

To the Shareholders:

In compliance with the bylaws and related legislation, the members of the Board of Directors of the Company submit for the consideration of the Annual General Meeting of Shareholders the Annual Report, the Financial Statements for the 40th fiscal year that commenced on January 1, 2019 and ended on December 31, 2019. Such Financial Statements comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and related notes. Moreover, the independent auditor's report and the report issued by the Shareholders' Committee for Corporate Control, together with all additional information required pursuant to Section 12, Chapter 3, Title 4 of the regulations of the National Securities Commission for Argentina (hereinafter referred to as "CNV") are also submitted for consideration.

## **ANNUAL REPORT**

### **1 – DESCRIPTION OF THE BUSINESS**

#### **I. COMPANY INFORMATION**

Tecpetrol S.A. (hereinafter referred to as the "Company" or "Tecpetrol") carries out oil and gas exploration and exploitation activities in Argentina.

The Company has an important presence in Vaca Muerta area (province of Neuquén), through (i) unconventional exploitation concessions in the areas of Fortín de Piedra and Punta Senillosa, which were granted in July 2016 for a period of 35 years and over which the Company holds all rights and obligations; (ii) joint operations over unconventional exploitation concessions in the areas of Los Toldos I Norte, Los Toldos II Este and Los Toldos I Sur, and (iii) the exploration permissions over the areas of Loma Ancha and Loma Ranqueles.

In addition, the Company operates in conventional hydrocarbon areas in Neuquina, Noroeste and Golfo San Jorge basins through joint operations in various exploitation concessions and holds all exploitation concession rights over the area Los Bastos located in the province of Neuquén.

In May 2019 the Office of the Secretary of Energy, by means of Resolution No. 276/2019, granted an exploration permission over MLO-124 area (located in Malvinas Este marine basin approximately 100 kilometers away from the coast of Tierra del Fuego) to a consortium to which the Company is a party (10% participation). Activities that will be carried out during the four years of the first phase of the exploration period mainly consist of a 3D geophysical study and other potential geophysical studies. In October 2019, Resolution No. 645/2019 granting the exploration permission was published in the Official Gazette.

In August 2019, by means of Decree No. 1392/19 issued by the Governor of the province of Neuquén, a 35-year extension of the Hydrocarbon Unconventional Exploitation Concession over Los Toldos I Norte and II Este was granted. Having committed funds for approximately USD 113 million for the next three years under both concessions, Tecpetrol continues to invest in unconventional hydrocarbons in Vaca Muerta. Los Toldos II Este comprises an area of 77 km<sup>2</sup> aimed at unconventional oil, while Los Toldos I Norte is an area of 203 km<sup>2</sup> aimed at gas extraction.



At December 31, 2019, proven oil and gas reserves according to the Company's shareholding reached 72.1 million m<sup>3</sup> of oil equivalent.

Hydrocarbon production during this fiscal year in the areas operated by Tecpetrol reached, on average, 2,622 m<sup>3</sup>/day of oil and 16,490 thousand m<sup>3</sup>/day of gas; 1,739 m<sup>3</sup>/d and 14,718 thousand m<sup>3</sup>/d of such production, respectively, correspond to the Company. These figures represent an 8% increase in oil production and a 50% increase in gas production, in comparison with last year. The increase is explained mainly by the development of Fortín de Piedra area.

## **II. COMMENTS ON THE BUSINESS MANAGEMENT**

### ***i. EXPLORATION AND PRODUCTION***

Tecpetrol holds an important position among production companies in terms of its own acreage in the Vaca Muerta wet gas window. Tecpetrol S.A. has obtained an unconventional exploitation concession for the area of Fortín de Piedra aimed at developing the formation of Vaca Muerta (province of Neuquén), a world-class reservoir of high productivity in multi-fractured horizontal wells.

Given the new framework set by the agreement with oil unions, the announcement made by the Government in 2017 regarding the gas pricing incentive program and the availability of qualified teams and workforce, the Company launched investment plans of major importance during the fiscal years 2017-2019 related to the first phase of the development of Fortín de Piedra area which generated activity across the goods and services value chain associated with hydrocarbon production, and provided energy under competitive conditions, favoring the economic and industrial growth of Argentina and contributing to energy self-sufficiency.

At December 31, 2019, investments in Fortín de Piedra exceeded USD 2,000 million. Gas production reached its maximum daily value in March 8 when 17.4 million m<sup>3</sup> were delivered, turning Fortín de Piedra into one of the main gas production fields in the country as a result of an extraordinary joint work of the different technical teams of Tecpetrol and more than 1,000 Argentinian companies, most of which are SMEs.

Given the change of criteria adopted towards the end of 2018 regarding the assessment of the compensation payments set forth in Resolution MINEM E-46/2017 and the new economic setting, whose main variables have recently been notoriously volatile due to political and economic events unfolding in both the national and international fields, Tecpetrol S.A. is reassessing the development plan of Fortín de Piedra area for the purposes of readjusting cash flows to a new scenario.

The main events occurred during the fiscal year under analysis are disclosed below:

- In Fortín de Piedra area, 10 wells were drilled (in a depth close to 3,500 meters, with horizontal branches of 2,500 meters). In November 2019, the third low-temperature separation unit commenced operations in the Central Production Facilities, increasing the access capacity to the plant by 4.7 million m<sup>3</sup>/d, and thus increasing the treatment capacity of the area to 20.4 million m<sup>3</sup>/d.
- In June 2019, Loma Campana – Lago Pellegrini oil pipe commenced operations allowing for the transportation of liquid production from Fortín de Piedra and other Vaca Muerta fields to the facilities of Oleoductos del Valle S.A. The 88-kilometer pipeline was built together with YPF S.A. In January 2019, by



means of Resolution No. 18/2019, the Office of the Secretary of Energy granted YPF S.A. and Tecpetrol S.A, with an interest of 85% and 15%, respectively, the transportation concession for the above-mentioned oil pipeline until August 2052. Operation and maintenance is in charge of Oleoductos del Valle S.A.

- In Loma Ranqueles (province of Neuquén) an exploratory well with horizontal branch of 1,500 meters was completed on vertical well LR.x-2, currently under analysis to determine its potential.
- Two new development wells and four repairs were performed in Agua Salada area (province of Río Negro). Also, Palenque de la China exploratory well was drilled with positive outcomes.
- With the focus on developing fields in Vaca Muerta formation, in Los Bastos (province of Neuquén), an exploratory well with horizontal branch of 1,500 meters was drilled on vertical well PPar.x-2, which is in its completion phase.
- In Aguara Güe (province of Salta), as part of the investment commitments assumed, the workover of a well was carried out in order to verify the unconventional gas potential from the geological formation Los Monos. No positive results were obtained. Additionally, a development well was drilled in San Telmo formation, resulting in less production than expected; which is now under examination in order to boost its productivity. With the focus on developing the region, the last development well under the drilling campaign was drilled in Tupambi formation. As of the date of issuance of this annual report, such well is under testing.
- In El Tordillo and La Tapera-Puesto Quiroga areas (province of Chubut), a drilling rig was used and 11 new wells satisfactorily started production throughout the year.
- In Los Toldos II Este area (province of Neuquén), drilling operations of an exploratory well were launched as a result of the assessment plan of the area (6 horizontal wells and 1 pilot vertical well).

## ***ii. STAFF AND COMMUNITY RELATIONS***

Tecpetrol endorses the Ten Principles of the UN Global Compact on human rights, labor, environment and anti-corruption.

### **Training and development of human resources**

The Company consolidates its growth through the development of a committed workforce with broad expertise in both the business and the region. They receive continuous training in personal, management, technological and leadership skills to boost their development and achieve a better performance. Given the mass development of unconventional gas in Fortín de Piedra, located in Vaca Muerta, Tecpetrol started the execution and implementation of its plans involving big technical, logistic and financial challenges that are strengthening the constitution of committed teams with strong technical and management skills: values fostered by the Company since the very beginning.



In 2019, a diversity and inclusion program called “+diversidad” was launched aiming at accepting and increasing awareness of diversity in the workplace. We share beliefs and values, we share a history as a company, and we appreciate the individualities, the different experiences and enriching visions brought by each person in facing challenges and seeking opportunities.

The HR Department administers a benefits plan focused on promoting a workplace that boosts creativity, identity and collaboration among all employees. It also proactively follows up on its performance.

### **Health, Safety and Environment**

Tecpetrol complies with all national and international labor laws in force. The Company promotes transparency in handling records and information, as well as the implementation of collaborative work schemes, and major concern for health, safety and environment issues.

The main purpose of the Health, Safety, and Environment policy of the Company (hereinafter referred to as "HSE") is to conduct its business protecting the physical integrity of its employees and third parties while achieving, in compliance with all applicable laws, an appropriate conservation of the environment and implementing the best practices to benefit the communities, the employees and the Company. HSE policy is based on leadership and commitment and it comprises risk management and prevention programs, improvement plans, safety and environmental care initiatives, preventive observations, and inspections of operations, accident and incident investigation, among many others.

In 2019, the Company increased its efforts towards the standardization, revision and update of HSE rules and procedures. Moreover, several initiatives were launched aiming at improving the alignment of contractor conduct to the HSE standards of the Company. Among these initiatives, the following are to be highlighted: “Hora Segura” [Safe Hour], monthly safety stand-down meetings in the field with the presence of the highest authorities of each area, as well as “risk hunts” tours consisting in identifying potential unsafe conditions in the production facilities. A re-evaluation of the safety and technical skills of contractors was conducted in order to ensure they display all necessary competencies to carry out their activities in a safe and environment-friendly fashion. A new global compliance assessment of all national safety and environment regulations applicable to the operations of Tecpetrol was also carried out.

In 2019, production plants in Fortín de Piedra operated at its maximum capacity, while extension works were carried out. This required risk analysis, work permits, preliminary safety assessments, and the strict implementation of critical standards such as blocking and labeling of energized systems in order to mitigate the risk of accidents while performing both operation and construction activities simultaneously. Likewise, the Company treated 15 thousand m<sup>3</sup> of soil and contaminated drilling cuttings so that they can be used again as input material for quarries or landfills. Also, a communication campaign was launched aimed at raising awareness and promoting the efficient and responsible use of resources.



In May a serious accident took place in Fortín de Piedra, which resulted in the death of two people. The Company has adopted extraordinary measures and hired the best companies in the world with expertise in safety and processes. These companies reviewed the Company's procedures and submitted certain recommendations which are now being implemented.

### **Community Relations**

Tecpetrol actively collaborates with the communities close to 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 community relation programs in communities and schools near its fields, engaging both its staff and the local population in the development of such programs, pursuing autonomy and building up networks with public and private authorities and other entities. During the fiscal year under consideration, the social management plan involved several programs tending to encourage reading, literacy, the promotion of values and the integration of children and teenagers. The Company donated materials and equipment within the framework of the Technical Gene Program for technical schools, with the purposes of narrowing the gap between the requirements of the industry and the technical knowledge gained by students. The Merit-based Scholarship Program, the oldest implemented by Tecpetrol in Argentina, continued during 2019, rewarding employee's children with excellent school performance.

### **III. OIL AND GAS MARKET**

In 2019, Tecpetrol was the largest producer of unconventional gas in the country and the third considering total gas and oil.

#### *Oil*

In 2019, 66% of crude oil production was sold to local market refineries (a slightly superior percentage in comparison to 2018), and the remaining 34% was exported to the United States of America, United Arab Emirates and Spain.

Oil prices in the domestic market were freely agreed upon among producers and refiners, except from August to November when Emergency Decree No. 566/2019 as amended was in force. Pursuant to such decree, crude oil deliveries to the domestic market had to be made at the price agreed upon by producers and refiners on August 9, 2019, considering a reference exchange rate of 45.19 ARS/USD (later modified to 46.69 ARS/USD, 49.30 ARS/USD and 51.77 ARS/USD) and a Brent reference price of 59 USD/Bbl.

On December 14, 2019, Decree No. 37/2019 became effective, removing the 4 ARS/USD limit introduced by Decree No. 793/2018 for export rights, thus keeping the 12% rate previously determined. On December 23, 2019, Law No. 27.541/2019 was published, which established a maximum rate of 8% for hydrocarbon export rights. Customs has not yet implemented such rate.



## Gas

In 2019, 37% of revenues came from sales to industrial users, 33% from sales to electric power generators, 21% from sales to distribution service licensees, and 9% from sales to the compressed natural gas (CNG) station segment, regardless of the compensations received under Resolution No. 46-E/2017.

The main events related to the regulatory framework and general situation of the gas market are disclosed below:

### Incentive Programs

- In March 2017, the Mining and Energy Ministry issued Resolution No. 46-E/2017, whereby it created the Program of Incentives to Investments in Natural Gas Production Developments from Unconventional Reservoirs (hereinafter referred to as the "Program") in order to promote investments in the production of hydrocarbons from unconventional reservoirs in Neuquina basin. In November 2017, Resolution No. 419-E/2017 introduced certain amendments to the Program. It provided for a payment mechanism (assumed by the State) for all adhering companies over the totality of the natural gas production from the concessions under the Program. Such payment consisted in the difference between a price range of USD 7.5 - USD 6 per million of BTU from 2018 until 2021, and the average price as set forth in the above-mentioned resolution. Moreover, a scheme of provisional payments was laid down consisting of 85% (eighty-five percent) of the estimated total compensation to be received for each month under the Program, and adjustment payments consisting of the remaining 15%.

In November 2017, adherence of Tecpetrol S.A. to the above-mentioned Program for the concession of the exploitation of Fortín de Piedra was approved.

As from August 2018, in contravention of the Program and its own previous actions, the Office of the Secretary of Energy introduced a change of criteria regarding the assessment of the compensation payments set forth in Resolution MINEM 46-E/2017, restricting the amount of those payments to the production projections initially submitted by Tecpetrol upon request of adherence to the Program. This change of criteria would represent (if applied for the whole fiscal year) a lower income for a total amount of \$13,055 million (\$18,710 million from the date the Program became effective to this fiscal year).

The Company filed appeals against the resolutions settling the compensation payments according to the above-mentioned criterion, since it considers that the change of criteria adopted is contrary to the terms of the promotion regime created under Resolution MINEM 46-E/2017 and it flagrantly violates Section 17 of the National Constitution by affecting acquired rights of the Company previously acknowledged by the State.

In April 2019, the Ministry of Finance denied the appeals filed by the Company against the resolutions settling the provisional payments for August, September and October 2018. In May 2019, the Company filed a complaint against the State in order to obtain the nullity of the relevant resolutions, the collection of the amount wrongfully settled, and the receipt of all provisional payments and payment adjustments pursuant to the criterion laid down by the Company for the remaining term of the Program. Besides, the shareholders of Tecpetrol S.A may file possible claims before international courts.



- In January 2013, Resolution No. 1/13 from the Strategic Planning and Coordination Commission of the National Plan for Hydrocarbon Investments was published, creating the “Program to Promote the Surplus Injection of Natural Gas”, and in November 2013, Resolution No. 60/13 from the same Commission extended the Program to companies with a reduced injection. The adhesion of Tecpetrol S.A. to said program was approved in March 2014. Although the Company received compensations for the first quarter of 2014, it did not receive compensations for subsequent quarters given that the average sales price was higher than the price established. This situation was reversed towards the end of 2017; therefore, the corresponding steps to collect said payments were followed and in November 2019, the Company requested adherence to the relevant payment procedure in order to collect all pending compensations. Resolution No. 745/2019 issued by the Office of the Secretary of Energy established that the total amount due and payable to Tecpetrol S.A reaches USD 5.2 million and will be settled in 30 monthly installments as from February 2019.

#### Distributors

- At the end of November 2017, an agreement (promoted by the then Ministry of Energy and Mining) was entered into among natural gas production companies, Energía Argentina S.A. (formerly, ENARSA; currently, IEASA), and licensees distributing natural gas by pipeline networks (hereinafter referred to as “Distributors”). The aim of said agreement was to begin the process of standardizing the gas sector and rebuilding the system of prices and tariffs. This agreement, which is valid as from January 2018 until December 2019, established the basic guidelines that guarantee an adequate supply of natural gas to Distributors, thus ensuring the supply to end consumers. Based on the above, the Company entered into certain agreements in USD with Distributors, valid throughout 2018. As a result of the devaluation that took place in May 2018, Distributors made payments taking into account the exchange rate set by ENARGAS under the applicable fee charts which was lower than the one set in the agreements. In line with the macroeconomic context, ENARGAS did not approve the pass-through of the gas prices under the agreements to the fee charts from Distributors, as set forth under applicable legislation.

Through Decree No. 1053/18 issued by the President of Argentina in November 2018, it was determined that the National State would exceptionally assume payment of the fluctuations in the exchange rate related to the gas prices paid by Distributors and the price included in all fee charts in force between April 1, 2018 and March 31, 2019, which for Tecpetrol amounts to \$731 million. Said decree also contemplates that payment is to be made in 30 consecutive and monthly instalments, payable as from October 2019. However, only the first payment was received.

- Resolution No. 32/2019 issued by the Office of the Secretary of Energy approved the mechanisms for tender offers for the supply of natural gas to full-service users of public utilities providers of natural gas distribution by pipeline networks. Said mechanisms will be administered by Mercado Electrónico de Gas MEG S.A. (MEGSA) and will supply the demand estimated for the period covering from April 1, 2019 to March 31, 2020. Tecpetrol was awarded a contract to supply natural gas from Neuquina basin.
- In March 2019, the Office of the Secretary of Energy through Resolution No. 148/2019 provided a benefit for residential users of natural gas through networks, consisting of a 27% discount on gas prices under





the Gas Transportation System (Punto de Ingreso al Sistema de Transporte, PIST) for gas consumption in April 2019, and a 12% discount in May 2019. Such discount was assumed and paid by the State.

- In June 2019, the Office of the Secretary of Energy issued Resolution No. 336/2019 introducing a payment deferral of an amount equal to 22% of all invoices issued to residential users as from July 1, 2019 to October 31, 2019. Those payment will be recovered through regular invoices issued to such users from December 1, 2019 and for five equal, consecutive and monthly periods. The deferral is paid by the producers, and the financial cost is assumed by the National State as a subsidy.
- In September 2019, through Resolution No. 521/2019, the Office of the Secretary of Energy deferred the gas price adjustment under the PIST expected as from October 1, 2019 to January 1, 2020, postponing it once again in December 2019 through Resolution No. 791/2019. To date, the tariff adjustment affecting the sales price applicable to gas distributors has not been defined.

#### Electricity generation

- By means of Resolution No. 70/2018, the Office of the Secretary of Energy of the Ministry of Finance, authorized generating agents (Generators) operating in the Wholesale Electricity Market to get the necessary fuel to generate electric power, instead of supplying through Compañía Administradora del Mercado Mayorista Eléctrico S.A. (CAMMESA). This mechanism, together with the oversupply of natural gas during the summer season, encouraged Generators to purchase fuel at prices which were significantly lower than those obtained by CAMMESA. In December 2019, Resolution No. 12/2019 from the Ministry of Productive Development abrogated Resolution No. 70/2018; therefore, CAMMESA resumed the centralization of the commercial management and dispatch of natural gas to the Generators.
- In December 2018, CAMMESA carried out, via MEGSA, a tender for the purchase of gas for a period covering January to December 2019 which not necessarily is on a consecutive basis. Tecpetrol S.A, among other natural gas producers and sellers, participated in such tender. In December 2019, and January and February 2020 CAMMESA held new tenders for the periods of January, February and March 2020, respectively.





## 2 - STRUCTURE AND ORGANISATION OF THE COMPANY AND ITS ECONOMIC GROUP

Tecpetrol S.A. is controlled by Tecpetrol Internacional S.L.U., which holds a 95.99% interest and is based in Spain. Tecpetrol Internacional S.L.U. also has subsidiaries that develop, invest in and run businesses related to oil and gas production, transportation, and distribution in Argentina, Bolivia, Colombia, Ecuador, Mexico, Peru and Venezuela.

The table below discloses equity interest in companies of Tecpetrol S.A.:

Joint arrangements and other shareholdings	Main line of business	Country	% 2019	% 2018
Oleoducto Loma Campana - Lago Pellegrini S.A.	Construction and exploitation of an oil pipe in Argentina	Argentina	15.00	15.00
Terminales Marítimas Patagónicas S.A.	Transport concessions of terminals Caleta Córdova and Caleta Olivia	Argentina	4.20	4.20
Oleoductos del Valle S.A.	Oil pipe transport concessions	Argentina	2.10	2.10
Tecpetrol del Perú S.A.C.	Exploration, exploitation and sale of hydrocarbons	Peru	2.00	2.00
Tecpetrol Bloque 56 S.A.C.	Exploration, exploitation and sale of hydrocarbons	Peru	2.00	2.00
Tecpetrol Operaciones S.A. de C.V. (1)	Provision of services to the hydrocarbon industry	Mexico	0.948	0.948
Norpower S.A. de C.V.	Provision of services to the hydrocarbon industry	Mexico	0.60	0.60
Tecpetrol Colombia S.A.S.	Exploration, exploitation and sale of hydrocarbons	Colombia	0.1491	0.1574
Tecpetrol de Venezuela S.A.	Provision of services to the hydrocarbon industry	Venezuela	0.03	0.03
Pardaliservices S.A	Provision of services of exploration, evaluation and development of hydrocarbons	Ecuador	0.0000054	0.0000054
Tecpeservices S.A.	Provision of services of design, engineering and construction of works in fields or any other oil facilities	Ecuador	0.0063	0.0063
Tecpecuador S.A.	Provision of services to the hydrocarbon industry	Ecuador	0.00002	0.00002



- (1) In July 2019, the Shareholders of Burgos Oil Services S.A. de C.V. at an Extraordinary and Annual General Meeting approved the modification of the corporate name from Burgos Oil Services S.A. de C.V. to Tecpetrol Operaciones S.A de C.V.

#### **Transactions and balances with related parties**

Transactions and balances with related parties are disclosed in Note 33 to these Financial Statements.

### **3 - INFORMATION ABOUT THE FINANCIAL SITUATION**

This section must be read together with the Summary of Information at December 31, 2019.

The net profit (loss) for 2019 recorded a profit of \$4,213.0 million, while in 2018 the Company had net profits for \$3,792.1 million.

Fiscal year ended on December 31, 2019 yielded profits for \$64,513.1 million, representing a 122% increase compared to the amount recorded in 2018. It should be noted that gas from Fortín de Piedra represented a significant contribution. Moreover, gross margin increased, basically as a consequence of the development of Fortín de Piedra.

In 2019, the Company received funds from its regular business activities, bank financing and loans with third parties and related companies. These borrowings were obtained at market rates, considering comparable solvency, soundness, fund generation and risk indicators.

Investments in Property, plant and equipment, net of unpaid acquisitions at year end, reached \$23,301.1 million (mainly because of the development of Fortín de Piedra area).

The economic setting during 2019 was controlled by high volatility affecting certain variables which impact on the performance of the Company:

- A 2.5% drop of gross domestic product in the first semester, in relation to the previous year.
- A 53.8% inflation rate (CIP) between January 1, 2019 and December 31, 2019, resulting in an increase in internal costs associated to local currency.
- A significant devaluation of the Argentine peso as from August that caused an unexpected outflow of deposits in USD from the financial system and an interest rate increase, thus affecting local currency credits and financing costs.

### **4 - ADDITIONAL INFORMATION**

In accordance with article 10 of the by-laws, the Management of the Company is vested in a Board of Directors comprised of a minimum of three and a maximum of five Regular Directors. At December 31, 2019 the Board consisted of five Regular Directors and three Alternate Directors appointed by the Shareholders at an Annual General Meeting.

Strategic and administrative decisions and policies are submitted to the Board of Directors for approval, including all decisions and policies related to investments and disinvestment in both industrial and financial assets. Operating



decisions are adopted by the General Manager and his or her team of first-line executives who are responsible for different business areas.

Moreover, for the purposes of the management of the Company, executives periodically monitor the internal control system in force, considering the effects the changes in the systems and processes might cause.

The Company adopted a Code of Conduct, a Business Conduct Policy, a Policy on Transparency for Third Party Relations, a Code of Conduct for Vendors and an Anti-harassment and Anti-discrimination Policy, aiming at the consolidation of a corporate culture of transparency and integrity based upon ethical behavior and law compliance. The Company encourages the use of the Compliance Line to report situations violating the above-mentioned codes and policies.

Tecpetrol S.A has a Business Conduct Compliance Manager, who reports to the General Manager (President) of the Company. He is responsible for identifying and reducing risks of corruption, encouraging ethical and transparent behavior and designing standards in line with national and international anti-corruption and anti-bribery laws.

Together with the Code of Conduct and the Transparency Policy, the Business Conduct Policy sets forth guidelines regarding relations among employees and between employees and clients, suppliers, public entities and other third parties in relation to business processes, in order to guarantee compliance with applicable legislation.

The bylaws of the Company provide for a Shareholders' Committee for Corporate Control formed by a minimum of three regular members upon whom the responsibilities as set forth under LSG are imposed.

The remuneration of all Directors and members of the Shareholders' Committee for Corporate Control is determined considering their responsibilities, time of service, competence, professional reputation and the value of their services in the market. The remuneration of the managers consists of a fixed component and a variable component based upon performance; such remuneration is in line with market values.

The Company offers ongoing benefit programs such as "unfunded defined benefits" and "other long-term benefits" that, under certain established conditions, are granted after retirement and during an employee's working life, and are recorded according to current accounting standards. Additionally, Tecpetrol Investments S.L.U. (formerly, Tecpetrol International S.A.), indirect parent company of Tecpetrol S.A., adopted an employee retention and long-term incentive program for certain employees of some subsidiaries. According to this program, certain executives of the Company will be granted a number of equity units valued at carrying value of Consolidated Equity per share of Tecpetrol Investments S.L.U. (excluding non-controlling interest). The Company does not offer stock option plans as part of the remuneration of Directors or Managers.

The Company does not have a specific dividend policy. The distribution of dividends depends upon, among other things, the profits or losses of the Company, the investment requirements, the possibilities and costs of investment projects financing, the settlement of obligations, statutory and contractual restrictions in force, future perspectives and any other factor which the members of the Board of Directors deem relevant. The Directors submit the Financial Statements of the Company for the previous fiscal year (together with the related report issued by the Shareholders' Committee for Corporate Control) for consideration and approval of the Shareholders at an Annual General Meeting. Within a 120-day period following the closing of the fiscal year, an Annual General Meeting of Shareholders shall be held in order to approve the financial statements and decide on the use of the profit (loss)



for the year.

In compliance with section 1, subsection a.1), Part I, Chapter I, Title IV of 2013 CNV Regulations, a report on the level of compliance with the Corporate Governance Code is hereby included as a separate exhibit.

## **5 - PROSPECTS**

The Company has acquired knowledge and skills which give it a competitive advantage to position itself as a leader in the regional development of unconventional resources in long-term projects which are significant for the country's economy, since they have an impact upon job creation, the development of value chains, tax saving, import replacement, the improvement of the trade balance and the reduction in gas prices for consumers and industries.

Because of the change of criteria regarding the compensation payments set forth in Resolution MINEM 46-E/2017 and the new economic setting, whose main variables have recently been notoriously volatile due to political and economic events unfolding in both the national and international fields, the Company is reassessing the development plan of Fortín de Piedra and remaining areas in Vaca Muerta. The policy that will be implemented in the energy industry by the national government remains unknown to this date.

In El Tordillo, the drilling activities which commenced in 2019 will continue during 2020, aimed at discovering similar prospects in other areas of the field, and analyzing operational efficiency in order to optimize costs.

The exploratory well Puesto Los Salares is expected to be drilled during 2020 in Agua Salada.

In Aguara Güe, the compressor station in Campo Duran plant is expected to be readjusted, which will turn inactive a gas turbocharger currently in use.

In February 2020, the Directors of Tecpetrol S.A approved the constitution of a company named Tecpe Trading S.A., whose main objective will be the commercialization of hydrocarbons and electric power, among others. The Company will hold a 4% interest upon the capital share of Tecpe Trading S.A., and Tecpetrol Internacional S.L.U. will hold the remaining 96% interest.

On February 20, 2020, the Company issued Class 2 and Class 3 Negotiable Obligations for a nominal value of USD 10.8 million and \$2,414.1 million, respectively, with an issuance price of 100%, and maturing on February 20, 2021 (or the following business day). Class 2 Negotiable Obligations bear interest at a fixed rate of 4.0% and Class 3 Negotiable Obligations bear interest at a BADLAR rate plus a margin of 4.50%. In both cases, interest is payable quarterly and the capital will be fully paid off upon maturity. Funds obtained from the issuance of such negotiable obligations will be mainly used to invest in tangible assets or capital goods, working capital integration, refinancing of liabilities, etc.

Regarding sales prices, in 2020 the Company expects to continue exporting crude oil (mostly escalante) and to sell part of the production of escalante and medianito crude oil in the domestic market at prices similar to export parity prices. Regarding natural gas, volumes for exports are expected to increase, subject to the conditions set forth in the contracts with distributors for residential use and the electricity generation segment. Natural gas prices are expected to remain at levels similar to those of 2018.



## **6 - DISTRIBUTION OF DIVIDENDS**

Pursuant to the Income Statement for the fiscal year, there were net profits for \$4,212,967 (in thousands) attributable to the Shareholders of the Company. The members of the Board of Directors of Tecpetrol S.A suggest the Shareholders at a Meeting that \$210,648 (in thousands) should be allocated to the constitution of the legal reserve for the fiscal year; \$125,000 (in thousands) available in January as anticipated dividends should be confirmed as cash dividends, and \$3,877,319 (in thousands) should be allocated to the constitution of a reserve for future dividends.

A provision was made in the Financial Statements for the fiscal year ended on December 31, 2019, for \$6,044 (in thousands) as estimated fees of the members of the Board of Directors and the members of the Shareholders' Committee for Corporate Control. Said fees must be approved (together with this Annual Report and the Financial Statements) by the Shareholders at a Meeting.

The members of the Board of Directors thank all the staff for their dedication and efforts throughout the year.

City of Buenos Aires, March 3, 2020.