reserves.

Assets which have suffered impairment losses in previous periods are reviewed at each reporting date in order to assess if the conditions which gave rise to the impairment loss have changed and, if appropriate, the previous recognized impairment loss is reverted.

(All amounts in Euros, unless otherwise stated)

### 2.5. Intangible assets

*Goodwill*

Goodwill has an indefinite useful life and is subject to an impairment test on an annual basis. For the purposes of the impairment test, goodwill is allocated to those CGUs expected to benefit from the business combination and which represent the lowest level at which goodwill is monitored for internal management purposes. Any impairment loss is allocated first to reduce the carrying amount of goodwill and then to the other non financial assets of the CGU. Impairment losses on goodwill may not be reverted in subsequent periods.

*Investments in specific services contracts*

Tecpetrol recognizes as an intangible asset the contractual right originated in the contract to provide specific services in order to carry out activities aimed at optimizing production and improving recovery and exploration of Libertador and Atacapi fields, when it is likely that it will generate future economic benefits and these can be reliably measured. These assets are valued at cost less accumulated amortization and impairment losses, if appropriate.

The amortization of these assets is calculated using the depletion method over total estimated incremental oil generated by the contract activities in these fields, from the month of delivery of the provided services.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and if appropriate, an impairment loss is recognized.

### 2.6. Inventories

Hydrocarbon stocks are valued at their net realizable value at the end of each reporting period.

Supplies and spare parts are valued at cost, using the weighted average cost formula. The recoverable amount is calculated at each reporting date and an allowance is recognized in the Consolidated Income Statement, if necessary.

### 2.7. Trade, other receivables and prepayments

Trade, prepayments and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowances for doubtful accounts, if necessary. An allowance for doubtful accounts of receivables is established when there is objective evidence that Tecpetrol will not be able to collect the amounts within the stipulated deadlines. Indicators that trade and other receivables may be impaired include debtors experiencing significant financial difficulties, the probability that the debtor will enter in bankruptcy or will be subject to insolvency proceedings, and default or significant delays in payments.

(All amounts in Euros, unless otherwise stated)

**2.7. Trade, other receivables and prepayments (cont.)**

Furthermore, this allowance is adjusted periodically based on the aging of the receivables. The asset's carrying amount is shown net of allowances, where applicable. The allowance expense is recognized in the Consolidated Income Statement under "*Selling expenses"*.

**2.8. Cash and cash equivalents**

Cash and cash equivalents are carried at fair value or at historical cost, which approximates its fair value. For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents includes cash in hand, bank deposits, short-term highly liquid investments with original maturities of less than three months which are readily convertible to known amounts of cash and bank overdrafts.

In the Consolidated Statement of Financial Position, bank overdrafts are shown within *Borrowings* in current liabilities.

**2.9. Equity**

(1) Equity components

The Consolidated Statement of Changes in Equity includes share capital, share premium, legal reserve, voluntary reserve, currency translation differences, revaluation and other reserves, retained earnings and non-controlling interests calculated according to EU-IFRS.

(2) Share capital and share premium

At December 31, 2015 and 2014, the number of shares issued is 1,277,000,000 with a nominal value of 0.01 Euros per share. All shares issued are fully paid.

The composition is as follows:

| | **Number of shares** | **Share capital** | **Share premium** | **Total** |
|---|---|---|---|---|
| Balance at December 31, 2015 and 2014 | 1,277,000,000 | 12,770,000 | 233,831,372 | 246,601,372 |

Following the Royal Legislative Decree 1/2010 of June 2nd, which approved the Companies Act, the Company was registered within the Companies Register as a sole shareholder company.

The Company is controlled by Tecpetrol International S.A., which owns 100% of the shares.

(All amounts in Euros, unless otherwise stated)

**2.9. Equity (cont.)**

(3) Legal reserve

The legal reserve, which amounts 2,554,000 Euros at December 31, 2015 and 2014, was endowed according to Article 274 of the Companies Act. Spanish legislation estipulate that, in all cases, a sum equal to 10% of net income shall be allocated to the legal reserve until it reaches at least 20% of the share capital. At December 31, 2015 and 2014, the legal reserve has already reached that amount.

Legal reserve may not be distributed, and if it is used to compensate losses when there are no other reserves available or sufficient for this purpose, it must be restored with future profits.

(4) Dividends distributed by the Company to its shareholders

Dividends distributed to the Company's sole shareholder are based on its separate annual accounts, rather than on its consolidated annual accounts**.** Distributions of dividends to the sole shareholder are recognized as a liability in the consolidated annual accounts in the period in which those dividends are approved by the Company's sole shareholder.

(5) Revaluation reserve

The revaluation reserve includes the effect of the changes in the fair value of available-for-sale financial assets, the effect of derivatives held as hedge instruments, remeasurements of post employment benefit obligations and income tax related to components of other comprehensive income**.**

**2.10. Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequently, they are valued at amortized cost, using the effective interest method.

Borrowings are classified as current liabilities unless Tecpetrol has the unconditional right to defer the settlement of the liability for at least 12 months following the reporting date.

**2.11. Income tax**

The income tax expense for the year comprises current and deferred tax. Tax is recognized in the Consolidated Income Statement, except for those cases where it is related to items recognized in the Consolidated Statement of Comprehensive Income, in which case, tax is also recognized in the Consolidated Statement of Comprehensive Income.

(All amounts in Euros, unless otherwise stated)

**2.11. Income tax (cont.)**

Current income tax charge is calculated according to tax laws enacted in the countries where the Company and its subsidiaries operate and generate taxable income. Tecpetrol periodically evaluates their tax returns with relation to those situations where tax legislation is subject to interpretation and, accordingly, establishes provisions where considered appropriate.

Deferred income tax is recognized applying the liability method on temporary differences arising between the tax base of assets and liabilities, and their carrying amounts. The main temporary differences arise from the depreciation of property, plant and equipment, net operating losses carry-forward and valuation of inventories and provisions. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the related tax asset is realized or the tax liability is settled, based on tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets on tax loss carry-forwards are also recognized to the extent that it is probable that future taxable income will be available. Tecpetrol reassess unrecognized deferred tax assets at each reporting date and recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset at the level of each legal entity, when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when deferred income tax is levied by the same fiscal authorities.

**2.12. Employee benefits**

(a) Retirement benefit plans and others

Some subsidiaries have benefit plans such as “unfunded defined benefits” and “other long-term benefits” that, under certain established conditions, are granted after retirement and over an employee’s working life, and are recorded according to current accounting standards. The liability provision for such benefits is recorded at the present value of the defined benefit obligation at the reporting date, which is calculated at least once a year by independent actuaries using the “projected unit credit” method.

For unfunded defined benefits, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in the Consolidated Statement of Comprehensive Income in the period in which they arise. Past-service costs are recognized immediately in the Consolidated Income Statement. Actuarial gains and losses related to other long-term benefits are recognized immediately in the Consolidated Income Statement.

(All amounts in Euros, unless otherwise stated)

**2.12. Employee benefits (cont.)**

(b) Employee retention and long-term incentive program

Tecpetrol International S.A. (sole shareholder) has an employee retention and long-term incentive program for certain senior executives in some subsidiaries. According to this program, the beneficiaries will be granted with a number of units valued based on the equity book value per share of Tecpetrol International S.A. (excluding non-controlling interests). The units will be vested over a period of four years and the corresponding subsidiaries will redeem them after a period of ten years from the grant day, with the option for the employee to request the payment as from the seventh year onwards, or when the employee ceases employment from the subsidiary responsible for making the payment, at the equity book value per share attributable to Tecpetrol International S.A. shareholders at the date of payment. The beneficiaries of this program will also receive cash payments equivalent to the dividend paid per share, each time Tecpetrol International S.A. pays a cash dividend to its shareholders. The total value of the units granted to date under the program, considering both the number of units and the equity book value per share of Tecpetrol International S.A. amounts to 8.3 million Euros and 6.7 million Euros at December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, Tecpetrol has recorded a liability of 6.4 million Euros and 6 million Euros and an expense charge of 0.4 million Euros and 1.4 million Euros, based on actuarial calculations provided by independent advisors (see Note 24).

**2.13. Trade and other payables**

Trade and other payables (except for those mentioned in Note 2.15) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**2.14**. **Provisions**

Provisions are recognized when: a) Tecpetrol has a present, legal or constructive obligation, as a result of past events; b) it is highly probable that an outflow of resources will be required to settle the obligation; and, c) the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using the appropriate discount rate.

**2.14. Provisions (cont.)**

The provision for asset retirement obligations is calculated by establishing the present value of future costs related to the abandonment of each field. When the liability is initially recorded, Tecpetrol capitalizes these costs by increasing the carrying amount of the related asset. Over time, the liability is accreted to its present value during each period, and the initially capitalized cost is depreciated over the estimated useful life of the related asset, as detailed in Note 2.4. Tecpetrol periodically re-evaluates the future costs of asset retirement obligations, based on changes in technology and variations in restoration costs necessary to protect the environment. The effects of these re-calculations are included in the financial statements in which they are determined and disclosed as an adjustment to the liability and to “Property, plant and equipment. Exploration, evaluation and development assets”.

**2.15. Employee’s statutory profit sharing**

In accordance with the laws in force in the countries where certain subsidiaries operate, an annual benefit based on their earnings must be paid to employees. The liability is calculated according to IAS 19 – “Employee benefits” and it is disclosed under Trade and other payables in the Consolidated Statement of Financial Position. The corresponding expense charge is classified as Labor costs in the Consolidated Income Statement.

**2.16. Revenue recognition**

Revenue comprises the sale of goods and services to third parties net of value-added tax, withholding taxes and discounts. Revenue from the sale of hydrocarbons and other assets is recognized when all the significant risks and rewards of ownership are transferred to the buyer, at the fair value of the consideration received or receivable.

Other revenues are recognized on an accrual basis. Dividends received are recognized when the right to receive payment is established. Revenues from interests are recognized on an accrual basis, using the effective interest method.

**2.17. Operating costs**

Costs of sales are recognized in the Consolidated Income Statement on an accrual basis of accounting.

**2.18 Financial instruments**

Financial assets and liabilities are recognized and derecognized on their settlement date.

Financial assets and liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position, when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(All amounts in Euros, unless otherwise stated)

**2.18 Financial instruments (cont.)**

Tecpetrol classifies its non-derivative financial instruments into the following categories: at fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities. The classification depends on the nature of the financial instruments and the purpose for which they were acquired. Tecpetrol determines the classification of its financial instruments at the time of initial recognition, and reassesses their designation at each reporting date.

(a) *Financial assets at fair value through profit or loss*

A financial asset is classified in this category if it is held for trading in the short term or if it is so designated by management initially. This category includes cash and cash equivalents.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. This category includes trade receivables and other receivables and prepayments. In general, they are classified as current assets except for those with maturities greater than 12 months following the reporting date.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial instruments that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to sell the investment within a twelve-month period as from the date of the consolidated annual accounts. Available-for-sale financial assets are valued at fair value and their variations are recognized in the Consolidated Statement of Comprehensive Income.

Tecpetrol evaluates at each reporting date whether there are impairment indicators. In the case of equity instruments classified as available-for-sale, any significant or prolonged decline in their fair value below their cost is considered as an impairment indicator and, if appropriate, the accumulated losses in the Consolidated Statement of Comprehensive Income are reclassified to the Consolidated Income Statement. In such case, impairments may not be reversed in subsequent periods.

(d) *Other financial liabilities*

This category includes borrowings and trade and other payables.

**2.19. Derivative financial instruments and hedging activities**

Derivative financial instruments are recognized at fair value. Specific tools are used to calculate the fair value of each instrument, which are tested for consistency on a regular basis. Market rates are used for all pricing operations. These include exchange rates, interest rates and other discount rates which mitigate the nature of the underlying risk.

(All amounts in Euros, unless otherwise stated)

**2.19. Derivative financial instruments and hedging activities (cont.)**

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, on the nature of the item being hedged. Changes in the fair value of derivative financial instruments that are not designated as hedging instruments are immediately recognized in the Consolidated Income Statement as *Other financial results, net.*

The fair value of a hedging instrument is classified as a non-current asset or liability if the remaining hedge item has a maturity greater than 12 months, and as a current asset or liability, if the maturity of the remaining hedged item is less than 12 months. Derivatives not designated as hedging instruments are classified as current assets or liabilities.

*Cash flow hedges*

When a derivative financial instrument is designated as a hedging instrument, Tecpetrol documents the relationship between hedging instruments and hedged items at the inception of the transaction, as well as its risk management objectives and the strategy defined by management for undertaking various hedge transactions. Tecpetrol also documents its assessment, both at the inception and on an ongoing basis, of the effectiveness of the derivative financial instruments designated as hedge items to offset changes in the cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the Consolidated Statement of Comprehensive Income. The profit or loss relating to the ineffective portion is recognized immediately in the Consolidated Income Statement under *Other financial results, net*.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in the Consolidated Statement of Comprehensive Income remains in it and is reclassified to the Consolidated Income Statement when the forecast transaction is ultimately recognized in the Consolidated Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the Consolidated Statement of Comprehensive Income is immediately transferred to the Consolidated Income Statement.

## 3. New accounting standards

*(a) New standards, interpretations and amendments to published standards effective in current reporting period:*

Management evaluated the relevance of new standards, interpretations or amendments that are effective for the first time in this period, and concluded that they are not relevant for Tecpetrol.

(All amounts in Euros, unless otherwise stated)

### 3. New accounting standards (cont.)

*(b) New standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted:*

- IFRS 9 “Financial instruments”, issued in July 2014, replaces NIC 39 and introduces principles for classification and measurement of financial instruments. It also simplifies its valuation in 3 main categories: amortized cost, fair value with changes in other comprehensive income and fair value with changes in profit or loss. Also, IFRS 9 simplifies the requirements in relation to the effectiveness measurement of hedging activities. This standard is applicable for periods beginning on January 1, 2018.

  Management has not yet assessed the potential impact that the application of IFRS 9 may have in the consolidated annual accounts.

- IFRS 11 “Joint arrangements”: In May 6, 2014, the *International Accounting Standards Board* (IASB) issued amendments to IFRS 11 called “Accounting for Acquisitions of Interests in Joint Operations”. These amendments specify that the appropriate accounting treatment for such acquisitions when the joint operation constitutes a business according to IFRS 3, should be made following the requirements of IFRS 3. These amendments are effective for annual periods beginning on January 1, 2016.

  The potential impact of applying these amendments to IFRS 11 in the consolidated annual accounts depends on the existence of future acquisitions of interests in joint operations.

- IFRS 15 “Revenue from Contracts with Customers: In May 2014, the IASB issued IFRS 15 , which establishes disclosure and accounting requirements for contracts with customers, based on the principle that revenues are recognized when the customer obtains control of a good or service. IFRS 15 is applicable for annual periods beginning on January 1, 2018.

  Management has not yet assessed the potential impact that the application of IFRS 15 may have in the consolidated annual accounts.

(All amounts in Euros, unless otherwise stated)

### 3. New accounting standards (cont.)

*(b) New standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted (cont.):*

- IAS 1 “Presentation of Financial Statements”: In December 2014, the IASB issued some amendments to IAS 1, with the objective of modifying the presentation and disclosure of information in the annual accounts, encouraging the exercise of professional judgment in the determination of the information to be disclosed in those annual accounts and specifying that the concept of materiality applies to annual accounts as a whole. Moreover, the amendment clarifies that the place and order of presentation of the information in the annual accounts is subject to the application of professional judgment. Modifications to IAS 1 are applicable for annual periods beginning on or after January 1, 2016.

  Management estimates that the application of the amendments to IAS 1 will not have any material impact in the consolidated annual accounts.

Management evaluated the relevance of other new standards, interpretations or amendments that are not yet effective, and concluded that they are not relevant for Tecpetrol.

### 4. Financial risk management

#### 4.1. Financial risk factors

Tecpetrol activities expose it to a variety of financial risks, mainly related to market risks (including the effects of changes in foreign currency exchange rates, interest rates and market prices), concentration of credit risk, liquidity risk and capital risk.

Tecpetrol’s risk management program focuses on the unpredictability of financial markets and seeks to minimize potentially adverse effects on its financial performance.

(i) Foreign exchange rate risk

The Company and its subsidiaries are exposed to the foreign exchange rate risk as a consequence of the transactions made in currencies other than their functional currencies. As the Company’s functional currency is US dollar, the purpose of the foreign currency hedging program is mainly to reduce the risk caused by changes in exchange rates of other currencies against the US dollar.

Tecpetrol’s exposure to currency fluctuations is reviewed periodically. Tecpetrol aims to neutralize the potentially negative impact of currency fluctuations using derivative financial instruments, if necessary.

(All amounts in Euros, unless otherwise stated)

**4.1. Financial risk factors (cont.)**

(i) Foreign exchange rate risk (cont.)

The following table discloses the exposure (in thousands of Euros) to different currencies as of December 31, 2015 and 2014:

| Foreign currency | Exposure to US$ | |
|---|---|---|
| | December 31, 2015 | December 31, 2014 |
| ARS | (84,283) | (76,376) |
| EUR | 1,171 | 724 |
| MXN | (2,678) | 1,824 |
| COP | - | 4,489 |
| PEN | 22,345 | 42,480 |

Tecpetrol estimates that the impact of a favourable / unfavourable change in the exchange rates of 1% would result in a gain / loss of 1.1 million Euros at December 31, 2015 and 1.3 million Euros at December 31, 2014.

(ii) Interest rate risk

Tecpetrol is exposed to cash flow risk generated by interest rate volatility, mainly related to its short-term investments and borrowings.

The following table summarizes the proportions of fixed and variable rates debt at each reporting date:

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Amount in Euros | Percentage | Amount in Euros | Percentage |
| Fixed rate | 130,808,071 | 20% | 105,254,259 | 14% |
| Variable rate | 536,746,168 | 80% | 629,723,696 | 86% |

If interest rates on the accumulated nominal average of borrowings held during the year had been 50 basis points higher with all other variables remaining constant, the result for the period ended at December 31, 2015, would have been 3 million Euros lower (2.7 million lower at December 31, 2014). Note 23 includes information concerning interest rates applicable to main borrowings.

The exposure to interest rates on borrowings is partially offset by financial investments exposed also to variable rates. Tecpetrol estimates that an increase in the average interest rates of 50 basis points would lead to an increase in the net result of 0.5 million Euros at December 31, 2015 and 0.8 million Euros at December 31, 2014.

(iii) Concentration of credit risk

Tecpetrol's financial assets which are potentially exposed to concentrations of credit risk consist mainly in deposits with financial institutions and trade receivables.

(All amounts in Euros, unless otherwise stated)

**4.1. Financial risk factors (cont.)**

(iii) Concentration of credit risk (cont.)

Regarding the deposits in financial institutions, Tecpetrol reduces its exposure to significant concentrations of credit risk by maintaining its deposits and placing its cash investments with leading financial institutions, either directly or through a related company which acts as a financial agent.

With regard to trade receivables, Tecpetrol has policies in place to ensure that sales are only performed to customers with an appropriate credit history or requiring them letters of credit. At December 31, 2015, 48% of trade receivables are with Petroamazonas and 16% with PEMEX. At December 31, 2014, 29% of trade receivables were with PEMEX, 16% with Petroamazonas, 11% with YPF S.A and 9% with Shell C.A.P.S.A. Furthermore, Tecpetrol has guarantees over 3% and 7% of trade receivables at December 31, 2015 and 2014, respectively.

(iv) Liquidity risk

Tecpetrol's financial strategy aims to maintain adequate financial resources and access to credit facilities to finance its operations. During the year, Tecpetrol has counted on cash flows from its operations as well as bank financing.

Tecpetrol has a conservative approach to the management of its liquidity, by maintaining a significant portion of cash at banks, liquid funds and short-term investments, generally with a maturity of less than three months at the date of purchase.

The table below summarizes the financial liabilities of Tecpetrol according to their contractual due dates:

| | Less than a year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|
| **At December 31, 2015** | | | |
| Borrowings | 205,375,923 | 408,146,995 | 54,031,321 |
| Trades and other payables | 124,022,213 | 159,015 | - |
| Interests to be accrued | 19,233,173 | 9,429,595 | 1,611,046 |
| **Total** | **348,631,309** | **417,735,605** | **55,642,367** |
| **At December 31, 2014** | | | |
| Borrowings | 97,887,391 | 502,697,183 | 134,393,381 |
| Trades and other payables | 166,682,189 | 271,051 | - |
| Interests to be accrued | 33,882,465 | 27,943,078 | 7,754,435 |
| **Total** | **298,452,045** | **530,911,312** | **142,147,816** |

At December 31, 2015, the Consolidated Statement of Financial Position shows a negative working capital amounting to 65,766,145 Euros. It is considered that the situation will be reversed in the short term, mainly by the dividend cash flows to be received from investments in entities accounted for using the equity method and the eventual disbursements to be made by the Sole Shareholder to finance the operations.

(All amounts in Euros, unless otherwise stated)

**4.1. Financial risk factors (cont.)**

(v) Price risk

The change in the trend of international crude oil prices initiated in November 2014 generates uncertainties in the hydrocarbon activities. At the date of issuance of these consolidated annual accounts, Tecpetrol continues making its best efforts to maintain production and employment, without losing sight the long-term commitment and defending the viability of projects through the reduction and / or delay of investments, costs optimization, renegotiation of contracts with suppliers and local governments where Tecpetrol operates, and focusing on increasing efficiency and productivity in the operational, administrative and commercial processes.

A variation of US$1 in the reference crude oil price, would have an impact in Tecpetrol's result of 2.7 million Euros and 1.1 million Euros at December 31, 2015 and 2014, respectively; and a variation of US$0.1 per million BTU in the reference gas price, would not have any significant impact in Tecpetrol's results at December 31, 2015 and 2014. This sensitivity analysis considers the current context of the markets where Tecpetrol operates.

As of December 31, 2015 and 2014, Tecpetrol does not have financial instruments subject to price risk.

(vi) Capital risk

Tecpetrol seeks to maintain an adequate level of debt to total equity considering the industry and markets in which it operates. The annual debt / total net equity ratio (where "debt" comprises all financial borrowings and "net equity" is the aggregate of financial borrowings and net equity) is 0.52 at December 31, 2015 compared to 0.61 at December 31, 2014. Tecpetrol is not obliged to comply with regulatory capital requirements.

**4.2. Financial instruments by category**

The table below discloses the financial instruments by category:

| Assets at December 31, 2015 | Financial assets at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets |
|---|---|---|---|
| Trade receivables | - | 120,675,234 | - |
| Other receivables and prepayments (*) | - | 33,168,514 | - |
| Available-for-sale financial assets | - | - | 1,920,367 |
| Cash and cash equivalents | 72,918,059 | - | - |
| **Total** | **72,918,059** | **153,843,748** | **1,920,367** |

(All amounts in Euros, unless otherwise stated)

**4.2. Financial instruments by category (cont.)**

| Assets at December 31, 2014 | Financial assets at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets |
|---|---|---|---|
| Trade receivables | - | 99,115,015 | - |
| Other receivables and prepayments (*) | - | 13,575,295 | - |
| Available-for-sale financial assets | - | - | 21,816,957 |
| Cash and cash equivalents | 220,840,792 | - | - |
| **Total** | **220,840,792** | **112,690,310** | **21,816,957** |

| Liabilities at December 31, 2015 | Other financial liabilities |
|---|---|
| Borrowings | 667,554,239 |
| Trade and other payables (*) | 124,181,228 |
| **Total** | **791,735,467** |

| Liabilities at December 31, 2014 | Other financial liabilities |
|---|---|
| Borrowings | 734,977,955 |
| Trade and other payables (*) | 166,953,240 |
| **Total** | **901,931,195** |

(*) Assets and liabilities with government agencies, and certain receivables and prepayments have been excluded from this disclosure as they are not considered financial instruments.

**4.3. Fair value estimation**

Levels of hierarchy

Financial instruments valued at fair value may be classified within the following levels of hierarchy according to the way in which fair value is estimated:

Level 1 – Quoted prices in active markets for identical assets and liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the purposes of fair value estimation, Tecpetrol uses a variety of methods and assumptions based on market conditions existing at the reporting date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data as available.

Level 3 – Inputs for the asset or liability that are not based on observable market data (for example, discounted cash flows).

(All amounts in Euros, unless otherwise stated)

#### 4.3. Fair value estimation (cont.)

The following table presents the financial assets and liabilities measured at fair value by hierarchy level at December 31, 2015 and 2014:

| **Assets at December 31, 2015** | **Level 1** | **Level 3** |
|---|---|---|
| Available-for-sale financial assets | - | 1,920,367 |
| Cash and cash equivalents | 72,918,059 | - |
| **Total** | **72,918,059** | **1,920,367** |

| **Assets at December 31, 2014** | **Level 1** | **Level 3** |
|---|---|---|
| Available-for-sale financial assets | - | 21,816,957 |
| Cash and cash equivalents | 220,840,792 | - |
| **Total** | **220,840,792** | **21,816,957** |

The valuation techniques used to determine the fair value of available-for-sale financial assets and its evolution of the period are disclosed in Note 17.

For the purpose of estimating the fair value of cash and cash equivalents and other investments which maturity is in less than three months at the purchase date, Tecpetrol usually chooses the historical cost as this approximates to their fair value.

The fair value of all derivative financial instruments is determined as established in Note 2.19.

The book value of trade and other receivables, prepayments, and trade and other payables, less any impairment provision, if appropriate, approximates to their fair value. Furthermore, the fair value of borrowings and financial debts does not differ significantly from their book value at December 31, 2015 and 2014. In all cases, the fair value was determined based on discounted cash flows using market rates and are categorized as Level 2.

## 5. Critical accounting estimates

Tecpetrol makes estimates and assumptions concerning the future when preparing the consolidated annual accounts. Estimates and judgments are periodically reviewed, and are based on past experience and other factors, including expectations over future events that are believed to be reasonable under the circumstances.

Actual results may differ from those estimated under different variables, assumptions or conditions. The most significant estimates and assumptions are addressed below:

(All amounts in Euros, unless otherwise stated)

## 5. Critical accounting estimates (cont.)

(a) Hydrocarbon reserves

Reserves refer to the volumes of oil and gas (in oil-equivalent cubic meters) which generates or are associated with revenues in the fields where each subsidiary operates or has a direct or indirect share interest and over which Tecpetrol owns exploitation rights. This includes hydrocarbons volumes related to the services contracts in which Tecpetrol does not have the ownership either of the reserves or of the hydrocarbons extracted, and the volumes expected to be produced for the contracting party under the works contracts.

There are several factors which generates uncertainty with respect to the calculation of proved reserves and with respect to future production profiles, development costs and prices, including diverse factors which are beyond the producer's control. The estimation of reserves is a subjective process which cannot be accurately measured. The estimation of reserves is carried out based on the quality of geological and engineering data available and on its interpretation.

Estimated proved reserves (developed and undeveloped) as of December 31, 2015, are as follows:

| | |
|---|---|
| **Oil:** | 23 millions of cubic meters |
| **Gas:** | 38 billions of cubic meters |

The aforementioned reserves include proved reserves which may be extracted without deducting the corresponding royalties. The estimation has been prepared by Tecpetrol's technical staff and may differ from those estimated by third parties for different purposes.

The estimation is based on the technical and economic conditions in force at June 30, 2015, taking into account the economic evaluation over the term of the respective contracts or concessions. Estimates of reserves are adjusted whenever it is justified by changes in the key assumptions or at least once a year.

(b) Provision for asset retirement obligations

The liability provision related to asset retirement obligations, implies that management makes estimates concerning the long-term abandonment costs and the period of time until abandonment. Technologies and costs are constantly changing, as well as political, environmental and safety considerations. These changes can lead to differences between estimates and actual costs.

(All amounts in Euros, unless otherwise stated)

**5. Critical accounting estimates (cont.)**

(c) Contingencies

Tecpetrol is subject to various claims, lawsuits and other legal proceedings in the normal course of its business. Liabilities with respect to such claims, lawsuits and other legal proceedings cannot be estimated with certainty. Tecpetrol reviews the status of each significant matter and assesses the potential financial exposure. If the potential loss from the claim or proceedings is considered to be probable and the amount can be reasonably estimated, a provision is recorded. Management estimates the amount of these provisions based on the information available and the assumptions and methods it considers appropriate. These estimates are primarily constructed with the assistance of legal counsels. Tecpetrol periodically reviews and adjusts its estimates, as additional information becomes available.

(d) Recoverable amounts of non-financial assets

In order to evaluate the recoverability of non-financial assets, these are grouped at the lowest levels for which there are individually identifiable cash flows (cash generating units).

Estimates and key assumptions used in the impairment tests of non-financial assets are disclosed in Note 16.

(e) Fair value of available-for-sale financial assets

Estimates and key assumptions used in the determination of fair value of available-for-sale financial assets are disclosed in Note 17.

## 6. Operating costs

| | December 31, 2015 | December 31, 2014 |
|---|---:|---:|
| Services and fees | 10,731,326 | 8,382,046 |
| Labor costs | 47,718,909 | 38,487,516 |
| Depreciation of property, plant and equipment | 83,322,485 | 61,286,762 |
| Impairment of property, plant and equipment | 26,207,231 | - |
| Amortization of intangible assets | 71,378,223 | 38,659,574 |
| Service costs | 59,159,884 | 62,972,923 |
| Maintenance costs | 83,506,483 | 64,026,996 |
| Treatment, storage and loading | 29,258,712 | 25,300,913 |
| Royalties and other taxes | 97,733,604 | 126,441,313 |
| Others | 10,062,892 | 7,671,166 |
| | **519,079,749** | **433,229,209** |

(All amounts in Euros, unless otherwise stated)

## 7. Selling expenses

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Treatment, storage and loading | 2,661,170 | 2,423,550 |
| Allowance for doubtful accounts | 21,316,497 | 3,338,679 |
| Taxes | 7,096,734 | 42,605,683 |
| | **31,074,401** | **48,367,912** |

## 8. Administrative expenses

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Fees and services | 17,037,777 | 14,387,999 |
| Labor costs | 42,942,321 | 40,985,426 |
| Depreciation of property, plant and equipment | 743,707 | 754,464 |
| Taxes | 720,510 | 1,152,095 |
| Other administrative expenses | 11,764,299 | 13,394,846 |
| Reimbursements | (14,722,022) | (8,764,161) |
| | **58,486,592** | **61,910,669** |

## 9. Labor costs

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Operating costs | 47,718,909 | 38,487,516 |
| Administrative expenses | 42,942,321 | 40,985,426 |
| | **90,661,230** | **79,472,942** |

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Salaries, wages and other costs | 79,971,635 | 68,192,088 |
| Social security costs | 7,780,685 | 6,931,376 |
| Employee benefits (Note 24) | 2,908,910 | 4,349,478 |
| | **90,661,230** | **79,472,942** |

The average number of Tecpetrol's employees is as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Management | 65 | 60 |
| Staff | 764 | 783 |

At December 31, 2015 and 2014 Tecpetrol has 5 handicapped workers.

(All amounts in Euros, unless otherwise stated)

## 9. Labor costs (cont.)

The number of Tecpetrol's employees at the reporting date by category and gender is as follows:

| | December 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| Management | 61 | 5 | 66 | 58 | 4 | 62 |
| Staff | 590 | 127 | 717 | 656 | 155 | 811 |
| | **651** | **132** | **783** | **714** | **159** | **873** |

## 10. Other operating income and expenses

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| *Other operating income* | | |
| Dividends received | - | 269,442 |
| Net income from other sales | 756,609 | 3,067,106 |
| Reimbursements from third parties | 1,426 | 7,118,462 |
| Reversal of provisions | 4,613,482 | 976,090 |
| Others | 906,256 | 195,341 |
| | **6,277,773** | **11,626,441** |
| | | |
| *Other operating expenses* | | |
| Impairment charges (Note 17) | 1,110,838 | 10,857,456 |
| Bank transactions taxes | 6,906,528 | 5,122,171 |
| Provision for legal claims and contingencies | 405,125 | 457,023 |
| Fees and services | 1,044,624 | 154,475 |
| Others | 619,400 | 983,286 |
| | **10,086,515** | **17,574,411** |

## 11. Financial results

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Interest income | 2,675,927 | 3,869,951 |
| Interest expenses | (48,573,422) | (28,574,061) |
| **Net interests** | **(45,897,495)** | **(24,704,110)** |
| | | |
| Net foreign exchange transactions results | 35,285,555 | 2,896,176 |
| Other net financial results | 6,533,886 | (1,065,444) |
| **Other financial results, net** | **41,819,441** | **1,830,732** |

(All amounts in Euros, unless otherwise stated)

## 12. Income tax

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Current tax | 25,051,207 | 67,752,376 |
| Deferred tax (Note 27) | 3,709,893 | 3,671,686 |
| | **28,761,100** | **71,424,062** |

The tax levied on Tecpetrol's income before taxes differs from the theoretical amount that would be obtained using the statutory tax rate applicable in each country, as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Income before tax** | **67,957,302** | **239,920,131** |
| Tax calculated at the rate in each country | 19,481,841 | 71,497,338 |
| Exempt income | (11,129,085) | (18,279,065) |
| Unrecognized tax losses | 3,750,991 | 2,100,409 |
| Non-deductible expenses and others (a) | 16,657,353 | 16,105,380 |
| **Tax charges** | **28,761,100** | **71,424,062** |

(a) Includes the currency translation of the tax base at December 31, 2015 and 2014.

The effective weighted average income tax was 42% in 2015 (2014: 30%).

**Periods available for inspection**

| | |
|---|---|
| Argentina | 2011 to 2015 |
| Peru | 2006 to 2015 |
| Venezuela | 2008 to 2015 |
| Ecuador | 2011 to 2015 |
| Mexico | 2011 to 2015 |
| Spain | 2011 to 2015 |

As consequence of the different possible interpretations of current fiscal legislation, among other factors, additional liabilities may arise following an inspection. Management considers that such liabilities, should they occur, would not have any significant impact on the consolidated annual accounts.

(All amounts in Euros, unless otherwise stated)

## 13. Property, plant and equipment. Exploration, evaluation and development assets

| | Development / productive assets | Machinery and equipment | Asset retirement obligation | Exploration and evaluation | Work in progress | Others | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Value at the beginning | 759,814,591 | 379,420,228 | 14,822,473 | 241,622,211 | 42,441,663 | 30,813,983 | 1,468,935,149 |
| Currency translation differences | 89,693,896 | 43,936,976 | 1,788,854 | 30,085,041 | 4,825,983 | 3,734,272 | 174,065,022 |
| Additions | 2,368,586 | 919,688 | 4,344,839 | 63,767,764 | 115,567,845 | 6,337,372 | 193,306,094 |
| Transfers | 94,928,535 | 12,021,186 | - | 13,491,855 | (118,895,758) | (1,545,818) | - |
| Disposals | - | (427,799) | - | (19,066,838) | - | (828,007) | (20,322,644) |
| Acquisition of subsidiary (Note 34) | 4,898,273 | - | - | 33,191,004 | - | 3,160,787 | 41,250,064 |
| Deconsolidation of subsidiary | (21,797,862) | (11,494,392) | (2,883,488) | (58,943,853) | (1,606,187) | (558,811) | (97,284,593) |
| Value at year end | 929,906,019 | 424,375,887 | 18,072,678 | 304,147,184 | 42,333,546 | 41,113,778 | 1,759,949,092 |
| | | | | | | | |
| Depreciation | | | | | | | |
| Accumulated at the beginning | 551,361,953 | 181,827,273 | 9,622,063 | - | - | 12,907,215 | 755,718,504 |
| Currency translation differences | 65,358,605 | 21,299,061 | 1,078,786 | - | - | 1,527,584 | 89,264,036 |
| Depreciation charge (1) | 76,101,474 | 15,746,098 | (1,570,623) | - | - | 2,655,012 | 92,931,961 |
| Disposals | - | (394,599) | - | - | - | (475,959) | (870,558) |
| Impairments (2) | 22,535,171 | 3,672,060 | - | - | - | - | 26,207,231 |
| Deconsolidation of subsidiary | (21,797,862) | (8,561,126) | (788,797) | - | - | (396,699) | (31,544,484) |
| Accumulated at the end | 693,559,341 | 213,588,767 | 8,341,429 | - | - | 16,217,153 | 931,706,690 |
| **At December 31, 2015** | **236,346,678** | **210,787,120** | **9,731,249** | **304,147,184** | **42,333,546** | **24,896,625** | **828,242,402** |

(1) Includes depreciations of Tecpetrol Colombia S.A.S. amounting to 8.9 million Euros classified as *Discontinued operations* in the Consolidated Income Statement at December 31, 2015.
(2) Corresponds to the impairment loss recognized in Argentina (see Note 16).

| | Development/ productive assets | Machinery and equipment | Asset retirement obligation | Exploration and evaluation | Acquired reserves | Work in progress | Others | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Value at the beginning | 717,963,434 | 309,115,482 | 26,347,340 | 129,853,045 | 122,353,698 | 49,228,700 | 32,105,836 | 1,386,967,535 |
| Currency translation differences | 87,636,150 | 44,404,922 | 2,170,661 | 26,448,976 | - | 5,191,437 | 3,576,188 | 169,428,334 |
| Additions | 9,510,695 | - | - | 71,718,343 | - | 133,433,412 | 4,171,343 | 218,833,793 |
| Transfers | 75,974,980 | 25,899,824 | - | 35,280,868 | - | (136,393,286) | (762,386) | - |
| Disposals | - | - | (10,369,646) | (21,679,021) | - | - | (772,874) | (32,821,541) |
| Deconsolidation of subsidiary | - | - | - | - | - | (8,987,005) | (4,563,631) | (13,550,636) |
| Transfer to assets held for sale | (131,270,668) | - | (3,325,882) | - | (122,353,698) | (31,595) | (2,940,493) | (259,922,336) |
| Value at year end | 759,814,591 | 379,420,228 | 14,822,473 | 241,622,211 | - | 42,441,663 | 30,813,983 | 1,468,935,149 |
| | | | | | | | | |
| **Depreciation** | | | | | | | | |
| Accumulated at the beginning | 529,399,421 | 143,844,970 | 12,302,180 | - | 98,104,261 | - | 11,698,973 | 795,349,805 |
| Currency translation differences | 63,908,032 | 21,109,020 | 1,204,308 | - | - | - | 1,472,443 | 87,693,803 |
| Depreciation charge (1) | 53,820,047 | 16,873,283 | (1,384,941) | - | - | - | 2,192,199 | 71,500,588 |
| Disposals | - | - | - | - | - | - | (567,997) | (567,997) |
| Deconsolidation of subsidiary | - | - | - | - | - | - | (523) | (523) |
| Transfer to assets held for sale | (95,765,547) | - | (2,499,484) | - | (98,104,261) | - | (1,887,880) | (198,257,172) |
| Accumulated at the end | 551,361,953 | 181,827,273 | 9,622,063 | - | - | - | 12,907,215 | 755,718,504 |
| **At December 31, 2014** | **208,452,638** | **197,592,955** | **5,200,410** | **241,622,211** | **-** | **42,441,663** | **17,906,768** | **713,216,645** |

(1) Includes depreciations of Tecpetrol Colombia S.A.S. amounting to 9.5 million Euros classified as *Discontinued operations* in the Consolidated Income Statement at December 31, 2014.

All property, plant and equipment are located abroad.

Tecpetrol has taken out several insurance policies to cover the risks to which property, plant and equipment are exposed. The coverage of these policies is considered to be sufficient.

(All amounts in Euros, unless otherwise stated)

### 14. Intangible assets

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Goodwill (i) | 854,448 | - |
| Investments in specific services contracts (ii) | 153,616,334 | 161,696,334 |
| | **154,470,782** | **161,696,334** |

*(i) Goodwill*

On August 28, 2015, the Company completed the acquisition of 96% of the share capital of Americas Petrogas Argentina S.A. (hereinafter "APASA", see Note 34). The evolution of goodwill is as follows:

| | December 31, 2015 |
|---|---|
| Value at the beginning | - |
| Acquisition of subsidiary (Note 34) | 825,546 |
| Currency translation differences | 28,902 |
| **Value at the end** | **854,448** |

*(ii) Investments in specific services contracts*

The evolution of intangible assets originated in the service contract agreement of Libertador and Atacapi fields is as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Cost** | | |
| Value at the beginning | 230,297,355 | 95,760,993 |
| Currency translation differences | 27,374,000 | 23,293,835 |
| Additions | 45,166,079 | 111,242,527 |
| **Value at the end** | **302,837,434** | **230,297,355** |
| | | |
| **Amortization** | | |
| Accumulated at the beginning | 68,601,021 | 23,214,204 |
| Currency translation differences | 9,241,856 | 6,727,243 |
| Amortization charge | 71,378,223 | 38,659,574 |
| **Accumulated at the end** | **149,221,100** | **68,601,021** |
| **Value at the end, net** | **153,616,334** | **161,696,334** |

(All amounts in Euros, unless otherwise stated)

## 15. Investments accounted for using the equity method

Investments accounted for using the equity method in the Consolidated Statement of Financial Position are as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Investments in associated companies | 156,340,451 | 103,043,628 |
| Investments in joint ventures | 41,748,183 | 49,773,479 |
| **Investments accounted for using the equity method** | **198,088,634** | **152,817,107** |

Equity in earnings of investments accounted for using the equity method included in the Consolidated Income Statement is as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Equity in earnings of associated companies | 18,792,596 | 31,694,234 |
| Equity in earnings of joint ventures | 13,965,538 | 24,821,563 |
| **Equity in earnings of investments accounted for using the equity method** | **32,758,134** | **56,515,797** |

The evolution of investments accounted for using the equity method is as follows:

*a) Investments in associated companies*

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| At the beginning | 103.043.628 | 55.753.102 |
| Currency translation differences | 7.856.227 | 8.766.851 |
| Net acquisitions and contributions | 27.086.961 | 7.472.164 |
| Equity in earnings of associated companies | 18.792.596 | 31.694.234 |
| Dividends received | (434.138) | (636.178) |
| Share of other comprehensive income from investments accounted for using the equity method | (4.823) | (6.545) |
| **At the end** | **156.340.451** | **103.043.628** |

*b) Investments in joint ventures*

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| At the beginning | 49,773,479 | 40,460,960 |
| Currency translation differences | 5,479,373 | 5,821,597 |
| Equity in earnings of joint ventures | 13,965,538 | 24,821,563 |
| Dividends received | (27,470,207) | (21,330,641) |
| **At the end** | **41,748,183** | **49,773,479** |

(All amounts in Euros, unless otherwise stated)

### 15. Investments accounted for using the equity method (cont.)

The following is the detailed list of investments in associated companies:

| Company | Country | % at Dec 31, 2015 | % at Dec 31, 2014 | Value at Dec 31, 2015 | Value at Dec 31, 2014 |
|---|---|---|---|---|---|
| Consorcio Shushufindi S.A. (1) | Ecuador | 25.00% | 25.00% | 116,683,036 | 72,610,731 |
| Kamana Services S.A. (2) | Ecuador | 40.00% | 40.00% | 19,892,675 | 5,887,051 |
| TIBSA Inversora S.A. (3) | Argentina | 30.00% | 30.00% | 5,131,258 | 5,951,760 |
| Energy Consulting Services S.A. ("ECS") | Argentina | 29.17% | 29.17% | 4,379,377 | 3,233,367 |
| Transportadora de Gas del Mercosur S.A. | Argentina | 21.79% | 21.79% | 4,174,599 | 6,589,280 |
| Transportadora de Gas del Norte S.A. (4) | Argentina | 15.38% | 15.38% | 3,611,298 | 8,520,627 |
| Techgen S.A. de C.V. (5) | México | 30.00% | 30.00% | 2,403,888 | 201,097 |
| Parque Eólico Pampa S.A. | Argentina | 20.00% | 20.00% | 64,320 | 49,715 |
| Total | | | | **156,340,451** | **103,043,628** |

(1) The subsidiary Tecpetrol Servicios S.L. holds a 25% stake in Consorcio Shushufindi S.A. (“Shushufindi”), which provides specific integrated services in order to carry out activities aimed at optimizing production, exploration and providing technical advice, among others, in Shushufindi-Aguarico fields in Ecuador.

(2) The subsidiary Tecpetrol Servicios S.L. holds a 40% stake in Kamana Services S.A. (“Kamana”), since August 2014. Kamana provides services in order to carry out activities aimed at optimizing production, consulting and other services related to the operation or maintenance of oil fields.

(3) The Company holds an indirect stake of 27.50% in Litoral Gas S.A. through its investment in TIBSA Inversora S.A., which is in charge of natural gas distribution in Santa Fe and Buenos Aires provinces, Argentina.

(4) The Company has significant influence over Transportadora de Gas del Norte S.A. (TGN), holding a direct stake of 0.03% and an indirect stake of 15.35% (through its investment in Gasinvest S.A.) at December 31, 2015 and 2014. TGN is listed on the Buenos Aires Stock Exchange (Argentina). The closing price of TGN’s shares was ARS 7.28 per share (0.46 Euros per share) at December 31, 2015 and ARS 2.78 (0.27 Euros per share) at December 31, 2014. During 2014, the Company celebrated an agreement to acquire the 0.02% and 13.62% of the outstanding capital from TGN and Gasinvest S.A., respectively. This operation was approved by *Ente Nacional Regulador del Gas* (“ENARGAS”) and concerted in March 2016, consequently the Company holds a 23.07% stake in TGN (0.05% of direct stake and 23.02% of indirect stake) from that date on.

(5) In February 2014, Ternium S.A. and Tenaris S.A, (both subsidiaries of San Faustin S.A.) have made capital contributions in Techgen S.A. de C.V., obtaining a stake of 48% and 22%, respectively. As a consequence, Tecpetrol’s investment decreased to 30% from that date on.

(All amounts in Euros, unless otherwise stated)

### 15. Investments accounted for using the equity method (cont.)

Joint venture investments are as follows:

| Company | Country | % at Dec 31, 2015 | % at Dec 31, 2014 | Value at Dec 31, 2015 | Value at Dec 31, 2014 |
|---|---|---|---|---|---|
| Servicios Múltiples de Burgos S.A. de C.V. ("SMB") | Mexico | 50% | 50% | 41,748,183 | 49,773,479 |

Servicios Multiples de Burgos S.A. de C.V ("SMB") provides services to PEMEX Exploración y Producción related to development, infrastructure and maintenance of gas fields in Bloque Mision, Mexico**.**

Summarized selected financial information concerning companies accounted for using the equity method is as follows:

| | In thousand of Euros at December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | **Consorcio Shushufindi** | **Kamana** | **TIBSA Inversora** | **TGN** | **SMB** |
| Non-current assets | 976,042 | 89,239 | 21,697 | 220,499 | 23,941 |
| Current assets | 243,228 | 20,730 | 21,828 | 52,484 | 128,495 |
| **Total assets** | 1,219,270 | 109,969 | 43,525 | 272,983 | 152,436 |
| Non-current liabilities | 587,859 | - | 7,364 | 203,519 | 33,529 |
| Current liabilities | 164,678 | 60,237 | 17,238 | 47,493 | 35,411 |
| **Total liabilities** | 752,537 | 60,237 | 24,602 | 251,012 | 68,940 |
| Net sales | 418,674 | 7,434 | 38,525 | 73,046 | 80,553 |
| Result for the year | 141,814 | (19,118) | 8,383 | (50,362) | 27,931 |
| Dividends paid | - | - | - | - | (54,941) |

| | In thousand of Euros at December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | **Consorcio Shushufindi** | **Kamana** | **TIBSA Inversora** | **TGN** | **SMB** |
| Non-current assets | 784,943 | 7,607 | 28,171 | 244,151 | 59,017 |
| Current assets | 162,769 | 17,621 | 22,595 | 69,782 | 145,860 |
| **Total assets** | 947,712 | 25,228 | 50,766 | 313,933 | 204,877 |
| Non-current liabilities | 409,255 | - | 8,351 | 179,087 | 60,486 |
| Current liabilities | 248,014 | 10,510 | 20,778 | 54,939 | 44,843 |
| **Total liabilities** | 657,269 | 10,510 | 29,129 | 234,026 | 105,329 |
| Net sales | 350,731 | - | 38,835 | 50,432 | 142,070 |
| Result for the year | 118,618 | 2,620 | (2,067) | (22,628) | 52,534 |
| Dividends paid | - | - | - | - | (42,662) |

(All amounts in Euros, unless otherwise stated)

### 15. Investments accounted for using the equity method (cont.)

Selected financial information concerning joint ventures is as follows (in thousands of Euros):

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Cash and cash equivalents | 24,664 | 33,595 |
| Current borrowings | 13,497 | 19,685 |
| Non-current borrowings | 10,045 | 21,082 |
| Interest income | 1,541 | 1,113 |
| Interest expense | (968) | (484) |
| Income tax | (10,783) | (21,489) |

### 16. Impairment of long-term assets

Tecpetrol reviews Property, plant and equipment and Intangible assets for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These tests are performed as described in Notes 2.4 and 2.5.

The recoverable amount of each CGU is estimated by the Company as the higher of the asset's fair value less costs to sell and its value in use. The value in use is determined on the basis of the present value of net future cash flows, applying a discount rate based on a weighted average cost of capital (WACC) and considering the risks of the country where the CGU operates and its particular features. A CGU is considered to be a joint operation or a legal entity in the case that the operations are not carried out through joint operations.

Determining discounted cash flows is based on projections approved by management and involves making certain estimates and assumptions, such as the levels of hydrocarbons production, sales prices, hydrocarbons future market prices, inflation, foreign exchange rates, costs and other expenses. These estimates are based on the best assumptions that Tecpetrol has in relation to its future operations and the available market information.

Cash flows from the different CGUs are generally projected for a period that covers the existence of economically productive reserves and is limited to the existence of reserves in the term of the concessions or contracts.

At December 31, 2015, Tecpetrol recognized an impairment charge in the development and productive assets in Argentina amounting to 26.2 million Euros, mainly due to the current hydrocarbons market context, which has been significantly affected by the decrease of the international oil prices. The impairment charge was recognized in *Operating costs*, in the Consolidated Income Statement. The CGU's recoverable amount at December 31, 2015 was determined based on its value in use, using a discount pretax rate of 25%.

(All amounts in Euros, unless otherwise stated)

## 16. Impairment of long-term assets (cont.)

Additionally, at December 31, 2015 and 2014, Tecpetrol recognized impairment charges in the development and productive assets from its subsidiary in the United States amounting to 15.8 million Euros and 12 million Euros, respectively, mainly due to the current context of shale gas and shale oil production fields in the United States, which has significantly impacted on the price of gas, making certain projects less attractive and thus affecting the recoverable amount of the investment. The impairment charge was disclosed as *Discontinued operations*, in the Consolidated Income Statement (see Note 35). The CGU's recoverable amount at December 31, 2015 and 2014 was determined based on its fair value less costs to sell and was disclosed as *Assets of disposal group classified as held for sale* in the Consolidated Statement of Financial Position. For purposes of calculating the fair value less costs to sell, Tecpetrol used the estimated value of future cash flows that a market participant could generate from the CGU.

## 17. Available-for-sale financial assets

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Non-current** | | |
| Non-quoted investments | 1,920,367 | 21,816,957 |
| | **1,920,367** | **21,816,957** |

The evolution of the available-for-sale financial assets is the following:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| At the beginning | 21,816,957 | 30,287,400 |
| Currency translation differences | 2,104,197 | 3,051,671 |
| Additions | 4,466 | - |
| Disposals | - | (389,788) |
| Changes in fair value | (20,894,415) | (274,870) |
| Impairments (Note 10) | (1,110,838) | (10,857,456) |
| **At the end** | **1,920,367** | **21,816,957** |

Available-for-sale financial assets at December 31, 2015 and 2014 mainly comprise stakes in the following companies: Baripetrol S.A., Oleoductos del Valle S.A., Terminales Maritimas Patagonicas S.A. and Tecpetrol Colombia S.A.S. (the latter only at December 31, 2015).

On February 28, 2014, the Company sold to Carmen Corporation its stake in Compañia Operadora de Gas del Amazonas S.A.C. The sale price agreed for this transaction, which was part of a sale of investments of Tecpetrol International S.A., sole shareholder of the Company, amounted to US$2.1 million (1.5 million Euros). The net result of the transaction amounted to 1.1 million Euros and was included under *Other operating income* in the Consolidated Income Statement (net from income tax, which amounted 0.4 million Euros). The fair value of the stake in Compañia Operadora de Gas del Amazonas S.A.C. at the sale date amounted to 0.4 million Euros.

(All amounts in Euros, unless otherwise stated)

### 17. Available-for-sale financial assets (cont.)

On December 28, 2015, Tecpetrol Colombia S.A.S. increased its share capital and share premium in the amount of US$135.000.000, which was fully subscribed by Tecpetrol International S.A., sole shareholder of the Company. As Tecpetrol did not exercise its preferential right to subscribe shares, its stake in Tecpetrol Colombia S.A.S. decreased from 98.87% to 0.7%, with a consequent loss of control over the subsidiary. At December 31, 2015, the investment in Tecpetrol Colombia S.A.S. was valued at fair value and the effect of loss of control was recognized under *Other changes in equity*, in the Consolidated Statement of Changes in Equity, as it is a transaction between related parties.

At December 31, 2015, 99,9% of these investments correspond to financial assets held in Argentine pesos. At December 31, 2014, 97% of them corresponds to financial assets held in US dollars and the remaining 3% are in Argentine pesos.

The fair value of available-for-sale financial assets was calculated on the basis of discounted cash flows, which involves making certain estimates and assumptions, such as the levels of hydrocarbons production, sales prices, hydrocarbons future market prices, inflation, foreign exchange rates, dividends collection, costs and other expenses. These estimates are based on the best assumptions that Tecpetrol has in relation to its future operations and the available market information.

Among the main assumptions used in the calculation that are not observable in the market, is the dividends collection estimate. Since there is a significant relationship between the assumptions, Tecpetrol's management estimates that a sensitivity analysis considering changes in one assumption at a time may not be representative. At December 31, 2014, a change in the estimation regarding the collection date of dividends would have result in a decrease in the fair value of approximately 20%.

As a consequence of the political and economic context of the country where Baripetrol S.A. operates, during 2015 Tecpetrol recognized an impairment loss of 1.1 million Euros. The charge was recognized under *Other operating expenses* in the Consolidated Income Statement. At December 31, 2015, the investment is fully impaired.

During 2014, Tecpetrol recognized an impairment loss of 10.9 million Euros in Baripetrol S.A. The charge was recognized under *Other operating expenses* in the Consolidated Income Statement. The fair value at December 31, 2014 was calculated using a discount rate of 18.8%.

### 18. Inventories

| | **December 31, 2015** | **December 31, 2014** |
|---|---|---|
| Hydrocarbons | 14,825,630 | 15,435,010 |
| Supplies and spare parts | 19,537,451 | 11,412,910 |
| | **34,363,081** | **26,847,920** |

(All amounts in Euros, unless otherwise stated)

## 19. Other receivables and prepayments

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Non-current** | | |
| Tax credits | 34,926,536 | 19,983,227 |
| Employees loans and advances | 1,794,737 | 1,574,092 |
| Advances | 781,164 | 4,165,036 |
| Other receivables | 7,154,141 | 2,520,862 |
| Other receivables from related parties (Note 32) | 6,876,133 | 739,197 |
| | 51,532,711 | 28,982,414 |
| Allowance for doubtful accounts | (2,471,197) | (480,287) |
| | **49,061,514** | **28,502,127** |

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Current** | | |
| Other receivables | 20,874,301 | 9,047,605 |
| Advances | 3,642,085 | 9,592,626 |
| Other receivables from related parties (Note 32) | 687,365 | 2,993,528 |
| Tax credits | 20,755,624 | 22,804,489 |
| Employees loans and advances | 2,061,426 | 2,569,779 |
| | 48,020,801 | 47,008,027 |
| Allowance for doubtful accounts | (2,059,499) | (1,245,610) |
| | **45,961,302** | **45,762,417** |

The evolution of the allowance for doubtful accounts is as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| At the beginning | (1,725,897) | (1,033,345) |
| Currency translation differences | 630,674 | (378,255) |
| Additions (1) | (674,424) | (314,297) |
| Acquisition of subsidiary | (2,761,049) | - |
| **At the end** | **(4,530,696)** | **(1,725,897)** |

(1) Includes additions from the subsidiary Tecpetrol Corporation at December 31, 2015 and 2014, classified as *Discontinued operations* in the Consolidated Income Statement.

## 20. Trade receivables

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Non-current** | | |
| Trade receivables | - | 631,445 |
| Allowance for doubtful accounts | - | (631,445) |
| | **-** | **-** |
| **Current** | | |
| Trade receivables | 149,238,384 | 104,577,269 |
| Trade receivables from related parties (Note 32) | 7,822,771 | 7,848,485 |
| | 157,061,155 | 112,425,754 |
| Allowance for doubtful accounts | (36,385,921) | (13,310,739) |
| | **120,675,234** | **99,115,015** |
| **Total** | **120,675,234** | **99,115,015** |

(All amounts in Euros, unless otherwise stated)

## 20. Trade receivables (cont.)

The following table details the maturity analysis of the trade receivables:

| | Total | Not due | Past due | |
|---|---|---|---|---|
| | | | 1 - 180 days | > 180 days |
| **At December 31, 2015** | | | | |
| Trade receivables | 157,061,155 | 75,232,794 | 46,286,523 | 35,541,838 |
| Allowance for doubtful accounts | (36,385,921) | - | (844,083) | (35,541,838) |
| **Net value** | **120,675,234** | **75,232,794** | **45,442,440** | **-** |
| **At December 31, 2014** | | | | |
| Trade receivables | 113,057,199 | 85,926,307 | 14,724,076 | 12,406,816 |
| Allowance for doubtful accounts | (13,942,184) | - | (1,535,368) | (12,406,816) |
| **Net value** | **99,115,015** | **85,926,307** | **13,188,708** | **-** |

The evolution of the allowance for doubtful accounts is as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| At the beginning | (13,942,184) | (9,385,902) |
| Currency translation differences | (1,838,188) | (1,520,251) |
| Additions, net | (20,647,052) | (3,036,031) |
| Used | 41,503 | - |
| **At the end** | **(36,385,921)** | **(13,942,184)** |

## 21. Cash and cash equivalents

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Cash at banks | 18,653,551 | 37,883,348 |
| Short-term bank deposits | 8,165,120 | 6,809,958 |
| Short-term deposits with related parties (Note 32) | 46,099,388 | 176,147,486 |
| | **72,918,059** | **220,840,792** |

The effective interest rate on short-term deposits during both periods averaged 0.5%.

## 22. Transactions with owners

### Availability of and restrictions on distribution of reserves and retained earnings

The proposal of distribution of earnings from the separate annual accounts as of December 31, 2015 to be presented to the Sole Shareholder, as well as the approved earnings distribution as of December 31, 2014, is as follows:

(All amounts in Euros, unless otherwise stated)

## 22. Transactions with owners (cont.)

**Availability of and restrictions on distribution of reserves and retained earnings (cont.)**

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Distribution base** | | |
| Result for the year | (174,067,265) | 50,442,042 |
| | **(174,067,265)** | **50,442,042** |
| **Distribution** | | |
| Voluntary reserve | (127,317,733) | 50,442,042 |
| Share premium | (46,749,532) | - |
| | **(174,067,265)** | **50,442,042** |

**Dividends** - No dividends were distributed to the Sole Shareholder during the years ended on December 31, 2015 and 2014.

**Interim dividends -** No interim dividends were distributed during the years ended December 31, 2015 and 2014.

## 23. Borrowings

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Non-current** | | |
| Bank borrowings | 150,243,376 | 172,352,095 |
| Other financial liabilities | 6,808,952 | 7,347,887 |
| Borrowings from related parties (Note 32) | 305,125,988 | 457,390,582 |
| | **462,178,316** | **637,090,564** |

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Current** | | |
| Bank overdrafts | 28,641,562 | 17,796,074 |
| Bank borrowings | 109,658,530 | 48,828,496 |
| Other financial liabilities | 1,482,569 | 139,116 |
| Borrowings from related parties (Note 32) | 65,593,262 | 31,123,705 |
| | **205,375,923** | **97,887,391** |

Total borrowings as of December 31, 2015 and 2014 includes secured liabilities amounting to 151 million Euros and 165 million Euros, respectively. Tecpetrol has to comply with covenants, such as the maintenance of certain financial ratios, according to the conditions established in the loan agreements.

(All amounts in Euros, unless otherwise stated)

## 23. Borrowings (cont.)

Significant borrowings from banks and related parties are detailed below:

**Bank borrowings**

| Company | Lender | December 31, 2015 | December 31, 2014 | Interest rate | Currency |
|---|---|---|---|---|---|
| Pardaliservices S.A. | Banco Itaú | 109,228,555 | 98,879,918 | LIBOR + 3,1% | US$ |
| Pardaliservices S.A. | Banco Pichincha | 38,356,378 | 34,364,395 | Between 5,7% and 6,5% | US$ |
| Tecpetrol S.A. | ICBC | 24,434,418 | 9,899,112 | Between 3,5% and 3,9% | US$ |
| Tecpetrol S.A. | Banco Santander Río | 11,974,701 | - | Badcor + 4% | ARS |
| Tecpetrol S.A. | Banco BBVA Francés | 11,740,842 | - | Badcor + 2% | ARS |
| Tecpetrol S.A. | Banco Galicia | 8,935,421 | 15,406,993 | BPC + 1,5% | ARS |
| Tecpetrol S.A. | Banco Provincia | 4,490,999 | 1,604,486 | BADLAR + 2,0% | ARS |
| Tecpetrol Bloque 56 S.A.C. | HSBC | - | 30,154,992 | LIBOR + 2,9% | US$ |
| Tecpetrol S.A. | Banco Patagonia S.A. | - | 7,423,624 | Between 2,9% and 3,3% | US$ |

**Borrowings with related parties**

| Company | Lender | December 31, 2015 | December 31, 2014 | Interest rate | Currency |
|---|---|---|---|---|---|
| Tecpetrol de Bolivia S.A. | Tecpetrol International S.A. | 277,934,439 | 169,219,408 | LIBOR + 3,00% | US$ |
| Tecpetrol del Perú S.A.C. | Tecpetrol International S.A. | 51,967,100 | 70,317,477 | LIBOR + 2,10% | US$ |
| Tecpetrol Internacional S.L.U. | Tecpetrol International S.A. | 21,349,773 | 90,607,000 | LIBOR + 1,67% | US$ |
| Tecpetrol Bloque 56 S.A.C. | Tecpetrol International S.A. | 14,529,652 | - | LIBOR + 2,10% | US$ |
| Tecpetrol Colombia S.A.S. | Tecpetrol International S.A. | - | 141,587,154 | LIBOR + 2,08% | US$ |
| Norpower S.A. de C.V. | Tecpetrol International S.A. | 3,845,187 | 6,457,494 | LIBOR + 3,33% | US$ |

## 24. Employee benefits

The amounts recognized in the Consolidated Statement of Financial Position and the Consolidated Income Statement are as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Retirement benefit plans and others | 11,594,083 | 13,502,313 |
| Employee retention and long term incentive plans | 6,435,003 | 5,955,021 |
| Other mandatory personnel benefits | 893,322 | 741,119 |
| **Total liabilities recognized (a)** | **18,922,408** | **20,198,453** |

(a) No debt is due as of December 31, 2015 and 2014.

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Retirement benefit plans and others | 1,986,332 | 2,562,967 |
| Employee retention and long term incentive plans | 412,826 | 1,439,282 |
| Other mandatory personnel benefits | 509,752 | 347,229 |
| **Total included in Labor costs (Note 9)** | **2,908,910** | **4,349,478** |

(All amounts in Euros, unless otherwise stated)

### 24. Employee benefits (cont.)

Retirement benefit plans and others:

Key actuarial assumptions of the employee benefit plans that are in place as "unfunded benefit plans" and "other long-term benefits" include an average real discount rate of 7% and 6% and a rate of compensation increase of 2% and 3% respectively, for both periods.

The amounts recognized in the Consolidated Income Statement are as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Service cost | 615,985 | 686,430 |
| Interest cost | 1,370,347 | 1,876,537 |
| **Total** | **1,986,332** | **2,562,967** |

Movements in the liability recognized in the Consolidated Statement of Financial Position are as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| At the beginning | 13,502,313 | 15,834,062 |
| Currency translation differences | 1,491,373 | 1,772,726 |
| Total expense | 1,986,332 | 2,562,967 |
| Exchange rate differences | (2,117,389) | (728,739) |
| Remeasurements | (438,154) | (5,645,815) |
| Additions / decreases, net | 1,644,743 | (11,591) |
| Contributions paid | (4,475,135) | (281,297) |
| **At the end** | **11,594,083** | **13,502,313** |

Management estimates that an increase/decrease of 1% in the discount rate or in the salary increase rate, while holding all other assumptions constant, would not generate a significant impact on the financial position or results of operations as of December 31, 2015 and 2014. However, in practice is unlikely that changes occur in one premise at a time, since changes in some of the premises should be correlated.

### 25. Provisions

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Asset retirement obligations | 49,666,422 | 41,851,151 |
| Provision for other contingencies | 7,013,278 | 11,396,462 |
| **Total non-current** | **56,679,700** | **53,247,613** |
| Provision for other contingencies | 430,450 | 2,756,852 |
| **Total current** | **430,450** | **2,756,852** |
| **Total** | **57,110,150** | **56,004,465** |

(All amounts in Euros, unless otherwise stated)

### 25. Provisions (cont.)

The evolution of the provisions is as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| At the beginning | 56,004,465 | 62,562,580 |
| Currency translation differences | 4,339,384 | 6,860,370 |
| Additions / decreases, net | 5,572,425 | (7,491,152) |
| Used | (1,855,928) | (407,519) |
| Deconsolidation of subsidiary | (4,548,499) | - |
| Transfer to disposal group classified as held for sale | (2,401,697) | (5,519,814) |
| **At the end** | **57,110,150** | **56,004,465** |

At December 31, 2015 and 2014, the provision related to asset retirement obligations was estimated using an expected average inflation rate of 2%, and a discount rate in a range between 4.8% and 12.9%.

### 26. Trade and other payables

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Non-current** | | |
| Trade payables | 159,015 | 271,051 |
| | **159,015** | **271,051** |

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Current** | | |
| Trade payables | 112,147,951 | 154,354,609 |
| Payables to related parties (Note 32) | 5,616,848 | 9,319,900 |
| Social security and other taxes | 21,049,265 | 27,622,977 |
| Other liabilities | 6,257,414 | 3,007,680 |
| | **145,071,478** | **194,305,166** |

At December 31, 2015 and 2014, there were no outstanding payments due to suppliers beyond the term established by the Law 3/2004.

**Information on the payment terms for suppliers. Disclosure obligations of Law 15/2010 of July 5th**

In compliance with the provisions established by Law 15/2010, the following information is provided:

| | 2015 |
|---|---|
| Payments (Euros) | 1,299,417 |
| Pending payments (Euros) | 65 |
| Average payment period (days) | 5 |
| Paid transactions ratio (days) | 5 |
| Pending payments ratio (days) | 43 |

(All amounts in Euros, unless otherwise stated)

## 26. Trade and other payables (cont.)

#### Information on the payment terms for suppliers (cont.)

The calculation of these ratios does not include balances and transactions with related parties, as they may distort it. The comparative information of the ratios is not presented in these Consolidated Annual Accounts, for being 2015 the first year of application, in accordance with the provisions of January 29, 2016 resolution from “Instituto de Contabilidad y Auditoría de Cuentas”.

## 27. Deferred income tax

The evolution of the deferred income tax balances is as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| At the beginning | 24,922,811 | 16,661,270 |
| Currency translation differences | 2,951,412 | 2,762,932 |
| Income statement charge (Note 12) | 3,709,893 | 3,671,686 |
| Charged directly to other comprehensive income | 591,862 | 2,046,936 |
| Deconsolidation of subsidiary | - | (220,013) |
| **At the end** | **32,175,978** | **24,922,811** |

The evolution of deferred tax assets and liabilities during the year are as follows:

| Deferred tax liabilities | Property, plant and equipment | Provisions | Others | Total |
|---|---|---|---|---|
| At December 31, 2013 | 38,934,784 | 85,916 | 4,872,101 | 43,892,801 |
| Currency translation differences | 5,815,358 | 3,422 | 607,382 | 6,426,162 |
| Income statement charge - Loss / (Gain) | 5,668,190 | (89,338) | (585,551) | 4,993,301 |
| Deconsolidation of subsidiary | - | - | (4,979) | (4,979) |
| **At December 31, 2014** | **50,418,332** | **-** | **4,888,953** | **55,307,285** |
| Currency translation differences | 6,045,653 | - | 602,820 | 6,648,473 |
| Income statement charge - Loss / (Gain) | 12,696,809 | - | 1,644,984 | 14,341,793 |
| Charged directly to other comprehensive income | - | - | 469,610 | 469,610 |
| **At December 31, 2015** | **69,160,794** | **-** | **7,606,367** | **76,767,161** |

(All amounts in Euros, unless otherwise stated)

## 27. Deferred income tax (cont.)

| Deferred tax assets | Property, plant and equipment | Provisions | Tax losses | Others | Total |
|---|---|---|---|---|---|
| At December 31, 2013 | (3,512,283) | (19,460,625) | (2,603,008) | (1,655,615) | (27,231,531) |
| Currency translation differences | (258,239) | (2,704,712) | (268,440) | (431,839) | (3,663,230) |
| Income statement charge - Loss / (Gain) | 2,711,950 | (2,656,688) | 920,034 | (2,296,911) | (1,321,615) |
| Charged directly to other comprehensive income | - | 1,988,343 | - | 58,593 | 2,046,936 |
| Deconsolidation of subsidiary | (231,592) | 14,201 | 2,357 | - | (215,034) |
| **At December 31, 2014** | **(1,290,164)** | **(22,819,481)** | **(1,949,057)** | **(4,325,772)** | **(30,384,474)** |
| | | | | | |
| Currency translation differences | (135,938) | (2,605,677) | (521,959) | (433,487) | (3,697,061) |
| Income statement charge - Loss / (Gain) | 674,393 | 1,086,393 | (15,841,322) | 3,448,636 | (10,631,900) |
| Charged directly to other comprehensive income | - | 122,252 | - | - | 122,252 |
| **At December 31, 2015** | **(751,709)** | **(24,216,513)** | **(18,312,338)** | **(1,310,623)** | **(44,591,183)** |

The following amounts, determined after being appropriate set off, are disclosed in the Consolidated Statement of Financial Position:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Deferred tax assets | (15,723,037) | (19,600,241) |
| Deferred tax liabilities | 47,899,015 | 44,523,052 |
| | **32,175,978** | **24,922,811** |

The estimated term of reversal of these deferred assets and liabilities is as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Deferred tax assets to be recovered after 12 months | (19,064,047) | (3,239,221) |
| Deferred tax liabilities to be recovered after 12 months | 69,160,794 | 50,418,332 |
| | | |
| Deferred tax assets to be recovered within 12 months | (25,527,136) | (27,145,253) |
| Deferred tax liabilities to be recovered within 12 months | 7,606,367 | 4,888,953 |

### Taxable losses

Tecpetrol's taxable losses as of December 31, 2015, are shown below:

| Country | Subsidiary | Taxable loss in local currency | Currency | Amount in Euros | Prescription |
|---|---|---|---|---|---|
| Bolivia | Tecpetrol de Bolivia S.A. | 373,106,213 | BOB | 49,239,835 | 5 years |

At December 31, 2015, unrecognized tax loss carry-forwards amounts to 12.3 million Euros.

## 28. Derivative financial instruments

Tecpetrol Corporation (a subsidiary) had until May 2014 swap contracts in place to reduce its exposure to the risk of variations in the oil, natural gas and NGL (propane) market prices. The counterpart of these contracts was Tecpetrol International S. A. (Sole Shareholder).

These contracts were designed as hedge accounting and, as a consequence, the changes in their fair value were recognized in the Consolidated Statement of Comprehensive Income, as long as the designation was effective. At December 31, 2014, a variation in the cash flow hedge reserve of 5,293,397 Euros is showed in the Consolidated Statement of Comprehensive Income.

As a consequence of the cancellation of these contracts, the subsidiary Tecpetrol Corporation received an amount equivalent to 3,456,196 Euros. Additionally, as the forecast transactions were no longer expected to occur, the cash flow hedge reserve was reclassified to the Consolidated Income Statement and disclosed as *Discontinued operations*.

At December, 2015, Tecpetrol does not have any derivative financial instruments.

## 29. Contingencies

Tecpetrol has contingent liabilities in respect of legal claims arising in the ordinary course of business. Likewise, there are certain interpretations made by the regulators as to the calculation and payment of certain taxes than may differ from Tecpetrol's position. Based on management's assessment and the advice of legal counsels, it is not anticipated that the ultimate resolution of pending litigation will result in amounts in excess of recorded provisions in these Consolidated Annual Accounts.

*Argentina – Income tax assessment*

The Argentine tax authority *Administración Federal de Ingresos Públicos – AFIP*, has notified the subsidiary Tecpetrol S.A. of an income tax assessment amounting to 1.5 million Euros, in addition to the corresponding interests and fines, with the argument of improper treatment of the result of certain crude oil derivatives and other deductions for the fiscal years 2000 and 2001. In July 2006, Tecpetrol S.A. appealed, resulting in a stay of execution with respect to the demand for payment. In 2011, Tecpetrol S.A. was notified of the Tax Court's decision which ruled in favour of Tecpetrol S.A. as regards the treatment of oil derivative instruments and against Tecpetrol S.A. as regards certain deductions. As the suspense effect of the appeal to the Tax Court had expired, in November 2011, Tecpetrol S.A. paid up the amount corresponding to the items detailed in the ruling (approximately US$0.06 million of taxes plus interests); notwithstanding, the Argentine subsidiary has lodged an appeal with the *Cámara Nacional de Apelaciones en lo Contencioso Administrativo Federal* (National Appeal Court for Federal Administration Litigation). In July 2013, the National Appeal ruled in favour of Tecpetrol S.A. However, the AFIP appealed the decision to the *Corte Suprema de Justicia* (Supreme Court).

(All amounts in Euros, unless otherwise stated)

## 30. Situation of associated companies: Transportadora de Gas del Norte S.A. and Transportadora de Gas del Mercosur S.A.

*Transportadora de Gas del Norte S.A. ("TGN"):*

TGN began its operations at the end of 1992, operating two main gas pipelines connected to fields in the North and Mid-West of Argentina, whose location allows TGN to meet the gas needs of the countries in the Southern Cone.

The measures adopted by the Argentine Government during 2002 altered the legal and contractual conditions of the framework in which TGN conducted its business until December 2001. The tariff-freeze, the devaluation of the Argentine currency, added to a generalized increase of costs and the fall in export transportation revenues due to the lack of gas balances, caused a substantial imbalance in TGN's financial and equity structure. On December, 2008, the *Ente Nacional Regulador de Gas - ENARGAS* (Argentine Gas Regulator) took the decision to intervene TGN for 120 days and conduct an integral audit. At the end of this period, the intervention was successively extended by ENARGAS resolutions until December 15, 2015. It should be noted that TGN has continued providing the public service it has in charge, without affecting either its customers or general users.

After exhausting all administrative and judicial instances in pursuit of restoring the economic-financial balance of its license agreement, on October, 2012, TGN's Board of Directors decided to sue the Argentine National State with the aim to obtain a compensation for the damages experienced as a result of devaluation and tariff-freeze.

Furthermore, in order to complete the regularization of its financial liabilities, during 2012, TGN launched 2 offers to exchange its Series A and B negotiable debt securities, both of them defined as "outstanding debt". Considering the result of this operation and the payment of certain debts under executions and/or individual agreements, TGN restructured 100% of its total financial liabilities.

In April 2014, ENARGAS implemented the interim rate adjustment agreement which was concluded in 2008 and ratified by the Argentine Executive Government in 2010 (Poder Ejecutivo Nacional), approving an increase in the transportation rates of 8% as from April 1, 2014, 14% accumulated as from June 1, 2014 and 20% accumulated as from August 1, 2014. The increasing income should be used in investing activities approved by ENARGAS. Subsequently, on June 5, 2015, ENARGAS put in force, through Resolution I/3348, new tariff charts which includes an increase of 69.1%, effective from May 1, 2015.

In March 2016, ENARGAS issued Resolution I/3723, which approves a new increase in TGN's tariffs, effective from April 1, 2016. This increase is subject to the compliance of a mandatory investment plan amounting to 1,041 million Argentine pesos, to be audited by ENARGAS. Also, TGN may not distribute dividends without the previous approval of ENARGAS.

(All amounts in Euros, unless otherwise stated)

## 30. Situation of associated companies: Transportadora de Gas del Norte S.A. and Transportadora de Gas del Mercosur S.A. (cont.)

*Transportadora de Gas del Norte S.A. ("TGN") (cont.):*

TGN relies that this is the first step to the normalization of its rates and that it will also reach in the future a complete renegotiation of its transportation license that reverse its financial situation.

*Transportadora de Gas del Mercosur S.A. ("TGM"):*

TGM began its commercial operations in 2000, complying with its contractual obligations to provide YPF S.A. with the transportation capacity to up to 2.8 million $m^3$/day of natural gas for delivery at the sub-fluvial frontier between Argentina and Brazil under the Uruguay river.

On the base of the norms adopted by the Argentine Government aimed at palliating the effects of the energy crisis in the short term, the *Subsecretaría de Combustibles* (Fuels Sub-secretariat) passed a series of measures suspending the export of certain volumes of natural gas in order to secure domestic supply. As a result, on April 2009, TGM announced the termination of the transport agreement with YPF, which is currently its only source of income and promoted legal actions in the *Corte Internacional de Arbitraje de la Cámara de Comercio Internacional* (International Court of Arbitration of the International Chamber of Commerce).

On May, 2013 the *Tribunal Arbitral* issued an initial award declaring that the early termination of the gas contract and transport agreement was due to YPF's responsibility breach and recognized TGM's right to collect the unpaid invoices, plus another amount to be determined in respect of damages arising from the termination of the agreement. On December 17, 2013 the *Tribunal Arbitral* started with the second stage of the arbitral process, under which they will discuss and determine the amounts of compensation to be received by TGM. However, YPF raised the nullity of the initial award, which was rejected by the *Tribunal Arbitral*, so YPF interposed a complaint appeal in the Argentine Justice. Based in the opinion of their legal counsels, TGM considers that the Argentine Justice is incompetent to understand in any issue related to the initial award, because the location of the arbitration (Montevideo, Uruguay) determines the exclusive jurisdiction of the Uruguayan Justice.

(All amounts in Euros, unless otherwise stated)

## 30. Situation of associated companies: Transportadora de Gas del Norte S.A. and Transportadora de Gas del Mercosur S.A. (cont.)

*Transportadora de Gas del Mercosur S.A. ("TGM") (cont.):*

The Company carried out impairment tests over the Company's stake in the share capital of TGN and TGM. The hypotheses and key assumptions over the future are based on the operating and commercial scenarios as regards the activities and prices projected by each of the operating companies, and takes into account the outlook projected by Tecpetrol's management concerning income tax considerations, different scenarios for the collection of dividends arising from these investments and the discount rate.

These estimates are based on future assumptions. Actual results may differ from those estimated. In these circumstances, the valuation of such investments represents the best estimate of management concerning the recoverability of these assets.

## 31. Main commitments, guarantees and restrictions

At the date of these consolidated annual accounts, the Company and its subsidiaries hold the following commitments and/or guarantees:

a) Main corporate guarantees:

| Item | Company | Beneficiary | Amounts in US$ millions | Comments |
|---|---|---|---|---|
| Guarantee of compliance with the obligations of Consorcio Shushufindi S.A. under the integrated services contract. | Tecpetrol Internacional S.L.U. | Petroamazonas | 62 | Limited warranty up to 25% of the amount to be established in each annual work program. |
| Joint guarantee of compliance with the obligations of Tecpetrol del Peru SAC and Tecpetrol Bloque 56 SAC under the license contract to exploit hydrocarbons in Lote 88 and Lote 56, respectively. | Tecpetrol Internacional S.L.U. | Perupetro S.A. | - | No defined amount. |
| Guarantee of compliance with the obligations of Pardaliservices S.A. under the integrated services contract in Libertador fields. | Tecpetrol Internacional S.L.U. | Petroamazonas | 29 | Limited warranty up to 40% of the amount to be established in each annual work program. |
| Joint guarantee for compliance with the obligations of Tecpetrol Colombia S.A.S. enshrined in the contract for the exploration and exploitation of hydrocarbons with the Agencia Nacional de Hidrocarburos de Colombia ("ANH") and any damages occasioned by non-compliance with them. | Tecpetrol Internacional S.L.U. | ANH (**) | - | No defined amount. |

(All amounts in Euros, unless otherwise stated)

### 31. Main commitments, guarantees and restrictions (cont.)

a) Main corporate guarantees (cont.):

| Item | Company | Beneficiary | Amounts in US$ millions | Comments |
|---|---|---|---|---|
| Joint, unconditional and irrevocable guarantee for providing Tecpetrol de Bolivia S.A. with all the technical and financial resources required for the latter to fully and appropriately comply with its obligations pursuant to the contracts for the exploitation of the Bloques Aquio and Ipati. | Tecpetrol S.A. | YPFB | 59 | - |
| Guarantee for compliance with the obligations of the associated company Kamana Services S.A. under the terms of the contract for the execution of optimization activities to improve production, enhanced recovery and for the exploration in Pañacocha, Tumali and Eden Yuturi fields from the Amazonic region of Ecuador. | Tecpetrol Internacional S.L.U. | Petroamazonas | 112 | Limited warranty up to 40% of the amount to be established in each annual work program. |

b) Main guarantees for financial entities and insurance companies

| Item | Applicant Company | Issuer | Beneficiary | Amounts in US$ Millions | Comments |
|---|---|---|---|---|---|
| Guarantee for compliance with the obligations arising from its contract with Loma Ancha area. | Tecpetrol S.A | Fianzas y Crédito S.A. Compañía de Seguros | Gas y Petróleo del Neuquén S.A. | 26 | - |
| Guarantee covering hidden defects. | SMB | Afianzadoras Sofimex y Cescmex S.A. | PEP (*) | 8 | - |
| Due compliance with the obligations arising from the works contract signed between SMB and PEP. | SMB | HSBC México S.A. | PEP (*) | 4 | - |
| Guarantee for the payment of the acquisition price for the shareholding of Argentinean Pipeline Holding Company ("APHC") in Gasinvest, TGM, TGN and related receivables. | Tecpetrol Internacional S.L.U. | Banco Santander | APHC | 5 | Compañia General de Combustible issued an indemnity in favour of Tecpetrol Internacional S.L.U. for US$2 million. |
| Due compliance with the obligations arising from the works contract signed between Norpower S.A. de C.V. and PEP. | Norpower S.A. de C.V. | HSBC Mexico S.A. | PEP (*) | 12 | Tecpetrol Internacional S.L.U. signed a guarantee for up to US$12 million in favour of HSBC Mexico S.A. Also, TE&IC S.A. issued an indemnity in favour of Tecpetrol Internacional S.L.U. for up to US$5 million. |

(*) PEP: Pemex Exploración y Producción - (**) ANH: Agencia Nacional de Hidrocarburos

(All amounts in Euros, unless otherwise stated)

### 31. Main commitments, guarantees and restrictions (cont.)

c) Main commitments

The associated company Techgen S.A. de C.V., is a party to transportation capacity agreements with Kinder Morgan Gas Natural de Mexico, S. de R.L. de C.V., Kinder Morgan Texas Pipeline LLC and Kinder Morgan Tejas Pipeline LLC for a purchasing capacity of 150,000 MMBtu/Gas per day starting on June 1, 2016 and ending on May 31, 2036. As of December 31, 2015, the outstanding value of this commitment was approximately US$285 million. Tecpetrol's exposure to the mentioned commitment at this date amounts to US$85.5 million (78.5 million Euros), corresponding to the interest of Tecpetrol in the associated company (30%)

d) Restrictions to the share transfer and profits distribution

The terms and conditions of the transfer agreement for the privatization of *Gas del Estado S.E.* ("GdE") impose certain restrictions on the transfer of TGN's shares held by Gasinvest S.A. and the transfer of the latter's shares by its shareholders.

In accordance with such restrictions, any transfer or assignment or any other act leading to a decrease below 51% in the interests held by the former shareholders of Gasinvest, including any shortfall in the subscription by those shareholders of any capital increase in Gasinvest, requires prior approval of ENARGAS.

These restrictions do not apply to transfers between parties belonging to the same economic group as specified in the terms and conditions of the aforementioned agreement.

As established in the current financial agreements, TGN may not pay out dividends if it has incurred in default or grounds for default, and in any case, the dividend shall not be in excess of available basket amount (as defined in the contract).

Additionally, as established in the terms and conditions of the international public tender for the privatization of Gas del Estado S.E., TIBSA Inversora S.A. may dispose of a portion of the majority shareholding in Litoral Gas provided that it does not reduce its interest in the capital stock and voting rights to less than 51%. The transfer of this percentage, as well as any act that reduces TIBSA's shareholding to an amount below this equity interest shall be subject to the prior authorization of the regulatory entity.

e) Restricted assets

A substantial majority of the assets transferred by GdE to TGN, mainly those included under the headings of gas pipelines, high-pressure branches, compressor plants and pressure regulation and/or measuring stations, has been defined in the License as "essential assets for rendering the service licensed''.

(All amounts in Euros, unless otherwise stated)

### 31. Main commitments, guarantees and restrictions (cont.)

e) Restricted assets (cont.)

In accordance with TGN license agreement, TGN is bound to repair and maintain all essential assets, including making any improvements and extensions as established by specific standards defined in the agreement. TGN may by no means dispose any essential assets, encumber, rent or otherwise give them in loan and restitution, nor may it use them for any other purpose than the rendering of the transportation service, without prior authorization from ENARGAS.

### 32. Related party balances and transactions

The Company is controlled by Tecpetrol International S.A., incorporated in Uruguay, which owns 100% of the Company's shareholding.

San Faustin S.A., a corporation based in Luxembourg, owns Tecpetrol International S.A. through its subsidiaries.

Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, a Dutch private foundation ("Stichting"), ("RP STAK") holds shares in San Faustin S.A. in sufficient number to control San Faustin S.A.

No person or group of persons controls RP STAK.

The main transactions carried out with related parties (includes operations disclosed as discontinued operations in the Consolidated Income Statement) are as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| *Sole shareholder:* | | |
| Interest expense | (16,691,104) | (12,704,474) |
| | | |
| *Associated companies:* | | |
| Service revenues | 20,728,664 | 11,046,905 |
| Fees and services | - | (2,750,378) |
| Interest income | 80,689 | 654,164 |
| | | |
| *Joint ventures:* | | |
| Service revenues | 6,810,392 | 12,043,267 |
| Fees and services | 863,775 | 1,622,717 |
| | | |
| *Other related parties:* | | |
| Sales of goods, services and others | 4,860,192 | 1,530,367 |
| Purchases of goods | (5,113,770) | (11,241,361) |
| Fees and services | (593,989) | (577,124) |
| Interest income | 645,189 | 749,566 |
| Interest expense | (286,647) | (144,130) |
| Income from derivative financial instruments | - | 210,350 |

(All amounts in Euros, unless otherwise stated)

## 32. Related party balances and transactions (cont.)

Main year-end balances with related parties are disclosed below:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| *Short-term deposit with related parties (Note 21)* | | |
| Other related parties | 46,099,388 | 176,147,486 |
| | | |
| *Trade receivables from related parties (Note 20)* | | |
| Current - Associated companies | 7,303,324 | 6,369,657 |
| Current - Joint ventures | 154,868 | 1,215,457 |
| Current - Other related parties | 364,579 | 263,371 |
| | **7,822,771** | **7,848,485** |
| *Receivables from related parties (Note 19)* | | |
| Non-current - Associated companies | 6,876,133 | 739,197 |
| | | |
| Current - Associated companies | 117,889 | 92,864 |
| Current - Joint ventures | 153,899 | 1,565,568 |
| Current - Other related parties | 415,577 | 1,335,096 |
| | **687,365** | **2,993,528** |
| | | |
| *Payables to related parties (Note 26)* | | |
| Current - Associated companies | 416,985 | - |
| Current - Other related parties | 5,199,863 | 9,319,900 |
| | **5,616,848** | **9,319,900** |
| *Borrowings (Note 23)* | | |
| Non-current - Sole shareholder | 305,125,988 | 454,095,941 |
| Non-current - Related parties | - | 3,294,641 |
| Current - Sole shareholder | 61,592,574 | 27,829,983 |
| Current - Related parties | 4,000,688 | 3,293,722 |
| | **370,719,250** | **488,514,287** |

**Key management compensation**

Total compensation of Directors and key management amounted to 3.26 million Euros at December 31, 2015 and 2.31 million Euros at December 31, 2014.

(All amounts in Euros, unless otherwise stated)

### 33. Principal subsidiaries and jointly-controlled entities

**Subsidiaries**

| Company | Main activity | Domicile | % Dec-15 | % Dec-14 |
|---|---|---|---|---|
| Tecpetrol S.A. | Exploration, exploitation, production and sale of oil and gas | Pasaje Della Paolera 299, 16th floor, Ciudad Autónoma de Buenos Aires, Argentina | 95.98 | 95.98 |
| Tecpetrol de Mexico S.A. de C.V. | Provision of services related to the development, infrastructure and maintenance of gas fields | Guillermo González Camarena N° 1200, 7th floor, Colonia Centro de Ciudad Santa Fe, DF, Mexico | 99.92 | 99.92 |
| Burgos Oil Services S.A. de C.V. | Provision of services related to the development, infrastructure and maintenance of gas fields | Guillermo González Camarena N° 1200, 7th floor, Colonia Centro de Ciudad Santa Fe, DF, Mexico | 99.96 | 99.92 |
| Tecpecuador S.A. | Exploration, exploitation, production and sale of oil and gas | Avenida 12 de octubre N° 26-97 y Abraham Lincoln, Edif. Torre 1492 – 2nd floor , Quito, Ecuador | 100 | 100 |
| Tecpetrol del Peru S.A.C. | Exploration, exploitation, production and sale of oil and gas | Av. Victor Andres Belaúnde N° 332, of. 102, Lima, Peru | 99.92 | 99.92 |
| Tecpetrol Bloque 56 S.A.C. | Exploration, exploitation, production and sale of oil and gas | Av. Victor Andres Belaúnde N° 332, of. 102, Lima, Peru | 99.92 | 99.92 |
| Techenergy Services S.A. de C.V. | Exploration, operation and maintenance of hydrocarbons fields | Boulevard 1° de mayo 34, Colonia Jose de Escandón, Reynosa, Mexico | 100 | 100 |
| Tecpetrol de Bolivia S.A. | Exploration, exploitation, production and sale of oil and gas. | Calle Sanchez Bustamante S/N, Ketal building, 4th floor, ap. 402, La Paz, Bolivia | 94.12 | 94.12 |
| Tecpetrol Lote 174 S.A.C. (a) | Exploration, exploitation, production and sale of oil and gas | Av. Victor Andres Belaúnde N° 332, of. 102, Lima, Peru | - | 99.92 |
| Dapetrol S.A. | Exploration, discovery, exploitation and sale of oil and gas | Pasaje Della Paolera 299, 16th floor, Ciudad Autónoma de Buenos Aires, Argentina | 96.08 | 96.08 |
| Tecpetrol Colombia S.A.S. (b) | Exploration, exploitation, production and sale of oil and gas, and operating and maintenance services and development hydrocarbons fields | Carreran 11 A N° 97 19, Bogotá, Colombia | 0.7 | 98.87 |
| Tecpetrol Corporation (c) | Exploration, exploitation and production of oil and gas | 2711 Centerville Road, Suite 400, Wilmington, Delaware, United States of America | 99.92 | 99.92 |
| Norpower S.A. de C.V. | Carrying out works related to the development, infrastructure and maintenance of the gas pipeline System 3 | Guillermo González Camarena N° 1200, 7th floor, Colonia Centro de Ciudad Santa Fe, DF, Mexico | 59.98 | 59.98 |
| Pardaliservices S.A. (d) | Provision of services of exploration, evaluation and development of hydrocarbons | Avenida 12 de octubre N° 26-97 y Abraham Lincoln, Edif. Torre 1492, 3rd floor, Quito, Ecuador | 40 | 40 |
| Tecpeservices S.A. | Provision of services of design, engineering and construction of works in fields or any other oil facilities | Avenida 12 de octubre N° 26-97 y Abraham Lincoln, Edif. Torre 1492 – 2nd floor , Quito, Ecuador | 100 | 100 |
| Tecsip S.A. | Provision of professional and technical services, mainly directed to the oil industry | Avenida 12 de octubre N° 26-97 y Abraham Lincoln, Edif. Torre 1492 – 2nd floor , Quito, Ecuador | 100 | 100 |
| Tecpegas S.A. | Holding and activities related to the hydrocarbons industry, among others | Aquilino de la Guardia N° 8, Edif. Igra, Ap. 4, Panama | 100 | 100 |

(All amounts in Euros, unless otherwise stated)

### 33. Principal subsidiaries and jointly-controlled entities (cont.)

**Subsidiaries (cont.)**

| Company | Main activity | Domicile | % Dec-15 | % Dec-14 |
|---|---|---|---|---|
| Suizum - Servicios de Consultoria S.L. | Holding and provision of advisory services | Calle García de Paredes 94, 1˚ A, Madrid, Spain | 100 | 100 |
| Servicios Libertador S.L. (e) | Holding and provision of financial services | Calle García de Paredes 94, 1˚ A, Madrid, Spain | 40 | 40 |
| Tecpetrol Servicios S.L. | Holding | Calle García de Paredes 94, 1˚ A, Madrid, Spain | 100 | 100 |
| Americas Petrogas Argentina S.A. (f) | Exploration, discovery, exploitation, production and sale of oil and gas | Martínez de Rozas 86, Mendoza, Argentina | 96 | - |

(a) Merged with Tecpetrol del Perú S.A.C. in November, 2015.
(b) See Note 17.
(c) See Note 35.
(d) The subsidiary Servicios Libertador S.L. has a 99.99% stake in Pardaliservices S.A. at December 31, 2015 and 2014.
(e) The subsidiary Marble Properties B.V. has a 60% stake in Servicios Libertador S.L. at December 31, 2015 and 2014.
(f) See Note 34.

**Joint operations – Argentina**

*a) Areas operated by Tecpetrol*

| Name | Location | % at Dec 31, 2015 | % at Dec 31, 2014 | Assignment date | Duration (years) |
|---|---|---|---|---|---|
| Agua Salada | Río Negro | 70.00 | 70.00 | September 1990 | 35 (i) |
| Atuel Norte | Mendoza | 50.00 | 50.00 | September 1990 | 25 (ii) |
| El Tordillo | Chubut | 52.13 | 52.13 | June 1991 | 35 |
| Aguaragüe | Salta | 23.00 | 23.00 | November 1992 | 35 (iii) |
| La Tapera-Puesto Quiroga | Chubut | 52.13 | 52.13 | July 1994 | 35 (iv) |
| Rio Atuel | Mendoza | 33.34 | 33.34 | December 2008 | (v) |
| Medanito Sur (vi) | La Pampa | 60.00 | - | August 2015 | 25 |
| Los Toldos (vi) | Neuquén | 45.00 | - | August 2015 | 11 |
| Loma Ranqueles (vi) | Neuquén | 65.00 | - | August 2015 | 10 (vii) |
| Loma Ancha (viii) | Neuquén | 95.00 | 95.00 | December 2014 | 25 |

(i) On December 9, 2014, it was agreed with the government of the province of Rio Negro the extension for 10 years from September 2015, of the grant of hydrocarbon exploration in the area. The agreement was ratified by the legislature of the province on December 30, 2014.

(All amounts in Euros, unless otherwise stated)

### 33. Principal subsidiaries and jointly-controlled entities (cont.)

**Joint operations – Argentina (cont.)**

(ii) During 2013, the partners Petrolera El Trébol S.A. and Petrobras Argentina S.A. renounced to the temporary consortium Atuel Norte. Tecpetrol S.A. assumed 100% of the costs and investments of Petrolera El Trébol S.A. from May 15, 2014, date of its effective retirement. As a consequence, Tecpetrol's actual stake over Atuel Norte is 66.67% from that date. At the date of issuance of these Consolidated Annual Accounts, the withdrawal of Petrobras Argentina S.A. has not been formalized.

(iii) The term is calculated as from November 2001 for the "San Antonio Sur" field and includes the extension of the term awarded in 2012.

(iv) This term is calculated as from July 21, 1992, when the area was awarded to Glacco S.A. Tecpetrol S.A. purchased the area from Glacco S.A. in July, 1994.

(v) This period will have the required duration to ensure compliance with the obligations arising from the contract.

(vi) The areas were acquired through the acquisition of APASA (see Note 34). The term is calculated from March 2012, May and August 2007, award dates of Medanito Sur, Los Toldos y Loma Ranqueles areas, respectively, to APASA.

(vii) On November 25, 2015, it was agreed with the government of the province of Neuquen, a 2 year extension of the exploration term of the area, until June 15, 2017.

(viii) Tecpetrol S.A. assumed 100% of the costs and investments of its partner, Gas y Petróleo del Neuquén S.A. as a result of an agreement between them.

*b) Areas operated by third parties*

| Name | Location | % at Dec31, 2015 | % at Dec31, 2014 | Assignment date | Duration (years) |
|---|---|---|---|---|---|
| Ramos | Salta | 25.00 | 25.00 | January 1991 | 35 (i) |
| Huacalera (ii) | Neuquen | 19.50 | - | August 2015 | 7 |

(i) On June 20, 1996, the due date of concession was extended until January 21, 2026.

(ii) The area was acquired through the acquisition of APASA (see Note 34). The term is calculated from November 2007, award date of Huacalera area to APASA.

(All amounts in Euros, unless otherwise stated)

## 33. Principal subsidiaries and jointly-controlled entities (cont.)

### Joint operations – Other countries

| Country | % Dec-2015 | % Dec-2014 | Area | Operator / Common representative | Assignment date | Duration |
|---|---|---|---|---|---|---|
| Venezuela | 43.75 | 43.75 | Colon (Colon Consortium) | Tecpetrol de Venezuela S.A. | December 1994 | Until the period and/or fulfillment of all rights and obligations related to “Convenio de Servicios de Operación” |
| Venezuela | 43.75 | 43.75 | Colon (Tecpetrol Consortium-Coparex-CMS Oil and Gas) | Suizum - Servicios de Consultoria S.L.U. | September 2010 | Until such time as the obligations related to the contract to convert this to a mixed company are fulfilled. |
| Peru | 10 | 10 | Camisea/Pagoreni (Bloques 88 y 56) | Pluspetrol Peru Corporation S.A. | December 2000 and September 2004 | 40 years |
| Bolivia | 20 | 20 | Ipati y Aquio | Total Exploration & Production Bolivie | May 2007 | Ipati: 31 years<br>Aquio: 35 years |
| Colombia (a) | - | 80 | CPO7 y CPO13 | Tecpetrol Colombia S.A.S. | January 2009 | 24 years as from the commercial discovery |

(a) See Note 17.

### Main joint operations - Assets and liabilities according to Tecpetrol’s interest:

| Designation | Assets | | Liabilities | |
|---|---|---|---|---|
| | Dec-15 | Dec-14 | Dec-15 | Dec-14 |
| **ARGENTINA** | | | | |
| Agua Salada | 22,181,949 | 4,582,912 | 9,731,035 | 5,614,818 |
| El Tordillo | 123,671,390 | 107,440,270 | 46,447,358 | 48,159,485 |
| Aguaragüe | 21,345,526 | 9,319,866 | 6,318,270 | 5,321,694 |
| Ramos | 15,165,859 | 7,400,713 | 5,069,819 | 4,882,844 |
| La Tapera - Puesto Quiroga | 5,186,325 | 4,475,836 | 1,476,871 | 2,174,841 |
| Atuel Norte | 401,164 | 1,014,241 | 587,489 | 1,617,471 |
| Rio Atuel | 10,135,400 | 4,355,092 | 3,138,233 | 779,150 |
| Medanito Sur | 23,945,714 | - | 9,367,296 | - |
| Los Toldos | 36,593,434 | - | 445,959 | - |
| **VENEZUELA** | | | | |
| Colon | 36,042 | 44,939 | 15,733 | 36,368 |
| **PERU** | | | | |
| Bloque 88 | 163,121,564 | 152,726,195 | 7,577,844 | 6,952,725 |
| Bloque 56 | 118,000,250 | 110,666,041 | 2,921,106 | 3,573,433 |
| **BOLIVIA** | | | | |
| Aquio | 31,085,792 | 26,812,329 | 1,715,192 | 1,026,705 |
| Ipati | 223,540,805 | 135,222,138 | 7,942,598 | 9,495,368 |
| **COLOMBIA (a)** | | | | |
| CPO-7 | - | 32,559,907 | - | 2,118,365 |
| CPO-13 | - | 41,235,835 | - | 10,329,105 |

(a) See Note 17.

(All amounts in Euros, unless otherwise stated)

### 34. Acquisition of Americas Petrogas Argentina S.A.

On August 28, 2015, the Company completed the acquisition of 96% of the issued share capital of Americas Petrogas Argentina S.A. The Sole shareholder acquired the remaining 4% of the shared capital of APASA.

The total transaction price amounted to US$59.8 million (53.1 million Euros). With this transaction, Tecpetrol and its Sole shareholder have acquired the operation of various areas in the Neuquen basin, consolidating its positioning for the future development of shale resources.

Non-controlling interest of the acquired subsidiary was measured at the non-controlling interest's proportionate share of the acquiree's net assets.

The table below discloses the fair values of the main assets and liabilities of APASA at the acquisition date, which have been incorporated in the Consolidated Annual Accounts from that date:

| | **Fair value (i)** |
|---|---|
| Property, plant and equipment | 41,250,064 |
| Inventories | 1,223,657 |
| Other receivables and prepayments | 19,395,312 |
| Trade receivables | 2,248,748 |
| Cash and cash equivalents | 3,917,911 |
| Borrowings | (2,152,865) |
| Trade and other payables | (13,623,822) |
| **Net identifiable assets acquired** | **52,259,005** |
| Add: Goodwill (ii) | 825,546 |
| **Subtotal** | **53,084,551** |
| Less: Non-controlling interests | (2,123,382) |
| **Net assets acquired** | **50,961,169** |

(i) Values determined on a provisional basis as of December 31, 2015.
(ii) Non-deductible for tax purposes.

At December 31, 2015, the Consolidated Income Statement includes net sales for 4.1 million Euros and a net loss of 1.3 million Euros, corresponding to APASA, for the period from August 28, 2015 to December 31, 2015. If the acquisition had occurred on January 1, 2015, consolidated pro-forma net sales would have been 17.7 million Euros.

The net cash outflow used to acquire APASA is disclosed below:

| | **December 31, 2015** |
|---|---|
| *Cash used in the acquisition of APASA, net of cash acquired* | |
| Cash used in the acquisition | 53,084,551 |
| *Less:* | |
| Cash and cash equivalents acquired | (3,917,911) |
| **Net cash used in the acquisition of APASA** | **49,166,640** |

Acquisition-related costs amounted to Euros 1,475,720 and were included in *Other operating expenses* in the Consolidated Income Statement at December 31, 2015.

(All amounts in Euros, unless otherwise stated)

### 35. Assets of disposal group classified as held for sale and discontinued operations

Results from discontinued operations disclosed in the Consolidated Income Statement are as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Results from discontinued operations - Tecpetrol Corporation | (23,610,561) | (19,855,607) |
| Results from discontinued operations - Tecpetrol Colombia S.A.S. | (23,317,943) | (35,210,658) |
| **Results from discontinued operations** | **(46,928,504)** | **(55,066,265)** |

*Tecpetrol Corporation*

In October 2015, Tecpetrol agreed with Bluefin Resources PropCo LLC the sale of certain assets and liabilities of the subsidiary Tecpetrol Corporation, which was effective on January 28, 2016. The price of the transaction amounted to US$15 million (Euros 13.5 million) and it is subject to certain adjustments determined in the sale agreement.

At December 31, 2015 and 2014, the aforementioned assets and liabilities from the subsidiary Tecpetrol Corporation were classified as Assets and liabilities of disposal group classified as held for sale in the Consolidated Statement of Financial Position, and they were valued at their fair value less costs to sell (see Note 16). The results of the subsidiary were classified as *Discontinued operations* in the Consolidated Income Statement at December 31, 2015 and 2014.

The aforementioned assets, liabilities and results are disclosed below:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| *Assets of disposal group classified as held for sale* | | |
| Property, plant and equipment | 25,985,503 | 43,130,060 |
| Inventories | 72,392 | 64,916 |
| **Total** | **26,057,895** | **43,194,976** |
| | | |
| *Liabilities of disposal group classified as held for sale* | | |
| Trade and other payables | 2,064,597 | - |
| Provisions | 9,799,859 | 7,777,596 |
| **Total** | **11,864,456** | **7,777,596** |
| | | |
| *Results* | | |
| Gross result | (21,240,891) | (18,756,471) |
| Other expenses, net | (2,369,670) | (1,099,136) |
| **Results from discontinued operations** | **(23,610,561)** | **(19,855,607)** |
| | | |
| *Net cash flows* | | |
| Cash flows (used in) provided by operating activities | (4,289,663) | 9,333,935 |
| Cash flows used in investing activities | (1,292,155) | (2,287,669) |
| Cash flows used in financing activities | - | (57,779,111) |

(All amounts in Euros, unless otherwise stated)

## 35. Assets of disposal group classified as held for sale and discontinued operations (cont.)

*Tecpetrol Colombia S.A.S.*

As a consequence of the loss of control over the subsidiary (see Note 17), the effect of the deconsolidation of its assets and liabilities was recorded in *Other changes in equity* of the Consolidated Statement of Changes in Equity. In addition, the corresponding results were classified as *Discontinued operations* in the Consolidated Income Statement at December 31, 2015 and 2014.

The results and net cash flows of Tecpetrol Colombia S.A.S. at December 31, 2015 and 2014 are disclosed below

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| *Results* | | |
| Gross result | (5,270,609) | (2,645,193) |
| Exploration costs | (7,583,393) | (23,681,053) |
| Other financial results, net | (6,431,668) | (4,190,516) |
| Other expenses, net | (4,032,273) | (4,693,896) |
| **Results from discontinued operations** | **(23,317,943)** | **(35,210,658)** |
| | | |
| *Net cash flows* | | |
| Cash flows used in operating activities | (64,603,677) | (28,194,643) |
| Cash flows used in investing activities | (7,783,825) | (27,675,772) |
| Cash flows provided by financing activities | 71,519,461 | 54,667,560 |

## 36. Audit fees

Audit fees accrued during the period for services provided by PricewaterhouseCoopers (PwC) to Tecpetrol amounts to approximately 638 thousand Euros (2014: 495 thousand Euros), of which 23.2 thousand Euros (2014: 20.5 thousand Euros) correspond to the firm PricewaterhouseCoopers Auditores, S.L. (Spain). Fees of other services provided to Tecpetrol under PwC brand, amounts to 255 thousand Euros (2014: 240 thousand Euros).

## 37. Other information

### Environment, health and occupational safety

Tecpetrol's priority objective is to carry out its operations safeguarding the physical integrity of its personnel and third parties, as well as ensuring that the environment is appropriately protected. Management is committed to this approach and supports the belief that injuries and occupational illness can be prevented as well as any incidents which have a negative impact on the environment; safety practices are the responsibility of each member of Tecpetrol; training is the base for ensuring continuous improvement in the operations, its safety and the relationship with the environment.

(All amounts in Euros, unless otherwise stated)

## 37. Other information (cont.)

### Environment, health and occupational safety (cont.)

Tecpetrol applies the best safety and environmental practices for the benefit of the community, the company employees and as a contributing factor for successful business operations. Moreover, places its trust in the ethical and responsible attitude of all its employees at work.

### Remuneration of the members of the board of directors

During this period, the Company has not accrued charges on behalf of the members of its Board of Directors as salaries, allowances or remuneration of any kind.

The Company has not granted any loans to its Board members, nor has it assumed any obligations on their behalf as guarantor.

Moreover, there are no obligations assumed by the Company as regards pensions or insurance premium payments related to the former and current members of this Board of Directors.

## 38. Subsequent events

No other events, situations or circumstances have occurred subsequent to December 31, 2015, other than those disclosed in the notes to the Consolidated Annual Accounts which are not public known, that may significantly affect the Company's equity, economic and financial position.

## CONSOLIDATED BOARD OF DIRECTORS' REPORT AS OF DECEMBER 31, 2015

### INTRODUCTION

TECPETROL INTERNACIONAL S.L.U. is an investment Company for the energy businesses that belongs to the Techint Group, which holds interests in hydrocarbons production, transportation and distribution companies in Argentina, Peru, Mexico, Bolivia, Ecuador, Venezuela and the United States of America. In nearly thirty years, the energy business unit of Techint Group has managed to consolidate its position as an investor in the Latin American energy market, positioning itself as a qualified operator, strengthening its relationship with key international partners.

The Company, through its subsidiaries, develops, operates and invests in businesses in the energy market, carrying out the exploration and production of oil and gas ("E&P") and gas transportation and distribution ("G&P").

The Company is controlled by Tecpetrol International S.A, which is incorporated in Uruguay. San Faustin S.A. ("San Faustin"), a company based in Luxembourg, controls Tecpetrol International S.A. through its subsidiaries. Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, a privately-owned Dutch foundation (Stichting) ("R&P STAK"), holds shares in San Faustin in sufficient number to control San Faustin. No person or group of person controls RP STAK.

References in this report to "Tecpetrol" refer to Tecpetrol Internacional S.L.U. and its consolidated subsidiaries.

### INTERNATIONAL CONTEXT

In 2015, the world economy exhibited a slightly lower growth rate than expected and one which was lower than the previous year's. 2015 was characterized by a capital flow reversal process which encompassed emerging countries as much as developed nations, motivated primarily by a change in the monetary policy of the United States of America, and by a weakness in the growth of emerging countries exporting raw materials. This shift in investors preference was evident in the sustained appreciation of the US dollar as well as the deterioration in raw materials prices.

Developed economies showed an acceleration in their growth rates due to improvements in the US and the European Union economies. Moreover, Japan is still the exception as the stagnation of its economy continues despite the expansionary measures implemented by its authorities.

Emerging economies exhibited an uneven performance in their growth rates as a result of the different degrees of their dependence on raw materials. Latin America showed a decline of 0.3%, mainly due to Brazil, which fell 3%, and a major depression in Venezuela. Moreover, undeveloped Asian countries showed a slight slowdown in their expansion rates, with growth levels coming in under China's 7% and a downward trend likely for the next few years.

In 2016, global economic activity is expected to upturn, drove by developed countries and a smaller decline in Russia economic activities.

## INTERNATIONAL CONTEXT (cont.)

Regarding oil prices, although these showed erratic behavior throughout the year, the sharp decline that began in late 2014 continued unabated. WTI and Brent prices have already dropped by 65% since they began falling in July 2014 and their annual averages came to US$ 45.9 and US$ 49.6 per barrel, respectively.

Regarding the gas market, Henry Hub prices showed an annual average of US$ 2.6 per million BTU, which implies an average drop of 40% compared to 2014.

## RATIOS AND FINANCIAL INDICATORS

Tecpetrol has prepared its Consolidated Annual Accounts according to the International Financial Reporting Standards adopted for use in the European Union and approved by European Commission Regulations (EU-IFRS).

Tecpetrol's main ratios and financial indicators are disclosed below. The analysis is based on, and should be read in conjunction with the audited Consolidated Annual Accounts at December 31, 2015:

| *In millions* | **At December 31, 2015** | **At December 31, 2014** |
|---|---|---|
| Net sales | 663.2 | 758.2 |
| Gross profit | 144.1 | 325.0 |
| Operating profit | 39.3 | 206.3 |
| Result for the year (1) | (7.7) | 113.4 |
| Cash flows provided by operating activities | 80.8 | 267.1 |
| Additions in Property, plant and equipment and Intangible assets | 234.1 | 330.1 |
| Acquisition of subsidiaries and contributions in associated companies | 76.3 | 7.5 |

(1) Includes impairments charges amounting to 43.1 and 22.9 million Euros at December 31, 2015 and 2014, respectively.

Main financial indicators are as follows:

| | **At December 31, 2015** | **At December 31, 2014** |
|---|---|---|
| Current ratio | 0.81 | 1.27 |
| Equity to total liabilities | 0.64 | 0.43 |
| Fixed assets to total assets ratio | 0.80 | 0.71 |
| Net result margin over equity | -1% | 29% |

## RATIOS AND FINANCIAL INDICATORS (cont.)

### Main risks associated with the business

Tecpetrol carries out its business in a context which is vulnerable to certain risks which could affect its operations, as well as other risks inherent to the region where it operates.

The main risk factors are the change in the trend of international crude oil prices initiated in November 2014, which generates uncertainties in the hydrocarbon activities, the significant influence of local governments in the national economies, the devaluation of local currencies, unexpected changes in regulatory frameworks and social unrest.

Tecpetrol has identified, analyzed and carried out actions in order to mitigate the risks that influence or impact the investing and operating decisions which will allow Tecpetrol to meet its mission satisfactorily.

## HUMAN RESOURCES

Tecpetrol consider that the priority for consolidating growth is training skilled and committed human resources with experience in the various business fields where it operates. Tecpetrol's strategy during this period, given the context of low world oil prices, has been to continue investing in training, showing it's commitment in this regard.

The second edition of the Tecpetrol University Induction Camp, a corporate university which offers young professionals at Tecpetrol an intensive training opportunity, was held in 2015. This year have participated in this program, young people from Argentina, Mexico, Ecuador, Colombia and Peru.

The average numbers of employees by category are as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Men** | **Women** | **Men** | **Women** |
| Management | 60 | 5 | 56 | 4 |
| Staff | 623 | 141 | 632 | 151 |

At December 31, 2015 and 2014 Tecpetrol has 5 handicapped employees.

## COMMUNITY RELATIONS, ENVIRONMENT AND SAFETY

### Social development

Tecpetrol works closely with the communities neighboring its operations, contributing to the development of each community and its institutions in areas such as education, health, sports, culture and social promotion. Accordingly, it carries out and supports social development programs in low-income rural and urban areas, communities and schools near its operations, committing both its employees and the local community to the development of its social programs.

Social development plans include diverse programs such as nutrition, education, health, sustainable development, culture and work training. All of these programs are planned on the basis of a detailed analysis of the situation to be improved, as well as clear and efficient technical development.

### Safety and environmental protection

Tecpetrol's Health, Safety and Environment (HSE) policy is based on leadership and commitment through prevention programs, the investigation of accidents and incidents, risk management, improvement plans and initiatives for safety and environmental care, preventive observations and inspections of operations and activities.

During 2015, the first phase of the HSE System was implemented with the standardization of the corporate rules and procedures. Accordingly, the following have been adopted: Risk and Impact Management Standards, Corporate Environmental Management Plan, Management of Legal Requirements and Other Commitments, Waste Management and Operational Practices for Operations using Sulfide (H2S). Currently under development are the Standards for the Management of Contractors, Environmental Conservation, Socio-Cultural Aspects and the Emergency Response Drill.

The results of the indicators are monitored using the HSE Control Panel which records the evolution of accident/incident rates and the progress of the various proactive and preventive STOP tools, as well as field inspections, incidents/accidents reports, the closure of investigations and compliance with the annual training plan.

Tecpetrol works intensively on monitoring occupational health in addition to the activities involved in the monitoring and application of the latest resolutions issued by the Argentine Work Risk Superintendency (Superintendencia de Riesgo de Trabajo - SRT) on the roles of doctors in the areas of occupational health (Res. 905/15) and ergonomics (Res. 88615).

In El Tordillo area, the subsidiary Tecpetrol S.A. obtained the formal approval of its technology to treat oil-contaminated mud and it continues working on improving solid and liquid waste management processes, with special emphasis on implementing its organic waste composting processes.

**COMMUNITY RELATIONS, ENVIRONMENT AND SAFETY (cont.)**

**Safety and environmental protection (cont.)**

During August 2015, an accident occurred at El Tordillo field when maintenance tasks were being carried out, in which one person died and other four were injured. The emergency and containment procedures were immediately activated. All activities in that area were halted immediately, and a scheduled stop to all operations in El Tordillo was coordinated. Subsequently, such operations were gradually resumed after ensuring all the necessary checks and controls had been performed.

In July 2015, it was obtained a new recertification of the ISO 14001:2004 standard for the Bermejo field (Ecuador), which is applicable until June 2018.

In Colombia, it was obtained the environmental license for the Campo Atarraya (CPO-7 Block) development.

In Mexico, an environmental impact study was carried out by the Universidad Autónoma de Nuevo León, which determined that no environmental liabilities deriving from the operations of Servicios Múltiples de Burgos S.A. de C.V. had been found in the Burgos Basin. This study is a prerequisite for a permit to migrate the Misión Block contract to a hydrocarbons exploration and extraction contract.

**HYDROCARBON RESERVES (E&P)**

Reserves refer to the volumes of oil and gas (in oil-equivalent cubic meters) which generate or are associated with revenues in the fields where each subsidiary operates or has a direct or indirect share interest and over which Tecpetrol owns exploitation rights. This includes hydrocarbons volumes related to the services contracts in which Tecpetrol does not have the ownership either of the reserves or of the hydrocarbons extracted, and the volumes expected to be produced for the contracting party under the works contracts.

The estimation of reserves is a subjective process which cannot be accurately measured. There are several factors which generate uncertainty with respect to the calculation of proved reserves.

The estimation has been prepared by Tecpetrol’s technical staff and may differ from those estimated by third parties for different purposes.

Estimated proved reserves (developed and undeveloped) as of December 31, 2015, are as follows:

| | |
|---|---|
| **Oil:** | 23 millions of cubic meters |
| **Gas:** | 38 billions of cubic meters |

## HYDROCARBON RESERVES (E&P) (cont.)

These estimations are based on the technical and economic conditions in force at June 30, 2015, taking into account the economic evaluation over the term of the respective contracts or concessions. Estimates of reserves are adjusted whenever it is justified by changes in the key assumptions or at least once a year.

## GAS TRANSPORT CAPACITY (G&P)

The gas transport capacity is shown below:

| | **Total daily transport capacity** | **Utilization percentage** | **Daily transport** |
|---|---|---|---|
| *Gas (in Mm3/day)* | | | |
| Transportadora de Gas del Norte S.A. (Argentina) | 59,000 | 70.6% | 41,644 |
| Litoral Gas S.A. (Argentina) | 8,092 | 91.1% | 7,374 |
| Transportadora de Gas del Mercosur S.A. (Argentina) | 2,830 | 16.7% | 474 |

## OUTLOOK AND PROJECTS

Given the change in international oil price trends which began in November 2014, Tecpetrol continues to make its best efforts to sustain production and employment, without losing sight of its long-term commitments, seeking to defend the viability of projects by reducing and / or deferring investments, optimizing costs, renegotiating contracts with suppliers and with the governments of those countries where it operates, and by focusing on efficiency and increasing productivity in its business, administrative and commercial processes.

*Argentina*

On August 28, 2015, the Company completed the acquisition of 96% of the issued share capital of Americas Petrogas Argentina S.A. The Sole shareholder acquired the remaining 4% of the shared capital of APASA. With this transaction, Tecpetrol has acquired the operation of various areas in the Neuquén basin, consolidating its positioning for the future development of unconventional resources.

During the period, work continued in the fields of El Tordillo and La Tapera-Puesto Quiroga (province of Chubut) with the drilling campaign, including an unconventional well at Formation D-129. A well was drilled during January 2015 in the area of Estancia La Mariposa (province of Santa Cruz).

In December 2014, the company obtained an extension of the concession to exploit the Agua Salada area in the Neuquén basin, province of Rio Negro, for a period of 10 years until September 2025. Given the new extension to the timeframe, and as part of the commitments made therein, new wells were drilled and repairs were carried out in the area Aguada del Indio Sur during 2015. In the area of Los Bastos (Neuquén province) a well was drilled in the Puesto Aguada del Sembrado, while the first exploratory well committed in the exploratory area of Rio Atuel (Mendoza) was drilled with successful results.

**OUTLOOK AND PROJECTS (cont.)**

*Argentina (cont.)*

Tecpetrol began a drilling campaign in Aguaragüe (Salta province) towards the end of 2014, in Campo Duran and Alto de Yariguarenda, which was committed in the extension agreement for the area. Tecpetrol used the casing drilling technique for the first time when drilling ADY-2, which consists of using casing as drill string. Each meter drilled is thus encased in pipe, ensuring that the well walls are completely lined which also shortens drilling times as it is no longer necessary to move traditional tools around. In addition, wells were drilled in the Campo Duran field with a view to finding gas.

Management estimates that the commercialization of hydrocarbons in Argentina will continue developing as in previous periods within a framework of prices agreed between the parties involved, with a view to exporting part of the production from the fields in Chubut province, while the production from fields in other provinces will be sold in the domestic market.

*Peru*

Camisea operations are expected to continue in Bloque 88 (San Martin and Cashiriari), and in Bloque 56 (Pagoreni and Mipaya). The output from both blocks comes to 1,657 MMscf/d (millions of standard cubic gas feet per day) and approximately 92.1 thousand bpd (barrels per day) of natural gas liquids.

During February 2016, Perupetro approved the request for the return of the license contract for Lote 174, whose last day of validity was March 16, 2016.

*Mexico*

As a result of the country's energy reforms, specifically the Hydrocarbons Law approved in August 2014, the Bloque Misión Financed Public Works Contract ("FPWC") is in the process of migrating to an Exploration and Extraction Contract (EEC). Tecpetrol continues to work towards concluding this process as soon as possible.

Accordingly, during 2015, Servicios Múltiples de Burgos S.A. de C.V. undertook limited activity in the area, only performing maintenance work as indicated under the FPWC scheme. The program approved by PEMEX did not include drilling activities nor major repairs.

Meanwhile, during 2015, the subsidiary Norpower S.A. de C.V. continued with the maintenance work on System 3 pipelines and other works in the context of the budgetary constraints affecting PEMEX.

**OUTLOOK AND PROJECTS (cont.)**

*Mexico (cont.)*

Through its holding in Techgen S.A. de C.V. ( "Techgen"), Tecpetrol achieved progress with the development of the power generation project in northeastern Mexico which will supply energy to Tenaris and Ternium's industries in the country, further strengthening the Mexican electrical system. At December 31, 2015, more than 750 million dollars (of an estimated 1 billion dollars in total) have been invested in the project, involving the construction and operation of a natural gas-fueled thermoelectric combined cycle plant in Pesquería, Nuevo Leon, which is expected to be operational in the fourth quarter of 2016. During 2015, Techgen completed over 70% of the construction work (including the reception and installation of four turbines and generators), built an aqueduct and a pipeline to supply water and natural gas respectively to the process, and negotiated easements to install a high voltage 75 kilometer-long power transmission line, completing over 40% of the project.

Additionally, during the year Techgen completed the disbursement of the bank financing syndicated for US$ 800 million, signed contracts for the natural gas and water supply, negotiated the main electricity sales contract, obtained the relevant environmental and municipal permits, processed with *Servicio de Administración Tributaria* (SAT) the early refund of VAT as established by the law, and put into practice an operations and maintenance plan.

*United States*

In October 2015, Tecpetrol agreed with Bluefin Resources PropCo LLC the sale of certain assets and liabilities of the subsidiary Tecpetrol Corporation, which was effective on January 28, 2016. The price of the transaction amounted to US$15 million (Euros 13.5 million) and it is subject to certain adjustments determined in the sale agreement.

*Colombia*

During early 2015, the drilling campaign begun in November 2014 was completed, involving five wells drilled in the CPO-13 Block with a focus on exploration in the indigenous reservation of El Tigre, as well as the delimitation of the Pendare field, to thereby continue evaluating the performance and extent of the oil reservoir field discovered.

As a result of the fall in international oil prices, in mid-2015 this campaign was suspended and several exercises to achieve optimizations in costs and in the field operating structures were carried out. Extensive testing of the discoveries recorded in Atarraya (CPO-7) and Pendare (CPO-13) continued throughout the year, with a total operated production averaging 1,756 bpd. In both fields, adaptations were made to allow the entire amount of production water to be reinjected, in compliance with recently-obtained environmental development licenses. In Pendare, the treatment plant was upgraded to reach production targets in excess of 1,800 barrels per day of net production.

**OUTLOOK AND PROJECTS (cont.)**

*Colombia (cont.)*

In January 2015, Tecpetrol Colombia S.A.S. presented its renunciation from the exploratory program at CPO-6 Block to the National Hydrocarbons Agency and continued the tasks of abandonment and environmental restoration of the wells drilled and their locations.

The contracts of CPO-7 and CPO-13 blocks are currently under development of the Phase 2 Exploration Program, both ending in mid-2017.

On December 28, 2015, Tecpetrol Colombia S.A.S. increased its share capital and share premium in the amount of US$135.000.000, which was fully subscribed by Tecpetrol International S.A., sole shareholder of the Company. As Tecpetrol did not exercise its preferential right to subscribe shares, its stake in Tecpetrol Colombia S.A.S. decreased from 98.87% to 0.7%, with a consequent loss of control over the subsidiary.

*Ecuador*

Tecpetrol continued the development of the contracts signed with the state-owned company EP Petroamazonas in the Libertador-Atacapi and Shushufindi-Aguarico fields. Tecpetrol is the operator of Libertador-Atacapi, through its subsidiary Pardaliservices S.A., and has a 25% stake in Shushufundi field through Consorcio Shushufundi S.A.

The investments planned for the second half of the year in the contract operated by Pardaliservices S.A. were postponed as a result of the slump in international oil prices. However, during that period, Pardaliservices S.A. was able to maintain and even increase production as a result of the extraordinary progress made in drilling and workover activities during the first half of the year. The planned investment timetable included in the Shushufindi field contract was successfully met and a historical production peak reached towards year-end.

Tecpetrol expects the execution of these contracts with investments in drilling and associated facilities to continue in the future with the aim of increasing oil output levels from both fields.

Investments in the development of the Eden Yuturi, Tumali and Pañacocha fields through the Kamana Services S.A. consortium have been suspended until new economic conditions are agreed for the contract, in accordance with the current context. The contract signed in October 2014 envisages an investment commitment of over US$ 700 million over five years, with Tecpetrol owning a stake of 40%

Meanwhile, Tecpecuador S.A. continued operating the Bermejo field which requires minimum investment levels according to contractual requirements. Given the results of drilling at the Bermejo Este 2 well, it was decided not to proceed with investments in Bermejo Este.

## OUTLOOK AND PROJECTS (cont.)

*Ecuador (cont.)*

The operations of the subsidiary Tecpeservices S.A. in 2015 consisted mainly of providing technical expertise in oil, including the provision of drilling and workover rigs, pulling and other related services as well as technical personnel for Campo Libertador, and providing qualified personnel to manage, coordinate and supervise projects for the Shushufindi and Kamana consortiums.

*Bolivia*

The drilling of the ICS-2 and ICS-3 wells meant the incorporation of gas reserves in the Huamampampa formation in Ipati Block, in which the subsidiary of Tecpetrol S.A. de Bolivia holds 20%. There is more exploratory potential in deeper reservoirs (Icla and Santa Rosa formations) which needs to be investigated by the subsidiary and the operator. Production is estimated to commence in June 2016 at a rate of 6.5 MMm3 per day.

## SUBSEQUENT EVENTS

No other events, situations or circumstances have occurred subsequent to December 31, 2015, other than those disclosed in this Consolidated Board of Director’s Report which are not public known, that may significantly affect the Company’s equity, economic and financial position.

## OTHER INFORMATION

The Company does not possess treasury shares.

The Company has not incurred in any Research and Development costs during the period.

Main financial risks and its management procedures are disclosed in Note 4 of the Consolidate annual accounts at December 31, 2015.

The Board of Directors thanks personnel for their dedication and achievements during this period.

**Members of the Board of Directors**

| | |
|---|---|
| Chairman | Eduardo. A. Ottino |
| Secretary | John Edward Kiddell |
| Advisor | Enrico Luca María Bonatti |
| Advisor | Gonzalo De Benito Fernández |

**DRAWING UP OF THE CONSOLIDATED ANNUAL ACCOUNTS AND THE CONSOLIDATED BOARD OF DIRECTORS' REPORT CORRESPONDING TO THE YEAR ENDED ON DECEMBER 31, 2015**

At March 24, 2016, the Board Directors of the Company Tecpetrol Internacional S.L.U., in compliance with the requirements established in Article 253 of the Capital Companies Law and Article 37 of the Code of Commercial Law, presents the Consolidated Annual Accounts and the Consolidated Board of Director's Report corresponding to the year ended on December 31, 2015, comprised of the annexed documents preceding this written statement.

Eduardo A. Ottino

**Chairman**

John E. Kiddell

**Secretary**

Enrico Luca María Bonatti

**Advisor**

Gonzalo De Benito Fernández

**Advisor**

*Translation of a document originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

# TECPETROL INTERNACIONAL, S.L. (SOLE SHAREHOLDER COMPANY) AND SUBSIDIARIES

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**At September 30, 2017**
and for the nine-month period ended September 30,2017

## Contents

## Tecpetrol Internacional, S.L. (Sole Shareholder Company) and Subsidiaries
## Condensed Consolidated Interim Financial Statements at September 30, 2017
(All amounts in Euros, unless otherwise stated)

### Condensed Consolidated Interim Statement of Financial Position At September 30, 2017 and December 31, 2016

| | Note | September 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 1,008,365,433 | 912,397,788 |
| Intangible assets | 14 | 81,013,246 | 112,891,275 |
| Investments in entities accounted for using the equity method | 15 | 238,181,675 | 211,232,996 |
| Available-for-sale financial assets | 16 | 2,248,549 | 2,053,231 |
| Deferred tax assets | | 21,480,692 | 17,195,221 |
| Other investments | | 20,762,268 | - |
| Other receivables and prepayments | 17 | 133,848,869 | 99,592,264 |
| Income tax credit | | 4,100,300 | 8,710,913 |
| Trade receivables | 18 | - | 55,808,765 |
| **Total non-current assets** | | **1,510,001,032** | **1,419,882,453** |
| **Current assets** | | | |
| Inventories | | 22,310,248 | 34,603,211 |
| Other receivables and prepayments | 17 | 38,047,776 | 45,103,080 |
| Income tax credit | | 12,171,405 | 2,323,373 |
| Trade receivables | 18 | 117,093,979 | 148,008,074 |
| Other Investments | | 31,021,854 | - |
| Cash and cash equivalents | 19 | 192,209,274 | 106,033,044 |
| **Total current assets** | | **412,854,536** | **336,070,782** |
| **Total assets** | | **1,922,855,568** | **1,755,953,235** |
| **EQUITY** | | | |
| **Capital and reserves attributable to owners of the parent** | | | |
| Share capital | 21 | 100,000,000 | 12,770,000 |
| Share premium | 21 | 837,067,894 | 187,081,840 |
| Other shareholders contributions | 21 | 33,590,322 | 1,029,270 |
| Legal reserve | | 2,554,000 | 2,554,000 |
| Currency translation differences and revaluation reserve | | (178,535,881) | (66,387,967) |
| Retained earnings and other reserves | | 557,116,450 | 502,198,862 |
| **Total equity attributable to owners of the parent** | | **1,351,792,785** | **639,246,005** |
| Non-controlling interests | | 53,055,862 | 47,016,061 |
| **Total equity** | | **1,404,848,647** | **686,262,066** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 22 | 111,888,487 | 556,094,018 |
| Deferred tax liabilities | | 41,778,284 | 47,052,010 |
| Employee benefits | | 18,090,747 | 19,963,685 |
| Provisions | 23 | 76,765,351 | 72,568,591 |
| Trade and other payables | 24 | 44,045 | 49,267 |
| **Total non-current liabilities** | | **248,566,914** | **695,727,571** |
| **Current liabilities** | | | |
| Borrowings | 22 | 55,654,425 | 205,195,140 |
| Provisions | 23 | 2,379,223 | 297,308 |
| Income tax liabilities | | 12,646,835 | 12,973,503 |
| Trade and other payables | 24 | 198,759,524 | 155,497,647 |
| **Total current liabilities** | | **269,440,007** | **373,963,598** |
| **Total liabilities** | | **518,006,921** | **1,069,691,169** |
| **Total equity and liabilities** | | **1,922,855,568** | **1,755,953,235** |

The accompanying notes 1 to 31 are an integral part of these Condensed Consolidated Interim Financial Statements.

## Condensed Consolidated Interim Income Statement for the nine-month period ended September 30, 2017 and 2016

| | Note | Nine-months period ended September 30, 2017 | Nine-months period ended September 30, 2016 |
|---|---|---|---|
| **Continuing operations** | | (Unaudited) | |
| Net sales | 5 | 483,796,842 | 438,372,863 |
| Operating costs | 6 | (372,735,069) | (311,016,627) |
| **Gross profit** | | **111,061,773** | **127,356,236** |
| Selling expenses | 7 | (20,686,082) | (64,024,208) |
| Administrative expenses | 8 | (44,363,233) | (38,869,878) |
| Exploration costs | | (7,413,200) | (2,150,743) |
| Other operating income | 10 | 4,874,874 | 419,147 |
| Other operating expenses | 10 | (299,059) | (1,552,929) |
| **Operating income** | | **43,175,073** | **21,177,625** |
| Financial income | 11 | 6,165,092 | 3,609,573 |
| Financial cost | 11 | (20,822,040) | (27,884,869) |
| Other financial results, net | 11 | (526,637) | (534,976) |
| **Income before equity in earnings of investments accounted for using the equity method and income tax** | | **27,991,488** | **(3,632,647)** |
| Equity in earnings of investments accounted for using the equity method | 15 | 54,037,745 | 21,618,590 |
| **Income before tax** | | **82,029,233** | **17,985,943** |
| Income tax | 12 | (21,636,031) | (9,361,394) |
| **Result for the period** | | **60,393,202** | **8,624,549** |
| | | | |
| **Attributable to:** | | | |
| Owners of the parent | | 56,952,587 | 24,777,764 |
| Non-controlling interests | | 3,440,615 | (16,153,215) |

The accompanying notes 1 to 31 are an integral part of these Condensed Consolidated Interim Financial Statements.

## Condensed Consolidated Interim Statement of Comprehensive Income for the nine-month period ended September 30, 2017 and 2016

| | Note | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|---|
| | | (Unaudited) | |
| **Result for the period** | | 60,393,202 | 8,624,549 |
| **Other comprehensive results:** | | | |
| *Items that will not be subsequently reclassified to profit or loss* | | | |
| **Continuing operations** | | | |
| Remeasurements of post employment benefit obligations | | 159,321 | 155,606 |
| Income tax related to components of other comprehensive income | | (25,734) | (48,622) |
| Share of comprehensive income from investments accounted for using the equity method | | - | 94 |
| | | 133,587 | 107,078 |
| *Items that may be subsequently reclassified to profit or loss:* | | | |
| **Continuing operations** | | | |
| Currency translation differences | | (92,705,332) | (10,137,033) |
| Changes/disposals of fair value of available-for-sale financial assets | 16 | 430,904 | 137,551 |
| Income tax related to components of other comprehensive income | | (88,333) | 9,013 |
| Share of other comprehensive income of investments accounted for using the equity method | | (25,394,377) | (5,913,143) |
| | | (117,757,138) | (15,903,612) |
| **Other comprehensive results, net of income tax** | | **(117,623,551)** | **(15,796,534)** |
| **Total comprehensive income for the period** | | **(57,230,349)** | **(7,171,985)** |
| | | | |
| **Attributable to:** | | | |
| Owners of the parent | | (55,195,327) | 9,802,292 |
| Non-controlling interests | | (2,035,022) | (16,974,277) |
| **Total comprehensive income for the period** | | **(57,230,349)** | **(7,171,985)** |

The accompanying notes 1 to 31 are an integral part of these Condensed Consolidated Interim Financial Statements

## Condensed Consolidated Interim Statement of Changes in Equity for the nine-month periods ended September 30, 2017 and 2016

| | Attributable to owners of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Other shareholders contributions** | **Legal reserve** | **Currency translation differences** | **Revaluation reserve** | **Other reserves** | **Retained earnings** | **Non controlling interests** | **Total equity (Unaudited)** |
| **Balance at December 31, 2016** | **12,770,000** | **187,081,840** | **1,029,270** | **2,554,000** | **(65,983,981)** | **(403,986)** | **2,563,196** | **499,635,666** | **47,016,061** | **686,262,066** |
| **Comprehensive income** | | | | | | | | | | |
| Result for the period | - | - | - | - | - | - | - | 56,952,587 | 3,440,615 | 60,393,202 |
| **Other comprehensive results** | | | | | | | | | | |
| Currency translation differences | - | - | - | - | (87,189,533) | - | - | - | (5,515,799) | (92,705,332) |
| Fair value of available-for-sale financial assets (Note 16) | - | - | - | - | - | 408,411 | - | - | 22,493 | 430,904 |
| Remeasurements of post employment benefit obligations | - | - | - | - | - | 137,124 | - | - | 22,197 | 159,321 |
| Income tax related to items in other comprehensive income | - | - | - | - | - | (109,539) | - | - | (4,528) | (114,067) |
| Share of other comprehensive income of investments accounted for using the equity method | - | - | - | - | (25,411,689) | 17,312 | - | - | - | (25,394,377) |
| **Total other comprehensive results** | **-** | **-** | **-** | **-** | **(112,601,222)** | **453,308** | **-** | **-** | **(5,475,637)** | **(117,623,551)** |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **(112,601,222)** | **453,308** | **-** | **56,952,587** | **(2,035,022)** | **(57,230,349)** |
| **Transactions with owners** | | | | | | | | | | |
| Capital increase | 87,230,000 | 649,986,054 | 32,561,052 | - | - | - | - | - | - | 769,777,106 |
| Increase of non-controlling interests | - | - | - | - | - | - | (2,034,999) | - | 8,074,823 | 6,039,824 |
| **Total transactions with owners** | **87,230,000** | **649,986,054** | **32,561,052** | **-** | **-** | **-** | **(2,034,999)** | **-** | **8,074,823** | **775,816,930** |
| **Balance at September 30, 2017** | **100,000,000** | **837,067,894** | **33,590,322** | **2,554,000** | **(178,585,203)** | **49,322** | **528,197** | **556,588,253** | **53,055,862** | **1,404,848,647** |

The accompanying notes 1 to 31 are an integral part of these Condensed Consolidated Interim Financial Statements.

## Condensed Consolidated Interim Statement of Changes in Equity for the nine-month periods ended September 30, 2017 and 2016

| | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Other shareholders contributions** | **Legal reserve** | **Voluntary reserve** | **Currency translation differences** | **Revaluation reserve** | **Other reserves** | **Retained earnings** | **Non controlling interests** | **Total equity (Unaudited)** |
| **Balance at December 31, 2015** | **12,770,000** | **233,831,372** | **-** | **2,554,000** | **127,317,733** | **(85,618,382)** | **(1,203,507)** | **2,563,196** | **285,846,186** | **33,657,346** | **611,717,944** |
| **Comprehensive income** | | | | | | | | | | | |
| Result for the period | - | - | - | - | - | - | - | - | 24,777,764 | (16,153,215) | 8,624,549 |
| **Other comprehensive results** | | | | | | | | | | | |
| Currency translation differences | - | - | - | - | - | (9,314,056) | - | - | - | (822,977) | (10,137,033) |
| Fair value of available-for-sale financial assets (Note 16) | - | - | - | - | - | - | 140,299 | - | - | (2,748) | 137,551 |
| Remeasurements of post employment benefit obligations | - | - | - | - | - | - | 149,351 | - | - | 6,255 | 155,606 |
| Income tax related to items in other comprehensive income | - | - | - | - | - | - | (38,017) | - | - | (1,592) | (39,609) |
| Share of other comprehensive income of investments accounted for using the equity method | - | - | - | - | - | (5,931,701) | 18,652 | - | - | - | (5,913,049) |
| **Total other comprehensive results** | **-** | **-** | **-** | **-** | **-** | **(15,245,757)** | **270,285** | **-** | **-** | **(821,062)** | **(15,796,534)** |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **-** | **(15,245,757)** | **270,285** | **-** | **24,777,764** | **(16,974,277)** | **(7,171,985)** |
| **Transactions with owners** | | | | | | | | | | | |
| Contributions | - | - | 1,029,270 | - | - | - | - | - | - | - | 1,029,270 |
| Increase of non-controlling interests | - | - | - | - | - | - | - | - | - | 28,538 | 28,538 |
| Distribution of profits | - | (46,749,532) | - | - | (127,317,733) | - | - | - | 174,067,265 | - | - |
| **Total transacciones con propietarios** | **-** | **(46,749,532)** | **1,029,270** | **-** | **(127,317,733)** | **-** | **-** | **-** | **174,067,265** | **28,538** | **1,057,808** |
| **Balance at September 30, 2016** | **12,770,000** | **187,081,840** | **1,029,270** | **2,554,000** | **-** | **(100,864,139)** | **(933,222)** | **2,563,196** | **484,691,215** | **16,711,607** | **605,603,767** |

The accompanying notes 1 to 31 are an integral part of these Condensed Consolidated Interim Financial Statements.

## Condensed Consolidated Interim Cash Flow Statement of Changes in Equity for the nine-month periods ended September 30, 2017 and 2016

| | Note | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | **(Unaudited)** | |
| Result for the period | | 60,393,202 | 8,624,549 |
| Adjustments for (*): | | | |
| Depreciation of property, plant and equipment | 13 | 95,218,658 | 65,209,881 |
| Impairment of property, plant and equipment | 13 | 6,172,731 | - |
| Amortization of intangible assets | 14 | 26,402,144 | 41,036,152 |
| Exploration costs | | 7,413,200 | 2,150,743 |
| Income tax | 12 | 21,636,031 | 9,361,394 |
| Accrued interest not paid | | 3,138,159 | 12,278,447 |
| Provisions | | 13,992,976 | 56,752,462 |
| Result of investments accounted for using the equity method | 15 | (54,037,745) | (21,618,590) |
| **Variación en activos y pasivos operativos:** | | | |
| Trade receivables, other receivables and prepayments | | 75,189,059 | (20,649,974) |
| Inventories | | 14,123,418 | (7,184,781) |
| Trade and other payables | | 35,321,778 | (20,101,637) |
| Others – including currency translation differences | | (41,367,712) | 4,575,005 |
| Income tax payments | | (33,528,661) | (16,460,997) |
| **Net cash provided by operating activities** | | **230,067,238** | **113,972,654** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Increase in property, plant and equipment | | (266,110,148) | (86,928,086) |
| Increase in intangible assets | 14 | (5,363,923) | (4,696,031) |
| Net sales income from discontinued operations | | - | 8,817,577 |
| Contributions in associated companies | 15 | (4,592) | (11,308,511) |
| Loans to associated companies | | (11,279,904) | (43,859,162) |
| Others investements ´s increases | | 2,884,126 | - |
| Dividends received | 15 | 1,699,281 | 91,931 |
| **Net cash used in investing activities** | | **(278,175,160)** | **(137,882,282)** |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | 148,384,887 | 243,823,284 |
| Repayment of borrowings | | (139,205,469) | (174,176,722) |
| Cash received from capital increase of the periof | | 135,069,472 | - |
| Increase in non-controlling interests | | 6,039,824 | 28,538 |
| **Net cash provided by financing activities** | | **150,288,714** | **69,675,100** |
| | | | |
| **Net increase (decrease) in cash and cash equivalents** | | **102,180,792** | **45,765,472** |
| | | | |
| **Variación del efectivo y equivalentes de efectivo** | | | |
| Cash and cash equivalents less bank overdrafts at the beginning of the period | | 106,033,044 | 44,276,497 |
| Currency translation differences | | (16,065,565) | (1,792,480) |
| Net increase (decrease) in cash and cash equivalents | | 102,180,792 | 45,765,472 |
| **Cash and cash equivalents less bank overdrafts at period end** | | **192,148,271** | **88,249,489** |
| | | | |
| Cash and cash equivalents | | 192,209,274 | 88,403,137 |
| Bank overdrafts | | (61,003) | (153,648) |
| | | **192,148,271** | **88,249,489** |
| | | | |
| **Non cash transactions** | | | |
| Capitan increase in Kind | | 634,707,634 | - |

(*)The difference between interest expense and paid is not significant.

The accompanying notes 1 to 31 are an integral part of these Condensed Consolidated Interim Financial Statements.

## Notes to the Condensed Consolidated Interim Financial Statements

### 1. General information

Tecpetrol Internacional, S.L.U. (the “Company”) and its subsidiaries are principally dedicated to the exploration, development, production, transportation and sale of hydrocarbons in several countries in Latin America. The references in these Condensed Consolidated Interim Financial Statements to “Tecpetrol” refer to Tecpetrol Internacional S.L.U. and its subsidiaries.

Tecpetrol Internacional S.L.U. is incorporated and domiciled in Spain, with offices at Calle Garcia de Paredes 94, 1°A, 28010, Madrid, Spain. It is registered in the Madrid Companies Register on page M-362494, folio 31, section 8 of Companies Volume 20,485.

The mains subidiaries and their percentage of ownership that have been included in these Condensed Consolidated Interim Financial Statements are disclosed in Note 29.

The Company is controlled by Tecpetrol International S.A. which owns 100% of the Company’s shares (see note 28).

The Condensed Consolidated Interim Financial Statements were prepared by the Board of Director of the Company on November 6, 2017, with the purpose of its presentation in the framework of the notes issue process of the subsidiary Tecpetrol S.A, over which the Company will act as Guarantor.

### 2. Basis for preparation

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34, “Interim Financial Reporting”, issued by the international Accounting Standard Board (“IASB”), in conformity with the International Financial Reporting Standards (“IFRS”) as adopted by European Union (“NIIF -EU”), approved by European Commission Regulations. The accounting policies used in the preparation of these Condensed Consolidated Iterim Financial Statements are consistent with those used in the audited Consolidated Financial Statements for the year ended December 31, 2016. These Condensed Consolidated Interim Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS.

The Company has established the US dollar (USD) as its functional currency since it best shows the economic substance of its transactions. The condensed consolidated interim financial statements are presented in Euros (€), that is the presentation currency of the financial statements according to the Spanish legislation.

Amounts and other unaudited information for the nine-month period ended September 30, 2016 are an integral part of these financial statements as of September 30, 2017 and are presented for comparative purposes only.

Certain comparative amounts have been reclassified to conform to changes in presentation in the current period.

The preparation of these Condensed Consolidated Interim Financial Statements in accordance with IFRS requires the management to make certain estimates that may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the income and expense figures for the reported period. Actual future results might differ from these estimates.

**3. New accounting standards**

*(a) New published standards, interpretations and modifications to the standards in force as from the current year:*

*- IAS 12 "Income tax" (Amendments)*

In January 2016, the IASB issued certain amendments to IAS 12 "Income Tax" with the aim of clarifying the accounting of deferred tax in case an asset is valued at its fair value and this value is lower than its tax base. These modifications explain, among other aspects, that when estimating future taxable profit, an entity can estimate the recovery of the asset for a value higher than its carrying value.

The application of the amendments to IAS 12 did not have a significant impact on the Condensed Consolidated Interim Financial Statements.

*- IAS 7, "Statement of cash flows" (Amendments)*

In January 2016, the IASB issued certain amendments to IAS 7 "Statement of cash flows", which require more disclosure of the changes in liabilities from financing activities with the aim of providing the necessary information so that the financial statements´ users can assess their evolution throughout the year, including the breakdown of changes arising from cash flows (drawdowns and repayments of borrowings), changes in liabilities related to obtaining or losing control in subsidiaries or other business, the exchange difference effect, changes in fair values and other changes.

The application of the amendments to IAS 7 did not have a significant impact on these Condensed Consolidated Interim Financial Statements.

The Management assessed the relevance of other new published standards, interpretations and amendments to the standards in force as from the current year and concluded that they are irrelevant to the Company.

(b) New published standards, interpretations and modifications to the standards in force not yet effective and not early adopted:

*- IFRS 9 "Financial instruments"*

IFRS 9 "Financial Instruments", issued in July 2014, replaces the current IAS 39 "Financial Instruments" and introduces principles for the classification and valuation of financial instruments, and simplifies its valuation in three main categories: amortized cost, fair value with changes in other comprehensive income and fair value with changes in profit or loss. Additionally, IFRS 9 simplifies the requirements related to the effectiveness measurement hedge accounting and introduces a new model for the impairment of financial assets. This standard is applicable for annual periods commencing on or after January 01, 2018.

The Management is estimating the potential impact the application of IFRS 9 will have on the Condensed Consolidated Interim Financial Statements.

**3. New accounting standards (cont.)**

*- IFRS 15,"Revenue from Contracts with Customers"*

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”, which sets forth principles of disclosure of information related to revenue recognition and requirements for the accounting of revenue from contracts with customers based on the principle that revenues are recognized when the control of goods or services is transferred to the client. IFRS 15 is applicable for annual periods commencing on or after January 01, 2018.

The Management is estimating the potential impact the application of IFRS 15 will have on the Condensed Consolidated Interim Financial Statements.

*- IFRS 16 “Leases”*

In January 2016, the IASB issued IFRS 16 “Leases”, which modifies the accounting of these operations, basically by removing the distinction between operating and financial leases. This modification will entail changes for most lease agreements both in assets recognition, given the right to use the leased item, and in liabilities, due to the payment of the lease. There is an optional exemption for short-term and low value leases. IFRS 16 is applicable for annual periods commencing on or after, January 01, 2019.

The Management has not estimated the potential impact the application of IFRS 16 will have on the Condensed Consolidated Interim Financial Statements yet.

The Management assessed the relevance of other new published standards, interpretations and amendments to the standards not yet effective and concluded that they are irrelevant for the Company.

**4. Segments Information**

The Company has identified the different areas and fields where Tecpetrol participates as operating segments, and are added in the followings reportable segments: Argentina, Perú, México, Bolivia, Ecuador and Colombia. Each reportable segment is managed by an officer in charge, who is directly responsible for managing the operations in the areas and fields of each country.

The decision-making authority is the board director of the society, this group holds periodical meetings with the purpose of deciding on the needs of investments in their dependents, to evaluate the financing in projects under execution, to monitor the progress of the businesses of their dependents in the different jurisdictions and to analyze and approve new investments.

**4. Segments Information (Cont.)**

**In thousands**

| | Nine month period September 30, 2017 | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | **Argentina** | **Perú** | **México** | **Bolivia** | **Ecuador** | **Colombia** | **Others** | **(Unaudited)** |
| Net sales - IFRS | 192,621 | 148,570 | 25,396 | 27,846 | 78,946 | 10,404 | 14 | 483,797 |
| Operating result - Managerial vision | (56,615) | 54,140 | 3,998 | 6,396 | 16,530 | (107) | (1,931) | 22,411 |
| Depreciation differences | 22,786 | 3,061 | (3) | (291) | (3,573) | (1,216) | - | 20,764 |
| Operating result - IFRS | | | | | | | | **43,175** |
| Property, plant and equipment and Intangible assets - Managerial vision | 501,440 | 200,108 | 2,073 | 226,178 | 89,750 | 12,434 | 9 | 1,031,992 |
| Depreciation differences | | | | | | | | 57,387 |
| Property, plant and equipment and Intangible assets - IFRS | | | | | | | | **1,089,379** |
| Investments in property, plant and equipment and Intangible assets | 253,099 | 3,350 | 255 | 8,405 | 5,508 | 857 | - | 271,474 |
| | | | | | | | | **271,474** |

**In thousands**

| | Nine month period September 30, 2016 | | | | | | Total |
|---|---|---|---|---|---|---|---|
| | **Argentina** | **Perú** | **México** | **Bolivia** | **Ecuador** | **Others** | **(Unaudited)** |
| Net sales - IFRS | 180,498 | 122,418 | 42,878 | 1,540 | 90,733 | 306 | 438,373 |
| Operating result - Managerial vision | (424) | 30,020 | 18,817 | (3,331) | (25,347) | 5,408 | 25,143 |
| Depreciation differences | (7,238) | 2,524 | - | - | 746 | 3 | (3,965) |
| Operating result - IFRS | | | | | | | **21,178** |
| Property, plant and equipment and Intangible assets - Managerial vision | 318,879 | 223,948 | 2,206 | 234,134 | 127,778 | - | 906,945 |
| Depreciation differences | | | | | | | 28,576 |
| Property, plant and equipment and Intangible assets - NIIF | | | | | | | **935,521** |
| Investments in property, plant and equipment and Intangible assets | 60,742 | 1,085 | 2,691 | 22,394 | 4,712 | - | 91,624 |
| | | | | | | | **91,624** |

### 5. Net Sales

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Gas | 155,396,920 | 152,777,279 |
| Oil | 216,748,603 | 150,341,463 |
| Others Servicies | 111,651,319 | 135,254,121 |
| | **483,796,842** | **438,372,863** |

### 6. Operating costs

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Services and fees | 8,226,123 | 6,329,696 |
| Labor costs (note 9) | 33,564,533 | 28,153,553 |
| Depreciation of property, plant and equipment | 93,772,544 | 64,520,555 |
| Impairment of property, plant and equipment | 6,172,731 | - |
| Amortization of intangible assets | 26,402,144 | 41,036,152 |
| Service costs | 51,919,846 | 44,654,531 |
| Maintenance costs | 49,925,212 | 41,692,926 |
| Treatment, storage and loading | 20,893,424 | 20,686,084 |
| Royalties and other taxes | 74,043,900 | 59,329,458 |
| Others | 7,814,612 | 4,613,672 |
| | **372,735,069** | **311,016,627** |

### 7. Selling expenses

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Storage and loading | 3,986,604 | 2,092,325 |
| Allowance for doubtful accounts | 10,853,541 | 57,741,318 |
| Taxes | 5,760,104 | 4,157,218 |
| Others | 85,833 | 33,347 |
| | **20,686,082** | **64,024,208** |

### 8. Administrative expenses

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Fees and services | 9,748,528 | 8,454,463 |
| Labor costs (note 9) | 28,592,817 | 26,651,058 |
| Depreciation of property, plant and equipment | 1,446,114 | 689,326 |
| Taxes | 6,505,880 | 5,992,591 |
| Other administrative expenses | 6,235,458 | 6,957,537 |
| Reimbursements(*) | (8,165,564) | (9,875,097) |
| | **44,363,233** | **38,869,878** |

(*) These are not liable to association or proration in connection with each line involved in the costs and/or expenses notes, but rather in connection with the tasks which make up the function of the operator.

### 9. Labor costs

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Operating costs | 33,564,533 | 28,153,553 |
| Administrative expenses | 28,592,817 | 26,651,058 |
| | **62,157,350** | **54,804,611** |

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Salaries, wages and other costs | 51,855,176 | 48,693,789 |
| Social security costs | 7,354,251 | 4,429,916 |
| Employee benefits | 2,947,923 | 1,680,906 |
| | **62,157,350** | **54,804,611** |

### 10. Other operating income and expenses

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| *Other operating income* | | |
| Income from other sales | 2,558,897 | 47,853 |
| Reimbursements | 199,991 | 32,897 |
| Reversal of provisions | 846,125 | 147,451 |
| Others | 1,269,861 | 190,946 |
| | **4,874,874** | **419,147** |
| *Other operating expenses* | | |
| Provision for legal claims and contingencies | (127,787) | (45,412) |
| Services and fees | - | (182,224) |
| Others | (171,272) | (1,325,293) |
| | **(299,059)** | **(1,552,929)** |

## 11. Net Financial results

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Interest income | 6,165,092 | 3,609,573 |
| **Financial income** | **6,165,092** | **3,609,573** |
| Interest expenses | (20,822,040) | (27,884,869) |
| **Financial Cost** | **(20,822,040)** | **(27,884,869)** |
| Net foreign exchange transactions results | (734,526) | 1,495,906 |
| Other net financial results | 207,889 | (2,030,882) |
| **Other financial results, net - Loss / (profit)** | **(526,637)** | **(534,976)** |
| **Financial results, net - Loss / (profit)** | **(15,183,585)** | **(24,810,272)** |

## 12. Income tax

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Current tax | 28,894,632 | 25,895,813 |
| Deferred tax - (profit) | (7,258,601) | (16,534,419) |
| | **21,636,031** | **9,361,394** |

## 13. Property, plant and equipment

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| **Cost** | | |
| Value at the beginning | 1,965,420,601 | 1,759,949,092 |
| Currency translation differences | (227,004,580) | (44,353,715) |
| Additions | 275,659,053 | 86,928,086 |
| Disposals | (14,301,480) | (8,884,019) |
| Subsidiary inclusion | 99,375,315 | - |
| **Value at period end** | 2,099,148,909 | 1,793,639,444 |
| **Depreciation** | | |
| Accumulated at the beginning | (1,053,022,813) | (931,706,690) |
| Currency translation differences | 122,762,732 | 24,014,165 |
| Depreciation charge | (95,218,658) | (65,209,881) |
| Impairment charge | (6,172,731) | - |
| Disposals | 3,966,021 | 436,789 |
| Subsidiary inclusion | (63,098,027) | - |
| **Accumulated at the end** | (1,090,783,476) | (972,465,617) |
| **At September 30, 2017** | **1,008,365,433** | **821,173,827** |

**13. Property, plant and equipment (Cont)**

**Impairment of long-term assets**

The Company analyzes the Property, plant and equipment for impairment periodically or when there are events or changes in the circumstances that indicate a potential evidence of impairment.

The recoverable value of each CGU (considering CGU as each area the Company has interest in) is estimated by the Company as the highest between the fair value of assets less direct costs to sell and the value in use of assets. The value in use is calculated based on the cash flows discounted, applying a discount rate based on the weighted average cost of capital (WACC), which considers the risks of the country where the CGU operates and its specific characteristics.

The determination of the discounted cash flows is based on projections approved by the Management and includes a set of sensitive estimates and assumptions, such as changes in hydrocarbons production levels, sales prices, hydrocarbons future market prices, inflation, exchange rates, costs and other cash expenditures, on the basis of the best estimate the Company foresees regarding its operations and the available market information.

Cash flows derived from the different CGUs are usually projected for a period that covers the existence of commercially exploitable reserves and is limited to the existence of reserves for the term of the concession or contract.

During the second quarter of 2017, the Company has recognized impairment charges in productive and development equipment and assets in El Tordillo area (on San Jorge Basins in Argentina Segment) for euros 6.2 million, mainly caused by the current context of the hydrocarbon sector, which was affected by the decrease of international oil prices. The recoverable value of CGU, which amounts to euros 96.3 million, was estimated based on its value in use, using a discount rate before tax of 16.88%. The impairment charge is recognized in Operating costs in the Condensed Consolidated Interim Income Statement at September 30, 2017.

A variation of 100 basis points in the discount rate would have generated an increase / (decrease) of 5.7% in the recoverable amount, and a variation of USD 1 per barrel of the crude oil price would generate an increase / (decrease) of 4.7% in the recoverable amount

## 14. Intangible assets

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| **Cost** | | |
| Value at the beginning | 322,622,490 | 303,691,882 |
| Currency translation differences | (34,900,214) | (7,457,857) |
| Additions | 5,363,923 | 4,696,031 |
| **Value at period end** | 293,086,199 | 300,930,056 |
| **Depreciation** | | |
| Accumulated at the beginning | (209,731,215) | (149,221,100) |
| Currency translation differences | 24,060,406 | 3,674,536 |
| Depreciation charge | (26,402,144) | (41,036,152) |
| **Accumulated at the end** | (212,072,953) | (186,582,716) |
| **At September 30, 2017** | **81,013,246** | **114,347,340** |

## 15. Investments accounted for using the equity method

Investments accounted for using the equity method in the Consolidated Statement of Financial Position are as follows:

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| Investments in associated companies | 211,434,822 | 179,291,947 |
| Investments in joint ventures | 26,746,853 | 31,941,049 |
| **Investments accounted for using the equity method** | **238,181,675** | **211,232,996** |

Equity in earnings of investments accounted for using the equity method included in the Consolidated Income Statement is as follows:

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| Equity in earnings of associated companies | 55,838,502 | 15,176,201 |
| Equity in earnings of joint ventures | (1,800,757) | 6,442,389 |
| **Equity in earnings of investments accounted for using the equity method** | **54,037,745** | **21,618,590** |

## 15. Investments accounted for using the equity method (Cont.)

*a) Investments in associated companies*

| | Nine months period ended September 30, | |
|---|---|---|
| | **2017** | **2016** |
| | **(Unaudited)** | |
| At the beginning | 179,291,947 | 156,340,451 |
| Currency translation differences | (22,018,250) | (4,904,971) |
| Contributions | 4,592 | 11,308,511 |
| Equity in earnings of associated companies | 55,838,502 | 15,176,201 |
| Dividends received | (1,699,281) | (91,931) |
| Share of other comprehensive income from investments accounted for using the equity method | 17,312 | 18,652 |
| **At the end** | **211,434,822** | **177,846,913** |

*b) Investments in joint ventures*

| | Nine months period ended September 30, | |
|---|---|---|
| | **2017** | **2016** |
| | **(Unaudited)** | |
| At the beginning | 31,941,049 | 41,748,183 |
| Currency translation differences | (3,393,439) | (1,026,730) |
| Equity in earnings of joint ventures | (1,800,757) | 6,442,389 |
| **At the end** | **26,746,853** | **47,163,842** |

The following is the detailed list of investments in associated companies:

| Company | Country | % Participation | Value at Sep 30, 2017 | Value at Dec 31, 2016 |
|---|---|---|---|---|
| | | | **(Unaudited)** | |
| Consorcio Shushufindi S.A. (i) | Ecuador | 25% | 165,222,242 | 143,684,137 |
| Kamana Services S.A. (i) | Ecuador | 40% | 21,651,055 | 18,514,243 |
| TIBSA Inversora S.A. | Argentina | 30% | 11,811,943 | 7,945,530 |
| Energy Consulting Services S.A. ("ECS") | Argentina | 29% | 2,909,755 | 4,972,415 |
| Transportadora de Gas del Mercosur S.A. | Argentina | 22% | 1,886,796 | 2,782,392 |
| Transportadora de Gas del Norte S.A. | Argentina | 23% | 7,854,684 | 1,053,019 |
| Techgen S.A. de C.V. | México | 30% | 38,044 | 269,178 |
| Parque Eólico Pampa S.A. (ii) | Argentina | 20% | 60,303 | 71,033 |
| Total | | | **211,434,822** | **179,291,947** |

(i) See Note 31.

(ii)On October 18, 2017, the Company, through its subsidiary Tecpetrol S.A, sold its interest in Parque Eólico Pampa S.A. for USD 1 million, USD 0.05 million of which were collected on the date of the contract and the rest, subject to certain clauses, will be collected until January 2, 2020.

## 15. Investments accounted for using the equity method (Cont.)

Joint venture investments are as follows:

| **Company** | **Country** | **% Participation** | **Value at Sep 30, 2017** | **Value at Dec 31, 2016** |
|---|---|---|---|---|
| | | | **(Unaudited)** | |
| Servicios Múltiples de Burgos S.A. de C.V. ("SMB") | México | 50% | 26,746,853 | 31,941,049 |

Servicios Multiples de Burgos S.A. de C.V (“SMB”) provides services to PEMEX Exploración y Producción related to development, infrastructure and maintenance of gas fields in Bloque Mision, Mexico**.**

## 16. Available-for-sale financial assets

| | **September 30, 2017** | **December 31, 2016** |
|---|---|---|
| | **(Unaudited)** | |
| **Non-current** | | |
| Non-quoted investments | 2,248,549 | 2,053,231 |
| | **2,248,549** | **2,053,231** |

| | **Nine months period ended September 30, 2017** | **2016** |
|---|---|---|
| | **(Unaudited)** | |
| At the beginning | 2,053,231 | 1,920,367 |
| Currency translation differences | (235,586) | (47,199) |
| Changes in fair value | 430,904 | 137,551 |
| **At the end** | **2,248,549** | **2,010,719** |

Available-for-sale financial assets at September 30, 2017 mainly comprise stakes in the following companies: Baripetrol S.A., Oleoductos del Valle S.A. and Terminales Maritimas Patagonicas S.A. At December 31, 2016 mainly comprise stakes in the following companies: Baripetrol S.A., Oleoductos del Valle S.A., Terminales Maritimas Patagonicas S.A. and Tecpetrol Colombia S.A.S. During the nine-month period ended September 30, 2017, the company acquired the control of Tecpetrol Colombia S.A.S. (See Note 30).

The fair value of available-for-sale financial assets was calculated on the basis of discounted cash flows, which involves making certain estimates and assumptions, such as the levels of hydrocarbons production, sales prices, hydrocarbons future market prices, inflation, foreign exchange rates, dividends collection, costs and other expenses. These estimates are based on the best assumptions that Tecpetrol has in relation to its future operations and the available market information.

### 16. Available-for-sale financial assets (Cont)

Among the main assumptions used in the calculation that are not observable in the market, is the estimation of dividends collection. Since there is a significant relationship between the assumptions, Tecpetrol's management estimates that a sensitivity analysis considering changes in one assumption at a time may not be representative.

### 17. Other receivables and prepayments

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| **Non-current** | | |
| Tax credits | 47,518,980 | 31,818,438 |
| Employees loans and advances | 1,388,223 | 1,029,784 |
| Advances | 14,051,072 | 1,011,591 |
| Other receivables | 4,522,691 | 5,848,957 |
| Other receivables from related parties (Note 28) | 68,380,181 | 62,374,451 |
| | 135,861,147 | 102,083,221 |
| Allowance for doubtful accounts | (2,012,278) | (2,490,957) |
| | **133,848,869** | **99,592,264** |

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| **Current** | | |
| Other receivables | 18,983,681 | 24,864,197 |
| Advances | 4,101,578 | 3,342,292 |
| Other receivables from related parties (Note 28) | 1,363,993 | 610,404 |
| Tax credits | 11,603,372 | 17,882,473 |
| Employees loans and advances | 5,416,014 | 2,269,062 |
| | 41,468,638 | 48,968,428 |
| Allowance for doubtful accounts | (3,420,862) | (3,865,348) |
| | **38,047,776** | **45,103,080** |

### 18. Trade receivables

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| **Non-current** | | |
| Trade receivables | - | 55,808,765 |
| Trade receivables from related parties (Note 28) | 4,538,612 | 4,991,885 |
| | 4,538,612 | 60,800,650 |
| Allowance for doubtful accounts | (4,538,612) | (4,991,885) |
| | **-** | **55,808,765** |
| **Current** | | |
| Trade receivables | 140,354,133 | 170,583,402 |
| Trade receivables from related parties (Note 28) | 9,832,577 | 8,811,977 |
| | 150,186,710 | 179,395,379 |
| Allowance for doubtful accounts | (33,092,731) | (31,387,305) |
| | **117,093,979** | **148,008,074** |

## 19. Cash and cash equivalents

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| Cash at banks | 43,631,137 | 21,797,006 |
| Short-term bank deposits | 2,623,954 | 4,936,579 |
| Short-term deposits with related parties (Note 28) | 145,954,183 | 79,299,459 |
| | **192,209,274** | **106,033,044** |

## 20. Financial instruments

### 20.1 Financial instruments by category

The table below discloses the financial instruments by category:

| September 30, 2017 Assets (Unaudited) | Financial Assets to Fair value | Loans and other receivables | Available-for-sale financial assets |
|---|---|---|---|
| Trade receivables | - | 117,093,979 | - |
| Other receivables and prepayments | - | 87,817,406 | - |
| Available-for-sale financial assets | - | - | 2,248,549 |
| Others Investments | 1,597,305 | 50,186,817 | - |
| Cash and cash equivalents | 2,623,954 | 189,585,320 | - |
| **Total** | **4,221,259** | **444,683,522** | **2,248,549** |

| December 31, 2016 Assets | Financial Assets to Fair value | Loans and other receivables | Available-for-sale financial assets |
|---|---|---|---|
| Trade receivables | - | 203,816,839 | - |
| Other receivables and prepayments | - | 89,118,038 | - |
| Available-for-sale financial assets | - | - | 2,053,231 |
| Cash and cash equivalents | 4,936,579 | 101,096,465 | - |
| **Total** | **4,936,579** | **394,031,342** | **2,053,231** |

| September 30, 2017 Liabilities (Unaudited) | Other Financial Liabilities |
|---|---|
| Borrowings | 167,542,912 |
| Trade and other payables | 174,866,153 |
| **Total** | **342,409,065** |

| December 31, 2016 Liabilities | Other Financial Liabilities |
|---|---|
| Borrowings | 761,289,158 |
| Trade and other payables | 133,519,931 |
| **Total** | **894,809,089** |

## 20. Financial instruments (Cont.)

### 20.2 Fair value estimation

From December 31, 2016 up to the date of these Condensed Consolidated Interim Financial Statements there have not been significant changes in the economic or business circumstances which affect the fair value of the Company's assets and liabilities. Additionally, there have been no transfers between the different hierarchies used to determine the fair value of the Company's financial instruments during the nine-month period ended September 30, 2017.

The assets measured at fair value at September 30, 2017, classified in accordance with the hierarchical level are detailed below:

| September 30, 2017 Assets (Unaudited) | Level 1 | Level 3 |
|---|---|---|
| Available-for-sale financial assets | - | 2,248,549 |
| Others Investments | 1,597,305 | - |
| Cash and cash equivalents | 2,623,954 | - |
| **Total** | **4,221,259** | **2,248,549** |

| December 30, 2016 Assets | Level 1 | Level 3 |
|---|---|---|
| Available-for-sale financial assets | - | 2,053,231 |
| Cash and cash equivalents | 4,936,579 | - |
| **Total** | **4,936,579** | **2,053,231** |

## 21. Transactions with owners

On May 22, 2017, Tecpetrol International S.A (Sole Shareholder of the Company) made a contribution in kind of 32,561,052 euros by means of the contribution of its participation in Tecpetrol Colombia S.A.S. (See note 30). As a result of this operation, as of September 30, 2017, the balance of the Other Contributions of the Sole Shareholder in the Condensed Consolidated Intermediate Statement of changes in Equity amounts 33,590,322 euros.

On June 23, 2017, Tecpetrol International SA increased its share capital for 87,230,000 euros, increasing it to 100,000,000 euros (represented by 10,000,000,000 shares with a nominal value of 0.01 euros per share), which was issued with a share premium of 649,986,054 euros, increasing it to 837,067,894 euros at September 30, 2017. This capital increase was integrated by means of the contribution of certain credits and investments held by the Sole Shareholder for 178 million euros and 190 million euros respectively and through the capitalization of the debt that the Company held until such date with the Sole Shareholder for 369 million euros.

At September 30, 2017 and 2016, the share capital is fully subscribed and integrated.

During the nine-month periods ended September 30, 2017 and 2016 there was no distribution of dividends.

## 22. Borrowings

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| **Non-current** | | |
| Bank borrowings | 108,360,511 | 131,131,467 |
| Other financial liabilities | 3,388,120 | 5,650,411 |
| Borrowings from related parties (Note 28) | 139,856 | 419,312,140 |
| | **111,888,487** | **556,094,018** |
| **Current** | | |
| Bank overdrafts | 61,003 | 150,014 |
| Bank borrowings | 52,914,417 | 92,667,516 |
| Other financial liabilities | 2,599,216 | 2,928,888 |
| Borrowings from related parties (Note 28) | 79,789 | 109,448,722 |
| | **55,654,425** | **205,195,140** |

On September 18, 2017 Tecpetrol S.A., together with Tecpetrol del Perú S.A.C. and Tecpetrol Bloque 56 S.A.C., as co-borrowers, have entered into a club facility agreement for up to USD 200 million with Banco de Crédito del Perú S.A., BBVA Banco Continental, Citibank N.A. and J.P. Morgan Chase Bank, N.A., as lenders. The quarter interest rate is LIBO plus 150 bps per annum and the borrowing will be repaid in 13 instalments commencing 24 months after the date of the request. As of the date of these financial statements no amounts have been borrowed.

As of September 30, 2017, the Company has no debts with guarantees. The Company must comply with certain obligations, such as the maintenance of financial ratios, in accordance with the conditions established in the loan agreements, which have been complied with as of September 30, 2017.

The Ordinary and Extraordinary Tecpetrol S.A. Shareholders´ Meeting held on May 15, 2017 approved the request of admission of Tecpetrol S.A. to the Public Offering Regime regulated by law 26.831, as well as the issued of a Global Program of simple Negotiable Obligation, not convertible into shares, for up to an amount of USD 1,000,000,000 or its equivalent in any other currency, (“the Program”). On August 30, 2017 the Board approved the Program´s Prospectus draft.

On October 30, 2017, by means of CNV´s Resolution N° RESFC-2017-18994-APN-DIR#CNV, CNV authorized the admission of the depedent Tecpetrol S.A. in the Public Offering Regime and the creation of the program mentioned above. On November 6, 2017, the Board of Directors of the Company approved the issuance of a guarantee to it.

## 23. Provisions

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| Asset retirement obligations | 71,700,066 | 65,982,363 |
| Provision for other contingencies | 5,065,285 | 6,586,228 |
| **Total non-current** | **76,765,351** | **72,568,591** |
| Provision for other contingencies | 2,379,223 | 297,308 |
| **Total current** | **2,379,223** | **297,308** |

## 24. Trade and other payables

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| **Non-current** | | |
| Trade payables | 44,045 | 49,267 |
| | **44,045** | **49,267** |
| **Current** | | |
| Trade payables | 163,248,169 | 126,453,912 |
| Payables to related parties (Note 28) | 11,240,060 | 2,982,846 |
| Social security and other taxes | 23,937,416 | 22,026,983 |
| Other liabilities | 333,879 | 4,033,906 |
| | **198,759,524** | **155,497,647** |

## 25. Contingencies

Tecpetrol has contingent liabilities in respect of legal claims arising in the ordinary course of business. Likewise, there are certain interpretations made by the regulators as to the calculation and payment of certain taxes than may differ from Tecpetrol's position. Based on management's assessment and the advice of legal counsels, it is not anticipated that the ultimate resolution of pending litigation will result in amounts in excess of recorded provisions in these Condensed Consolidated Interim Financial Statements.

*Argentina – Income tax assessment*

In September 2017, the National Supreme Court of Justice pronounced sentence in favor of Tecpetrol S.A. and the costs were imposed to the Federal Administration of Public Revenue ("AFIP", for its acronym in Spanish), about an assessment notified to Tecpetrol S.A. by AFIP, who was claiming a presumably incorrect treatment of results accrued on certain crude oil derivatives for fiscal years 2000 and 2001. This assessment amounted to 1.5 million euros (plus interest and fines). AFIP had lodged an appeal against this decision with the Argentine Supreme Court of Justice.

## 26. Situation of associated companies

This note should be read in conjunction with Note 29 to the Company's audited Consolidated Annual Accounts for the year ended December 31, 2016.

*Transportadora de Gas del Norte S.A. ("TGN"):*

TGN began its operations at the end of 1992, operating two main gas pipelines connected to fields in the North and Mid-West of Argentina, whose location allows TGN to meet the gas needs of the countries in the Southern Cone.

### 26. Situation of associated companies (Cont.)

On March 30, 2017, TGN entered into an agreement with the Ministry of Finance and the MINEM for the comprehensive renegotiation of the License (the "Comprehensive Agreement"), whose effective date is subject to the National Executive Branch's ("PEN") approval, after intervention of the Federal Treasury Attorney's Office, Argentina's General Accounting Office, and both chambers of the National Congress following the opinion of a bicameral commission. On the same date, TGN was granted a new temporary average rate increase of 49% on account of a higher increase to be applied as a result of a CRR carried out by the ENARGAS and tied to the execution of mandatory investments.

The Comprehensive Agreement ends a fifteen-year period of legal and regulatory instability that started in 2002 with the Public Emergency Law ("LEP"). It sets forth the terms and conditions agreed to between the PEN and TGN to adapt the License, establishes the guidelines under which the ENARGAS conducted the CRR for the period 2017-2022 and concludes the renegotiation process developed within the framework of the LEP. Once this agreement comes into force after having been ratified by the PEN, its provisions will cover the contract period from January 6, 2002 to the termination date of the License.

Between April 1, 2017 and March 31, 2022, TGN must implement a Mandatory Investment Plan for approximately $ 5.600 million (argentine pesos).

The Comprehensive Agreement contains an indemnity clause for the benefit of the National State, whereby TGN agrees to hold the National State harmless in the event that any of TGN's and/or Gasinvest's shareholders and/or any of their possible assignees obtain a final and conclusive award or judgment, in the Argentine Republic or abroad, consisting of any type of economic indemnity, relief or compensation whether based on or related to facts or legal measures ordered with respect to the License, under the emergency situation established by the LEP and/or the cancellation of the Producer Price Index ("PPI"), including costs and fees.

In such a case, TGN shall not be entitled to seek any relief, indemnity or compensation from the National State, and the costs and expenses that TGN incurs shall in no case be transferred to the users of the carriage service.

### 27. Main commitments, guarantees and restrictions

At the date of these Condensed Consolidated Interim Financial Statements, the Company and its subsidiaries hold the following commitments and/or guarantees:

a) Main corporate guarantees:

| Item | Company | Beneficiary | Amounts in US$ millions | Comments |
|---|---|---|---|---|
| Guarantee of compliance with the obligations of Consorcio Shushufindi S.A. under the integrated services contract. | Tecpetrol Internacional S.L.U. | Petroamazonas | 24 | Limited warranty up to 25% of the amount to be established in each annual work program. |
| Joint guarantee of compliance with the obligations of Tecpetrol del Peru SAC and Tecpetrol Bloque 56 SAC under the license contract to exploit hydrocarbons in Lote 88 and Lote 56, respectively. | Tecpetrol Internacional S.L.U. | Perupetro S.A. | - | No defined amount. |
| Guarantee of compliance with the obligations of Pardaliservices S.A. under the integrated services contract in Libertador fields. | Tecpetrol Internacional S.L.U. | Petroamazonas | 28 | Limited warranty up to 40% of the amount to be established in each annual work program. |
| Joint guarantee for compliance with the obligations of Tecpetrol Colombia S.A.S. enshrined in the contract for the exploration and exploitation of hydrocarbons with the Agencia Nacional de Hidrocarburos de Colombia (“ANH”) and any damages occasioned by non-compliance with them. | Tecpetrol Internacional S.L.U. | Agencia Nacional de Hidrocarburos | - | No defined amount. |
| Joint, unconditional and irrevocable guarantee for providing Tecpetrol de Bolivia S.A. with all the technical and financial resources required for the latter to fully and appropriately comply with its obligations pursuant to the contracts for the exploitation of the Bloques Aquio and Ipati. | Tecpetrol Internacional S.L.U. | YPFB | 17 | |
| Guarantee for compliance with the obligations of the associated company Kamana Services S.A. under the terms of the contract for the execution of optimization activities to improve production, enhanced recovery and for the exploration in Pañacocha, Tumali and Eden Yuturi fields from the Amazonic region of Ecuador. | Tecpetrol Internacional S.L.U. | Petroamazonas | 278 | Limited warranty up to 40% of the amount to be established in each annual work program . |

### 27. Main commitments, guarantees and restrictions (cont.)

b) Main guarantees for financial entities and insurance companies

| Item | Applicant Company | Issuer | Beneficiary | Amounts in US$ Millions | Comments |
|---|---|---|---|---|---|
| Guarantee for compliance with the obligations arising from its contract with Loma Ancha area. | Tecpetrol S.A. | Fianzas y Crédito S.A. Compañía de Seguros | Gas y Petróleo del Neuquén S.A. | 26 | - |
| Guarantee for the payment of the acquisition price for the shareholding of Argentinean Pipeline Holding Company ("APHC") in Gasinvest, TGM, TGN and related receivables. | Tecpetrol Internacional S.L.U. | Banco Santander | APHC | 5 | Compañia General de Combustibles S.A. issued an indemnity in favor of Tecpetrol Internacional S.L.U. for USD 2 million. |
| Due compliance with the obligations arising from the works contract signed between Norpower S.A. de C.V. and PEP. | Norpower S.A. de C.V. | HSBC Mexico S.A. | Pemex Exploración y Producción | 6 | Tecpetrol Internacional S.L.U. signed a guarantee for up to US$6 million in favor of HSBC Mexico S.A. Also, TE&IC S.A. issued an indemnity in favor of Tecpetrol Internacional S.L.U. for up to USD 2.5 million. |

c) Main commitments

The Company has the following investment commitments in the areas where it operates:

| Company | Área | Pending investment commitments |
|---|---|---|
| Tecpetrol S.A | Tordillo y La Tapera-Puesto Quiroga | · Implementation of 30 months of activity of drilling equipment, until December 2021<br>· Drilling of 3 wells P2/P3 until December 2021<br>· Keeping three items of workover equipment and three items of pulling (or workover) equipment active until March 2019 |
| | Aguaragüe | · Drilling of two development wells for an amount of USD 26 million and one exploration well for USD 4 million to be performed before july 2018 |
| | Agua Salada | · Development investments for USD 13.6 million to be executed before 2025 consisting of facilities, 5 workovers and well conversion<br>· Exploratory investments for USD 51.1 million to be executed before 2025 consisting of drilling four exploratory wells and ten extension wells |
| | Los Bastos | · Exploratory investments for USD 9.6 million to be executed until 2026 outside the exploitation area |
| | Fortin de Piedra | · Investments for USD 83.3 million consisting of a pilot plan to be executed before June 2021 |
| | Loma Ancha | · Drilling of a 1,500 m deep pilot well with a 3,000 m horizontal line, with unconventional completion to be performed in 2018 |
| | Lago Argentino | · Perform one workover before May 2018 |
| Tecpetrol Colombia S.A.S. | CPO-13 | · Drilling of two exploratories wells |
| Pardaliservices S.A. | Libertador - Atacapi | · Drilling of four wells and the perfom of facilities to be executed in 2017. |

## 27. Main commitments, guarantees and restrictions (cont.)

Furthermore, the associated company Techgen S.A. de C.V. is a party to transportation capacity agreements with Kinder Morgan Gas Natural de Mexico, S. de R.L. de C.V., Kinder Morgan Texas Pipeline LLC and Kinder Morgan Tejas Pipeline LLC for a purchasing gas capacity starting on August 1, 2016 and ending on July 31, 2036. As of September 30, 2017, the outstanding value of this commitment was approximately USD 268 million. Tecpetrol's exposure to the mentioned commitment at this date amounts to USD 80 million (68.1 million Euros), corresponding to the interest of Tecpetrol in the associated company (30%).

d) Restrictions to the share transfer and profits distribution

The terms and conditions of the transfer agreement for the privatization of *Gas del Estado S.E.* ("GdE") impose certain restrictions on the transfer of TGN's shares held by Gasinvest S.A. and the transfer of the latter's shares by its shareholders. In accordance with such restrictions, any transfer or assignment or any other act leading to a decrease below 51% in the interests held by the former shareholders of Gasinvest, including any shortfall in the subscription by those shareholders of any capital increase in Gasinvest, requires prior approval of ENARGAS. These restrictions do not apply to transfers between parties belonging to the same economic group as specified in the terms and conditions of the aforementioned agreement.

As established in the current financial agreements, TGN may not pay out dividends if it has incurred in default or grounds for default, and in any case, the dividend shall not be in excess of available basket amount (as defined in the contract). Also, TGN may not distribute dividends without the previous approval of ENARGAS.

Additionally, as established in the terms and conditions of the international public tender for the privatization of GdE, TIBSA Inversora S.A. may dispose of a portion of the majority shareholding in Litoral Gas provided that it does not reduce its interest in the capital stock and voting rights to less than 51%. The transfer of this percentage, as well as any act that reduces TIBSA's shareholding to an amount below this equity interest shall be subject to the prior authorization of the regulatory entity.

## 28. Related party balances and transactions

Tecpetrol Internacional S.L.U. is controlled by Tecpetrol International S.A., a Company domiciled in Uruguay, which owns 100% of the Company's shares.

San Faustin S.A. a Luxembourg *Société Anonyme* ("San Faustin") owns the Company through its subsidiaries.

Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, a Dutch private foundation (Stichting) ("RP STAK") holds voting shares in San Faustin sufficient to control San Faustin. No person or group of persons controls RP STAK.

## 28. Related party balances and transactions (Cont.)

The main transactions carried out with related parties are as follows:

| | Nine months period ended September 30, 2017 | 2016 |
|---|---|---|
| | (Unaudited) | |
| *Sole shareholder:* | | |
| Interest expense | (9,133,022) | (14,381,136) |
| *Associated companies:* | | |
| Service revenues | 10,168,755 | 10,125,816 |
| Interest income | 3,308,715 | 1,254,783 |
| *Joint ventures:* | | |
| Service revenues | 3,914,976 | 4,283,286 |
| *Other related parties:* | | |
| Sales of goods, services and others | 5,229,788 | 525,172 |
| Purchases of goods | (27,187,123) | (8,630,836) |
| Fees and services | (235,094) | (350,787) |
| Interest income | 1,149,420 | 2,004,528 |
| Interest expense | (1,765) | (128,283) |

Main year-end balances with related parties are disclosed below:

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (Unaudited) | |
| *Short-term deposit with related parties (Note 19)* | | |
| Other related parties | 145,954,183 | 79,299,459 |
| *Trade receivables from related parties (Note 18)* | | |
| Non-current - Associated companies | 4,538,612 | 4,991,885 |
| Current - Associated companies | 6,705,657 | 8,781,524 |
| Current - Joint ventures | 684,732 | 14,157 |
| Current - Other related parties | 2,442,188 | 16,296 |
| | **9,832,577** | **8,811,977** |
| *Receivables from related parties (Note 17)(i)* | | |
| Non-current - Associated companies | 68,283,727 | 62,374,451 |
| Non-current - Other related parties | 96,454 | - |
| | **68,380,181** | **62,374,451** |
| Current - Associated companies | 1,277,924 | 220,562 |
| Current - Joint ventures | 81,972 | 313,559 |
| Current - Other related parties | 4,097 | 76,283 |
| | **1,363,993** | **610,404** |

### 28. Related party balances and transactions (Cont.)

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| *Payables to related parties (Note 24) (ii)* | | |
| Current - Sole shareholder | 413,347 | - |
| Current - Associated companies | - | 128,953 |
| Current - Other related parties | 10,826,713 | 2,853,893 |
| | **11,240,060** | **2,982,846** |
| *Borrowings (Note 22)* | | |
| Non-current - Sole shareholder | 139,856 | 419,312,140 |
| Current - Sole shareholder | - | 109,379,646 |
| Current - Related parties | 79,789 | 69,076 |
| | **79,789** | **109,448,722** |

(i)Mainly includes balances from advances for purchases of property, plant and equipment and reimbursement of expenses.

(ii)Mainly includes balances from purchases of materials.

### 29. Principal subsidiaries and jointly-controlled entities

#### Principal Subsidiaries

| Company | Main activity | Domicile | % Sep-17 | % Dec-16 |
|---|---|---|---|---|
| Tecpetrol S.A. | Exploration, exploitation, production and sale of oil and gas | Pasaje Della Paolera 299, 16th floor, Ciudad Autónoma de Buenos Aires, Argentina | 95.98 | 95.98 |
| Tecpetrol de Mexico S.A. de C.V. | Provision of services related to the development, infrastructure and maintenance of gas fields | Guillermo González Camarena N° 1200, 7th floor, Colonia Centro de Ciudad Santa Fe, DF, Mexico | 99.92 | 99.92 |
| Burgos Oil Services S.A. de C.V. | Provision of services related to the development, infrastructure and maintenance of gas fields | Guillermo González Camarena N° 1200, 7th floor, Colonia Centro de Ciudad Santa Fe, DF, Mexico | 99.98 | 99.98 |
| Tecpecuador S.A. | Exploration, exploitation, production and sale of oil and gas | Avenida 12 de octubre N° 26-97 y Abraham Lincoln, Edif. Torre 1492 – 2nd floor , Quito, Ecuador | 100 | 100 |
| Tecpetrol del Peru S.A.C. | Exploration, exploitation, production and sale of oil and gas | Av. Victor Andres Belaúnde N° 332, of. 102, Lima, Peru | 99.92 | 99.92 |
| Tecpetrol Bloque 56 S.A.C. | Exploration, exploitation, production and sale of oil and gas | Av. Victor Andres Belaúnde N° 332, of. 102, Lima, Peru | 99.92 | 99.92 |
| Techenergy Services S.A. de C.V. (a) | Exploration, operation and maintenance of hydrocarbons fields | Boulevard 1° de mayo 34, Colonia Jose de Escandón, Reynosa, Mexico | 100 | 100 |
| Tecpetrol de Bolivia S.A.(b) | Exploration, exploitation, production and sale of oil and gas. | Calle Sanchez Bustamante S/N, Ketal building, 4th floor, ap. 402, La Paz, Bolivia | 98.05 | 94.12 |
| Dapetrol S.A. | Exploration, discovery, exploitation and sale of oil and gas | Pasaje Della Paolera 299, 16th floor, Ciudad Autónoma de Buenos Aires, Argentina | 96.08 | 96.08 |
| Tecpetrol Corporation | Exploration, exploitation and production of oil and gas | 2711 Centerville Road, Suite 400, Wilmington, Delaware, United States of America | 99.92 | 99.92 |
| Norpower S.A. de C.V. | Carrying out works related to the development, infrastructure and maintenance of the gas pipeline System 3 | Guillermo González Camarena N° 1200, 7th floor, Colonia Centro de Ciudad Santa Fe, DF, Mexico | 59.98 | 59.98 |
| Pardaliservices S.A.(c) | Provision of services of exploration, evaluation and development of hydrocarbons | Avenida 12 de octubre N° 26-97 y Abraham Lincoln, Edif. Torre 1492, 3rd floor, Quito, Ecuador | 40 | 40 |
| Tecpeservices S.A. | Provision of services of design, engineering and construction of works in fields or any other oil facilities | Avenida 12 de octubre N° 26-97 y Abraham Lincoln, Edif. Torre 1492 – 2nd floor , Quito, Ecuador | 100 | 100 |
| Tecsip S.A. | Provision of professional and technical services, mainly directed to the oil industry | Avenida 12 de octubre N° 26-97 y Abraham Lincoln, Edif. Torre 1492 – 2nd floor , Quito, Ecuador | 100 | 100 |

| Company | Main activity | Domicile | % Sep-17 | % Dec-16 |
|---|---|---|---|---|
| Tecpegas S.A. | Holding and activities related to the hydrocarbons industry, among others | Aquilino de la Guardia N° 8, Edif. Igra, Ap. 4, Panama | 100 | 100 |
| Suizum - Servicios de Consultoria S.L. | Holding and provision of advisory services | Calle García de Paredes 94, 1˚ A, Madrid, Spain | 100 | 100 |
| Servicios Libertador S.L. (d) | Holding and provision of financial services | Calle García de Paredes 94, 1˚ A, Madrid, Spain | 40 | 40 |
| Tecpetrol Servicios S.L. | Holding | Calle García de Paredes 94, 1˚ A, Madrid, Spain | 100 | 100 |
| Americas Petrogas Argentina S.A. | Exploration, discovery, exploitation, production and sale of oil and gas | Mitre 538, 4th floor, Mendoza, Argentina | 96 | 96 |
| Tecpeandina S.A. | Holding and activities related to the hydrocarbons industry, among others. | Aquilino de la Guardia N° 8, Edif. Igra, Apto. 4, Panama | 100 | 100 |
| Tecpetrol Colombia S.A.S. (e) | Exploration, exploitation, production and sale of oil and gas, and operating and maintenance services and development hydrocarbons fields | Carreran 11 A N° 97 19, Bogotá, Colombia | 100 | 0.7 |

(a) On February 9, 2017 the Company approved the contribution of 90,000 shares representing 99% of Techenergy´s stock capital to its subsidiary Tecpetrol Servicios S.L.
(b) On May 23, 2017, the Company acquired the equity interest that the subsidiary Tecpetrol S.A had in Tecpetrol Bolivia S.A for USD 189.345.
(c) The subsidiary Servicios Libertador S.L. has a 99.99% stake in Pardaliservices S.A. at September 30, 2017 and December 31, 2016.
(d) The subsidiary Marble Properties B.V. has a 60% stake in Servicios Libertador S.L. at September 30, 2017 and December 31, 2016.
(e) See Note 30.

**Principal Joint operations – Argentina**

*a) Areas operated by Tecpetrol*

| Name | Location | % at Sep 30, 2017 | % at Dec 31, 2016 | Expiration date of the Concession |
|---|---|---|---|---|
| Agua Salada | Río Negro | 70.00 | 70.00 | September 2025 |
| El Tordillo | Chubut | 52.13 | 52.13 | November 2027 |
| Aguaragüe | Salta | 23.00 | 23.00 | November 2027 |
| La Tapera-Puesto Quiroga | Chubut | 52.13 | 52.13 | August 2017 |
| Rio Atuel (i) | Mendoza | - | 33.34 | n/a |
| Loma Ancha (ii) | Neuquén | 95.00 | 95.00 | December 2018 |
| Lago Argentino (iii) | Santa Cruz | 74.6 | 74.6 | November 2033 |
| Medanito Sur | La Pampa | 60.00 | 60.00 | September 2035 |
| Los Toldos (iv) | Neuquén | 45.00 | 45.00 | May 2018 |
| Loma Ranqueles | Neuquén | 65.00 | 65.00 | May 2018 |

(i) On August 16, 2017, the Company entered into an agreement for the sale of its interest in Río Atuel joint venture to Petrolera El Trébol S.A. Was signed for USD 1.75 million. Tecpetrol S.A. was the operator and manager of the joint venture until September 26, 2017, date in which the transaction became effective and Petrolera El Trebol S.A. was designated as the new joint venture's operator.
(ii) Tecpetrol S.A. assumes 100% of the costs and investments over the basic exploration period under an agreement with its partner Gas y Petróleo del Neuquén S.A.
(iii) Tecpetrol S.A. assumes 100% of the costs and investments under an agreement between private actors and Alianza Petrolera S.A. and an UT agreement between Fomento Minero de Santa Cruz S.E. and Alianza Petrolera S.A.

## 29. Principal subsidiaries and jointly-controlled entities (Cont.)

(iv) During March 2016, Americas Petrogas Argentina S.A 's Board of Directors agreed with ExxonMobil Exploración Argentina SRL, a division agreement of Los Toldos area, by which it was established that blocks Los Toldos Bloque I Norte, Los Toldos Bloque II Este, Los Toldos Bloque III and Los Toldos Bloque IV will be explored and developed by Americas Petrogas Argentina S.A. (“APASA”) (with a 90% stake) together with Gas and Petróleo del Neuquén S.A. (10%). On March 8, 2017, the government of the Province of Neuquén issued Decree 333/17 which, among other issues, approved the division of the area and created two new UTEs.

Additionally, on September 6, 2016, having expired the concession term of the exploitation of Atuel Norte where the subsidiary Tecpetrol S.A. was the operator, the Reversion´s Deed was signed, by means of which the Province of Mendoza took over the area.

*b) Areas operated by third parties*

| Name | Location | % at Sep 30, 2017 | % at Dec31, 2016 | Expiration date of the Concession |
|---|---|---|---|---|
| Ramos | Salta | 25.00 | 25.00 | January 2026 |

**Principal Joint operations – Other countries**

| Country | % Sep-2017 | % Dec-2016 | Area | Operator / Common representative | Expiration date of the Concession |
|---|---|---|---|---|---|
| Venezuela | 43.75 | 43.75 | Colon (Tecpetrol - Coparex-CMS Oil and Gas Consortium) | Tecpetrol de Venezuela S.A. | Until the period and/or fulfillment of all rights and obligations related to “Convenio de Servicios de Operación” |
| Venezuela | 43.75 | 43.75 | Colon (Colon Consortium) | Suizum - Servicios de Consultoria S.L.U. | Until such time as the obligations related to the contract to convert this to a mixed company are fulfilled. |
| Peru | 10 | 10 | Camisea/Pagoreni (Bloques 88 y 56) | Pluspetrol Peru Corporation S.A. | Bloque 88: December 2040<br>Bloque 86: September 2044 |
| Bolivia | 20 | 20 | Aquio | Total Exploration & Production Bolivie | May 2042 |
| Bolivia | 20 | 20 | Ipati | Total Exploration & Production Bolivie | May 2038 |

## 30. Acquisition of control in Tecpetrol Colombia S.A.S

On December 28, 2015, Tecpetrol Colombia S.A.S. increased its share capital and share premium in the amount of USD135,000,000, which was fully subscribed by Tecpetrol International S.A., sole shareholder of the Company. As Tecpetrol did not exercise its preferential right to subscribe shares, its stake in Tecpetrol Colombia S.A.S. decreased from 98.87% to 0.7%, with a consequent loss of control over the subsidiary. At December 31, 2016 the investment in Tecpetrol Colombia S.A.S. was valued at fair value.

On May 22, 2017 Tecpetrol International S.A. made a contribution in kind for 32.6 million euros with its equity interest in Tecpetrol Colombia S.A.S. (99.383%). At September 30, 2017, the Company holds a 100 % stake in Tecpetrol Colombia S.A.S.

### 31. Subsequent events

On October 2, 2017, the Company agreed through its subsidiary Tecpetrol Servicios S.L: (i) a share purchase-sale agreement with Shushufindi Holding B.V and Shlumberger Production Management Holding B.V., whereby if the suspensive conditions established therein by the parties are fulfilled, Tecpetrol Servicios S.L. would sell to these Companies all of its shareholding in Kamana Services S.A (corresponding to 40 % of Kamana Services S.A's total share capital) for USD 36 million; and (ii) a share purchase-sale agreement with Shushufindi Holdings B.V., whereby if the the suspensive conditions established therein by the parties are fulfilled, Tecpetrol Servicios S.L. would acquire from Shushufindi Holdings B.V., the 3.56% of Shushufindi Holdings B.V.'s shareholding in Consorcio Shushufindi S.A. for an amounts of USD 29.5 million (which would result in a total shareholding of 28.56% of Consorcio Shushufindi S.A. 's share capital). Furthermore, on October 2, 2017, the Company agreed through its subsidiary Tecpetrol Libertador B.V. a share purchase-sale agreement with Libertador Holdings B.V. whereby if the suspensive conditions established therein by the parties are fulfilled, Tecpetrol Libertador B.V. would acquire from Libertador Holdings B.V. all of its shareholding in Marble Properties B.V. (corresponding to 33.33 % of Marble Properties B.V.'s share capital) for an amounts of USD 6.5 million. As a result of this last transaction, Tecpetrol Libertador B.V.'s shareholding through its subsidiary Marble Properties B.V, in Pardaliservices S.A and en Servicios Libertador S.L, would increase from 40% to 60%.

At the date of issuance of these financial statements, the transactions included in such agreements are not effective, as the suspensive conditions established therein by the parties have not been fulfilled yet.

No events, situations or circumstances have taken place since September 30, 2017 other than the one mentioned in the previous paragraph and those mentioned in the notes to these Condensed Consolidated Interim Financial Statements, which are publicly known, and affect or might significantly affect the economic and financial position of Tecpetrol.

**PREPARATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT SEPTEMBER 30, 2017 AND FOR THE NINE-MONTH PERIOD ENDED ON SUCH DATE**

As of November 6, 2017, the Board of Directors of Tecpetrol Internacional, S.L.U. have authorized the issuance of the Condensed Consolidated Interim Financial Statements as at September 30, 2017 and for the nine-month period ended on such date, as set out in the documents attached hereto preceding this letter.

Gonzalo De Benito Fernández

Member of the Board of Directors

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