

YPF SOCIEDAD ANONIMA  
Form 20-F  
April 07, 2017  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 20-F**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2016**

**Commission file number: 1-12102**

**YPF Sociedad Anónima**  
**(Exact name of registrant as specified in its charter)**

**Republic of Argentina**  
**(Jurisdiction of incorporation or organization)**

**Macacha Güemes 515**

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**C1106BKK Ciudad Autónoma de Buenos Aires, Argentina**

**(Address of principal executive offices)**

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**Macacha Güemes 515**

**C1106BKK Ciudad Autónoma de Buenos Aires, Argentina**

**(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
<b>American Depositary Shares, each representing one Class D</b>	
<b>Share, par value 10 pesos per share Class D Shares</b>	<b>New York Stock Exchange New York Stock Exchange*</b>

\* Listed not for trading but only in connection with the registration of American Depositary Shares.  
**Securities registered or to be registered pursuant to Section 12(g) of the Act: None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None**

The number of outstanding shares of each class of stock of YPF Sociedad Anónima as of December 31, 2016 was:

Class A Shares	3,764
Class B Shares	7,624
Class C Shares	40,422
Class D Shares	393,260,983
	393,312,793

**Table of Contents**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act.    Yes        No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.    Yes        No

Note    Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.    Yes        No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).    Yes        No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the  
International Accounting Standards Board:

Other

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17    Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)    Yes        No

**Table of Contents**

**TABLE OF CONTENTS**

	<i>Page</i>
<u>Conversion Table</u>	6
<u>References</u>	6
<u>Disclosure of Certain Information</u>	6
<u>Forward-Looking Statements</u>	6
<u>Oil and Gas Terms</u>	7
<b><u>PART I</u></b>	10
<b><u>ITEM 1. Identity of Directors, Senior Managers and Advisers</u></b>	10
<b><u>ITEM 2. Offer Statistics and Expected Timetable</u></b>	10
<b><u>ITEM 3. Key Information</u></b>	10
<u>Selected Financial Data</u>	10
<u>Exchange Regulations</u>	12
<u>Risk Factors</u>	13
<b><u>ITEM 4. Information on the Company</u></b>	28
<u>History and Development of YPF</u>	28
<u>The Argentine Market</u>	33
<u>Business Organization</u>	33
<u>Exploration and Production Overview</u>	35
<u>Downstream</u>	68
<u>Research and Development</u>	87
<u>Competition</u>	88
<u>Environmental Matters</u>	90
<u>Property, Plant and Equipment</u>	94
<u>Insurance</u>	94
<u>Legal and Regulatory Framework and Relationship with the Argentine Government</u>	95
<b><u>ITEM 4A. Unresolved Staff Comments</u></b>	127
<b><u>ITEM 5. Operating and Financial Review and Prospects</u></b>	127
<u>Overview</u>	127
<u>Presentation of Financial Information</u>	127
<u>Segment Reporting</u>	127

<u>Summarized Statement of Comprehensive Income</u>	128
<u>Factors Affecting Our Operations</u>	128
<u>Critical Accounting Policies</u>	136
<u>Off-Balance Sheet Arrangements</u>	157

**Table of Contents**

<u>Research and Development, Patents and Licenses, etc.</u>	157
<u>ITEM 6. Directors, Senior Management and Employees</u>	157
<u>Management of the Company</u>	157
<u>Board of Directors</u>	158
<u>Senior Management</u>	164
<u>The Audit Committee</u>	166
<u>Disclosure Committee</u>	169
<u>Compliance with New York Stock Exchange Listing Standards on Corporate Governance</u>	170
<u>Compensation of members of our Board of Directors and Supervisory Committee</u>	171
<u>Supervisory Committee</u>	172
<u>Employee Matters</u>	174
<u>ITEM 7. Major Shareholders and Related Party Transactions</u>	175
<u>Related Party Transactions</u>	177
<u>Argentine Law Concerning Related Party Transactions</u>	177
<u>ITEM 8. Financial Information</u>	178
<u>Financial Statements</u>	178
<u>Legal Proceedings</u>	178
<u>Dividend Policy</u>	178
<u>Significant Changes</u>	178
<u>ITEM 9. The Offer and Listing</u>	178
<u>Shares and ADSs</u>	178
<u>Argentine Securities Market</u>	181
<u>ITEM 10. Additional Information</u>	186
<u>Memorandum and Articles of Association</u>	187
<u>Directors</u>	189
<u>Dividends</u>	191
<u>Amount Available for Distribution</u>	192
<u>Preemptive and Accretion Rights</u>	192
<u>Voting of the Underlying Class D Shares</u>	193
<u>Certain Provisions Relating to Acquisitions of Shares</u>	195
<u>Material Contracts</u>	197
<u>Exchange Regulations</u>	197

<u>Taxation</u>	197
<u>Argentine Tax Considerations</u>	197
<u>United States Federal Income Tax Considerations</u>	199
<u>Documents on Display</u>	202
<u>ITEM 11. Quantitative and Qualitative Disclosures about Market Risk</u>	202

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**Table of Contents**

<u>ITEM 12. Description of Securities Other than Equity Securities</u>	203
<u>PART II</u>	204
<u>ITEM 13. Defaults, Dividend Arrearages and Delinquencies</u>	204
<u>ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	204
<u>ITEM 15. Controls and Procedures</u>	205
<u>ITEM 16.</u>	206
<u>ITEM 16A. Audit Committee Financial Expert</u>	206
<u>ITEM 16B. Code of Ethics</u>	206
<u>ITEM 16C. Principal Accountant Fees and Services</u>	206
<u>ITEM 16D. Exemptions from the Listing Standards for Audit Committees</u>	207
<u>ITEM 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	207
<u>ITEM 16F. Change in Registrant's Certifying Accountant</u>	207
<u>ITEM 16G. Corporate Governance</u>	208
<u>PART III</u>	208
<u>ITEM 17. Financial Statements</u>	208
<u>ITEM 18. Financial Statements</u>	208
<u>ITEM 19. Exhibits</u>	208



## **Table of Contents**

### **Conversion Table**

1 ton = 1 metric ton = 1,000 kilograms = 2,204 pounds

1 barrel = 42 U.S. gallons

1 ton of oil = approximately 7.3 barrels (assuming a specific gravity of 34 degrees API (American Petroleum Institute))

1 barrel of oil equivalent = 5,615 cubic feet of gas = 1 barrel of oil, condensate or natural gas liquids

1 barrel of oil, condensate or natural gas liquids = 0.159 cubic meters

1 kilometer = 0.63 miles

1 million Btu = 252 termies

1 cubic meter of gas = 35.3147 cubic feet of gas

1 cubic meter of gas = 10 termies

1,000 acres = approximately 4 square kilometers

### **References**

YPF Sociedad Anónima is a stock corporation organized under the laws of the Republic of Argentina ( Argentina ). As used in this annual report, YPF, the Company, we, our and us refer to YPF Sociedad Anónima and its controlled companies or, if the context requires, its predecessor companies. YPF Sociedad Anónima refers to YPF Sociedad Anónima only. Repsol refers to Repsol S.A., its affiliates and consolidated companies. We maintain our financial books and records and publish our financial statements in Argentine pesos. In this annual report, references to pesos or Ps. are to Argentine pesos, and references to dollars, U.S. dollars or U.S.\$ are to United States dollars.

### **Disclosure of Certain Information**

In this annual report, references to Audited Consolidated Financial Statements are to YPF's audited consolidated statement of financial position as of December 31, 2016, 2015 and 2014, YPF's audited consolidated statements of comprehensive income for the years ended December 31, 2016, 2015 and 2014, YPF's audited consolidated statements of cash flows for the years ended December 31, 2016, 2015 and 2014, YPF's audited consolidated statements of changes in shareholders' equity for the years ended December 31, 2016, 2015 and 2014 and the related notes thereto.

Unless otherwise indicated, the information contained in this annual report reflects:

for the subsidiaries that were consolidated using the global integration method at the date or for the periods indicated, 100% of the assets, liabilities and results of operations of such subsidiaries without excluding minority interests, and

for those joint operations whose results were consolidated using the proportional integration method, a *pro rata* amount of the assets, liabilities and results of operations for such joint operations at the date or for the periods indicated.

For information regarding consolidation, see Notes 2.a and 2.b.5 to the Audited Consolidated Financial Statements.

Certain monetary amounts and other figures included in this annual report have been subject to rounding adjustments. Any discrepancies in any tables between the totals and the sums of the amounts are due to rounding.

### **Forward-Looking Statements**

This annual report, including any documents incorporated by reference, contains statements that we believe constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include statements regarding the intent, belief or current expectations of us and our management, including statements with respect to trends affecting our financial condition, financial ratios, results of operations, business, strategy, geographic concentration, reserves, future hydrocarbon production volumes

**Table of Contents**

and the Company's ability to satisfy our long-term sales commitments from future supplies available to the Company, our ability to pay dividends in the future and to service our outstanding debt, dates or periods in which production is scheduled or expected to come on-stream, as well as our plans with respect to capital expenditures, business, strategy, geographic concentration, cost savings, investments and dividends payout policies. These statements are not a guarantee of future performance and are subject to material risks, uncertainties, changes and other factors which may be beyond our control or may be difficult to predict. Accordingly, our future financial condition, prices, financial ratios, results of operations, business, strategy, geographic concentration, production volumes, reserves, capital expenditures, cost savings, WACC (weighted average cost of capital) investments and ability to meet our long-term sales commitments or pay dividends or service our outstanding debt could differ materially from those expressed or implied in any such forward-looking statements. Such factors include, but are not limited to, currency fluctuations, inflation, the price of petroleum products, the domestic and international prices for crude oil, the ability to realize cost reductions and operating efficiencies without unduly disrupting business operations, replacement of hydrocarbon reserves, environmental, regulatory and legal considerations, including the imposition of further government restrictions on the Company's business, changes in our business strategy and operations, our ability to find partners or raise funding under our current control, the ability to maintain the Company's concessions, and general economic and business conditions in Argentina, as well as those factors described in the filings made by YPF and its affiliates with the Securities and Exchange Commission, in particular, those described in Item 3. Key Information Risk Factors and Item 5. Operating and Financial Review and Prospects. YPF does not undertake to publicly update or revise these forward-looking statements even if experience or future changes make it clear that the projected results or condition expressed or implied therein will not be realized.

**Oil and Gas Terms**

Oil and gas reserves definitions used in this annual report are in accordance with Regulations S-X and S-K, as amended by the U.S. Securities and Exchange Commission's (SEC) final rule, Modernization of Oil and Gas Reporting (Release Nos. 33-8995; 34-59192; FR-78; File No. S7-15-08; December 31, 2008) and relevant guidance notes and letters issued by the SEC's Staff.

The reported reserves contained in this annual report include only our proved reserves and do not include probable reserves or possible reserves.

The following terms have the meanings shown below unless the context indicates otherwise:

**acreage** : The total area, expressed in acres or km<sup>2</sup>, over which YPF has interests in exploration or production. Net acreage is YPF's interest in the relevant exploration or production area.

**basin** : A depression in the crust of the Earth formed by plate tectonic activity in which sediments accumulate. Continued sediment accumulation can cause further depression or subsidence.

**block** : Areas defined by concession contracts or operating contracts signed by YPF.

**concession contracts** : A grant of access for a defined area and time period that transfers certain entitlements to produce hydrocarbons from the host country to an enterprise. The company holding the concession generally has rights and responsibilities for the exploration, development, production and sale of hydrocarbons, and typically, an obligation to make payments at the signing of the concession and once production begins pursuant to applicable laws and regulations.

**crude oil** : Crude oil with respect to YPF's production and reserves includes condensate.

***field*** : One or more reservoirs grouped by or related to the same general geologic structural feature or stratigraphic condition.

***formation*** : The fundamental unit of lithostratigraphy. A body of rock that is sufficiently distinctive and continuous that it can be mapped.

**Table of Contents**

*gas* : Natural gas.

*hydrocarbons* : Crude oil, natural gas liquids and natural gas.

*surface conditions* : Represents the pressure and temperature conditions at which volumes of oil, gas, condensate and natural gas liquids are measured for reporting purposes. It is also referred to as standard conditions. For YPF these conditions are 14.7 psi for pressure and 60 degrees Fahrenheit for temperature. All volume units expressed in this report are at surface conditions.

**Table of Contents****Abbreviations:**

bbl	Barrels.
bbl/d	Barrels per day.
bcf	Billion cubic feet.
bcf/d	Billion cubic feet per day.
bcm	Billion cubic meters.
bcm/d	Billion cubic meters per day.
boe	Barrels of oil equivalent.
boe/d	Barrels of oil equivalent per day.
cm	Cubic meter.
cm/d	Cubic meters per day.
dam <sup>3</sup>	Cubic decameters (thousand cubic meters).
GWh	Gigawatt hours.
HP	Horsepower.
km	Kilometers.
km <sup>2</sup>	Square kilometers.
liquids	Crude oil, condensate and natural gas liquids.
LNG	Liquefied natural gas.
LPG	Liquefied petroleum gas.
m	Thousand.
mdbl	Thousand barrels.
mdbl/d	Thousand barrels per day.
mcf	Thousand cubic feet.
mcf/d	Thousand cubic feet per day.
mcm	Thousand cubic meters.
mcm/d	Thousand cubic meters per day.
mboe	Thousand barrels of oil equivalent.
mboe/d	Thousand barrels of oil equivalent per day.
mm	Million.
mdbl	Million barrels.
mdbl/d	Million barrels per day.
mmboe	Million barrels of oil equivalent.
mmboe/d	Million barrels of oil equivalent per day.
mmBtu	Million British thermal units.
mmcf	Million cubic feet.
mmcf/d	Million cubic feet per day.
mmcm	Million cubic meters.
mmcm/d	Million cubic meters per day.
mtn	Thousand tons.
MW	Megawatts.
NGL	Natural gas liquids.
psi	Pound per square inch.
WTI	West Texas Intermediate.



**Table of Contents****PART I****ITEM 1. Identity of Directors, Senior Managers and Advisers**

Not applicable.

**ITEM 2. Offer Statistics and Expected Timetable**

Not applicable.

**ITEM 3. Key Information****Selected Financial Data**

The following tables present our selected financial data. This information should be read in conjunction with our Audited Consolidated Financial Statements, and the information under Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report.

Our Audited Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ).

In this annual report, except as otherwise specified, references to \$, U.S.\$ and dollars are to U.S. dollars, and references to Ps. and pesos are to Argentine pesos. Solely for the convenience of the reader, peso amounts as of and for the year ended December 31, 2016 have been translated into U.S. dollars at the exchange rate quoted by the Argentine Central Bank (*Banco Central de la República Argentina*) (the Central Bank ) on December 31, 2016 of Ps. 15.85 to U.S.\$1.00, unless otherwise specified. The exchange rate quoted by the Central Bank on March 31, 2017 was Ps. 15.38 to U.S.\$1.00. The U.S. dollar equivalent information should not be construed to imply that the peso amounts represent, or could have been or could be converted into U.S. dollars at such rates or any other rate. See Exchange Rates.

The financial data contained in this annual report as of and for the years ended December 31, 2016, 2015 and 2014 has been derived from our Audited Consolidated Financial Statements included in this annual report. The financial data contained in this annual report as of December 31, 2013 and 2012 and for the years ended December 31, 2013 and 2012 have been derived from our audited consolidated financial statements as of and for the years ended December 31, 2013 and 2012 not included in this annual report.

**As of and for the year ended December 31,**  
**2016      2015      2014      2013      2012**  
**(in millions of pesos, except for per share**

**and per ADS data)**

**Consolidated Statement of Comprehensive Income**  
**Data<sup>(1)</sup> :**



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Revenues <sup>(2)</sup>	210,100	156,136	141,942	90,113	67,174
Gross profit	32,796	36,599	37,450	22,019	16,907
Administrative expenses	(7,126)	(5,586)	(4,530)	(2,686)	(2,232)
Selling expenses	(15,212)	(11,099)	(10,114)	(7,571)	(5,662)
Exploration expenses	(3,155)	(2,473)	(2,034)	(829)	(582)
Impairment of property, plant and equipment and intangible assets	(34,943)	(2,535)			
Other operating results, net	3,394	1,682	(1,030)	227	(528)
Operating income	(24,246)	16,588	19,742	11,160	7,903
Income on long-term investments	588	318	558	353	114
Interest expense	(21,268)	(10,605)	(7,336)	(3,833)	(1,557)
Other financial income (expense), net	15,122	22,762	9,108	6,668	2,105
Income before income tax	(29,804)	29,063	22,072	14,348	8,565
Income tax	1,425	(24,637)	(13,223)	(9,269)	(4,663)
Net income	(28,379)	4,426	8,849	5,079	3,902
Total other Comprehensive income	27,414	43,758	16,276	12,031	4,241
Total comprehensive income	(965)	48,184	25,125	17,110	8,143
<b>Earnings and dividends per share and per ADS</b>					
Earnings per share and per ADS <sup>(4)</sup>	(72.13)	11.68	22.95	13.05	9.92
Dividends per share and per ADS (in pesos)	2.26	1.28	1.18	0.83	0.77
Dividends per share and per ADS <sup>(5)</sup> (in U.S. dollars)	0.15	0.14	0.14	0.13	0.16

**Consolidated Statement of Financial Position Data**

**Table of Contents**

**As of and for the year ended December 31,  
2016 2015 2014 2013 2012  
(in millions of pesos, except for per share**

	<b>and per ADS data)</b>				
Cash	10,757	15,387	9,758	10,713	4,747
Working capital <sup>(3)</sup>	4,760	(2,818)	(11,266)	1,706	(2,582)
Total assets	421,139	363,453	208,554	135,595	79,949
Total loans <sup>(6)</sup>	154,345	105,751	49,305	31,890	17,104
Shareholders' equity <sup>(7)</sup>	118,661	120,461	72,781	48,240	31,260
<b>Other Consolidated Financial Data</b>					
Fixed assets depreciation and intangible assets amortization	45,469	27,008	20,405	11,433	8,281
Cash used in fixed asset acquisitions and intangible assets	64,160	63,774	50,213	27,639	16,403

- (1) The consolidated financial statements reflect the effect of the application on the functional and reporting currency. See Note 2.b.1 to the Audited Consolidated Financial Statements.
- (2) Revenues are net of payments on account of fuel transfer taxes and turnover taxes. Customs duties on hydrocarbon exports are disclosed in taxes, charges and contributions, as indicated in Note 21 to the Audited Consolidated Financial Statements. Royalties with respect to our production are accounted for as a cost of production and are not deducted in determining revenues. See Note 2.b.15 to the Audited Consolidated Financial Statements.
- (3) Working capital consists of consolidated total current assets minus consolidated total current liabilities as of December 31, 2016, 2015, 2014, 2013 and 2012.
- (4) Information has been calculated as detailed in Note 26 to the Audited Consolidated Financial Statements. Each ADS represents one Class D share.
- (5) Amounts expressed in U.S. dollars are based on the exchange rate as of the date of the dividend payment.
- (6) Total loans include non-current loans of Ps. 127,568 million, Ps. 77,934 million, Ps. 36,030 million, Ps. 23,076 million and Ps. 12,100 million as of December 31, 2016, 2015, 2014, 2013 and 2012, respectively, and current loans of Ps. 26,777 million, Ps. 27,817 million, Ps. 13,275 million, Ps. 8,814 million and Ps. 5,004 million as of December 31, 2016, 2015, 2014, 2013 and 2012, respectively. See Note 16 to the Audited Consolidated Financial Statements.
- (7) Our subscribed share capital as of December 31, 2016 is represented by 393,312,793 shares of common stock and divided into four classes of shares, with a par value of Ps. 10 and one vote per share. These shares are fully subscribed, paid-in and authorized for stock exchange listing. See Item 6. Directors, Senior Management and Employees' Compensation of members of our Board of Directors and Supervisory Committee, Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers and Note 2.b.10.iii to the Audited Consolidated Financial Statements in relation to shares purchased by YPF and allocated to our employees as part of our employee compensation plans.

For information regarding macroeconomic conditions such as exchange rates and inflation rates that affected our results of operations, see Item 3. Key Information Selected Financial Data Exchange Rates and Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Macroeconomic conditions. In addition, for an explanation of our results of operations, see Item 5. Operating and Financial Review and Prospects Principal Income Statement Line Items Results of Operations.

*Exchange Rates*

From April 1, 1991 until the end of 2001, the Convertibility Law (Law No. 23,928) established a fixed exchange rate which required the Central Bank to sell U.S. dollars at one peso per U.S. dollar. On January 6, 2002, the Argentine congress enacted the Public Emergency and Foreign Exchange System Reform Law (Law No. 25,561, the Public Emergency Law ), formally putting an end to the Convertibility Law regime and abandoning the U.S. dollar-peso parity. The Public Emergency Law, which has been extended until December 31, 2017 by Law No. 27,200, grants the National Executive Office 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, although the government has the power to intervene by buying and selling foreign currency for its own account, a practice in which it engages on a regular basis. The annual rate of devaluation of the peso was approximately 21.9% from December 31, 2015 to December 31, 2016, based on the period-end exchange rates for U.S. dollars as of December 31, 2016 and 2015. See Risk Factors Risks Relating to Argentina Our business is highly dependent upon economic conditions in Argentina.

**Table of Contents**

The following table sets forth the annual high, low, average and period-end exchange rates for U.S. dollars for the periods indicated, expressed in nominal pesos per U.S. dollar, based on rates quoted by the Central Bank. The Federal Reserve Bank of New York does not report a noon buying rate for Argentine pesos.

	<i>Low</i>	<i>High</i>	<i>Average <sup>(1)</sup></i>	<i>Period End</i>
	<i>(pesos per U.S. dollar)</i>			
<b>Year ended December 31,</b>				
2012	4.30	4.92	4.58	4.92
2013	4.92	6.52	5.54	6.52
2014	6.54	8.56	8.23	8.55
2015	8.73	13.76	9.39	13.01
2016	13.07	16.04	14.78	15.85
<b>Month</b>				
September 2016	14.88	15.40	15.10	15.26
October 2016	15.12	15.23	15.18	15.17
November 2016	15.02	15.84	15.34	15.84
December 2016	15.52	16.04	15.83	15.85
January 2017	15.81	16.05	15.91	15.91
February 2017	15.37	15.84	15.60	15.46
March 2017 <sup>(2)</sup>	15.38	15.67	15.52	15.38

Source: Central Bank

(1) Represents the average of the exchange rates on the last day of each month during the period.

(2) Through March 31, 2017.

No representation is made that peso amounts have been, could have been or could be converted into U.S. dollars at the foregoing rates on any of the dates indicated.

**Exchange Regulations**

Prior to December 1989, the Argentine foreign exchange market was subject to exchange controls. From December 1989 until April 1991, Argentina had a freely floating exchange rate for all foreign currency transactions, and the transfer of dividend payments in foreign currency abroad and the repatriation of capital were permitted without prior approval of the Central Bank. From April 1, 1991, when the Convertibility Law became effective, until December 21, 2001, when the Central Bank closed the foreign exchange market, the Argentine peso was freely convertible into U.S. dollars.

On December 3, 2001, the Argentine government imposed a number of monetary and currency exchange control measures through Decree 1570/01, which included restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad (including the transfer of funds to pay dividends) without the Central Bank's prior authorization subject to specific exceptions for transfers related to foreign trade. In June 2003, the Argentine government set restrictions on capital flows that came into Argentina, which mainly consisted of a prohibition against the transfer abroad of any funds until 180 days after their entry into the country.

In June 2005, the government established new regulations on capital flows into Argentina, including increasing the period that certain incoming funds must remain in Argentina to 365 calendar days and requiring that 30% of incoming funds be deposited with a bank in Argentina in a non-assignable, non-interest-bearing account for 365 calendar days

(the Mandatory Deposit ). However, in December 2015, the Ministry of Treasury reduced the period in which the incoming funds must remain in Argentina from 365 calendar days to 120 calendar days and also reduced the Mandatory Deposit from 30% to 0%. Moreover, in January 2017, the Ministry of Treasury reduced the holding period of the Mandatory Deposit from 120 calendar days to 0 calendar days. As a result of these two changes to the regulations, the Mandatory Deposit is currently not required.

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**Table of Contents**

In August 2016, the Argentine Central Bank structurally modified the existing foreign exchange regulations, lifting many of the restrictions imposed on the transfer of funds abroad and on capital flows into Argentina. In this regard, the Argentine Central Bank's regulations provide that Argentine individuals and legal entities do not need the Central Bank's prior approval to acquire foreign currency used for investments abroad. This includes investment in real estate located abroad, loans to non-residents, direct investments made by Argentine residents abroad, portfolio investments made by Argentine residents abroad, other investments abroad made by Argentine residents, portfolio investments made by legal entities abroad, the purchase of foreign currency in Argentina, and the purchase of travelers checks and donations. Under the exchange regulations currently in force, there are no restrictions in respect of the repatriation of funds or investments by non-Argentine residents. The transfer abroad of dividend payments is currently authorized by applicable regulations to the extent that such dividend payments are made in connection with audited financial statements and are approved by a shareholders' meeting. See **Risk Factors** **Risks Relating to Argentina**. We could be subject to exchange and capital controls.

**Risk Factors**

*The risks and uncertainties described below are those known by us as of the date of this report. However, such risks and uncertainties may not be the only ones that we could face. Additional risks and uncertainties that are unknown to us or that we currently think are immaterial also may impair our business operations.*

**Risks Relating to Argentina**

*The Argentine Republic owns 51% of the shares of the Company.*

The Argentine Republic owns 51% of the shares of the Company (see **Item 4. Information on the Company** **Legal and Regulatory Framework and Relationship with the Argentine Government** **The Expropriation Law** ), and consequently, the federal government is able to determine all matters requiring approval by a majority of shareholders, including the election of a majority of directors. We cannot assure you that the decisions taken by our controlling shareholder would not differ from your interests as a shareholder. In addition, according to the Argentine Constitution, presidential elections take place every four years. Accordingly, changes in government or its policies may occur. We cannot assure you if and when any such changes may occur, nor the impact they may have on our business.

*Our business is largely dependent upon economic conditions in Argentina.*

Most of our operations, properties and customers are located in Argentina, and, as a result, our business is to a large extent dependent upon economic conditions prevailing in Argentina. The changes in economic, political and regulatory conditions in Argentina and measures taken by the Argentine government have had and are expected to continue to have a significant impact on us. You should make your own assessment about Argentina and prevailing conditions in the country before taking an investment decision in us.

The Argentine economy has experienced significant volatility in past decades, including numerous periods of low or negative growth and high and variable levels of inflation and currency devaluation. No assurances can be given that the rate of growth experienced over past years will be achieved in subsequent years or that the national economy will not suffer recession. If economic conditions in Argentina were to slow down, or contract, if inflation were to accelerate further, or if the Argentine government's measures to attract or retain foreign investment and international financing in the future are unsuccessful, such developments could adversely affect Argentina's economic growth and in turn affect our financial health and results of operations.

Argentina has confronted and continues to confront inflationary pressures. According to inflation data published by the National Statistics Institute (*Instituto Nacional de Estadística y Censos*) ( INDEC ), from January to April, the Argentine alternative consumer price index ( CPI ) in 2016 increased 4.1%, 4.0%, 3.3% and 6.5%, respectively, and from May to December, a new CPI was published that showed increases of 4.2%, 3.1%, 2.0%, 0.2%, 1.1%, 2.4%, 1.6% and 1.2%, respectively. High or increased rates of inflation in Argentina could increase our costs of operation, and may negatively impact our results of operations and financial health. There can be no assurance that inflation rates will not increase in the future.

**Table of Contents**

Argentine economic conditions are dependent on a variety of factors, including, but not limited to, the following:

international demand for Argentina's principal exports;

international prices for Argentina's principal commodity exports;

stability and competitiveness of the Argentine peso against foreign currencies;

competitiveness and efficiency of domestic industries and services;

levels of consumer consumption and foreign and domestic investment and financing; and

the rate of inflation.

The Argentine economy is also particularly sensitive to local political developments. In spite of certain measures that the Argentine government, elected December 10, 2015, has already taken, such as the elimination of exchange restrictions, the partial adjustment of gas and electricity prices and the elimination or reduction of export taxes for certain products, it continues to face challenges in respect of Argentina's economy. See Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Macroeconomic conditions.

Argentina's economy is also vulnerable to adverse developments affecting its principal trading partners. A continued deterioration of economic conditions in Brazil, Argentina's main trading partner, and a deterioration of the economies of Argentina's other major trading partners, such as China or the United States, could have a material adverse impact on Argentina's balance of trade and adversely affect Argentina's economic growth and may consequently adversely affect our financial health and results of operations. Furthermore, a significant devaluation of the currencies of our trading partners or trade competitors may adversely affect the competitiveness of Argentina and consequently adversely affect Argentina's economic and our financial health and results of operations.

As part of the challenging macroeconomic landscape in Argentina, including peso devaluation and increasing inflation, despite an increase of 35% and 10.0% in our net revenue in 2016 and 2015, to Ps. 210,100 million in 2016 compared to Ps. 156,136 million in 2015 and Ps. 141,942 million in 2014, our operating income decreased by 246% and 16% in 2016 and 2015, to an operating loss of Ps. 24,246 million in 2016, including an impairment for property, plant and equipment and intangible assets of Ps. 34,943 million, compared to operating income of Ps. 16,588 million in 2015, including an impairment for property, plant and equipment and intangible assets of Ps. 2,535 million, and operating income of Ps. 19,742 million in 2014, and our net income decreased by 741% and 50.0% in 2016 and 2015, to a net loss of Ps. 28,379 million in 2016, including an impairment for property, plant and equipment and intangible assets of Ps. 34,943 million, compared to net income of Ps. 4,426 million in 2015, including an impairment for property, plant and equipment of Ps. 2,535 million, and net income of Ps. 8,849 million in 2014.

In 2005, Argentina restructured a substantial portion of its bond indebtedness with approximately 76% of its bondholders, and in 2006 it settled all of its debt with the International Monetary Fund (IMF). In June 2010, Argentina restructured additional defaulted bond indebtedness that was not swapped in 2005. As a result of the 2005 and 2010



debt swaps, over 92% of the bond indebtedness on which Argentina had defaulted in 2002 has been restructured ( Exchange Bonds ).

Certain holders of bonds that were not swapped in the debt restructuring sued Argentina for payment ( Holdout Bondholders ). On December 7, 2011, the U.S. District Court for the Southern District of New York held that Argentina was required by the *pari passu* clause in the 1994 Fiscal Agency Agreement governing the defaulted bonds to rank its payment obligations to the Holdout Bondholders equally with those of its other debt, including the Exchange Bonds. On February 23, 2012, the District Court enjoined Argentina from making payments on the Exchange Bonds without making ratable payments on the defaulted debt, and on October 2012, the District Court's injunction was affirmed by the U.S. Court of Appeals for the Second Circuit.

**Table of Contents**

In February 2016, Argentina negotiated and reached agreements in principle with respect to a substantial number of the Holdout Bondholders. On February 19, 2016, the District Court issued an indicative ruling stating that in light of Argentina's settlement proposal it would grant a motion to vacate the injunctions in all cases upon the occurrence of two conditions: (1) Argentina's repeal of the legislative obstacles to settlement and (2) Argentina's payment to all Holdout Bondholders that entered into agreements in principle with Argentina on or before February 29, 2016. On March 2, 2016, the District Court vacated the injunctions on all actions upon the occurrence of the conditions set forth in the indicative ruling.

On March 31, 2016, the Argentine Congress repealed the legislative obstacles to the settlement and approved the settlement proposal. On April 22, 2016, Argentina issued U.S.\$16.5 billion of new debt securities in the international capital markets, and applied U.S.\$9.3 billion to satisfy settlement payments on agreements with holders of approximately U.S.\$8.2 billion principal amount of defaulted bonds. The District Court ordered the vacatur of all *pari passu* injunctions upon confirmation of such payments. For additional information related to the evolution of the Argentine economy see Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Macroeconomic conditions.

***Certain risks are inherent in any investment in a company operating in an emerging market such as Argentina.***

Argentina is an emerging market economy, and investing in emerging markets generally carries risks. These risks include political, social and economic instability that may affect Argentina's 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 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 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 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 financial condition and results of operations or the liquidity, trading markets and value of our securities.

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**Table of Contents**

***The Argentine economy has been adversely affected by economic developments in other markets.***

Financial and securities markets in Argentina, and also the Argentine economy, are influenced by economic and market conditions in other markets worldwide. Argentina's economy remains vulnerable to external shocks, including those relating to or similar to the global economic crisis that began in 2008 and the uncertainties surrounding European sovereign debt. Although economic conditions vary from country to country, investors' perceptions of events occurring in one country may substantially affect capital flows into and investments in securities from issuers in other countries, including Argentina. Consequently, there can be no assurance that the Argentine financial system and securities markets will not continue to be adversely affected by events in developed countries' economies or events in other emerging markets, which could in turn, adversely affect the Argentine economy and, as a consequence, the Company's results of operations and financial condition.

***The implementation of new export duties, other taxes and import regulations could adversely affect our results.***

Since 2002, new duties have been implemented on exports, and have been progressively increased over the years. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation. As a result of the aforementioned export tax increases, we may be, and in certain cases have already been, forced to seek the renegotiation of export contracts that had previously been authorized by the Argentine government. We cannot provide assurances that we will be able to renegotiate such contracts on terms acceptable to us.

In addition, 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 for the importer to have access to the foreign exchange market to pay for the imported products and services. This procedure was then modified by the new administration through Resolution No. 3823/15, which set forth the Comprehensive Monitoring System of Imports, known as SIMI, to provide statistical information in advance of an importation, in order to allow timely analysis of Argentina's imports, analyze trade defense measures and avoid delays in delivering imported items to various industries. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation.

In addition, the Argentine government recently eliminated export taxes to hydrocarbon products, including crude oil. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation.

We cannot assure you that these taxes and import regulations will not be modified in the future or that other new taxes or import regulations will not be imposed.

***We may be exposed to fluctuations in foreign exchange rates.***

Our results of operations are exposed to currency fluctuations, and any devaluation of the peso against the U.S. dollar and other hard currencies may adversely affect our business and results of operations. The value of the peso has fluctuated significantly in the past, such as in January 2014 when the Argentine peso declined approximately 23% against the U.S. dollar and in December 2015 when the Argentine peso declined approximately 40% against the U.S. dollar. The peso may fluctuate in the future. See Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Macroeconomic conditions for additional information. The main effects of the devaluation of the Argentine peso on our net income are related to the accounting treatment of (i) deferred income tax related mainly to fixed assets, which we expect would have a negative effect; (ii) current income tax, which we expect would have a positive effect; (iii) increased depreciation and amortization resulting from the remeasurement in pesos of our

fixed and intangible assets; and (iv) exchange rate differences as a result of our exposure to the peso, which we expect would have a positive effect due to the fact that our functional currency is the U.S. dollar. In addition, the majority of our debt is denominated in currencies other than the peso; consequently, a devaluation of the peso against such currencies will increase the amount of pesos we need to cope with in the terms of loans.

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 would affect our business.

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**Table of Contents*****Variations in interest rates and exchange rate on our current and/or future financing arrangements may result in significant increases in our borrowing costs.***

Under our financing arrangements, we are permitted to borrow funds to finance the purchase of assets, incur capital expenditures, repay other obligations and finance working capital. As of December 31, 2016, part of our total debt is sensitive to changes in interest rates, mainly those prevailing in the domestic market. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Interest rate exposure. Consequently, variations in interest rates could result in significant changes in the amount required to cover our debt service obligations and in our interest expense, thus affecting our results and financial condition. In addition, interest and principal amounts payable pursuant to debt obligations denominated in or indexed to U.S. dollars are subject to variations in the Argentine peso/U.S. dollar exchange rate that could result in a significant increase in peso terms in the amount of the interest and principal payments in respect of such debt obligations.

***We could be subject to exchange and capital controls.***

In the past, Argentina imposed exchange controls and transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments abroad. Beginning in 2011, additional foreign exchange controls have been imposed that restrict or limit purchases of foreign currency and transfers of foreign currency abroad. Since 2011, oil and gas companies (including YPF), among other entities, were required to repatriate 100% of their foreign currency export receivables. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Repatriation of Foreign Currency. In December 2015, the new administration eliminated certain exchange controls imposed by the previous administration, such as (i) the requirement that foreign currency be deposited and exchanged in Argentina in respect of finance transactions outside Argentina, and (ii) the requirement that 30% of funds in U.S. dollars held in Argentina be frozen pursuant to Decree No. 616/05. Following these changes, the peso fell to Ps. 12.99 per U.S.\$1.00, as of December 31, 2015, a decrease of approximately 52% compared to December 31, 2014. Between December 16, 2015 and December 31, 2015, the peso decreased approximately 40% against the U.S. dollar. As of March 31, 2017, the peso fell to Ps. 15.38 per U.S.\$1.00, an increase of approximately 3.0% compared to December 31, 2016. There can be no assurance that future regulatory changes related to exchange and capital controls will not adversely affect our financial condition or results of operations, our ability to meet our obligations denominated in foreign currency or our ability to execute our financing and capital expenditure plans.

***Our access to international capital markets and the market price of our shares are influenced by the perception of risk in Argentina and other emerging economies.***

International investors consider Argentina to be an emerging market. Economic and market conditions in other emerging market countries, especially those in Latin America, influence the market for securities issued by Argentine companies. Volatility in securities markets in Latin America and in other emerging market countries may have a negative impact on the trading value of our securities and on our ability and the terms on which we are able to access international capital markets. Moreover, regulatory and policy developments in Argentina that occurred in recent years, including the enactment of the Expropriation Law, as well as the litigation of the Argentine government with Holdout Bondholders have led to considerable volatility in the market price of our shares and ADSs. See Our business is largely dependent upon economic conditions in Argentina. We cannot assure that the perception of risk in Argentina and other emerging markets may not have a material adverse effect on our ability to raise capital, including our ability to refinance our debt at maturity, which would negatively affect our investments plans and consequently our financial condition and results of operations, and also have a negatively impact on the trading values of our debt or equity securities. We can give no assurance as to potential adverse impact of the factors discussed above on our financial condition and/or results of operations. See Item 4. Information on the Company History and Development of YPF.

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

*Our domestic operations are subject to extensive regulation.*

The Argentine oil and gas industry is subject to government regulation and control. As a result, our business is to a large extent dependent upon regulatory and political conditions prevailing in Argentina and our results of operations may be adversely affected by regulatory and political changes in Argentina. Therefore, we face risks and challenges relating to government regulation and control of the energy sector, including those set forth below and elsewhere in these risk factors:

**Table of Contents**

limitations on our ability to increase local prices or to reflect the effects of higher domestic taxes, increases in production costs or increases in international prices of crude oil and other hydrocarbon fuels and exchange rate fluctuations on our domestic prices. See Limitations on local pricing in Argentina may adversely affect our results of operations ;

new or higher taxes on exports of hydrocarbons;

restrictions on hydrocarbon export volumes, driven mainly by the requirement to satisfy domestic demand;

in connection with the Argentine government's policy to provide absolute priority to domestic demand, regulatory orders to supply natural gas and other hydrocarbon products to the domestic retail market in excess of previously contracted amounts;

in connection with the former and current incentive programs established by the Argentine government for the oil and gas industry, such as the Natural Gas Additional Injection Stimulus Program ( Gas Plan ) (see A significant percentage of our cash flow from operations is derived from counterparties that are governmental entities ) and cash collection of balances with the Argentine government;

legislation and regulatory initiatives relating to hydraulic stimulation and other drilling activities for unconventional oil and gas hydrocarbons, which could increase our cost of doing business or cause delays and adversely affect our operations;

restrictions on imports of products which could affect our ability to meet our delivery commitments or growth plans, as the case may be; and

the implementation or imposition of stricter quality requirements for petroleum products in Argentina. In recent years, the Argentine government has made certain changes in regulations and policies governing the energy sector to give absolute priority to domestic supply at stable prices in order to sustain economic recovery. As a result of the above-mentioned changes, for example, on days during which a gas shortage occurs, exports of natural gas (which are also affected by other government curtailment orders) and the provision of gas supplies to industries, electricity generation plants and service stations selling compressed natural gas are interrupted for priority to be given to residential consumers at lower prices. The Expropriation Law has declared achieving self-sufficiency in the supply of hydrocarbons as well as in the exploitation, industrialization, transportation and sale of hydrocarbons, a national public interest and a priority for Argentina. In addition, its stated goal is to guarantee socially equitable economic development, the creation of jobs, the increase of the competitiveness of various economic sectors and the equitable and sustainable growth of the Argentine provinces and regions. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government The Expropriation Law, and Risks Relating to Argentina The Argentine Republic owns 51% of the shares of the Company. Moreover, 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 results of operations. See Item 4. Information on the Company Legal and



Regulatory Framework and Relationship with the Argentine Government.

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

Due to regulatory, economic and government policy factors, our domestic gasoline, diesel, natural gas and other fuel prices have differed substantially from prevailing international and regional market prices for such products, and our ability to increase prices in connection with international price increases or domestic cost increases, including those resulting from the peso devaluation, has been limited from time to time. In addition, revenues we obtain as a result of selling natural gas in Argentina (including amounts received through the Gas Plan, see Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation Natural gas ) are subject to government regulations and could be negatively affected, principally considering the evolution of gas prices for residential consumers. In

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**Table of Contents**

addition, a new stimulus program for natural gas production from non-conventional reservoirs was created (see Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government MINEM Resolution No. 46/2017 ). The prices that we are able to obtain for our hydrocarbon products affect the viability of investments in new exploration, development and refining and, as a result, the timing and amount of our projected capital expenditures for such purposes. We budget capital expenditures by taking into account, among other things, market prices for our hydrocarbon products. For additional information on domestic pricing for our products, see Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation. 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.

***A significant percentage of our cash flow from operations is derived from counterparties that are governmental entities.***

In the normal course of business, and considering that we are the primary oil and gas company in Argentina, its portfolio of clients and suppliers includes both private sector and governmental entities. All material transactions and balances with related parties as of December 31, 2016 are set forth in Note 31 to the Audited Consolidated Financial Statements, including those related to the Natural Gas Additional Injection Stimulus Program. As of December 31, 2016, the accounts receivable balance corresponding to the Natural Gas Additional Injection Stimulus Program reflects eight months of accrued, unpaid payments, representing Ps. 10.9 billion. As of the date of this annual report, we have received Ps. 4.5 billion in additional payments related to amounts accrued and unpaid as of December 31, 2016 under such programs. If certain governmental counterparties were (i) not able to pay or redeem such accrued amounts in cash or cash equivalents, or (ii) not able to make such payments or redemptions according to our estimated schedule, our financial condition and results of operations would be adversely affected.

***We are subject to direct and indirect import and export restrictions, which have affected our results of operations and caused us to declare force majeure under certain of our export contracts.***

The Argentine 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 several years, the Argentine authorities have adopted a number of measures that have resulted in restrictions on exports of natural gas from Argentina. Due to the foregoing, we have been obliged to sell a part of our natural gas production previously destined for the export market in the local Argentine market and have not been able to meet our contractual gas export commitments in whole or, in some cases, in part, leading to disputes with our export clients and forcing us to declare force majeure under our export sales agreements. We believe that the measures mentioned above constitute force majeure events, although no assurance can be given that this position will prevail.

See Item 4. Information on the Company Exploration and Production Delivery commitments Natural gas supply contracts, Item 4. Information on the Company Exploration and Production The Argentine natural gas market, and Item 8. Financial Information Legal Proceedings.

Crude oil exports, as well as the export of most of our hydrocarbon products, currently require prior authorization from the Argentine Secretariat of Energy pursuant to the regime established under S.E. Resolution No. 1679/04, as amended and supplemented by other regulation. Oil companies seeking to export crude oil or LPG must first demonstrate that the local demand for such product is satisfied or that an offer to sell the product to local purchasers has been made and rejected. Oil refineries seeking to export diesel must also first demonstrate that the local demand for diesel is duly satisfied. Because domestic diesel production does not currently satisfy Argentine domestic consumption needs, we have been prevented since 2005 from selling diesel production in the export market, and we are obliged to sell in the local market at prevailing domestic prices.

In addition, on March 21, 2017, Decree No. 192/2017 was published in the Official Gazette of the Republic of Argentina, which created the Oil and its Byproducts Import Operations Registry (the Registry), which authority of application is MINEM (through the Secretariat of Hydrocarbon Resources). The Registry involves import operations of: (i) crude oil and (ii) certain other specific byproducts listed in section 2 of the decree. By means of this regulation, any company that wishes to perform such import operations is obligated to register such operation in the Registry and obtain authorization from MINEM before the import takes place. The registration of the operation with MINEM will be filed in accordance with a specific proceeding that MINEM will establish for such purpose. According to this decree, MINEM will also set the methodology applicable to issue import authorizations, which will be based in the following criteria: (a) lack of crude oil with the same characteristics offered in the domestic market; (b) lack of additional treatment capacity in domestic refineries with domestic crude oil; and (c) lack of byproducts listed in section 2 of the decree offered in the domestic market. This regime excepts any import by CAMMESA in order to supply power plants with the main purpose of technical supply to the Inter-connection Argentinean System (*Sistema Argentino de Interconexión* or SADI).

## **Table of Contents**

We are unable to predict how long these import and export restrictions will be in place, or whether any further measures will be adopted that adversely affect our ability to export or import gas, crude oil and diesel or other products and, accordingly, our results of operations.

### ***Oil and gas prices, including the recent decline in global prices for oil and gas, could affect our business.***

We budget capital expenditures related to exploration, development, refining and distribution activities by taking into account, among other things, current and expected local and international market prices for our hydrocarbon products.

The international price of crude oil has fluctuated significantly in the past and may continue to do so in the future. During 2015 and 2016, the international price of a barrel of Brent fluctuated to an average price of U.S.\$52.30 and U.S.\$43.70, respectively, well below the average price of previous years. While in the past, domestic oil prices in Argentina have not reflected increases or decreases in international oil prices, the significant decline discussed above resulted in an approximately U.S.\$7.00 reduction during 2015 of the domestic price per barrel compared to the price in effect on December 31, 2014, an approximately 10% reduction in January 2016 compared to the price in effect on December 31, 2015 and an additional approximately 6% gradual reduction (2% monthly as of August 2016) in the second half of 2016. In addition, recently, an agreement between relevant players of the oil and gas domestic market was reached, with the objective of matching domestic prices with those in international markets (see Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Macroeconomic conditions ). If international crude prices remain at current levels or continue to drop for an extended period of time and this is finally reflected in the domestic price of oil, which we cannot control, it could cause the economic viability of drilling projects to be reduced. This could lead to changes to our development plans, which could in turn lead to the loss of proved developed reserves and proved undeveloped reserves. It could also affect our assumptions and estimates and, as a result, affect the recovery value of certain assets. Furthermore, if these conditions are reflected in the domestic prices of our refined products, our ability to generate cash and our results of operations could be adversely affected.

In light of the above and assuming current domestic prices for certain products do not match cost increases (including those related to the increase in the value of the U.S. dollar against the Argentine peso) in accordance with higher and more complex investments, mainly as a result of the development of unconventional resources, and also with evolution of the economy, our ability to improve our hydrocarbon recovery rates, find new reserves, develop unconventional resources and carry out certain of our other capital expenditure plans could be adversely affected, which in turn would have an adverse effect on our financial condition and results of operations.

Furthermore, we may be required to further write down the carrying value of our properties if estimated oil prices decline or if we have substantial downward adjustments to our estimated proved reserves, increases in our operating costs, increases in the discount rate of return, among others. See additionally Item 5. Operating and Financing Review and Prospects Critical Accounting Policies for information regarding our sensitivity analysis related to impairment. In addition, if a reduction in our capital expenditures materializes, including the capital expenditures of our domestic competitors, it would likely have a negative impact on the number of active drilling rigs, workovers and pulling equipment in Argentina, including related services, thus affecting the number of active workers in the industry. We are unable to predict whether, and to what extent, the potential consequences of such measures would affect our business, mainly the impact on our production and consequently our financial condition and results of operations. See

We could be subject to organized labor action.

### ***Our reserves and production are likely to decline.***

Most of our existing oil and gas producing fields in Argentina are mature and, as a result, our reserves and production are likely to decline as reserves are depleted. Our production remained stable in 2016 compared to 2015 and our

reserves replacement ratio (increases in reserves in the year, net divided by the production of the year) was 46% in 2016.

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**Table of Contents**

We face certain challenges in order to replace our proved reserves with other categories of hydrocarbons. However, the continuous comprehensive technical review of our oil and gas fields allows us to identify opportunities to rejuvenate mature fields and optimize new field developments in Argentine basins with the aim of achieving results similar to those achieved by mature fields in other regions of the world (which have achieved substantially higher recovery factors with the application of new technology). Additionally, we have been completing the renewal of most of our concessions, allowing us to develop certain strategic projects related to water-flooding, enhanced oil recovery and unconventional resources, which represent an important opportunity not only for us but also for Argentina. We expect that unconventional development will require higher investment in future years, principally in connection with the Vaca Muerta formation. These investments are expected to yield economies of scale and to significantly increase recovery rates from this resource play. Other resource plays, unconventional prospects, exist in Argentina and have positioned the country amongst the most attractive in terms of worldwide unconventional resource potential. Nevertheless, the financial viability of these investments and reserve recovery efforts will generally depend on the prevailing economic and regulatory conditions in Argentina, as well as the market prices of hydrocarbon products, and are also subject to material risks inherent to the oil and gas industry and may prove unsuccessful. See Our business plan includes future drilling activities for unconventional 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 oil and natural gas reserves are estimates.***

Our oil and gas proved reserves are estimated using geological and engineering data to determine with reasonable certainty 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, some of which are beyond our control. Factors susceptible to our control include drilling, testing and production after the date of the estimates, which may require substantial revisions to reserves estimates; the quality of available geological, technical and economic data used by us and our interpretation thereof; the production performance of our reservoirs and our recovery rates, both of which depend in significant part on available technologies as well as our ability to implement such technologies and the relevant know-how; the selection of third parties with which we enter into business; and the accuracy of our estimates of initial hydrocarbons in place, which may prove to be incorrect or require substantial revisions. Factors mainly beyond our control include changes in prevailing oil and natural gas prices, which could have an effect on the quantities of our proved reserves (since the estimates of reserves are calculated under existing economic conditions when such estimates are made); changes in the prevailing tax rules, other government regulations and contractual conditions after the date estimates are made (which could make reserves no longer economically viable to exploit); and certain actions of third parties, including the operators of fields in which we have an interest.

Information on net proved reserves as of December 31, 2016, 2015 and 2014 was calculated in accordance with SEC rules and FASB's ASC 932, as amended. Accordingly, crude oil prices used to determine reserves were calculated each month, for crude oils of different quality produced by us.

As previously discussed, domestic prices for oil and gas products and derivatives have demonstrated in recent years they do not follow international prices both negatively and positively, mainly as a result of domestic economic variables affecting Argentina, such as regulations, labor costs, labor unions, political, economic and social constraints, among others. Accordingly, for calculations of our net proved reserves as of December 31, 2016, we considered the realized prices for crude oil in the domestic market, which are higher than those prevailing in the international market, taking into account the unweighted average price for each month within the twelve-month period ending December 31, 2016.

Commodity prices in general have declined significantly since 2014. If these prices do not increase significantly, and domestic prices for crude oil were reduced in line with international prices, our future calculations of estimated proved reserves would be based on lower prices (see additionally Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Macroeconomic conditions in connection with the recent agreement between domestic players of the oil and gas industry). This could result in our having to remove non-economic reserves from our proved reserves in future periods. Holding all other factors constant, if commodity reference prices used in our year-end reserve estimates were decreased for crude oil to match a price of

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**Table of Contents**

approximately U.S.\$57.50 per barrel for WTI equivalent quality (the approximate average of crude oil prices for 2017 in the domestic market, according to our estimates), our total proved reserves as of December 31, 2016 would decrease by approximately 5%. In addition, as a result of the prices used to calculate the present value of future net revenues from our proved reserves, in accordance with SEC rules, which are similar to the calculation of proved reserves described above, the present value of future net revenues from our proved reserves will not necessarily be the same as the current market value of our estimated crude oil and natural gas reserves. In particular, they may be reduced if commodity prices do not increase significantly and domestic prices were reduced in line with international prices.

As a result of the foregoing, measures of reserves are not precise and are subject to revision. Any downward revision in our estimated quantities of proved reserves could adversely impact our financial results by leading to increased depreciation, depletion and amortization charges or impairment, which would reduce earnings and shareholders equity. See Oil and gas prices, including the recent decline in global prices for oil and gas, could affect our business.

***Oil and gas activities are subject to significant economic, environmental and operational risks.***

Oil and gas exploration and production activities are subject to particular economic and industry-specific operational risks, some of which are beyond our control, such as production, equipment and transportation risks, as well as natural hazards and other uncertainties, including those relating to the physical characteristics of onshore and offshore oil or natural gas fields. Our operations may be curtailed, delayed or cancelled due to bad weather conditions, mechanical difficulties, shortages or delays in the delivery of equipment, compliance with governmental requirements, fire, explosions, blow-outs, pipe failure, abnormally pressured formations, and environmental hazards, such as oil spills, gas leaks, ruptures or discharges of toxic gases. In addition, we operate in politically sensitive areas where the native population has interests that from time to time may conflict with our production objectives. If these risks materialize, we may suffer substantial operational losses and disruptions to our operations and harm to our reputation. Drilling may be unprofitable, not only with respect to dry wells, but also with respect to wells that are productive but do not produce sufficient revenues to return a profit after drilling, operating and other costs are taken into account.

***Our business plan includes future drilling activities for unconventional 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 unconventional oil and gas reserves, such as the shale oil and gas in 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 unconventional oil and gas reserves, the drilling and exploitation of such unconventional 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 and the development of refining capacity sufficient to process increasing production volumes, 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 unconventional 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 proved reserves or meet our expectations for success, which could adversely affect our production levels, financial condition and results of operations.

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**Table of Contents**

***We may not have sufficient insurance to cover all the operating hazards to which we are subject.***

As discussed under Oil and gas activities are subject to significant economic, environmental and operational risks and We may incur significant costs and liabilities related to environmental, health and safety matters, our exploration and production operations are subject to extensive economic, operational, regulatory and legal risks. We maintain insurance covering us against certain risks inherent in the oil and gas industry in line with industry practice, including loss of or damage to property and equipment, control-of well incidents, loss of production or income incidents, removal of debris, sudden and accidental seepage pollution, contamination and clean up and third-party liability claims, including personal injury and loss of life, among other business risks. However, our insurance coverage is subject to deductibles and limits that in certain cases may be materially exceeded by our liabilities. In addition, certain of our insurance policies contain exclusions that could leave us with limited coverage in certain events. See Item 4. Information on the Company Insurance. In addition, we may not be able to maintain adequate insurance at rates or on terms that we consider reasonable or acceptable or be able to obtain insurance against certain risks that materialize in the future. If we experience an incident against which we are not insured, or the costs of which materially exceed our coverage, it could have a material adverse effect on our business, financial condition and results of operations.

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

As modified by Law No. 27,007, the Hydrocarbons Law provides for oil and gas concessions to remain in effect for 25 years as from the date of their award, 35 years for unconventional concessions and 30 years for offshore concessions. It further provides that concession terms may be extended for periods of up to 10 years each. The authority to extend the terms of current and new permits, concessions and contracts has been vested in the governments of the provinces in which the relevant area is located (and the federal government in respect of offshore areas beyond 12 nautical miles). In order to be eligible for an extension of a concession, under the modifications of Law No. 27,007, concessionaires must (i) have complied with their obligations, (ii) be producing hydrocarbons in the concession under consideration and (iii) submit an investment plan for the development of such areas as requested by the competent authorities up to a year prior to the termination of each term of the concession. Under the Hydrocarbons Law, non-compliance with the obligations and standards set out therein 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 provide assurances that any of our concessions will be extended as a result of the consideration by the relevant authorities of the investment plans we would submit in the future for the development of the areas as of the date of requesting the extension periods for our relevant areas, or other requirements will not be imposed on us in order to obtain extensions as of the date of expiration. Additional royalty payments of 3%, up to a maximum of 18%, are provided for in extensions under Law No. 27,007. The termination of, or failure to obtain the extension of, a concession or permit, or its revocation, could have a material adverse effect on our business and results of operations.

***Our acquisition of exploratory acreage and crude oil and natural gas reserves is subject to heavy competition.***

We face intense competition in bidding for crude oil and natural gas production areas, especially those areas with the most attractive crude oil and natural gas reserves. As a result, the conditions under which we are able to access new exploratory or productive areas could be adversely affected. In addition, fewer offerings of exploratory acreages available to be bid upon could affect our future results.

***We may incur significant costs and liabilities related to environmental, health and safety matters.***

Our operations, like those of other companies in the oil and gas industry, are subject to a wide range of environmental, health and safety laws and regulations in the countries in which we operate. These laws and regulations have a substantial impact on our operations and those of our subsidiaries, and could result in material adverse effects on our financial position and results of operation. In addition, we or YPF Holdings, our wholly-owned subsidiary, may have certain environmental liabilities through certain subsidiaries. See We may be responsible for significant costs and liabilities depending on the outcome of the reorganization proceedings involving our YPF Holdings subsidiaries and the alter ego claims. A number of events related to environmental, health and safety matters, including changes in applicable laws and regulations, adverse judicial or administrative

**Table of Contents**

interpretations of such laws and regulations, changes in enforcement policy, the occurrence of new litigation or development of pending litigation, and the development of information concerning these matters, could result in new or increased liabilities, capital expenditures, reserves, losses and other impacts that could have a material adverse effect on our financial condition and results of operations. See Item 8. Financial Information Legal Proceedings and Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Argentine Environmental Regulations.

Environmental, health and safety regulation and jurisprudence in Argentina is developing at a rapid pace and no assurance can be provided that such developments will not increase our cost of doing business and liabilities, including with respect to drilling and exploitation of our unconventional oil and gas reserves. In addition, due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, new regulatory requirements to reduce greenhouse gas emissions, such as carbon taxes, increased efficiency standards or the adoption of cap and trade regimes. Argentina recently issued new rules which began to phase-in more stringent regulations to lower the amount of sulfur contained in diesel and gasoline fuels that will result in an increase in our investments and relative costs for such production in following years, thus potentially affecting our results of operations depending on the future prices of fuels. Furthermore, if additional requirements were adopted in Argentina, these requirements could make our products more expensive as well as shift hydrocarbon demand toward relatively lower-carbon sources such as renewable energies.

***We may be responsible for significant costs and liabilities depending on the outcome of the reorganization proceedings involving our YPF Holdings subsidiaries and the alter ego claims.***

As discussed in Note 27 to the Audited Consolidated Financial Statements, on June 17, 2016, Maxus Energy Corporation, Tierra Solutions Inc., Maxus International Energy Company, Maxus (US) Exploration Company and Gateway Coal Company (collectively, the Maxus Entities ), subsidiaries of YPF Holdings, Inc., filed for reorganization proceedings in Wilmington, Delaware under Chapter 11 of the U.S. Bankruptcy Code. In conjunction with those proceedings, the Maxus Entities entered into an agreement with YPF along with its subsidiaries YPF Holdings Inc., CLH Holdings Inc., YPF International S.A. and YPF Services USA Corp (collectively, the YPF Entities ) to settle any and all claims held by Maxus against the YPF Entities, including any alter ego claims, all of which claims the YPF Entities believe are without merit, and to release the YPF entities of any and all claims held by the Maxus Entities (the Agreement ).

The Agreement provided for a payment of U.S.\$130 million to the Maxus Entities ( Settlement Payment ) and for the provision of a U.S.\$63.1 million debtor-in-possession loan ( DIP Loan ) by YPF Holdings Inc.

However, on March 28, 2017, the Creditors Committees and the Maxus Entities submitted an alternative restructuring plan (the Alternative Plan ) that does not incorporate the agreement with the YPF Entities, to settle any and all claims held by the Maxus Entities against the YPF Entities, including any alter ego claims, all of which claims the YPF Entities believe are without merit. Under the Alternative Plan, a liquidating trust (the Liquidating Trust ) may pursue alter ego claims or any other estate claims against the Company and the YPF Entities. The Liquidating Trust will be funded by Occidental Chemical Corporation, a creditor of the Maxus Entities. As a consequence of the filing of the Alternative Plan, an event of default has occurred under the DIP Loan provided by YPF Holdings Inc. and YPF Holdings sent a notice of default accordingly.

We first acquired an interest in Maxus Energy Corporation in 1995, and did not cause any releases of contamination at issue in the civil litigation against the Maxus Entities associated with the Passaic River in New Jersey and other sites and alter-ego claims against YPF and the YPF Entities, which active contamination occurred years or decades prior to the acquisition. Since acquiring an indirect interest in the Maxus Entities, we have funded the Maxus Entities with

hundreds of millions of dollars which allowed them to comply with their contractual obligations related to environmental liabilities.

Depending on the final outcome of these matters, including the reorganization proceedings and the alter ego claims, our financial condition and results of operation could be materially and adversely affected. See Item 8. Financial Information Legal Proceedings.

***We face risk relating to certain legal proceedings.***

As described under Item 8. Financial Information Legal Proceedings, we 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 believe that we 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 have provided.

**Table of Contents**

In addition, we may be subject to undisclosed liabilities related to labor, commercial, civil, tax, criminal or environmental contingencies incurred by businesses we acquire as part of our growth strategy, that we 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 business depends to a significant extent on our production and refining facilities and logistics network.***

Our oil and natural gas field facilities, refineries and logistics network are our principal production facilities and distribution network on which a significant portion of our revenues depends. Although we insure our properties on terms we consider prudent and have adopted and maintain safety measures, any significant damage to, accident or other production stoppage at our facilities or network could materially and adversely affect our production capabilities, financial condition and results of operations.

For instance, on April 2, 2013, our facilities in the La Plata refinery were hit by a severe and unprecedented storm, recording over 400 mm of rainfall. The rainfall set a new record for the area and disrupted refinery systems, causing a fire that affected the Coke A and Topping C units in the refinery. This incident temporarily affected the crude processing capacity of the refinery, which had to be stopped entirely. Seven days after the event, the processing capacity was restored to about 100 mbb/d through the commissioning of two distillation units (Topping IV and Topping D). By the end of May 2013, the Topping C unit resumed operations at full nominal capacity. The Coke A unit has been shut down permanently since the storm, affecting the volume of crude processed in the refinery, due to a reduction in conversion capacity. The storm resulted in a decrease in the volume of crude oil processed. YPF has an insurance policy that provides coverage for the loss of income and property damage due to incidents like the storm that affected the La Plata refinery. See Note 28.a to the Audited Consolidated Financial Statements for information regarding the amount recognized in our result of operations in connection with our insurance coverage.

In addition, on March 21, 2014, a fire occurred at the Cerro Divisadero crude oil treatment plant, located 20 kilometers from the town of Bardas Blancas in the province of Mendoza. The Cerro Divisadero plant, which has six tanks, four of which are for processing and two are for dispatch of treated crude oil, concentrates the production of ten fields in the Malargue area. This constitutes a daily production of approximately 9,200 barrels of oil as of the date of the incident. The new oil treatment plant was put into production in December 2016. See Note 28.a to the Audited Consolidated Financial Statements for information regarding the amount recognized in our results of operations in connection with our insurance coverage.

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

Our operations have been affected by organized work disruptions and stoppages in the past and we cannot assure you that we will not experience them in the future, which could adversely affect our business and revenues, especially in the context of activity reduction. Labor demands are commonplace in Argentina's energy sector and unionized workers have blocked access to and damaged our plants in the recent past. Our operations were affected occasionally by labor strikes in recent years. See Oil and gas prices, including the recent decline in global prices for oil and gas, could affect our business and Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Macroeconomic conditions.

***We may not be able to pay, maintain or increase dividends.***

On April 30, 2014, our shareholders approved a dividend of Ps. 464 million (Ps. 1.18 per share or ADS), which was paid during July 2014. On April 30, 2015, our shareholders approved a dividend of Ps.503 million (Ps.1.28 per share

or ADS), which was paid during July 2015. On April 29, 2016, our shareholders approved a dividend of Ps. 889 million (Ps. 2.26 per share or ADS), which was paid during July 2016. On March 9, 2017, our Board of Directors proposed a dividend of Ps. 716 million. Our next shareholder s meeting, to be held on April 28, 2017, will consider this proposal.

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**Table of Contents**

Notwithstanding the foregoing, our ability to pay, maintain or increase dividends is based on many factors, including our net income, anticipated levels of capital expenditures and expected levels of growth. A change in any such factor could affect our ability to pay, maintain or increase dividends, and the exact amount of any dividend paid may vary from year to year.

***Our performance is largely dependent on recruiting and retaining key personnel***

Our current and future performance, the successful implementation of our strategy and the operation of our business are dependent upon the contributions of our senior management and our highly skilled team of engineers and other employees. Our ability to continue to rely on these key individuals is dependent on our success attracting, training, motivating and retaining key management and commercial and technical personnel with the necessary skills and experience. There is no assurance 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 Expropriation Law provides that the National Executive Office, by itself or through an appointed public entity, shall exercise all the political rights associated with the shares subject to expropriation until the transfer of political and economic rights to the provinces that compose the National Organization of Hydrocarbon Producing States is completed. Consequently, the Argentine government has the majority of votes which allows it to appoint the majority of members of our board of directors at the General Shareholders meeting. See The Argentine Republic owns 51% of the shares of the Company and Our business is largely dependent upon economic conditions in Argentina. 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 our results of operations.

***Our business has become increasingly dependent on digital technologies to conduct day-to-day operations, including oil, gas, electricity and petrochemical operations.***

As dependence on digital technologies has increased, cyber incidents, including deliberate attacks or unintentional events, have also increased worldwide. Although we have extended our security policy to the industrial systems, reinforcing the defenses in case of denial of service and increasing the monitoring of suspicious activities, our technologies, systems, networks and those of our business associates have been and may continue to be the target of cyber-attacks or information security breaches, which could lead to disruptions in critical systems (such as SCADAs, DCS Systems), the unauthorized release of confidential or protected information, corruption of data or other disruptions of our business operations. In addition, certain cyber incidents, such as surveillance, may remain undetected for an extended period. To our knowledge, we have not experienced any material losses relating to cyber-attacks; however, as cyber-attacks continue to evolve, there can be no assurance that we will not suffer any cyber-attack in the future thus affecting our operations and/or our financial condition.

**Risks Relating to Our Class D Shares and ADSs*****The market price for our shares and ADSs may be subject to significant volatility***

The market price of our ordinary shares and ADSs may fluctuate significantly due to a number of factors, including, among others, our actual or anticipated results of operations and financial condition; speculation over the impact of the Argentine government as our controlling shareholder on our business and operations, investor perceptions of investments relating to Argentina and political and regulatory developments affecting our industry or the Company. In addition, recent regulatory and policy developments in Argentina, including the passage of the Expropriation Law, as well as the litigation of the Argentine government with Holdout Bondholders (see Risks Relating to Argentina Our business is largely dependent upon economic conditions in Argentina ), have led to considerable volatility in the



market price of our shares and ADSs. For example, the price of our ADSs has varied from U.S.\$54.58 on January 5, 2011 to U.S.\$9.57 on November 16, 2012. The price hit a high closing price of U.S.\$36.99 on July 1, 2014, but subsequently fell to U.S.\$12.83 on January 20, 2016. See Item 9. The Offer and Listing. We cannot assure you that concerns about factors that could affect the market price of our ordinary shares as previously mentioned may have a material adverse effect on the trading values of our securities.

**Table of Contents**

***Certain strategic transactions require the approval of the holder of our Class A shares or may entail a cash tender offer for all of our outstanding capital stock.***

Under our by-laws, the approval of the Argentine government, the sole holder of our Class A shares, is required to undertake certain strategic transactions, including a merger, an acquisition that results in the purchaser holding 15% or more of our capital stock or an acquisition that results in the purchaser holding a majority of our capital stock, requiring consequently the approval of the National State (the holder of our Class A shares) for such decisions.

In addition, under our by-laws, an acquisition that results in the purchaser holding 15% or more of our capital stock would require such purchaser to make a public cash tender offer for all of our outstanding shares and convertible securities, which could discourage certain investors from acquiring significant stakes in our capital stock. See Item 10. Additional Information Certain Provisions Relating to Acquisitions of Shares.

***Restrictions on the movement of capital out of Argentina may impair your ability to receive dividends and distributions on, and the proceeds of any sale of, the Class D shares underlying the ADSs.***

The government is empowered, for reasons of public emergency, as defined in Article 1 of Law No. 25,561, to establish the system that will determine the exchange rate between the peso and foreign currency and to impose exchange regulations. Although the transfer of funds abroad in order to pay dividends currently does not require Argentine Central Bank approval, restrictions on the movement of capital to and from Argentina may, if imposed, impair or prevent the conversion of dividends, distributions, or the proceeds from any sale of Class D shares, as the case may be, from pesos into U.S. dollars and the remittance of the U.S. dollars abroad.

Under the terms of our deposit agreement with the depositary for the ADSs, the depositary will convert any cash dividend or other cash distribution we pay on the shares underlying the ADSs into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If this conversion is not possible for any reason, including regulations of the type described in the preceding paragraph, the deposit agreement allows the depositary to distribute the foreign currency only to those ADR holders to whom it is possible to do so. If the exchange rate fluctuates significantly during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the dividend distribution.

***Under Argentine law, shareholder rights may be different from other jurisdictions.***

Our corporate affairs are governed by our by-laws and by Argentine corporate law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or in other jurisdictions outside Argentina. In addition, rules governing the Argentine securities markets are different and may be subject to different enforcement in Argentina than in other jurisdictions.

***Actual or anticipated sales of a substantial number of Class D shares could decrease the market prices of our Class D shares and the ADSs.***

Sales of a substantial number of Class D shares or ADSs by any present or future relevant shareholder could decrease the trading price of our Class D shares and the ADSs.

***You may be unable to exercise preemptive, accretion or other rights with respect to the Class D shares underlying your ADSs.***

Holders of ADSs may not be able to exercise the preemptive or accretion rights relating to the shares underlying the ADSs (see Item 10. Additional Information Preemptive and Accretion Rights ) unless a registration statement under the U.S. Securities Act of 1933 (the Securities Act ) is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights, and we cannot assure you that we will file any such registration statement. Unless we file a registration statement or an exemption from registration is available, holders may receive only the net proceeds from the sale of their preemptive rights by the depositary or, if the preemptive rights cannot be sold, they will be allowed to lapse. As a result, U.S. holders of Class D shares or ADSs may suffer dilution of their interest in our company upon future capital increases.

## **Table of Contents**

In addition, under the Argentine Corporations Law, foreign companies that own shares in an Argentine corporation are required to register with the Superintendency of Corporations (*Inspección General de Justicia*) ( IGJ ) in order to exercise certain shareholder rights, including voting rights. If you own our Class D shares directly (rather than in the form of ADSs) and you are a non-Argentine company and you fail to register with IGJ, your ability to exercise your rights as a holder of our Class D shares may be limited.

***You may be unable to exercise voting rights with respect to the Class D shares underlying your ADSs at our shareholders meetings.***

The depositary will be treated by us for all purposes as the shareholder with respect to the shares underlying ADSs. A holder of ADRs representing the ADSs being held by the depositary will not have direct shareholder rights and may exercise voting rights with respect to the Class D shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. There are no provisions under Argentine law or under our by-laws that limit the exercise by ADS holders of their voting rights through the depositary with respect to the underlying Class D shares. However, there are practical limitations on the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with these holders. For example, holders of our shares will receive notice of shareholders meetings through publication of a notice in an official gazette in Argentina, an Argentine newspaper of general circulation and the bulletin of the Buenos Aires Stock Exchange, and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. ADS holders, by comparison, will not receive notice directly from us. Instead, in accordance with the deposit agreement, we will provide the notice to the depositary. If we ask it to do so, the depositary will mail to holders of ADSs the notice of the meeting and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, ADS holders must then instruct the depositary as to voting the Class D shares represented by their ADSs. Due to these procedural steps involving the depositary, the process for exercising voting rights may take longer for ADS holders than for holders of Class D shares, and Class D shares represented by ADSs may not be voted as you desire. Class D shares represented by ADSs for which the depositary fails to receive timely voting instructions may, if requested by us, be voted as we instruct at the corresponding meeting.

***Shareholders outside of Argentina may face additional investment risk from currency exchange rate fluctuations in connection with their holding of our Class D shares or the ADSs.***

We are an Argentine company and any future payments of dividends on our Class D shares will be denominated in pesos. The peso has historically and recently fluctuated significantly against many major world currencies, including the U.S. dollar. A devaluation of the peso would likely adversely affect the U.S. dollar or other currency equivalent of any dividends paid on our Class D shares and could result in a decline in the value of our Class D shares and the ADSs as measured in U.S. dollars.

## **ITEM 4. Information on the Company History and Development of YPF**

### ***Overview***

YPF is a corporation (*sociedad anónima*), incorporated under the laws of Argentina for a limited term. Our address is Macacha Güemes 515, C1106BKK Ciudad Autónoma de Buenos Aires, Argentina and our telephone number is (011-54-11) 5441-2000. Our legal name is YPF Sociedad Anónima and we conduct our business under the commercial name YPF.

We are Argentina's leading energy company, operating a fully integrated oil and gas chain with leading market positions across the domestic upstream, downstream and gas and power segments. Our upstream operations consist of the exploration, development and production of crude oil, natural gas and LPG. Our downstream operations include the refining, marketing, transportation and distribution of oil and a wide range of

**Table of Contents**

petroleum products, petroleum derivatives, petrochemicals, LPG and bio-fuels. Additionally, we are active in the gas separation and natural gas distribution sectors both directly and through our investments in several affiliated companies and in power generation through YPF Energía Eléctrica. In 2016, we had consolidated revenues of Ps. 210,100 million and consolidated net loss of Ps. (28,379) million. Due to decreased export volumes, the portion of our revenues derived from exports has decreased steadily in recent years. Exports accounted for 7.8%, 7.9% and 17.1% of our consolidated net revenues in 2016, 2015 and 2014, respectively.

Beginning in the 1920s and until 1990, both the upstream and downstream segments of the Argentine oil and gas industry were effectively monopolies of the Argentine government. During this period, we and our predecessors were owned by the state, which controlled the exploration and production of oil and natural gas, as well as the refining of crude oil and marketing of refined petroleum products. In August 1989, Argentina enacted laws aimed at the deregulation of the economy and the privatization of Argentina's state-owned companies, including us. Following the enactment of these laws, a series of presidential decrees were promulgated, which required, among other things, us to sell majority interests in our production rights to certain major producing areas and to undertake an internal management and operational restructuring program.

In November 1992, the Argentine government enacted the Privatization Law (Law No. 24,145), which established the procedures for our privatization. In accordance with the Privatization Law, in July 1993, we completed a worldwide offering of 160 million Class D shares that had previously been owned by the Argentine government. As a result of that offering and other transactions, the Argentine government's ownership interest in our capital stock was reduced from 100% to approximately 20% by the end of 1993.

In January 1999, Repsol YPF acquired 52,914,700 Class A shares (14.99% of our shares) which were converted to Class D shares. Additionally, on April 30, 1999, Repsol YPF announced a tender offer to purchase all outstanding Class A, B, C and D shares (the Offer). Pursuant to the Offer, in June 1999, Repsol YPF acquired an additional 82.47% of our outstanding capital stock. Repsol YPF acquired additional stakes in us from minority shareholders and other transactions in 1999 and 2000.

Repsol YPF owned approximately 99% of our capital stock from 2000 until 2008, when Petersen Energía (PEISA) purchased 58,603,606 of our ADSs on February 21, 2008, representing 14.9% of our capital stock, from Repsol YPF for U.S.\$2,235 million. In addition, Repsol YPF granted certain affiliates of PEISA options to purchase up to an additional 10% of our outstanding capital stock within four years. On May 20, 2008, PEISA exercised an option to purchase shares representing 0.1% of our capital stock. Additionally, PEISA launched a tender offer to purchase all of the shares of YPF that were not already owned by them at a price of U.S.\$49.45 per share or ADS. Repsol YPF, pursuant to its first option agreement with PEISA, had stated that it would not tender YPF shares to PEISA. A total of 1,816,879 shares (including Class D shares and ADSs), representing approximately 0.462% of our total shares outstanding, were tendered. On May 3, 2011, PEISA exercised an option to acquire, from Repsol YPF, shares or ADSs representing 10.0% of our capital stock and on May 4, 2011, Repsol YPF acknowledged and accepted such exercise. See Legal and Regulatory Framework and Relationship with the Argentine Government The Expropriation Law and Item 7. Major Shareholders and Related Party Transactions, for a detail of our current major shareholders.

On May 3, 2012, the Argentine congress passed the Expropriation Law. Among other matters, the Expropriation Law provided for the expropriation of 51% of the share capital of YPF represented by an identical stake of Class D shares owned, directly or indirectly, by Repsol YPF and its controlled or controlling entities. The shares subject to expropriation, which have been declared of public interest, will be assigned as follows: 51% to the Argentine Republic and 49% to the governments of the provinces that compose the National Organization of Hydrocarbon Producing States. See Item 3. Key Information Risk Factors Risks Relating to Argentina The Argentine Republic owns 51% of the shares of the Company. As of the date of this annual report, the transfer of the shares subject expropriation between

the National Executive Office and the provinces that compose the National Organization of Hydrocarbon Producing States was still pending. According to Article 8 of the Expropriation Law, the distribution of the shares among the provinces that accept their transfer must be conducted in an equitable manner, considering their respective levels of hydrocarbon production and proved reserves. To ensure compliance with its objectives, the Expropriation Law provides that the National Executive Office, by itself or through an appointed public entity, shall exercise all the political rights associated with the shares subject to expropriation until the transfer of political and economic rights

**Table of Contents**

to the provinces that compose the National Organization of Hydrocarbon Producing States is completed. In addition, in accordance with Article 9 of the Expropriation Law, each of the Argentine provinces to which shares subject to expropriation are allocated must enter into a shareholder's agreement with the federal government that will provide for the unified exercise of its rights as a shareholder. See Legal and Regulatory Framework and Relationship with the Argentine Government The Expropriation Law, Item 7. Major Shareholders and Related Party Transactions. See Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business We face risk relating to certain legal proceedings for a description of the Repsol Agreement relating to compensation for the expropriation of 51% of the share capital of YPF owned, directly or indirectly, by Repsol.

In addition, on February 25, 2014, the Republic of Argentina and Repsol reached an agreement (the Repsol Agreement) in relation to compensation for the expropriation of 200,589,525 of YPF's Class D shares pursuant to the Expropriation Law under the Repsol Agreement. Repsol accepted U.S.\$5.0 billion in sovereign bonds from the Republic of Argentina and withdrew judicial and arbitral claims it had filed, including claims against YPF, and waived additional claims. YPF and Repsol also executed a separate agreement (the Repsol Arrangement) on February 27, 2014, pursuant to which YPF and Repsol each withdrew, subject to certain exclusions, all present and future actions and/or claims based on causes occurring prior to the date of execution of Repsol Arrangement arising from the expropriation of the YPF shares owned by Repsol pursuant to the Expropriation Law, including the intervention and temporary possession for public purposes of YPF's shares. YPF and Repsol agreed to withdraw reciprocal actions and claims with respect to third parties and/or pursued by them and to grant a series of mutual indemnities, which at the time were subject to certain conditions precedent. The Repsol Arrangement entered into force the day after Repsol notified YPF that the Repsol Agreement had entered into force. The Repsol Agreement was ratified on March 28, 2014 at a Repsol general shareholders' meeting and approved by the Argentine congress by Law No. 26,932 enacted by Decree No. 600/2014. On May 8, 2014, YPF was notified of the entry into force of the Repsol Agreement. As of that date, the expropriation pursuant to the Expropriation Law was concluded, and as a result the Republic of Argentina is definitively the owner of 51% of the capital stock of each of YPF and YPF GAS S.A.

To achieve the goals of the Company's strategy, we intend to focus on (i) improving efficiency and productivity to enable us to adapt to a scenario of a prolonged decline in international oil prices; (ii) continuing to increase production, especially of natural gas; (iii) developing unconventional resources and increasing exploration of mature areas; (iv) improving our capacity to refine in order to accommodate the growth in demand for refined products; (v) exploring conventional and unconventional resources and pushing the limits of existing deposits and exploring new frontiers, including offshore; (vi) permanently evaluating portfolios of assets to identify investment and divestment opportunities; (vii) enhancing the value of our brand and our commercial platform and (viii) maintaining a solid capital structure.

The investment plan related to our growth needs to be accompanied by an appropriate financial plan, whereby we intend to reinvest earnings, search for strategic partners and raise debt financing at levels we consider prudent for companies in our industry. Consequently, the financial viability of these investments and hydrocarbon recovery efforts will generally depend, among other factors, on the prevailing economic and regulatory conditions in Argentina, the ability to obtain financing in satisfactory amounts at competitive costs, as well as the market prices of hydrocarbon products. See Item 3. Key Information Risk Factors Risks Relating to Argentina. and Item 5. Factors Affecting Our Operations for additional information regarding 2016 activity.

***Upstream Operations***



As of December 31, 2016, we held interests in 110 oil and gas fields in Argentina. According to the Ministry of Energy and Mining, in 2016 these assets accounted for approximately 49.9% of the country's total production of crude oil, excluding NGLs, and approximately 43.0% of its total natural gas production, including NGLs.

We had proved reserves, as estimated as of December 31, 2016, of approximately 592 mmbbl of oil, including condensates and NGLs, and approximately 2,924 bcf of gas, representing aggregate reserves of approximately 1,113 mmboe as of such date, compared to approximately 679 mmbbl of oil, including condensates and NGLs, and approximately 3,072 bcf of gas, representing aggregate reserves of approximately 1,226 mmboe as of December 31, 2015.

**Table of Contents**

In 2016, we produced approximately 90 mmbbl of oil (approximately 245 mbbbl/d), including condensates, approximately 19 mmbbl of NGLs (approximately 52 mbbbl/d), and approximately 576 bcf of gas (approximately 1,573 mmcf/d), representing a total production of approximately 211 mmboe (approximately 577 mboe/d), compared to approximately 91 mmbbl of oil (approximately 250 mbbbl/d), including condensates, approximately 18 mmbbl of NGLs (approximately 49 mbbbl/d), and approximately 569 bcf of gas (approximately 1,560 mmcf/d) representing a total production of approximately 210 mmboe (approximately 577 mboe/d) in 2015.

***Downstream Operations***

We are Argentina's leading refiner with operations conducted at three wholly-owned refineries with combined annual refining capacity of approximately 116 mmbbl (319.5 mbbbl/d). See *Downstream Refining* division. We also own a 50% equity interest in Refinería del Norte, S.A. ( *Refinor* ), an entity jointly controlled with and operated by Petrobras Energía S.A., which has a refining capacity of 26.1 mbbbl/d.

Our retail distribution network for automotive petroleum products as of December 31, 2016 consisted of 1,547 YPF-branded service stations, of which we own 112 directly and through our 100%-owned subsidiary Operadora de Estaciones de Servicios S.A. ( *OPESSA* ), and we estimate we held approximately 36% of all gasoline service stations in Argentina.

We are one of the leading petrochemical producers in Argentina and in the Southern Cone of Latin America, with operations conducted through our Ensenada industrial complex ( *CIE* ) and Plaza Huincul site. In addition, Profertil S.A. ( *Profertil* ), a company that we jointly control with Agrium Holdco Spain S.L. ( *Agrium* ), is one of the leading producers of urea in the Southern Cone.

***Gas and Power Operations***

We are the largest producer of natural gas in Argentina with total natural gas sales of 13.2 mmcm in 2016, accounting for 34% of the market.

We participate in three power generation plants with an aggregate installed capacity of 1,622 MW. In 2016, we decided to engage in two projects for the development and operation of two power plants in addition to two other new power generation projects under construction in Neuquén and Comodoro Rivadavia. We also own and operate two power plants supplied with natural gas produced by us, which produce power to supply our Upstream and Downstream activities. See *Gas and Power* YPF in *Power Generation*.

We are the operator of UTE Escobar (a joint venture formed by YPF and ENARSA) and Bahía Blanca Terminal, which operates an LNG Regasification Terminal, LNG Escobar and LNG Bahía Blanca, respectively. See *Gas and Power* Argentine natural gas supplies.

For a chart illustrating our organizational structure, including our principal subsidiaries, please see Note 1 to the Audited Consolidated Financial Statements. In addition, we are in the process of completing a merger by absorption with the following subsidiaries: YSUR Holdings S.A.U., YSUR Inversiones Petroleras S.A.U., YSUR Inversora

S.A.U., YSUR Petrolera Argentina S.A., Petrolera TDF Company S.R.L., YSUR Energía Argentina S.R.L., Petrolera LF Company S.R.L. and YSUR Recursos Naturales S.R.L. (collectively, the Absorbed Companies ), which are companies controlled by us as a result of the asset acquisition of the Apache Group in Argentina. The effective date of the merger was January 1, 2017, with YPF as the absorbing company that will continue the activities and operations of each of the Absorbed Companies, which were dissolved without liquidation. On March 9, 2017, the Board of Directors approved the merger by absorption by YPF of the Absorbed

**Table of Contents**

Companies, whereby these companies will be dissolved without liquidation, as well as the procedures to effectuate this corporate reorganization, with an effective date of January 1, 2017. On the same date, YPF, as the absorbing company, and the Absorbed Companies, as the merged companies, signed a Preliminary Merger Agreement, through which YPF will incorporate the absorbed companies, with retroactive effect as of January 1, 2017. This was done on the basis of the annual financial statements of each of the companies as of December 31, 2016, to be used as special merger balance sheets and the special merger consolidated balance sheet as of the same date.

Since YPF is a direct and indirect holder of 100% of the shares of the Absorbed Companies, YPF's share capital will not be increased nor will new shares be issued, nor will there be any exchange ratio as a result of the merger. The aforementioned merger must be submitted for consideration and approval of the respective Extraordinary Shareholders Meetings of each of the respective companies and is subject to compliance with relevant legal procedures and obtaining regulatory approvals. The merger will centralize the management of the companies under a single corporate organization, thereby obtaining operational and economic benefits related to the achievement of higher operating efficiency and effectiveness, the enhanced use of available resources and of technical, administrative and financial structures, and the rationalization and reduction of related costs.

The map below illustrates the location of our productive basins, refineries, storage facilities and crude oil and multi-product pipeline networks as of December 31, 2016.

For a description of our principal capital expenditures and divestitures, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital investments, expenditures and divestitures.

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**Table of Contents****The Argentine Market**

Argentina is the second largest producer of natural gas and the fourth largest producer of crude oil in Central and South America, based on 2015 production, according to the 2016 edition of the BP Statistical Review of World Energy, published in June 2016.

In response to the economic crisis of 2001 and 2002, the Argentine government, pursuant to the Public Emergency Law, established export taxes on certain hydrocarbon products. In subsequent years, in order to satisfy growing domestic demand and abate inflationary pressures, this policy was supplemented by constraints on domestic prices, temporary export restrictions and subsidies on imports of natural gas and diesel. As a result, until 2008, local prices for oil and natural gas products had remained significantly below those prevalent in neighboring countries and international commodity exchanges.

In 2012, Argentina's GDP experienced a slowdown, with GDP increasing 1.9% on an annual basis compared to the preceding year according to the methodology of calculation prevailing until March 2014. On March 27, 2014, the Argentine government announced a new method of calculating GDP using 2004 as the base reference year (as opposed to 1993, which was the base reference year under the prior method of calculating GDP). However, on January 7, 2016 through Decree No. 55/2016, the new leadership of INDEC issued a report declaring a national statistical emergency. INDEC stated that since 2006 its administration has been irregular and due to that they revised the published data from 2005 to 2015. As a result of this revision, the GDP growth rate for 2013 and 2014 was revised from 2.9% to 2.4% and from 0.5% to a decline rate of 2.5%, respectively. As of the date of this annual report, Argentina's provisional GDP growth rate for 2015 and the preliminary GDP growth rate for 2016 published by INDEC were positive 2.6% and negative 2.3%, respectively.

Driven by economic expansion and stable domestic prices, energy demand has increased significantly during last years, outpacing energy supply (which, in the case of oil, declined). As a result of a high number of power outages caused by the consumption increase, the Ministry of Energy requested that the Executive Branch declare a National Electric System Emergency through December 31, 2017. This decree instructs the Minister of Energy to develop and propose measures and to ensure adequate power supplies. Also by Resolutions No. 06/2016, 41/2016 and 19/2017, the Ministry of Energy and Mining established new seasonal reference prices for power and energy in the Wholesale Electricity Market ( MEM ). See Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation Electricity.

In 2003, Argentina's net exports of diesel amounted to approximately 1,349 mcm, while in 2016 its net imports of diesel amounted to approximately 2,186 mcm, according to preliminary information provided by the Argentine Secretariat of Energy. Significant investments in the energy sector are being carried out, and additional investments are expected to be required in order to support continued economic growth, as the industry is currently operating near full capacity.

Demand for diesel in Argentina exceeds domestic production. In addition, prior to the decline in international oil prices, the import prices of refined products have been in general substantially higher than the average domestic sales prices of such products, rendering the import and resale of such products less profitable. As a result, from time to time, service stations experience temporary shortages and are required to suspend or curtail diesel sales.

**Business Organization**

We currently conduct our business according to the following organization:

Upstream, which consists of our Exploration and Production segment;

Downstream, which consists of our Refining and Marketing and Chemicals segments;

**Table of Contents**

Gas and Power, which consists of our Natural Gas Distribution and Electricity Generation segment; and

Corporate and other, which consists of our remaining activities.

The Upstream segment's sales to third parties in Argentina and abroad include sales of natural gas. In addition, crude oil produced by us in Argentina, or received from third parties in Argentina pursuant to service contracts, is mainly transferred from Exploration and Production to Refining and Marketing at transfer prices established by us, which generally seek to approximate Argentine market prices.

In 2013, we reorganized our reporting structure by grouping the Chemical and Refining and Marketing former segments into a new Downstream segment. We made this change primarily because of the common strategy shared by the former Chemical and Refining and Marketing segments, in light of the synergies involved in their activities to maximize the volume and quality of fuel offered to the market.

The Downstream segment purchases crude oil from the Upstream segment and from third parties. Downstream activities include crude oil refining and transportation, as well as the marketing and transportation of refined fuels, lubricants, LPG, natural gas, petrochemical products and other refined petroleum products in the domestic wholesale and retail markets and the export markets.

In 2016, our activities related to our natural gas commercialization division and our natural gas distribution activities, which we developed through Metrogas S.A., our natural gas stripping activities developed in our affiliate Mega, and our power generation activities developed in our controlled company YPF Energía Eléctrica S.A. were separated from the Downstream activities, creating a new Gas and Power Segment. This change was consolidated with the appointment of a Gas and Power Vice President in 2016 who leads the decision-making on business, commercial, operational and financial matters related to all of these activities. Additionally, we record certain assets, liabilities and costs under the Corporate and Other business segment, including corporate administration costs, assets and certain construction activities, mainly related to the oil and gas industry, through our subsidiary A-Evangelista S.A. and its subsidiaries. See Note 5 to our Audited Consolidated Financial Statements.

Substantially all of our operations, properties and customers are located in Argentina. See Exploration and Production Overview Main properties. Additionally, we market lubricants and specialties in Brazil and Chile, and carry out exploration activities in Chile.

The following table sets forth revenues and operating income for each of our business segments for the years ended December 31, 2016, 2015 and 2014:

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(in millions of pesos)</b>		
Revenues <sup>(1)</sup>			
Upstream			
Revenues	18,745	16,044	8,853
Revenue from intersegment sales <sup>(3)</sup>	95,398	64,243	61,844
<b>Total Upstream</b>	<b>114,143</b>	<b>80,287</b>	<b>70,697</b>

<b>Gas and Power</b>			
Revenues	26,514	14,003	12,810
Revenue from intersegment sales	3,212	2,184	1,859
<b>Total Gas and Power</b>	<b>29,726</b>	<b>16,187</b>	<b>14,669</b>
<b>Downstream</b>			
Revenues	162,538	124,959	119,444
Revenue from intersegment sales	925	807	817
<b>Total Downstream</b>	<b>163,463</b>	<b>125,766</b>	<b>120,261</b>



**Table of Contents**

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(in millions of pesos)</b>		
<b>Corporate and other</b>			
Revenues	2,303	1,130	835
Revenue from intersegment sales	7,447	6,182	5,212
<b>Total Corporate and other</b>	<b>9,750</b>	<b>7,312</b>	<b>6,047</b>
<b>Less inter-segment sales and fees</b>	<b>(106,982)</b>	<b>(73,416)</b>	<b>(69,732)</b>
<b>Total Revenues</b>	<b>210,100</b>	<b>156,136</b>	<b>141,942</b>
<b>Operating income (Loss) <sup>(2)</sup></b>			
Upstream	(26,845)	7,535	12,353
Gas and Power	2,008	1,498	310
Downstream	3,093	6,948	10,668
Corporate and other	(1,615)	(2,331)	(3,343)
Consolidation adjustments	(887)	2,938	(246)
<b>Total Operating Income (loss)</b>	<b>(24,246)</b>	<b>16,588</b>	<b>19,742</b>

- (1) Revenues are net of payment of a fuel transfer tax and turnover tax. Customs duties on hydrocarbon exports are disclosed in Taxes, charges and contributions, as indicated in Note 21 to the Audited Consolidated Financial Statements. Royalties with respect to our production are accounted for as a cost of production and are not deducted in determining revenues. See Note 2.b.15 to the Audited Consolidated Financial Statements.
- (2) Includes exploration costs in Argentina and the United States and production operations in Argentina and the United States.
- (3) Intersegment revenues of crude oil to Downstream are recorded at transfer prices that reflect our estimate of Argentine market prices.

**Exploration and Production Overview**

Development and Exploration Upstream projects represent our integrated vision of optimal field development, identifying each project's reserves category, stage of maturity, risk and strategy.

In addition to development projects for proved reserves, our portfolio of projects is composed of more than 250 integral new development projects. We have a portfolio of visualized exploratory opportunities which includes more than 800 cases related to contingent and prospective resources that contemplate potential development in the event of exploratory success.

The international and local situation challenges us to adjust our efficiency and costs to be sustainable. In that context, it is critical that our portfolio of projects and the production and development of initiatives to reduce costs for our operations and investments are properly executed. Part of those initiatives are related to labor efficiency, where we have started to work with labor unions and the Argentine government and recently signed the Addenda NOC, which seeks to reduce costs for the development of non-conventional resources, mainly as a result of new performance compensation approaches for certain supplier activities. See Item 6. Directors, Senior Management and

Employees Employee Matters. Our business growth objectives, whereby we seek to maximize the productivity and profitability of our portfolio, are based on the following key concepts: the rejuvenation of mature fields, an ongoing focus on gas development and the intensive development of unconventional reservoirs. See Item 3. Key Information Risk Factors.

The projects selected to be pursued and their schedules for completion are periodically determined by a portfolio optimization process, in accordance with our strategic guidelines.

## **Table of Contents**

### **Meeting the challenge of the mature oil and gas fields**

Most of our oil and gas producing fields in Argentina are mature, requiring strong commitments to overcome their decline.

We have significantly increased our activity and resources in mature areas that present profitable opportunities for increases in the recovery factor by employing techniques including infill wells, and extension of secondary recovery and tertiary recovery testing. We are focused on identifying new opportunities in both infill potential and improved sweep efficiency in our mature fields. These efforts are guided by subsurface modeling conducted by in-house multidisciplinary teams. Furthermore, we place a strong emphasis on surveillance and conformance activities to improve current mature water injection projects. Tertiary recovery is being pursued with polymer and surfactant water-flooding in mature reservoirs in both the Golfo de San Jorge and Neuquén basins.

Continuous technical reviews of our oil and gas fields allow us to identify opportunities to rejuvenate mature fields and optimize new field developments in Argentine basins in order to achieve similar recovery factors that mature fields have already reached in other regions of the world, with the application of new technologies.

We have managed, through the extension of most of our concessions with relatively favorable terms and conditions, to continue with the development of strategic water-flooding and improved oil recovery projects, improving our perspectives of production and reserves.

In addition, we are also focused on producing and developing initiatives related to reducing costs, in operating expenses and capital expenditures.

Nevertheless, the financial viability of these investments and reserve recovery efforts will generally depend on prevailing economic and regulatory conditions in Argentina, as well as the market prices of hydrocarbon products. See Item 3. Key Information Risk Factors. and Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations for additional information regarding 2017 activity.

### **Staying the Path of Unconventional Resources**

During 2016, we continued extending our leadership in this area. We reaffirmed our commitment to the objective of growing our production and reserves through the development of unconventional resources, which we began in 2013. More than 500 wells were drilled with Vaca Muerta shale as the target, mostly in the Loma Campana field in association with Chevron, continuing the massive development that was begun in 2013. The remaining wells were targeted to continue the development phase in the El Orejano block in association with Dow Chemical, the Nambuena project in association with Chevron, and the La Amarga Chica pilot in association with Petronas. The purpose of these projects is to determine the potential of Vaca Muerta as a shale oil/gas reservoir.

The development of unconventional resources in the Vaca Muerta formation will demand a significant capital investment. As we rapidly progress on our learning curve, substantially improving productivity and reducing well cost by 27% in 2016 compared to 2015, we expect to continue yielding substantial savings due to operational optimizations, economies of scale and increasing well productivity through a better understanding of the subsurface.

**Table of Contents**

Nevertheless, the financial viability of these investments and resource recovery efforts will depend on the prevailing economic and regulatory conditions, as well as the market prices of hydrocarbons in Argentina. See Item 3. Key Information Risk Factors. and Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations for additional information regarding 2017 activity.

Tight sands also contributed to the increase of natural gas production and reserves in 2016, as was the case in the Mulichinco formation in the Rincón del Mangrullo concession, where Pampa Energía S.A. ( Pampa Energía ) acquired 50% of the working interest during 2015. More than 100 wells were drilled in these marine tight sands, increasing gas production to 5 mmcm/d through a pipeline that connects to Loma La Lata facilities. This pipeline may enable the development of other gas fields, like the recent shale gas discovery in La Ribera, where a successful well is already in production. During 2016, three horizontal wells were drilled in Rincon del Mangrullo, resulting in higher than expected initial gas rate production. These results are encouraging for continued development of horizontal wells.

During 2016, we started supplying sand as proppant (to be injected in the hydraulic stimulation that allows for the development of unconventional hydrocarbons) and finalized the sand treatment plant. This contributed substantially to a reduction of stimulation cost. We expect to gradually replace the more expensive imported sand with our domestic product, allowing for significant well cost reductions.

***Vaca Muerta Formation***

**Table of Contents**

Loma Campana Area: On July 16, 2013, YPF and Chevron signed an investment project agreement for the joint exploitation of unconventional hydrocarbons in the province of Neuquén.

During 2016, 60 wells were put into production, of which four were vertical wells and 56 were horizontal wells. The standard design for horizontal wells was 1500 m of lateral length and 18 frac stages. Due to continued improvements in our drilling performance, despite reducing the number of active drilling rigs from six to three by the second half of the 2016, we still exceeded planned production from drilling 60 horizontal wells. An average drilling time of 35 days to drill a 4700 m measured depth ( MD ) well was achieved during 2015, with an improvement to 29 days for a 4800 m MD in 2016. This reduction in drilling time is also reflected in drilling costs of an average well cost reduction of 27% between 2015 and 2016 for a horizontal well of 1500 m lateral length. In addition, during the last days of the year, the Loma Campana Crude Oil Treatment Plant was launched, with a capacity of 8,000 cm/d expandable to 16,000 cm/d. See additionally Main properties.

In January 2016, the Loma Campana Offices were inaugurated as the hub of Non-Conventional Operations.

El Orejano Area: On September 23, 2013, YPF and Dow Europe Holding B.V. and PBB Polisor S.A. (our current 50% partner in the area) signed an agreement relating to the joint development of an unconventional gas pilot project in the province of Neuquén. During 2016, we began substantial developments, leading to a total of 31 wells drilled, 30 of them horizontal wells, and 26 wells were put into production, with a net investment of U.S.\$136 million in Drill and Completion (D&C) and U.S.\$29 million in production facilities. By the end of 2016, the total gas production for the field exceeded 2.0 mmcm/d (179% higher than December 2015). See additionally Main properties.

La Amarga Chica Area: On December 10, 2014, YPF and PETRONAS E&P ARGENTINA S.A., an affiliate of PETRONAS E&P Overseas Ventures Sdn. Bhd ( PEPOV ) of Malaysia, executed a Project Investment Agreement (the Investment Agreement ) aiming to perform joint exploitation of unconventional hydrocarbons in the La Amarga Chica area in the province of Neuquén. The Pilot Plan, comprising 28 wells in three years, started in May 2015. At the end of the first phase, a total of six horizontal and three vertical wells were drilled, with results over performing previous expectations. Based on those positive results, PETRONAS E&P ARGENTINA S.A. agreed to continue co-investing in a second phase of the pilot project. By the end of 2016, four additional horizontal wells from this phase were drilled, reaching a total of nine drilled wells during 2016, with a drilling rig fully dedicated to the project. This drilling and completion activity developed during 2016 comprised a total investment of U.S.\$105 million, with an additional U.S.\$27 million expended on production facilities and U.S.\$12 million for 3D seismic data acquisition and other studies. Total oil production increased from 7 cm/d in December 2015 to 341 cm/d in December 2016. See additionally Main properties.

Aguada de la Arena Area: On May 13, 2016, YPF and Pampa Energía executed an agreement subject to certain conditions precedent under which, upon closing of the acquisition by Pampa Energía of a controlling stake in Petrobras Argentina S.A ( PESA ), PESA will assign to YPF certain participating interests in two exploitation concessions in areas with gas production and significant gas development potential (tight and shale) located in the Neuquina basin, which shall be operated by YPF. The participating interests to be acquired are: (i) a 33.33% participating interest in the Río Neuquén block located in the province of Neuquén and the province of Río Negro and (ii) an 80% participating interest in the Aguada de la Arena block located in the province of Neuquén. In addition, on February 23, 2017, YPF and PetroUruguay S.A. signed a definitive agreement for the transfer of a 20% participating interest in the Aguada de la Arena area. As a result, YPF has increased its participating interest

in the Aguada de la Arena area to 100%.

By the end of 2016, 14 wells were operating in the Mulichinco formation, and total gas production for the field exceeded 0.6 mmcm/d. In 2017, we plan to drill four horizontal wells (three in the Vaca Muerta formation and one in the Mulichinco formation). See additionally Main properties.

Bajada de Añelo Area: Although there was no drilling and completion activity during 2016, YPF acquired 3D seismic data covering 618 km<sup>2</sup> in this area. There are currently four drilled and completed vertical wells targeting the Vaca Muerta formation, but one of them uses a portable

**Table of Contents**

compression facility to handle the gas for transport by trucks, while liquids are transported by trucks as well. In February 23, 2017, YPF and O&G Developments Ltd. S.A. (hereinafter O&G), an affiliate of Shell Compañía Argentina de Petróleo S.A., executed an agreement, through which YPF and O&G agreed on the main terms and conditions for the joint development of a shale oil and shale gas pilot in two phases. O&G will be the operator of the area. See additionally Main properties.

Chihuido de la Sierra Negra Sudeste Narambuena Area: During April 2014, YPF and subsidiaries of Chevron Corporation executed a new agreement with the objective of the joint exploration of unconventional hydrocarbons in the province of Neuquén, within the area Chihuido de la Sierra Negra Sudeste Narambuena. During 2015, this activity began with the drilling and completion of two vertical wells that allowed for the defining of the location and landing zone for the horizontal well. This well was drilled at the end of 2015 and the beginning of 2016, covering 1200 m of lateral length at 2400 m of vertical depth, within the younger internal sequence of Vaca Muerta and becoming the first well in the basin with this objective. Subsequently, a third vertical well was drilled to delineate the extension of the play to the eastern sector of the block. By the drilling, completion and testing of these wells, the commitment for the initial phase of the project signed in April 2014 was fulfilled. During the second half of 2016, the joint venture between YPF and subsidiaries of Chevron Corporation continued the exploratory stage by evaluating the long term tests of the horizontal well and third vertical well in this area located in the black oil window of the play. Chevron will state whether the joint activity will continue in a second phase by June 2017. See additionally Main properties.

During 2016, Unconventional Regional production was 50 mboe/d, representing 8% of YPF's total production.

**Main properties**

Our production is concentrated in the following basins in Argentina: Neuquina, Golfo San Jorge, Cuyana, Noroeste and Austral.

Our domestic operations are subject to certain risks. See Item 3. Key Information Risk Factors.

In 2017, 2016, 2015 and 2014, we finalized agreements related to the acquisition and development of properties that are part of our core business. In connection with those agreements, see Notes 3, 29.b and 34 to the Audited Consolidated Financial Statements.

In addition to the agreements detailed in Audited Consolidated Financial Statements, on March 29, 2017, a Memorandum of Understanding was signed between Pan American Energy LLC (Argentina branch) (PAE), Total Austral S.A. (Argentina branch) (TOTAL), Wintershall Energía S.A. (WIAR) and YPF (collectively, the Parties), for which approval for the following will be requested from the applicable authority:

- (i) the division of the Aguada Pichana area into two new Aguada Pichana East (APE) and Aguada Pichana West (APO) areas with an area of 761 km<sup>2</sup> (629 km<sup>2</sup> net perforations) and 604 km<sup>2</sup> (443 km<sup>2</sup> net perforations), respectively;
- (ii) the combination of the Aguada de Castro (ACA) area, which has an area of 163 km<sup>2</sup>, with the new APO area. Both areas combined will have a total area of 767 km<sup>2</sup>;

(iii) in both cases, a Non-Conventional Hydrocarbon Exploitation Concession will be requested, led by each of the Parties in the areas. To this end, the Parties will propose an investment project of U.S.\$300 million for APE and U.S.\$200 million for APO and ACA; and

(iv) the granting of the benefits provided in Resolution No. 46-E/2017 of the Ministry of Energy and Mining. If approval is granted, APE will be operated by TOTAL and APO and ACA will be operated by PAE.

YPF's current participation is 27.27% in the Aguada Pichana area and 50% in the Aguada de Castro area.

The Memorandum of Understanding contemplates the modification of the participating interest of YPF on the following terms:

In the APE area, YPF's participation will be 22.50%, which implies in respect of its current participation the sale of a 4.77% participating interest (equivalent to 30 km<sup>2</sup> net perforations).

In the combined APO and ACA area, YPF's participation will be 30%, which implies in respect of its current participation the same participation in APO and a sale of a 12.58% participating interest in ACA (equivalent to 20.5 km<sup>2</sup> net perforations).



Notwithstanding the changes in the participating interest in APE, all existing assets, including the production of existing wells and any future development that is not associated with the Vaca Muerta formation, will not be modified in terms of the participation of the Parties.

In the event the corresponding approvals are obtained and definitive agreements are signed, subject to the fulfillment of certain conditions precedent, this will allow YPF to receive the sum of U.S.\$52.3 million for the aforementioned transfer of participating interests.

In addition, in connection with the extension of concessions, see Note 29.a to the Audited Consolidated Financial Statements.

The following table sets forth information with regard to our developed and undeveloped acreage by geographic area as of December 31, 2016:

	As of December 31, 2016			
	Developed <sup>(1)</sup>		Undeveloped <sup>(2)</sup>	
	Gross <sup>(3)</sup>	Net <sup>(4)</sup>	Gross <sup>(3)</sup>	Net <sup>(4)</sup>
	(thousands of acres)			
South America	1,511	1,121	31,796	17,234
Argentina	1,511	1,121	31,392	16,954
Rest of South America <sup>(5)</sup>			404	280
Total	1,511	1,121	31,796	17,234

- (1) Developed acreage is spaced or assignable to productive wells.
- (2) Undeveloped acreage encompasses those leased acres on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil or gas regardless of whether such acreage contains proved reserves.
- (3) A gross acre is an acre in which we own a working interest.
- (4) Net acreage equals gross acreage after deducting third-party interests.
- (5) Relates to Colombia and Chile. In the case of Colombia, YPF and its partners notified the Colombian National Hydrocarbons Agency ( ANH ) of the decision to relinquish the COR 12 and COR 33 blocks. In Chile, YPF s undeveloped surface acreage totaled 107,000 acres.

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**Table of Contents**

Except for the information provided in the next paragraph, as of December 31, 2016, none of our exploration permits considered as a whole, which include undeveloped acreage, will expire in 2017 in accordance with the Hydrocarbons Law and complementary provincial laws. In addition, according to Law No. 27,007 that amended the Hydrocarbons Law, all national offshore permits and offshore hydrocarbon production concessions that did not have association agreements with ENARSA as of the date of the new law reverted and were transferred to the Argentine Secretariat of Energy. Permits and concessions granted prior to Law No. 25,943 will be exempt from this provision. In September 2015, the National Executive Office and YPF began negotiating the conversion of association agreements signed with ENARSA. As of the date of this annual report, the negotiations are ongoing. YPF currently participates in three offshore blocks in association with ENARSA, which represent approximately 58% of our net exploratory undeveloped acreage. We cannot guarantee that as a result of such negotiations we would not decide to relinquish to the Argentine Secretariat of Energy part or all of the acreage included in our current association with ENARSA. With the exception of the above, none of our exploration permits are regulated by Law No. 27,007. See [Legal and Regulatory Framework and Relationship with the Argentine Government](#) Law No. 27,007, amending the Hydrocarbons Law Exploration and Production.

However, as a result of the expiration in 2017 of the first, second or third exploration terms of certain of our exploration permits (according to the original terms of the Hydrocarbons Law, which applied to our existing exploration permits), we would be required to relinquish a fixed portion of the acreage related to each such expiring permit, as set forth in the Hydrocarbons Law, as long as exploitable quantities of oil or gas are not discovered in such areas (in which case we may seek to obtain a declaration of their commercial viability from the relevant authorities, and the related areas would then be subject to exploitation concessions). Additionally, and depending on the circumstances that could arise in each case (for instance, the state of exploratory activity in a certain area), we could request an extension of the expiration of the exploration permit, which would be subject to the approval of the respective governing authority. As a result, if no discoveries are made in 2017, we would be required to relinquish approximately 2,700 km<sup>2</sup> of exploratory undeveloped acreage (approximately 7% of our 41,000 km<sup>2</sup> of net exploratory undeveloped acreage as of December 31, 2016) during 2017.

Additionally, based on information available as of the date of this annual report, if we fail to make any discoveries or to engage in new activity that could extend the expirations of the exploration permits, we could be required or could decide to relinquish a maximum of approximately 4,000 km<sup>2</sup> of exploratory undeveloped acreage (approximately 10% of our 41,000 km<sup>2</sup> of net exploratory undeveloped acreage as of December 31, 2016) during 2018 and 2019.

According to the Hydrocarbons Law, we are entitled to decide, according to our best interest, which acreage related to each exploration permit to keep if we remain within the required relinquishment percentage. Therefore, the areas to be relinquished consist usually of acreage where drilling has not been successful and are considered non-core lease acreage.

Except as described above, we do not have any material undeveloped acreage related to our production concessions expiring in the near term.

During 2016, we undertook negotiations with GyP relating to 24 exploration blocks, held as of December 31, 2015, in which we shared a working interest comprising a gross area of 9,333 km<sup>2</sup> (of which YPF's participating interest was 5,943 km<sup>2</sup>). As a result of these negotiations, a swap of working interests in the different blocks was conducted, and YPF now holds working interests in 9 exploration blocks and 2 concession blocks, without GyP as a partner, which comprises a gross area of 2,089 km<sup>2</sup> in the case of exploration blocks (of which YPF's participating



**Table of Contents**

interest is 1,261 km<sup>2</sup>) and a gross area of 142 km<sup>2</sup> in the case of concession blocks (of which YPF's participating interest is 112 km<sup>2</sup>). In addition, we also obtained an extension for the pilot plans for the maximum period of five years, as provided under Law No. 27,007, in the La Amarga Chica, Bajada de Añelo and Bandurria Sur areas. See

Legal and Regulatory Framework and Relationship with the Argentine Government Law No. 27,007, amending the Hydrocarbons Law for a description of new terms that apply to new production concessions or exploration permits, other than those already governed by previous laws.

**Argentine Exploration Permits and Exploitation Concessions**

Argentina is the second largest producer of natural gas and the fourth largest producer of crude oil in Central and South America based on 2015 production, according to the 2016 edition of the BP Statistical Review of World Energy published in June 2016. Oil has historically accounted for the majority of the country's hydrocarbon production and consumption, although the relative share of natural gas has increased rapidly in recent years. As of the date of this annual report, a total of 24 sedimentary basins were re-evaluated in the country, in the line with (*Plan Exploratorio Argentina*). The total surface area of the continent represents approximately 408 million acres and the total offshore surface area includes 194 million acres on the South Atlantic shelf within the 200-meter line. Of the total 602 million acres of the sedimentary basins, a significant part still needs to be evaluated through exploratory and study drilling.

The following table shows our gross and net interests in productive oil and gas wells in Argentina by basin, as of December 31, 2016:

<i>Basin</i>	<i>Wells<sup>(1)</sup></i>			
	<i>Oil</i>		<i>Gas</i>	
	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>
Onshore	13,112	11,820	1,838	1,336
Neuquina	4,699	3,961	1,665	1,195
Golfo San Jorge	7,489	7,003	62	62
Cuyana	786	722	0	0
Noroeste	9	5	52	20
Austral	129	129	59	59
Offshore		0	19	10
<b>Total</b>	<b>13,112</b>	<b>11,820</b>	<b>1,857</b>	<b>1,346</b>

(1) A gross well is a well in which we own a working interest. A net well is deemed to exist when the sum of fractional ownership working interests in gross wells equals one. The number of net wells is the sum of the fractional working interests owned in gross wells expressed as whole numbers and fractions of whole numbers.

Gross and net wells include one oil well and three gas wells with multiple completions.

As of December 31, 2016, we held 133 exploration permits and production concessions in Argentina. We directly operate 102 of them, including 19 exploration permits and 83 production concessions.

*Exploration permits.* As of December 31, 2016, we held 23 exploration permits in Argentina, 20 of which were onshore exploration permits and three of which were offshore exploration permits. We had 100% ownership of six onshore permits, and our participating interests in the remainder varied between 50% and 80%. We had participating interests in three offshore permits varied between 30% and 35%.

*Production concessions.* As of December 31, 2016, we had 110 production concessions in Argentina. We had a 100% ownership interest in 69 production concessions, and our participating interests in the remaining 41 production concessions varied between 7% and 98%.

In addition, we have 32 crude oil treatment plants and nine pumping plants where oil is processed and stored. The purpose of these plants is to receive and treat oil from different fields prior to shipment to our refineries and/or commercialization to third parties, as applicable. See Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business Our business depends to a significant extent on our production and refining facilities and logistics network.

## **Table of Contents**

In connection with our principal properties, see Exploration & Production Activity in Argentina. Production for each of the last three fiscal years by geographic area and by field containing 15% or more of our total proved reserves are set forth under Oil and gas production, production prices and production costs.

Approximately 89% of our proved crude oil reserves in Argentina are concentrated in the Neuquina (51%) and Golfo San Jorge (38%) basins, and approximately 87% of our proved gas reserves in Argentina are concentrated in the Neuquina (77%), and Austral (10%) basins.

## **Joint ventures and contractual arrangements in Argentina**

As of December 31, 2016, we participated in 15 exploration and 33 production joint ventures and contractual arrangements (22 of which were not operated by us) in Argentina. Our interests in these joint ventures and contractual arrangements ranged from 7% to 98%, and our obligations to share exploration and development costs varied under these agreements. In addition, under the terms of some of these joint ventures, we have agreed to indemnify our joint venture partners in the event that our rights with respect to such areas are restricted or affected in such a way that the purpose of the joint venture cannot be achieved. For a list of the main exploration and production joint ventures in which we participated as of December 31, 2016, see Note 24 to the Audited Consolidated Financial Statements. We are also a party to a number of other contractual arrangements that arose through the renegotiation of service contracts and risk contracts and their conversion in exploitation concessions and exploration permits, respectively.

## **Oil and Gas Reserves**

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible (from a given date forward, from known reservoirs, and under existing economic conditions, operating methods and government regulations) prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within reasonable time. In some cases, substantial investments in new wells and related facilities may be required to recover proved reserves.

Information on net proved reserves as of December 31, 2016, 2015 and 2014 was calculated in accordance with the SEC rules and Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 932, as amended. Accordingly, crude oil prices used to determine reserves were calculated each month for crude oils of different quality produced by the Company. Consequently, to calculate our net proved reserves as of December 31, 2016, the Company considered the realized prices for crude oil in the domestic market (which were higher than those that had prevailed in the international market), taking into account the unweighted average price for each month within the twelve-month period ended December 31, 2016. Additionally, since there are no benchmark market natural gas prices available in Argentina, the Company used average realized gas prices during the year to determine its gas reserves.

Notwithstanding the foregoing, commodity prices have declined significantly since 2014. See Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business Our oil and natural gas reserves are estimates and Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business Our reserves and production are likely to decline.

Net reserves are defined as that portion of the gross reserves attributable to the interest of YPF after deducting interests owned by third parties. In determining net reserves, the Company excludes from its reported reserves

royalties due to others, whether payable in cash or in kind, where the royalty owner has a direct interest in the underlying production and is able to make lifting and sales arrangements independently. By contrast, to the extent that royalty payments required to be made to a third party, whether payable in cash or in kind, are a financial obligation, or are substantially equivalent to a production or severance tax, the related reserves are not excluded from the reported reserves despite the fact that such payments are referred to as royalties under local rules. The same methodology is followed in reporting our production amounts.

**Table of Contents**

Gas reserves exclude the gaseous equivalent of liquids expected to be removed from the gas on concessions and leases, at field facilities and at gas processing plants. These liquids are included in net proved reserves of NGLs.

**Technology used in establishing proved reserves additions**

YPF's estimated proved reserves as of December 31, 2016 are based on estimates generated through the integration of available and appropriate data, utilizing well-established technologies that have been demonstrated in the field to yield repeatable and consistent results. Data used in these integrated assessments include information obtained directly from the subsurface via wellbore, such as well logs, reservoir core samples, fluid samples, static and dynamic pressure information, production test data, and surveillance and performance information. The data utilized also include subsurface information obtained through indirect measurements, including high quality 2-D and 3-D seismic data, calibrated with available well control. Where applicable, geological outcrop information was also utilized. The tools used to interpret and integrate all this data included both proprietary and commercial software for reservoir modeling, simulation and data analysis. In some circumstances, where appropriate analog reservoir models are available, reservoir parameters from these analog models were used to increase the reliability of our reserves estimates.

For further information on the estimation process of our proved reserves, see Internal controls on reserves and reserves audits.

**Net Proved Developed and Undeveloped Reserves as of December 31, 2016**

The following table sets forth our estimated net proved developed and undeveloped reserves of crude oil, NGLs and natural gas at December 31, 2016.

	Oil <sup>(1)</sup> (mmbbl)	NGL (mmbbl)	Natural Gas (bcf)	Total <sup>(2)</sup> (mmboe)
<b>Proved Developed Reserves</b>				
<b>Consolidated Entities</b>				
South America				
Argentina	380	53	2,143	815
North America				
United States				
Total Consolidated Entities	380	53	2,143	815
<b>Equity-Accounted Entities</b>				
South America				
Argentina				
North America				
United States				
Total Equity-Accounted Entities				
<b>Total Proved Developed Reserves</b>	<b>380</b>	<b>53</b>	<b>2,143</b>	<b>815</b>

**Proved Undeveloped Reserves** Oil <sup>(1)</sup> (mmbbl) NGL (mmbbl)



			<b>Natural Gas (bcf)</b>	<b>Total (<sup>2</sup>) (mmboe)</b>
<b>Consolidated Entities</b>				
South America				
Argentina	145	15	780	298
North America				
United States				
Total Consolidated Entities	145	15	780	298
<b>Equity-Accounted Entities</b>				
South America				
Argentina				
North America				
United States				
Total Equity-Accounted Entities				
<b>Total Proved Undeveloped Reserves</b>	<b>145</b>	<b>15</b>	<b>780</b>	<b>298</b>

			<b>Natural Gas (bcf)</b>	<b>Total (<sup>2</sup>) (mmboe)</b>
<b>Total Proved Reserves</b> <sup>(2) (3)</sup>	<b>Oil</b> <sup>(1)</sup> (mmbbl)	<b>NGL</b> (mmbbl)		
<b>Consolidated Entities</b>				
Developed Reserves	380	53	2,143	815
Undeveloped Reserves	145	15	780	298

**Table of Contents**

<i>Total Proved Reserves</i> <sup>(2) (3)</sup>	Oil <sup>(1)</sup> (mmbbl)	NGL (mmbbl)	Natural Gas (bcf)	Total <sup>(2)</sup> (mmboe)
Total Consolidated Entities	525	68	2,923	1,113
<b>Equity-accounted entities</b>				
Developed Reserves				
Undeveloped Reserves				
<b>Total Equity-Accounted Entities</b>				
<b>Total Proved Reserves</b>	<b>525</b>	<b>68</b>	<b>2,923</b>	<b>1,113</b>

(1) Includes crude oil (oil and condensate).

(2) Volumes of natural gas in the table above and elsewhere in this annual report have been converted to barrels of oil equivalent at 5,615 cubic feet per barrel.

(3) Proved crude oil and NGL reserves of consolidated entities include an estimated approximately 76 mmbbl of crude oil and 8 mmbbl of NGLs in respect of royalty payments which, as described above, are a financial obligation or are substantially equivalent to a production or similar tax. Proved natural gas reserves of consolidated entities include an estimated approximately 337 bcf in respect of such payments. Equity-accounted entities reserves in respect of royalty payments that are a financial obligation or are substantially equivalent to a production or similar tax are not material.

For information regarding changes in our estimated proved reserves during 2016, 2015 and 2014, see Note 35 to the Audited Consolidated Financial Statements.

The paragraphs below explain in further detail the most significant changes in our proved undeveloped reserves during 2016, 2015 and 2014.

***Changes in our proved undeveloped reserves during 2016***

YPF had estimated a volume of net proved undeveloped reserves of 298 mmboe at December 31, 2016, which represented approximately 27% of the 1,113 mmboe total reported proved reserves as of such date. This compares to estimated net proved undeveloped reserves of 337 mmboe as of December 31, 2015 (approximately 27% of the 1,226 mmboe total reported proved reserves as of such date).

The approximately 11% net decrease in net proved undeveloped reserves in 2016 is mainly attributable to:

Ongoing successful development activities related to proved undeveloped reserves projects, which allowed a transfer of approximately 116 mmboe to proved developed reserves. Main contributions are related to development wells (75 mmboe), mainly in the Neuquina basin, improved recovery projects (14 mmboe), mainly in the Golfo San Jorge and Neuquina basins, and gas compression projects in the Neuquina basin (12 mmboe).

New economic conditions with lower average oil prices that affected the economics of scheduled projects, resulting in a reduction of proved undeveloped reserves of 45 mmboe, mainly from the oil fields of the Golfo San Jorge basin (-16 mmboe), the Neuquina basin (-14 mmboe) and the Austral basin (-12 mmboe).

In the Golfo San Jorge basin, the development schedules of several primary and improved recovery oil projects were modified or canceled, resulting in a reduction of proved undeveloped reserves of 20 mmboe.

This was partially offset by:

Extensions and discoveries, which added 80 mmboe (242 mmcf of gas and 29 mmbbl of oil) of proved undeveloped reserves, mainly from the Neuquina basin.

New project studies, which added approximately 12 mmboe of proved undeveloped reserves, mainly from the Neuquina basin.

New improved recovery projects, adding approximately 30 mmboe of proved undeveloped secondary recovery reserves. The most important additions belong to the Golfo San Jorge and Neuquina basins. The acquisition of interests in the Rio Neuquen gas field located in the Neuquina basin resulted in the addition of approximately 11 mmboe of proved undeveloped reserves.

YPF's total capital expenditure to continue the development of reserves was approximately U.S.\$2,930 million during 2016, of which U.S.\$ 1,214 million was allocated to projects related to proved undeveloped reserves.

As of December 31, 2016, we did not have material amounts of proved undeveloped reserves in individual fields or countries that have remained undeveloped for five years or more after being disclosed as proved undeveloped reserves.

**Table of Contents**

***Changes in our proved undeveloped reserves during 2015***

YPF had estimated a volume of net proved undeveloped reserves of 337 mmboe at December 31, 2015, which represented approximately 27% of the 1,226 mmboe total reported proved reserves as of such date. This compares to estimated net proved undeveloped reserves of 307 mmboe as of December 31, 2014 (approximately 25% of the 1,212 mmboe total reported proved reserves as of such date).

The approximately 10% net increase in net proved undeveloped reserves in 2015 is mainly attributable to:

Extensions and discoveries, which added 93 mmboe (24.5 mmbbl of crude oil, 7.3 mmbbl of NGL and 341.8 bcf of natural gas) of proved reserves, mainly in the Neuquina basin.

New project studies and revisions of gas and oil development projects, which added approximately 18 mmboe (7.5 mmbbl of crude oil, 0.9 mmbbl of NGL and 52.4 bcf of natural gas) of proved undeveloped reserves. The main contributions came from fields in the Neuquina, Golfo San Jorge, and Austral basins.

New improved recovery projects, which added approximately 10 mmbbl of proved undeveloped secondary recovery reserves of crude oil. The most important additions belong to the Golfo San Jorge, Neuquina and Cuyana Basins.

This was partially offset by:

Ongoing successful development activities related to proved undeveloped reserves projects, which allowed a transfer of approximately 77 mmboe (29 mmbbl of crude oil, 10.2 mmbbl of NGL and 212 bcf of natural gas) to proved developed reserves. The main contributions are related to development wells (51 mmboe), gas compression projects (15 mmboe) and improved recovery projects (8 mmboe).

A new joint venture agreement for the Rincón del Mangrullo field resulted in a reduction of approximately 8 mmboe (0.3 mmbbl of crude oil, 1.6 mmbbl of NGL and 34.7 bcf of natural gas) of proved undeveloped reserves, due to a change in YPF's working interest in this area.

YPF's total capital expenditure to continue the development of reserves was approximately U.S.\$4,592 million during 2015, of which U.S.\$1,557 million was allocated to projects related to proved undeveloped reserves.

As of December 31, 2015, we did not have material amounts of proved undeveloped reserves in individual fields or countries that have remained undeveloped for five years or more after being disclosed as proved undeveloped reserves.

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**Table of Contents**

***Changes in our proved undeveloped reserves during 2014***

YPF had estimated a volume of net proved undeveloped reserves of 307 mmboe at December 31, 2014, which represented approximately 25 % of the 1212 mmboe total reported proved reserves as of such date. This compares to estimated net proved undeveloped reserves of 261 mmboe as of December 31, 2013 (approximately 24% of the 1083 mmboe total reported proved reserves as of such date).

The 18% net increase in net proved undeveloped reserves in 2014 is mainly attributable to:

Extensions and discoveries, which added 79.3 mmboe (19.6 mmbbl of crude oil, 9.6 mmbbl of NGL and 291.3 bcf of natural gas) of proved reserves, mainly from the Neuquina and Golfo San Jorge basins.

Negotiation of the extension of exploitation concessions in the provinces of Tierra del Fuego and Río Negro, which added 15.5 mmboe (4.7 mmbbl of crude oil, 0.8 mmbbl of NGL and 56.3 bcf of natural gas) of proved undeveloped reserves.

New project studies and revision of gas and oil development projects, which added approximately 28 mmboe (17.7 mmbbl of crude oil, a decrease of 1.3 mmbbl of NGL and 64.8 bcf of natural gas) of proved undeveloped reserves. The main contributions came from the Neuquina and Golfo San Jorge basins.

New improved recovery projects, which added approximately 10 mmboe of proved undeveloped secondary recovery reserves. The most important additions are related to the Golfo San Jorge basin.

This was partially offset by:

Ongoing successful development activities related to proved undeveloped reserves projects, which allowed a transfer of approximately 88.1 mmboe (26.3 mmbbl of crude oil, 8.3 mmbbl of NGL and 300.6 bcf of natural gas) to proved developed reserves. Main contributions are related to development wells (58 mmboe), gas compression projects (14 mmboe) and improved recovery projects (10 mmboe).

YPF's total capital expenditure to advance the development of reserves was approximately U.S.\$ 4,260 million during 2014, of which U.S.\$ 758 million was allocated to projects related to proved undeveloped reserves.

As of December 31, 2014, we estimate that our proved undeveloped reserves related to gas wells and to primary and secondary oil recovery projects, which account for approximately 96% of our proved undeveloped reserves, will be developed within five years from their initial booking date.

Low pressure gas compression projects in the Neuquina basin, which account for the remaining approximately 4% of our proved undeveloped reserves as of December 31, 2014, continue their scheduled development. We estimate that the last compression stage (representing approximately 1% of our proved reserves as of such date) will be developed within approximately seven years from its booking date according to expected compression needs based on current

(and consequently expected) reservoir behavior.

**Internal controls on reserves and reserves audits**

All of our oil and gas reserves held in consolidated companies have been estimated by our petroleum engineers. In order to meet the high standard of reasonable certainty, reserves estimates are stated taking into consideration additional guidance as to reservoir economic producibility requirements, acceptable proved area extensions, drive mechanisms and improved recovery methods, marketability under existing economic and operating conditions and project maturity.

Where applicable, the volumetric method is used to determine the original quantities of petroleum in place. Estimates are made by using various types of logs, core analysis and other available data. Formation tops, gross thickness and representative values for net pay thickness, porosity and interstitial fluid saturations are used to prepare structural maps to delineate each reservoir and isopachous maps to determine reservoir volume. Where adequate data is available and where circumstances are justified, material-balance and other engineering methods are used to estimate the original hydrocarbon in place.

## Table of Contents

Estimates of ultimate recovery are obtained by applying recovery factors to the original quantities of petroleum in place. These factors are based on the drive mechanisms inherent in the reservoir, analysis of the fluid and rock properties, the structural position of the reservoir and its production history. In some instances, comparisons are made with similar production reservoirs in the areas where more complete data is available.

Where adequate data is available and where circumstances are justified, material-balance and other engineering methods are used to estimate ultimate recovery. In these instances, reservoir performance parameters such as cumulative production, production rate, reservoir pressure, gas to oil ratio behavior and water production are considered in estimating ultimate recovery.

In certain cases where the above methods could not be used, proved reserves are estimated by analogy to similar reservoirs where more complete data are available.

To control the quality of reserves booking, a process has been established that is integrated into the internal control system of YPF. This process to manage reserves booking is centrally controlled and has the following components:

- (a) The Reserves Audit ( RA ) is separate and independent from the Upstream segment. RA s activity is overseen by YPF s Audit Committee, which is also responsible for supervising the procedures and systems used in the recording of and internal control over the Company s hydrocarbon reserves. The primary objectives of the RA are to ensure that YPF s proved reserves estimates and disclosure are in compliance with the rules of the SEC, the FASB, and the Sarbanes-Oxley Act, and to review annual changes in reserves estimates and the reporting of YPF s proved reserves. The RA is responsible for preparing the information to be publicly disclosed concerning YPF s reported proved reserves of crude oil, NGLs, and natural gas. In addition, the RA is also responsible for providing training to personnel involved in the reserves estimation and reporting process within YPF. The RA is managed by and staffed with individuals that have an average of more than 20 years of technical experience in the petroleum industry, including in the classification and categorization of reserves under the SEC guidelines. The RA staff includes several individuals who hold advanced degrees in either engineering or geology, as well as individuals who hold bachelor s degrees in various technical studies. Several members of the RA are registered with or affiliated to the relevant professional bodies in their fields of expertise.
- (b) The Reserves Auditor, who has headed the RA since January 2013, is responsible for overseeing the preparation of the reserves estimates and reserves audits conducted by third party engineers. The current director has over 20 years of experience in geology and geophysics, reserves estimates, project development, finance and general accounting regulation. In the six years prior to becoming the Reserves Auditor, he was Regional Director responsible for the operation and development of YPF s operated fields at the Cuyana and North of Neuquina basins, in western Argentina. He holds a degree in geology from the National University of Tucumán, and postgraduate courses at IAE Austral University. Consistent with our internal control system requirements, the Reserves Auditor s compensation is not affected by changes in reported reserves.
- (c) A quarterly internal review by the RA of changes in proved reserves submitted by the Upstream business segment and associated with properties where technical, operational or commercial issues have arisen.
- (d)

A Quality Reserve Coordinator ( QRC ) is assigned to each Upstream business segment of YPF to ensure that there are effective controls in the proved reserves estimation and approval process of the estimates of YPF and the timely reporting of the related financial impact of proved reserves changes. Our QRCs are responsible for reviewing proved reserves estimates. The qualification of each QRC is made on a case-by-case basis with reference to the recognition and respect of such QRC s peers. YPF would normally consider a QRC to be qualified if such person (i) has a minimum of 5 years of practical experience in petroleum engineering or petroleum production geology, with at least three years of such experience in charge of the estimation and evaluation of reserves, and (ii) has either (A) obtained, from a college or university of recognized stature, a bachelor s or advanced degree in petroleum engineering, geology or other related discipline of engineering or physical science, or (B) received, and is maintaining in good standing, a registered or certified professional engineer s license or a registered or certified professional geologist s license, or the equivalent thereof, from an appropriate governmental authority or professional organization.



**Table of Contents**

- (e) A formal review through technical review committees to ensure that both technical and commercial criteria are met prior to the commitment of capital to projects.
- (f) Our internal audit team examines the effectiveness of YPF's financial controls, which are designed to ensure the reliability of reporting and safeguarding of all the assets and examines YPF's compliance with the law, regulations and internal standards.
- (g) All volumes booked are submitted to a third party reserves audit on a periodic basis. The properties selected for a third party reserves audit in any given year are selected on the following basis:
  - i. all properties on a three-year cycle; and
  - ii. recently acquired properties not submitted to a third party reserves audit in the previous cycle and properties with respect to which there is new information which could materially affect prior reserves estimates.

For those areas submitted to a third party reserves audit, YPF's proved reserves figures have to be within 7% or 10 mmbob of the third party reserves audit figures for YPF to declare that the volumes have been ratified by a third party reserves audit. In the event that the difference is greater than the tolerance, YPF will re-estimate its proved reserves to achieve this tolerance level or should disclose the third party figures. YPF has adopted the above-mentioned procedure by approving the corresponding internal policy.

In 2016, Gaffney, Cline & Associates audited certain YPF operated and non-operated areas in the Neuquina, Golfo San Jorge, NOA and Cuyana basins of Argentina. These audits were performed as of December 31, 2016, and the audited fields contain in aggregate, according to our estimates, 417.7 mmbob proved reserves (123.5 mmbob of which were proved undeveloped reserves) as of such date, which represented approximately 37.5% of our proved reserves and 41.4% of our proved undeveloped reserves as of December 31, 2016. Copies of the related reserves audit reports are filed as an exhibit to this annual report.

We are required, in accordance with Resolutions No. 324/06 and 69/16 of the Argentine Secretariat of Hydrocarbon Resources, to annually file by March 31 details of our estimates of our oil and gas reserves and resources with the Argentine Secretariat of Hydrocarbon Resources, as defined in that resolution and certified by an external auditor. The aforementioned certification and external audit only have the meaning established by Resolutions No. 324/06 and 69/16, and are not to be interpreted as a certification or external audit of oil and gas reserves under SEC rules. We last filed such a report for the year ended December 31, 2015. Estimates of our oil and gas reserves filed with the Argentine Secretariat of Hydrocarbon Resources are materially higher than the estimates of our proved oil and gas reserves contained in this annual report mainly because: (i) information filed with the Argentine Secretariat of Hydrocarbon Resources includes all properties of which we are operators, irrespective of the level of our ownership interests in such properties; (ii) information filed with the Argentine Secretariat of Hydrocarbon Resources includes other categories of reserves and resources that are not included in this annual report, which are different from estimates of proved reserves consistent with the SEC's guidance contained in this annual report; and (iii) the definition of proved reserves under Resolutions No. 324/06 and 69/16 is different from the definition of proved oil and gas reserves established in Rule 4-10(a) of Regulation S-X. Accordingly, all proved oil and gas reserve estimates included in this annual report reflect only proved oil and gas reserves consistent with the rules and disclosure requirements of the SEC.

***Oil and gas production, production prices and production costs***

The following table shows our crude oil (including oil and condensate), NGL, and gas production on an as sold and annual basis for the years indicated. In determining net production, we exclude royalties due to others, whether payable in cash or in kind, where the royalty owner has a direct interest in such production and is able to make lifting and sales arrangements independently. By contrast, to the extent that royalty payments required to be made

**Table of Contents**

to a third party, whether payable in cash or in kind, are a financial obligation or are substantially equivalent to a production or severance tax, they are not excluded from our net production amounts despite the fact that such payments are referred to as royalties under local rules. This is the case for our production in Argentina, where royalty expense is accounted for as a production cost.

<i>Oil and Condensate Production</i> <sup>(1)</sup>	2016	2015	2014
	(mmbbl)		
<b>Consolidated Entities</b>			
South America			
Argentina	90	91	89
North America			
United States	*	*	*
Total Consolidated Entities	90	91	89
<b>Equity-Accounted Entities</b>			
South America			
Argentina			
North America			
United States			
Total Equity-Accounted Entities			
<b>Total Oil Production</b> <sup>(2)</sup>	<b>90</b>	<b>91</b>	<b>89</b>
<i>NGL Production</i> <sup>(1)</sup>	2016	2015	2014
	(mmbbl)		
<b>Consolidated Entities</b>			
South America			
Argentina	19	18	18
North America			
United States			
Total Consolidated Entities	19	18	18
<b>Equity-Accounted Entities</b>			
South America			
Argentina			
North America			
United States			
Total Equity-Accounted Entities			
<b>Total NGL Production</b> <sup>(3)</sup>	<b>19</b>	<b>18</b>	<b>18</b>
<i>Natural Gas Production</i> <sup>(1)</sup>	2016	2015	2014

	<b>(bcf)</b>		
<b>Consolidated Entities</b>			
South America			
Argentina	457	452	470
North America			
United States	*	*	1
Total Consolidated Entities	457	452	471
<b>Equity-Accounted Entities</b>			
South America			
Argentina			
North America			
United States			
Total Equity-Accounted Entities			
<b>Total Natural Gas Production</b> <sup>(4) (5)</sup>	<b>457</b>	<b>452</b>	<b>471</b>

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(mmboe)</b>		
<b>Oil Equivalent Production</b> <sup>(1) (6)</sup>			
<b>Consolidated Entities</b>			
Oil and Condensate	90	91	89
NGL	19	18	18
Natural Gas	81	81	84
<b>Equity-Accounted Entities</b>			
Oil and Condensate			
NGL			
Natural Gas			
<b>Total Oil Equivalent Production</b>	<b>190</b>	<b>190</b>	<b>191</b>

\* Not material (less than 1).

**Table of Contents**

- (1) Loma La Lata Central and Loma La Lata Norte (southern and northern parts of the Loma La Lata field) in Argentina contain approximately 16% of our total proved reserves expressed on an oil equivalent barrel basis. Oil and condensate production in these fields was approximately 6, 6 and 5 mmbbl for the years ended December 31, 2016, 2015 and 2014, respectively. NGL production in these fields was approximately 8, 8 and 8 mmbbl for the years ended December 31, 2016, 2015 and 2014, respectively. Natural gas production in the Loma La Lata field was 132, 133 and 138 bcf for the years ended December 31, 2016, 2015 and 2014, respectively.
- (2) Crude oil production for the years ended in December 31, 2016, 2015 and 2014 includes an estimated 13, 13 and 13 mmbbl, respectively, in respect of royalty payments which are a financial obligation or are substantially equivalent to a production or similar tax. Equity-accounted entities production of crude oil in respect of royalty payments which are a financial obligation, or are substantially equivalent to a production or similar tax is not material.
- (3) NGL production for the years ended in December 31, 2016, 2015 and 2014 includes an estimated 2, 2 and 2 mmbbl, respectively, in respect of royalty payments which are a financial obligation or are substantially equivalent to a production or similar tax. Equity-accounted entities production of NGL in respect of royalty payments which are a financial obligation or are substantially equivalent to a production or similar tax is not material.
- (4) Natural gas production for the years December 31, 2016, 2015 and 2014 includes an estimated 60, 58 and 60 bcf, respectively, in respect of royalty payments which are a financial obligation or are substantially equivalent to a production or similar tax. Equity-accounted entities production of natural gas in respect of royalty payments which are a financial obligation or are substantially equivalent to a production or similar tax is not material.
- (5) Does not include volumes consumed or flared in operations (whereas sale volumes shown in the reserves table included in Supplemental Information on Oil and Gas Exploration and Production Activities Oil and Gas Reserves include volumes consumed in operations).
- (6) Volumes of natural gas have been converted to barrels of oil equivalent at 5,615 cubic feet per barrel.
- The composition of the crude oil produced by us in Argentina varies by geographic area. Almost all crude oil produced by us in Argentina has very low or no sulfur content. We sell substantially all the crude oil we produce in Argentina to our Refining and Marketing business segment. Most of the natural gas produced by us is of pipeline quality. All of our gas fields produce commercial quantities of condensate, and substantially all of our oil fields produce associated gas.

The following table sets forth the average production costs and average sales price by geographic area for 2016, 2015 and 2014:

<i>Production costs and sales price</i>	<i>Total</i>	<i>Argentina</i>	<i>United States</i>
		<i>(Ps/boe)</i>	
<b>Year ended December 31, 2016</b>			
Lifting costs	195.80	196.30	121.66
Local taxes and similar payments <sup>(1)</sup>	8.35	8.37	
Transportation and other costs	38.93	39.02	32.81
<b>Average production costs</b>	<b>243.08</b>	<b>243.70</b>	<b>154.47</b>
Average oil sales price	861.74	863.25	510.01
Average NGL sales price	222.71	223.35	50.35
Average natural gas sales price <sup>(2)</sup>	417.95	418.00	193.08
<b>Year ended December 31, 2015</b>			

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Lifting costs	151.77	151.85	125.66
Local taxes and similar payments <sup>(1)</sup>	4.82	4.83	
Transportation and other costs	14.93	14.91	21.45
<b>Average production costs</b>	<b>171.51</b>	<b>171.59</b>	<b>147.11</b>
Average oil sales price	620.77	621.85	392.86
Average NGL sales price	133.92	133.59	175.25
Average natural gas sales price <sup>(2)</sup>	249.71	249.75	129.73
<b>Year ended December 31, 2014</b>			
Lifting costs	122.25	122.26	118.60
Local taxes and similar payments <sup>(1)</sup>	11.41	11.44	
Transportation and other costs	15.03	15.03	15.58
<b>Average production costs</b>	<b>148.69</b>	<b>148.74</b>	<b>134.19</b>
Average oil sales price	594.02	593.34	724.77
Average NGL sales price	188.87	187.70	364.23
Average natural gas sales price <sup>(2)</sup>	204.02	204.01	192.58

- (1) Does not include *ad valorem* and severance taxes, including the effect of royalty payments which are a financial obligation or are substantially equivalent to such taxes, in an amount of approximately Ps. 86.82 per boe, Ps. 60.39 per boe and Ps. 45.51 per boe for the years ended December 31, 2016, 2015 and 2014, respectively.
- (2) Includes revenues from the Gas Plan.

**Table of Contents****Drilling activity in Argentina**

The following table shows the number of wells drilled by us or consortiums in which we had a working interest in Argentina during the periods indicated.

<i>Wells Drilled in Argentina</i>	<i>For the Year Ended December 31,</i>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b><u>Gross wells drilled</u></b> <sup>(1)</sup>			
Exploratory productive	19	35	35
Oil	14	24	20
Gas	5	11	15
Dry	12	5	8
Total	31	40	43
Development productive	697	962	861
Oil	504	766	725
Gas	193	196	136
Dry	2	10	4
Total	699	972	865
<b><u>Net wells drilled</u></b> <sup>(2)</sup>			
Exploratory productive	14	27	30
Oil	11	22	17
Gas	3	6	13
Dry	9	4	5
Total	23	31	35
Development productive	548	766	708
Oil	409	629	592
Gas	139	137	116
Dry	2	8	4
Total	550	774	712

(1) Gross wells include all wells in which we have an interest.

(2) Net wells equal gross wells after deducting third-party interests.

**Exploration & Production Activity in Argentina**

During 2016, our main exploratory and development activities in Argentina have had the following principal focus:

**1. Operated Areas - Exploratory Activities**

During 2016, our main exploratory activities in Argentina were principally focused on:

*1.1 Onshore:*

*Unconventional activities:*

The successful exploration results achieved in 2015 continued into 2016. We continued the regional exploration of the Vaca Muerta formation to determine the productivity of the shale oil, wet gas and dry gas in different areas of the basin.

Having completed the exploration phase, we obtained 35-year exploitation permits for the La Ribera I & II and Pampa de las Yeguas I blocks.

*Shale oil:*



**Table of Contents**

*Neuquina basin:* Exploration continued along the shale oil strip, in an attempt to define intermediate control points of productivity.

We obtained positive results in wells drilled in Chihuido de la Sierra Negra block. These wells confirmed the productivity of the Vaca Muerta formation at various points of the basin.

*Shale gas:*

*Neuquina basin:* During 2016, we focused on the regional definition of the shale gas strip area obtaining positive results in the Cerro Arena block. Discoveries will be evaluated further in order to establish their commercial production potential.

*Conventional activities:*

*Neuquina basin:*

Tight gas: Exploration of tight gas continued with the drilling and completion of RDM.xp-38 in the Rincón de Mangrullo block.

Positive results were obtained in ten exploratory wells targeting conventional oil and gas reservoirs in the following blocks:

- i Chachahuén (oil)
- i Cerro Arena (gas)
- i Los Caldenes (oil / gas)
- i Payún Oeste (oil / gas)

We also continued exploration activity targeting conventional oil and gas in the following blocks. Although positive results were not achieved other than in the wells mentioned above, this activity provided data allowing us to increase our knowledge of potential development of these areas.

- i Chachahuén (oil)
- i Cajón de los Caballos Oriental (oil)
- i Chasquivil (oil)
- i Bajo del Piche (oil)
- i Señal Picada - Punta Barda (gas)
- i Payún Oeste (oil)
- i Señal Cerro Bayo (oil)

We have requested that the Mendoza province allow commercial exploitation of the Payún Oeste block. As of the date of this annual report, we are still awaiting final approval from the province.

*Golfo San Jorge basin:*

During 2016, we continued exploration activity targeting conventional oil and gas reservoirs in the Golfo San Jorge basin, with positive results in the following blocks:

- i Cañadón de la Escondida (oil)
- i Manantiales Behr (oil / gas)

## **Table of Contents**

We also continued exploration activity targeting conventional gas in the Escalante El Trébol block. Although positive results were not achieved, this activity provided data allowing us to increase our knowledge of potential development of these areas.

### *Cuyana basin:*

From the results obtained in Cuenca Cuyana y Bolsones 17/B (Cuyana basin), we have decided to relinquish a fixed portion considered non-core lease acreage. We obtained the commercial exploitation concession for part of the block (Mesa Verde concession), and a second exploration period for the remaining acreage.

We continued exploration activity targeting conventional oil, with positive results, in the Barrancas and La Ventana blocks.

### *Austral basin:*

Exploration activities were resumed in the Austral basin as part of the integration of the Yacimientos del Sur blocks into YPF's operations. Drilling activities took place in the Tierra del Fuego province (the Lago Fuego and Tierra del Fuego Fracción E blocks). Positive results were obtained in the Lago Fuego block.

### *Bordering areas:*

During 2016, two new exploration blocks were awarded in Desecho Chico in the Salta province and Chelforó in the Rio Negro province.

### *Seismic activities:*

A long-term 2D-3D seismic survey campaign began in 2015 and continued in 2016. During 2016, seismic 3D data covering 1,600 km<sup>2</sup> was recorded in the following blocks:

- i Cerro Piedra - Cerro Guadal Norte (Santa Cruz province - Golfo San Jorge basin)
- i Cañadón de la Escondida (Santa Cruz province - Golfo San Jorge basin)
- i Chihuido de la Sierra Negra (Neuquén province - Neuquina basin)

After the survey is performed, seismic data processing will be carried out for subsequent interpretation. The purpose of recording and processing the seismic data is to identify new exploration opportunities.

## **1.2 Offshore:**

According to the amendments to the Hydrocarbons Law adopted by Law No. 27,007, all exploration permits owned by ENARSA will be transferred to the Secretariat of Energy. YPF currently participates in three offshore blocks in association with ENARSA (E1 block: YPF 35%, E2 block: YPF 33% and E3 block: YPF 30%) with total acreage of 23,700 km<sup>2</sup>. In September 2015, the National Executive Office and YPF began negotiating the conversion of

association agreements signed with ENARSA. As of the date of this annual report, the negotiations are ongoing. As of December 31, 2016, we do not have registered assets in these blocks. See Legal and Regulatory Framework and Relationship with the Argentine Government Law No. 27,007, amending the Hydrocarbons Law for a description of new terms which apply to new production concessions or exploitation permits.

## **2. Non-Operated Areas - Exploratory Activities**

Exploration wells have been drilled in the Aguada Pichana block, which is operated by Total Austral, with negative results; in Aguada Salada, which is operated by Tecpetrol, with positive results; and in CNQ7, which is operated by Pluspetrol, with positive results.

## Table of Contents

### **3. Operated Areas - Development Activities**

During 2016, our development activities in Argentina were mainly focused on the following regions and blocks:

#### **3.1 Neuquén Río Negro Region**

During 2016, Neuquén Río Negro Region production was 207 mboe/d, representing 36% of YPF's total production.

##### *Neuquén concession:*

##### *1. Octógono block:*

During 2016, three workovers were successfully completed in the northern sector of the field, targeting gas-bearing intervals in the Lajas formation. Those wells allowed for the drilling of two more wells, which had positive results. In 2017, we plan to drill five wells in the northern sector based on these results.

##### *2. Al Sur de la Dorsal block:*

*Portezuelos field:* During 2016, two workovers were performed to open gas-bearing intervals in the Centenario formation, which had positive results. In addition, further workovers and drilling activity are scheduled for 2017, and the installation of a compressor is planned to produce more gas from shallow formation.

##### *3. Al Norte de la Dorsal block:*

*Guanaco field:* During 2016, five workovers were repaired, all of them targeting gas in Lajas formation. Three of those had positive results and the other two had negligible production changes. The successful Lajas formation campaign has opened up new opportunities for drilling in the area in 2017.

##### *4. Loma La Lata Sierra Barrosa block:*

*Loma La Lata field:* The Sierras Blancas Infill project in the southeast area continues its development with 21 wells (nine horizontal and 12 directional) during 2016. 18 of them are already in production, one is being completed and tested, and two are being drilled. During 2017, we plan to drill 17 wells.

In order to address the declining production of the field, we are also continuing to improve production with plunger lift and wellhead compression.

##### *Aguada Toledo Sierra Barrosa field: Tight gas segment 5 (Lajas formation)*

During 2016, drilling activity in the Lajas formation was based on infill wells. There are already 30 infill wells producing all along the main structure. The production rates achieved were as expected. In addition, deeper wells in the Precuyano and Molles formations are being drilled and tested in some infill wells, taking advantage of the low incremental cost as a result of the deepening of wells raised to meet our objectives for the Lajas formation. Several actions to reduce well cost were conducted successfully not only in the drilling phase, but also in the completion phase, improving project economics.

The first horizontal well was drilled in the Aguada Toledo field. This well is part of a pilot to improve the recovery factor in the tightest sands of the formation. It produced gas at low levels, but was not economical. The drilling of the second well started in December 2016 and is situated in the upper levels of the Sierra Barrosa structure.

**Table of Contents***Barrosa Norte tight gas field (Lajas formation)*

Continuing with the activity of 2015, in 2016, 13 wells were drilled in this field. The Precuyo and Molles formations will be evaluated to determine their potential for future development. To that end, an outpost well was drilled to investigate these two formations and is scheduled to be completed and tested. Several actions for well cost improvement were conducted successfully. In 2017, we plan to drill seven wells to target the Lajas formation and one to target the Precuyo formation.

*El Cordón conventional and tight gas field (Lajas formation)*

In 2016, one well was drilled in the western area of the field with positive results, obtaining data to complement the development plan study.

*5. Chihuido de la Sierra Negra block:*

*Chihuido de la Sierra Negra field:* In this mature field, we started a 3D seismic survey on the western area in order to search for new hydrocarbon accumulations. This project is expected to be completed during 2017. Also, we expect to complete a second Alakali Surfactant Polymer (ASP) single well test to verify the positive results of the previous test performed in 2015.

*6. Volcán Auca Mahuida and Las Manadas blocks:*

We continued with the appraisal and development of the Centenario and Mulichinco formations from the previous years. Six new wells were completed during 2016, five of which were productive with positive results and the other one which will be in production in 2017. Further appraisal and development wells are scheduled to be drilled in 2017. Also during 2016, we performed three workovers to test gas in Rayoso formation, with positive results. In order to estimate gas volume, we scheduled two new appraisal wells to be completed during 2017.

*7. Señal Picada Punta Barda block:*

*Piedras Negras field:* In this gas field, we are at the initial stages of development. During 2016, four wells were drilled (two appraisal and two exploratory), and three of them were completed. Additionally, we completed four workovers. As of December 2016, completion activities are still performing over one exploration well. We tested dry gas on five wells, and the other three wells had negative results. Since the block is not fully covered with 3D seismic, we scheduled a survey for the first quarter of 2017 and plan to schedule three wells after the 3D seismic data acquisition. The first gas sale is scheduled for 2018.

*8. Cerro Hamaca block:*

*Cerro Hamaca Noroeste field:* The northwest area was discovered in late 2012. During 2016, we continued with the development campaign of the Rayoso formation, and three wells were drilled, but only one well was completed as a result of economic conditions (oil prices) and regulatory changes in the province relating to well drilling that increased well costs. Water injection is scheduled to begin in 2018, if economic conditions improve.

*9. Rio Neuquén block:*

As of November 1, 2016, YPF assumed operation of the field with a 33.33% working interest. See Main properties.

During the last two months of 2016, two new wells were completed and this activity will continue in 2017 to complete the four wells begun in 2016 and to sustain gas production through the facilities capacity. In addition, five wells will be drilled during the second half of 2017.



**Table of Contents**

*Neuquén YPF Concession*

1 Aguada de Castro; 2 Aguada de la Arena; 3 Aguada Pichana; 4 Aguada Villanueva; 5 Al Norte de La Dorsal; 6 Al Sur de La Dorsal I; 7 Al Sur de La Dorsal II; 8 Al Sur de La Dorsal III; 9 Al Sur de La Dorsal IV; 10 Al Sur De La Dorsal V; 11 Al Sur De La Dorsal VI; 12 Al Sur de La Dorsal VII; 13 Anticlinal Campamento; 14 Bajada de Añelo; 15 Bajo Del Toro; 16 Bandurria Sur; 17 Cerro Arena; 18 Cerro Bandera; 19 Cerro Hamaca; 20 Cerro Las Minas; 21 Chasquivil; 22 Chihuido de La Salina Sur; 23 Chihuido de La Sierra Negra; 24 Dadin Lote I; 25 Dadin Lote II; 26 Dadin Lote III; 27 Don Ruiz; 28 Dos Hermanas; 29 El Orejano; 30 El Portón; 31 El Santiagueño; 32 Filo Morado; 33 La Amarga Chica; 34 La Calera; 35 La Ribera I; 36 La Ribera II; 37 Las Manadas (Calandria Mora); 38 Las Tacanas; 39 Lindero Atravesado; 40 Loma Amarilla; 41 Loma Campana; 42 Loma Del Molle; 43 Loma La Lata Sierra Barrosa; 44 Meseta Buena Esperanza; 45 Narambuena; 46 Octogono; 47 Ojo De Agua; 48 Pampa de Las Yeguas I; 49 Pampa de Las Yeguas II Norte; 50 Pampa de Las Yeguas II Sur; 51 Paso de Las Bardas Norte; 52 Puesto Hernandez; 53 Rincón Del Mangrullo; 54 Río Neuquén; 55 Salinas del Huitrin; 56 San Roque; 57 Señal Cerro Bayo; 58 Señal Punta Barda; 59 Volcán Auca Mahuida.

**Table of Contents**

Río Negro concession:

*1. Estación Fernández Oro block*

During 2016, continuing with the restarting of drilling activity in the area where new wells had not been added since 2008, several projects were completed that allowed for an increase in production, treatment and compression capabilities:

Enabling of a trunk line

Installation and commissioning of additional compression capacity

Installation and commissioning of an additional glycol tower

With respect to drilling activity, we completed 24 gas wells targeting the Lajas formation (22 development gas wells, and two step-out gas wells) with positive results for the development wells; however, the step-out wells have not yet been evaluated. On September 2016, we started to drill with a fourth rig.

The development of the gas field will continue during 2017, focusing on drilling activity. In addition, work in the first quarter of 2018 to increase the gas pipeline sales capacity has been planned, and an LTS (Low Temperature Separator) plant of 2 Mm<sup>3</sup>/d capacity will be installed.

*2. Los Caldenes block:*

During 2016, we completed three wells (two exploratory and one appraisal). We also performed one workover on an existing well. Wet gas was discovered and successfully tested, with the first gas sale scheduled for the second quarter of 2017. As a result of this activity, oil production in this block increased 54% from December 2015 to December 2016.

*3. Señal Picada-Punta Barda block:*

During 2016, we continued optimizing the existing water-flooding projects in the 50-year-old Señal Picada area. We completed 13 new wells, nine of which had results that met expectations, three of which performed under expectations and one of which is pending production. We also completed eight workovers, with results that met expectations. Oil production in the Señal Picada area decreased 6% in 2016 compared to 2015.

In the Punta Barda area, we continued with the appraisal campaign to expand the proved reserves area. Two wells were completed in the Loma Montosa formation. One of these wells was completed and successfully tested for oil. Six other wells were completed, three of which had results that met expectations and three of which performed under expectations, and seven workovers were performed in 2016, four of which had results that met expectations and three of which are waiting to be put into production. Oil production in the Punta Barda area increased 27% in 2016 compared to 2015,

**Table of Contents**

*Río Negro YPF Concession*

**3.2 Mendoza Region**

During 2016, Mendoza Region production was 106 mboe/d, representing 18% of YPF's total production.

*Mendoza Norte concession:*

During 2016, our activities were focused on the development of new areas and performing primary recovery and water-flooding in mature oilfields by workovers and drilling new wells. Key activities are described below:

*1. Barrancas block:*

The drilling activity during the last years focused in these three areas:

- a. *Barrancas:* During 2016, the development of the northwest area continued through the drilling of three development wells whose aim was to expand the new area discovered in 2014. The target is the Barrancas formation. The results were as expected and allowed us to extend the Field Development Plan, which provides for the drilling of 17 additional development wells between 2017 and 2019.
- b. *Ugarteche:* After ten years without drilling in this area, the perforation of two development wells in 2015 showed that there were still opportunities linked to the western portion. This new scenario allowed for the rejuvenation of the area through a redefinition of its Field Development Plan. As a result, four wells were drilled during 2016. The results have been successful, and it is expected that we will drill 20 additional wells over the next four years. This activity is related to the expansion of the mineralized area towards the south and southwest.

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**Table of Contents**

- c. *Estructura Cruz de Piedra*: Five development wells were drilled in 2016, two of which exceeded expectations and the other three of which were below expectations. The Field Development Plan also provides for the drilling of 11 wells within the next four years and contemplates the expansion of water-flooding to the western side of the field.

2. *Mesa Verde block*:

In 2014, exploration well MV.x-1 revealed the Río Blanco formation to be a productive horizon. The exploitation concession of this block was obtained during the second half of 2016. This allowed us to drill the appraisal well MV.a-3, which confirmed the expansion of the mineralized area. The opportunity includes the drilling of 38 development wells over the next five years.

3. *La Ventana block*:

We drilled five development wells in 2016 in La Ventana Central field. The results were slightly better than expected. The Field Development Plan provides for infill wells, re-entry wells and workover activity over the next few years. The goal is to optimize secondary recovery production. In addition, a successful appraisal well allowed us to expand development to the southern portion of the Vaca Muerta area. Finally, this block is included in regional studies to develop EOR (tertiary recovery), with the Barrancas formation as the target reservoir. The initial objective is to identify a formulation compatible with the reservoir temperature and salinity conditions. To this end, tests were performed at the IFP Laboratory. In addition, we plan to drill a single test well in 2017.

4. *Vizcacheras block*:

During 2012, a new geological model was built for this mature field using new seismic interpretation techniques. This new interpretation allowed us to drill more than 60 development wells to date. Four development wells were drilled in 2016 whose target was the Barrancas formation, with results below expectations. This block is included in regional studies to develop EOR (tertiary recovery), with the Barrancas formation as the target reservoir. The initial objective is to identify a formulation compatible with the reservoir temperature and salinity conditions. To this end, tests were performed at the IFP Laboratory. In addition, we plan to drill two single test wells in 2017. Finally, we drilled an appraisal well in the Cañada Dura field, with positive results allowing us to drill three development wells in this area.

5. *Llancanelo block*:

Twelve horizontal wells were drilled in 2016, involving two geological formations. The results were as expected for formation targets. This is one of our most important heavy oil development projects, which started in 2010. This production of heavy oil is in cold conditions.

6. *Cerro Fortunoso block*:

A water treatment plant was installed during 2015 to treat a maximum rate of 4,500 cm/d of injection water, which allowed us to expand the water-flooding development plan to the northeast area. A total of 13 wells (production and injectors) were drilled in 2016. The results were positive, and the response of the secondary recovery was also positive. To continue this plan, we expect to expand this water-flooding activity to the center-northeast area.

7. *El Manzano block*:

In 2016, one well drilled in 2015 from the Delineación Los Volcanes project was completed, with the objective of developing naturally fractured reservoirs. The well found the fissured zones, but these zones were located in water.



**Table of Contents**

*Mendoza Norte YPF Concession*

*Mendoza Sur YPF concession:*

*1. Chihuido de la Sierra Negra block*

- a. *Desfiladero Bayo area:* 2016 began with a drop in production associated with water injection issues, due to the quality of water that affected secondary recovery production. A plan of action was implemented to improve water treatment facilities in order to guarantee water injection quality, and a new water treatment plant was built. Acid stimulation workovers were performed on the affected wells. Additionally, a water-flooding normalizing and optimization project is being implemented to improve vertical and aeral efficiency. In addition, eight production wells were drilled, with results under expectations. Additionally, a polymer injection pilot (EOR) was implemented in the Desfiladero Bayo field that includes well drilling, workovers and a polymer injection plant. Polymer injection in this pilot started in August 2016, and a surveillance plan is being carried out. In 2016, we also started a second polymer injection pilot in the Desfiladero Bayo field, where production and injector wells were drilled. In 2017, the objective is to define the baseline production associated with water injection and to start with the injection of polymers in 2018.
  
- b. *Puesto Molina area:* Four new production wells, ten new injector wells and several workovers were drilled in 2016, with results better than expected.

*2. Chachahuén Sur block*

Ninety three development wells and four appraisal wells were drilled in 2016, with the goal of developing the Rayoso formation. The field development plan objective is to expand the ongoing water-flooding optimization project.

**Table of Contents**

*3. Cañadón Amarillo block*

Eight development wells in shallow formations (La Tosca and Chorreado) were drilled, all of which yielded positive results. The development project for deep reservoirs (Group Cuyo, Barda Negra formation and Tordillo formation) was temporarily suspended due to unsuccessful results.

*4. Paso de las Bardas Norte block*

One development well in tight gas formations (Lotena formation) was drilled in 2016. Its results were below expectations.

*Mendoza Sur YPF Concession*

**3.3 Chubut-Tierra del Fuego Region**

During 2016, Chubut-Tierra del Fuego Region production was 54 mboe/d, representing 9% of YPF's total production.

*Chubut concession:*

*1. Manantiales Behr block:*

## **Table of Contents**

We drilled 51 wells in 2016 in three main oil fields, La Carolina, El Alba and Grimbeek, with positive results. Additionally, we completed 99 workovers, also with positive results.

The assisted recovery project in Grimbeek began in 2013 with a focus on standard water-flooding. The field was divided in three main areas (GbKII, GbKN and GbKNII). The project is currently in an advanced stage in GbKII with positive production results. Its peak oil production rate surpassed expectations.

During the first quarter of 2015, the polymer injection phase began, and convincing evidence of water decreases in the central well was recorded in 2016. This result enables us to move forward with planning the second phase of the pilot.

During 2016, we implemented the extension of this project in the area known as Grimbeek Norte (GbKN).

The short-term focus on the Manantiales Behr block is to extend water-flooding projects along the field (GbKN full area and GbKNII) in order to sustain production growth. Facilities developments to extend water-flooding projects, including in the La Carolina field, will continue in 2017.

The middle-term focus is to extend the polymer injection along the Grimbeek field and to implement the water-flooding project in the La Carolina field.

As a result of the activities described, the volume of oil production has remained at similar levels of production compared to 2015.

Gas production increased by 6.6% in 2016 compared to 2015, as a result of the development of the shallow target of low pressure and glauconitic formation.

### *2. El Trébol Escalante block:*

In this mature block, oil production decreased by 2.2% in 2016 compared to 2015, as a result of a decrease in the number of wells drilled in 2016 compared to 2015.

Wellhead gas production increased by 21.8% in 2016 compared to 2015, due to optimization of the gas exploitation of existing wells.

The deepest reservoirs related to structural and stratigraphic traps were also drilled with positive results. An integrated primary and secondary development strategy will be carried out to increase the recovery factor.

In the Escalante oil field, the drilling of appraisal wells for primary and secondary development projects, denominated G3, had promising results for production and important geographic expansion.

### *3. Zona Central Cañadón Perdido block:*

This block is located near the urban area of Comodoro Rivadavia. Oil production decreased by 13% in 2016 compared to 2015. During 2016, there was no well drilling due to legal issues relating to a claim from a group of neighbors of the city regarding the extension of the Bella Vista Sur drilling project.

### *4. Restinga Alí block:*



Located on the coast between the urban area and the sea, development in this block was reactivated in 2013. The completion of the main infrastructure works allowed the optimization of oil production of the block, increasing oil production by 8.4% in 2016 compared to 2015.

Wellhead gas production increased 117% in 2016 compared to 2015, due to the production of the exploratory well completed at the end of 2015, and the optimization of the gas exploitation of existing wells.

**Table of Contents**

***Chubut YPF Concession***

*Tierra del Fuego concession:*

During 2016, the drilling activity in Tierra del Fuego focused on gas in the Lago Fuego field, with one well in production with positive results.

The main objective was the exploitation of the Springhill formation and the exploration of the Tobífera series, which yielded positive results.

Other activities in the San Sebastian field were aimed at improving the production of gas through the installation of compressors and plugging of layers with high water production. These activities slowed the declining output in the field.

In the Uribe block, seismic data reprocessing and interpreting in 2016 will be applied to a review of Uribe's exploratory prospects.

**Table of Contents**

*Tierra del Fuego YPF Concession*

**3.4 Santa Cruz Region**

During 2016, Santa Cruz Region production was 81 mboe/d, representing 14% of YPF's total production.

During 2016, we implemented 24 integral development projects across five major development areas in the province of Santa Cruz (Cañadon de la Escondida, El Guadal, Los Perales, Cañadon Yatel and Cañadon Seco), comprising a total portfolio of 42 projects. The main projects include the following reserve areas: Cañadón Escondida, Cerro Grande, Seco León, Los Perales, Cañadon Yatel and El Guadal, with 144 wells drilled (134 oil wells, five injectors and six advanced wells), 433 workovers and associated facilities.

## **Table of Contents**

The main objectives of these integral projects are:

- i Comprehensively developing the areas through the drilling of new wells and deep formations with gas objectives.
- i Recording 3D seismic data in the reserve areas of Cerro Piedra, Cerro Cuadrado and Cañadon de la Escondida.
- i Acquiring the necessary information with electrical logs, rotated plugs and well testing.
- i Increasing the recovery factor with new enhanced oil recovery projects.
- i Increasing water injection to improve sweep efficiency.
- i Extending horizontal and vertical limits with new appraisal and exploration wells. Drilling of new advanced wells in Los Perales and Las Mesetas.
- i Providing development support through appropriate surface facilities.

We have drilled 144 wells with results exceeding expectations in the Cañadon Seco, Lomas del Cuy and Cañadon Yatel blocks; with results meeting expectations in the Los Perales and Barranca Baya blocks; and with results below expectations in the Cerro Piedra and Cerro Guadal Norte blocks, as we continue with the analysis of the geological formation.

We have done 433 workovers in the different blocks, focusing our strategy mainly on conversions and repairs of water injectors, which allow us to sustain our secondary production, resulting in the best production of the last four years at the end of 2016.

### *1. Cañadón Seco*

During 2016, 39 wells were drilled (four outpost wells and one water injector) and 39 workovers, with positive results. The drilling activity was concentrated in the Mina El Carmen formation, and the D-129 geological formation continues to be delineated. From the point of view of improved recovery, the objective continues to center on the geological formation of Cañadón Seco. Several projects were executed, some of them still ongoing, in which injection is expanded horizontally as well as vertically, improving the efficiency in the production-injector wells relationship.

### *2. Barranca Baya*

During 2016, 49 wells and 142 workovers were drilled, with results as expected. The primary activity was focused on the Cañadon Escondida 02 and Cañadon Escondida 10 projects. Reservoirs with depleted petrophysical properties and low pressure were found, and these blocks are being analyzed. We deepened the secondary recovery control, in

addition to the integrity of the facilities, which allows us to obtain a better quality of the water that is injected into the formations. In addition, 3D seismic data covering 588 km<sup>2</sup> was recorded in the eastern part of the area, which opens up great potential for the area.

### *3. Lomas del Cuy*

During 2016, 21 wells (including one water injector) and 41 workovers were drilled. Of the two main blocks, the Lomas del Cuy block was where positive results were obtained, while the results in the El Guadal block were below expectations. Secondary recovery was concentrated in both blocks, implementing new projects and expanding existing projects.

We began to delineate, by drilling wells, in the Guadal Sur block with a target in Castillo and D-129 geological formations with positive results. The El Guadal 2 treatment plant was linked to the Los Perales area to transfer water to the projects in that area. In addition, we continued our improvements in water quality.

**Table of Contents***4. Los Perales Las Mesetas*

During 2016, six wells (including one outpost well) and 136 workovers were drilled, with results as expected. The primary activity was concentrated in the Las Mesetas block, in the deep horizons (Castillo and D-129 geological formations). The first phase of the project, which targeted greater data collection and strategy outlining to be carried out, was tested in different well-construction configurations, with a marked tendency towards cost reduction.

Secondary activity was present in all blocks, only in the Bajo Barreal geological formation. We have focused on maintaining the existing secondary and expanding projects from the vertical and aeral point of view, incorporating new layers and completing existing meshes. In addition, 3D seismic data covering 453 km<sup>2</sup> was recorded, completing existing 3D.

*5. Cañadón Yatel*

During 2016, 19 wells (one outpost well) and 15 workovers were drilled with positive results. Drilling activity was concentrated at the Estancia Cholita reservoir. An oil reservoir under the gas cap of the D-129 formation began to be developed in the southern block. The electrification of the block began, which allows us to exploit the wells with greater reliability and minimize mechanical problems, and it will be continued in 2017. The secondary recovery is in the initial phase, with only five active injectors as of December 2016.

*6. Cerro Piedra Cerro Guadal Norte*

During 2016, five wells and two workovers were drilled, with results below expectations. We continue to analyze the exploration strategy, adding the 3D seismic data that was recorded at the Cerro Piedra site, where previously only 2D seismic data was available. A total area of 607 km<sup>2</sup> was covered.

***Santa Cruz YPF Concession*****4. Non-Operated Areas - Development Activities:**

During 2016, Non-Operated Areas Region production was 81 mboe/d, representing 14% of YPF's total production.

*1. El Tordillo and La Tapera-Puesto Quiroga blocks:*

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**Table of Contents**

Beginning in January 2014, under an agreement with the province of Chubut related to the negotiation of an extension of YPF concessions there, we transferred 41% of our working interest in the joint venture, El Tordillo and La Tapera-Puesto Quiroga, to Petrominera Chubut S.E. As a result, our interest in the joint venture is 7.196%.

From April 2016 until April 2017, a stand-by agreement to maintain two drilling rigs and two workover rigs on hold was signed with the provincial government of Chubut, unions and suppliers due to the lower international price of crude oil. See Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Macroeconomic conditions.

*2. Magallanes block:*

On November 17, 2014, we agreed to extend the joint venture contract with ENAP Sipetrol Argentina S.A. in the Magallanes block. The objective of this agreement was to extend the rights and obligations of ENAP in the original joint venture agreement and confirm its role as operator, maintaining its 50% share until the end of the concession. On January 8, 2016, the Argentine government approved a concession extension through November 17, 2027. See Main Properties.

During 2016, we continued to develop an incremental production project, known as the PIAM-Magallanes Block Incremental Project. This project aims to increase the production capacity of the area by approximately 1.6 mmcm/d of gas beginning in November 2017. During 2016, we signed an Engineering and Procurement Contract (EPC) to manage the engineering tasks. This project involves laying a marine pipeline and expanding compression capacity. The total estimated value of the project is approximately U.S.\$315 million and completion is expected during the second half of 2017.

*3. Aguada Pichana block:*

This block is operated by Total S.A. We hold a 27.2% working interest in this block.

Tight gas projects: during 2016, we continued tight gas development in different areas of the block and 12 wells were drilled. Five of those wells and another three new production wells drilled in 2015 were put into production in 2016.

Of the wells put into production, two wells had better production than expected, five wells produced as expected and one was a dry hole.

*4. Lindero Atravesado block:*

This block is operated by Pan American Energy LLC. We hold a 37.5% working interest in this block.

During 2016, the drilling campaign consisted of 31 wells, all of which are in production. Additionally, the LOR-3 compression plant was constructed and started up in October 2016, which allowed for increased production.

*5. Palmar Largo block:*

This block was sold to High Luck Group Limited Sucursal Argentina, with an effective date of May 1, 2016. The production of this block was 0.04 mcm/d in 2015 and had proved reserves of 26.7 mcm as of December 31, 2015.

**Properties and Exploration and Production Activities in Rest of the World**

1. *Chile:*

In 2016, YPF gained access to the second exploration period in the San Sebastián block. However, Wintershall and ENAP have formally decided not to enter into the second exploration period. The commitment related to this period includes the drilling of one exploratory well, which will be pursued by YPF in 2017.



**Table of Contents**

The Marazzi/Lago Mercedes block has been relinquished.

2. *Colombia:*

Blocks COR 12 and COR 33 are located in the Cordillera Oriental basin, which we operate pursuant to authorization by the Colombian National Hydrocarbons Agency (*Agencia Nacional de Hidrocarburos or ANH*). Our working interest is 60% in COR 12 and 55% in COR 33. The combined net acreage in these blocks is 700 km<sup>2</sup>. We and our partners informed the ANH of our decision to relinquish both blocks. As of the date of this annual report, the parties are in the process of formalizing and executing the final agreements for the relinquishment.

3. *Ecuador:*

In October 2014, we signed a service contract with Petroamazonas, the national oil company of Ecuador, to optimize production in Yuralpa field. The 15-year agreement contemplates drilling of at least ten wells, using technologies for enhanced oil recovery and performing activities to increase oil production in this field, located in Block 21 in the Amazonian province of Napo.

During 2015, we opened an office in Quito and formed a project team, composed of 16 members. A geological and reservoir model of the Hollín reservoir was constructed, allowing us to design the field development strategy, and the first workover operation was performed on the YRCA-012 well.

In October 2015, Petroamazonas requested that we suspend operations and immediately start renegotiating terms and conditions of the contract noting the abrupt drop in crude oil prices.

As of the date of this annual report, we are still negotiating with Petroamazonas to cancel the contract related to our operations in Ecuador. We do not expect this to have a material adverse effect on our financial position.

**Additional information on our current activities**

The following table shows the number of wells in the process of being drilled as of December 31, 2016.

<i>Number of wells in the process of being drilled</i>	<i>As of December 31, 2016</i>	
	<i>Gross</i>	<i>Net</i>
Argentina	74	54
Rest of South America		
North America		
Total	74	54

**Downstream**

During 2016, our Downstream activities included crude oil refining and transportation, and the marketing and transportation of refined fuels, lubricants, LPG, and other refined petroleum products in the domestic wholesale and retail markets and certain export markets.

The Downstream segment is organized into the following divisions:

Refining Division;

Logistic Division;

Trading Division;

Domestic Marketing Division; and

Chemicals.

**Table of Contents**

We market a wide range of refined petroleum products throughout Argentina through an extensive network of sales personnel, YPF-owned and independent distributors, and a broad retail distribution system. In addition, we export refined products, mainly from the port at La Plata. The refined petroleum products marketed by us include gasoline, diesel, jet fuel, kerosene, heavy fuel oil and other crude oil products, such as motor oils, industrial lubricants, LPG and asphalts.

**Refining division**

We wholly own and operate three refineries in Argentina:

La Plata refinery, located in the province of Buenos Aires;

Luján de Cuyo refinery, located in the province of Mendoza; and

Plaza Huincul refinery, located in the province of Neuquén.

Our three wholly-owned refineries have an aggregate refining capacity of approximately 319,500 boe/d. The refineries are strategically located along our crude oil pipeline and product pipeline distribution systems. In 2016, our crude oil production, substantially all of which was destined to our refineries, represented approximately 85.7% of the total crude oil processed by our refineries, while in 2015 it was 82.8%. Through our stake in Refinor, we also own a 50% interest in a 26,100 boe/d refinery located in the province of Salta, known as Campo Durán.

The following table sets forth the throughputs and production yields for our three wholly-owned refineries for each of the three years ended December 31, 2016, 2015 and 2014:

	<b>For the Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(mmboe)		
Throughput crude	107.4	109.1	106.0
Throughput feedstock	4.0	4.4	4.2
Throughput crude and feedstock	111.4	113.5	110.2
<b>Production</b>			
Diesel	40.6	40.6	40.3
Motor gasoline	24.6	24.5	22.4
Petrochemical naphtha	7.6	7.0	6.5
Jet fuel	5.9	6.1	6.1
Base oils	1.0	1.1	1.4
	<b>For the Year Ended</b>		
	<b>December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(thousands of tons)		
Fuel oil	1554	1878	1715

Coke	839	770	746
LPG	670	612	638
Asphalt	145	171	185

During 2016, our global refinery utilization reached 91.87%, compared to 93.6% in 2015, based on a nominal capacity of 319.5 mboe/d.

The La Plata refinery is the largest refinery in Argentina, with a nominal capacity of 189,000 bbl/d. The refinery includes three distillation units, two vacuum distillation units, two fluid catalytic cracking units, two coking units, a coker naphtha hydrotreater unit, a platforming unit, two diesel hydrofinishing units, a gasoline hydrotreater, an isomerization unit, an FCC (fluid cracking catalysts) naphtha splitter and desulfuration unit and a lubricants complex, in addition to a petrochemical complex that generates MTBE, TAME and aromatics compounds used for blending gasoline, and other chemical products for sale. The refinery is located at the port in the city of La Plata, in the province of Buenos Aires, approximately 60 km from the City of Buenos Aires. During 2016, the refinery processed approximately 165.5 mbbbl/d. The capacity utilization rate at the La Plata refinery for 2016 was 87.6 % compared with 163.9 mbbbl/d processed in 2015, with a utilization rate of 86.7%. The crude oil processed at the La Plata refinery, 89.9 % of which was YPF-produced in 2016, comes mainly from the Neuquina and San Jorge basins. Its crude oil supplies come from the Neuquina basin by pipeline and from the San Jorge basin by vessel, in each case to Puerto Rosales, and then by pipeline from Puerto Rosales to the refinery.

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**Table of Contents**

A new Coke A facility that allowed for an increase in the conversion capacity was officially started up in September 2016, and the test run was made in October 2016. The capacity of the new unit is 1,160 bbl/h of fresh feed pumped from the bottoms of the Topping and Vacuum units, providing the refinery with an increase in crude processing capacity utilization of 23,800 bbl/d, representing an increase of almost 12% in the capacity utilization rate. The production of this facility is a component for the blend to be used in the generation of diesel, motor gasoline and coke.

The Luján de Cuyo refinery has a nominal capacity of 105,500 bbl/d, the third largest capacity among Argentine refineries. The refinery includes two distillation units, a vacuum distillation unit, two coking units, one fluid catalytic cracking unit (FCCU), a platforming unit, a MTBE unit, an isomerization unit, an alkylation unit, an FCC naphtha splitter, a hydrocracking unit, an FCC naphtha hydrotreater unit and two gasoil hydrotreating units. During 2016, the refinery processed approximately 106.0 mbb/d, with a capacity utilization rate of more than 100%. In 2015, the refinery processed 109.2 mbb/d, with a capacity utilization rate of more than 100%.

Due to its location in the western province of Mendoza and its proximity to significant distribution terminals we own, the Luján de Cuyo refinery has become the primary facility responsible for providing to the central and northwest provinces of Argentina with petroleum products for domestic consumption. The Luján de Cuyo refinery receives crude supplies from the Neuquina and Cuyana basins by pipeline directly into the facility. Approximately 77.8% of the crude oil processed at the Luján de Cuyo refinery in 2016 (and 77.8% of the crude oil processed in this refinery in 2015) was produced by us. Most of the crude oil purchased from third parties comes from oil fields located in the provinces of Neuquén and Mendoza.

The Plaza Huincul refinery, located in the province of Neuquén, has an installed capacity of 25,000 bbl/d. During 2016, the refinery processed approximately 22.0 mbb/d, with a capacity utilization rate of 88.1%, compared with 25.8 mbb/d processed in 2015 with a capacity utilization rate of more than 100%. The lower capacity utilization during 2016 was due to planned maintenance shut-downs of the Topping and Platforming units from March to April.

The only products currently produced at the refinery are gasoline, diesel and jet fuel, which are sold primarily in nearby areas and in the southern regions of Argentina. Heavier products, to the extent production exceeds local demand, are blended with crude oil and transported by pipeline from the refinery to our facilities in La Plata for further processing. The Plaza Huincul refinery receives its crude supplies from the Neuquina basin by pipeline. The crude supplies are mostly produced by us. In 2016, 1.8% of the refinery's crude supplies were purchased from other companies, while in 2015, such purchases were 1.7% of the refinery's crude supplies.

Since 1997 and 1998, each of our refineries (La Plata, Luján de Cuyo, and Plaza Huincul) have been certified under International Organization for Standardization (ISO) 9001 (quality performance) and ISO 14001 (environmental performance). All of them are also certified under the OHSAS 18001 (occupational health and safety performance) standard. Since 2009, inventories of industrial greenhouse gases and savings of CO<sub>2</sub> emissions equivalent (MDL projects) have been verified in accordance with ISO 14064 in both the La Plata and Lujan de Cuyo refineries. The refineries maintain their systems under continuous improvement and revision by authorized organizations.

***Logistics Division******Crude oil and products transportation and storage***

We have available for our use a network of five major pipelines, two of which are wholly-owned by us. The crude oil transportation network includes nearly 2,700 km of crude oil pipelines with approximately 640,000 barrels of aggregate daily transportation capacity of refined products. We have total crude oil tankage of approximately 7 mmbbl and maintain terminal facilities at five Argentine ports.

Information with respect to YPF's interests in its network of crude oil pipelines is set forth in the table below:

**Table of Contents**

<i>From</i>	<i>To</i>	<i>YPF Interest</i>	<i>Length (km)</i>	<i>Daily Capacity (boe/d)</i>
Puesto Hernández	Luján de Cuyo refinery	100%	528	93,509
Puerto Rosales	La Plata refinery	100%	585	326,541
La Plata refinery	Dock Sud	100%	52	141,006
Brandsen	Campana	30%	168	120,700
Puesto Hernández/P. Huincul/Allen	Puerto Rosales	37%	888 <sup>(1)</sup>	232,000

- (1) Includes two parallel pipelines of 513 km each from Allen to Puerto Rosales, with a combined daily throughput of 232,000 barrels.
- (2) We hold a 36% interest in Oleoducto Transandino Argentina S.A., which operates the Argentine portion of the pipeline, and an 18% interest in Oleoducto Transandino Chile S.A., which operates the Chilean portion of the pipeline.

We own two crude oil pipelines in Argentina. One connects Puesto Hernández to the Luján de Cuyo refinery (528 km), and the other connects Puerto Rosales to the La Plata refinery (585 km) and extends to Shell's refinery in Dock Sud at the Buenos Aires port (another 52 km). We also own a plant for the storage and distribution of crude oil in the northern province of Formosa with an operating capacity of 19,000 cm, and two tanks in the city of Berisso, in the province of Buenos Aires, with 60,000 cm of capacity. We own 37% of Oleoductos del Valle S.A., operator of an 888-km pipeline network, its main pipeline being a double 513 km pipeline that connects the Neuquina basin and Puerto Rosales.

We hold, through Oleoducto Transandino Argentina S.A. and Oleoducto Transandino Chile S.A., an interest in the 428-km transandean pipeline, which transported crude oil from Argentina to Concepción in Chile. This pipeline ceased operating on December 29, 2005, as a consequence of the interruption of oil exports resulting from decreased production in the north of the province of Neuquén. The book value of the assets related to this pipeline was reduced to their recovery value.

We also own 33.15% of Terminales Marítimas Patagónicas S.A., operator of two storage and port facilities: Caleta Córdova (province of Chubut), which has a capacity of 314,000 cm, and Caleta Olivia (province of Santa Cruz), which has a capacity of 246,000 cm. We also have a 30% interest in Oiltanking Ebytem S.A., operator of the maritime terminal of Puerto Rosales, which has a capacity of 480,000 cm, and of the crude oil pipeline that connects Brandsen (60,000 cm of storage capacity) to the Axion Energy Argentina S.R.L. (previously ESSO, a former subsidiary of ExxonMobil which was acquired by Bridas Corporation) refinery in Campana (168 km), in the province of Buenos Aires.

In Argentina, we also operate a network of multiple pipelines for the transportation of refined products with a total length of 1,801 km. We also own seventeen plants for the storage and distribution of refined products and seven LPG plants with an approximate aggregate capacity of 1,620,000 cm. Three of our storage and distribution plants are annexed to the refineries of Luján de Cuyo, La Plata and Plaza Huincul. Ten of our storage and distribution plants have maritime or river connections. We operate 53 airplane refueling facilities (40 of which are wholly-owned) with a capacity of 22,500 mcm, and we also own 28 trucks, 123 manual fuel dispensers and 17 automatic fuel dispensers. These facilities provide a flexible countrywide distribution system and allow us to facilitate exports to foreign markets, to the extent allowed pursuant to government regulations. Products are shipped mainly by truck, ship or river barge.

YPF currently blends ethanol in the Luján de Cuyo, Monte Cristo, San Lorenzo, La Plata, Junín, Plaza Huincul, Barranqueras, Concepción del Uruguay, Villa Mercedes and La Matanza storage plants.

In 1998, our logistics activities were certified under ISO 9001 (quality performance) and ISO 14001 (environmental performance), and recertified in 2012 under ISO 9001:2008 and ISO 14001:2004. In 2010, logistics activities were also certified under OHSAS 18001 (security performance) and recertified in 2013. In 2014, our trucking activities were certified under ISO 39001 (road traffic safety management system).



## **Table of Contents**

Our logistics activities were recertified in 2015 under ISO 9001 and ISO 14001, and recertified in 2016 under OHSAS 18001. Additionally, in 2016, our land transport and light vehicle logistics activities were certified under ISO 39001:2012.

### ***Trading Division***

Our Trading Division sells refined products and crude oil to international customers and crude oil to domestic oil companies. Exports may include crude oil, unleaded gasoline, diesel, fuel oil, LPG, light naphtha, virgin naphtha and green coke.

This division exports to different countries, principally to North America and Asia, as well as to the other continents. Sales to international customers for 2016 and 2015 were Ps. 3,305 million and Ps. 2,387 million, respectively. In 2016, refined products accounted for 37% of total sales, up from 25% in 2015. In 2016, 59% of total sales corresponded to marine fuels, down from 73% in 2015. In 2016 and 2015, sales volumes to customers outside Argentina consisted of 2.4 mmbbl and 1.6 mmbbl of refined products, respectively, and 2.7 mmbbl and 3.3 mmbbl of marine fuels, respectively.

For the domestic market, sales of crude oil totaled Ps. 784 million, or 0.9 mmbbl, in 2016 and Ps. 712 million, or 1.1 mmbbl, in 2015. Sales of marine fuels totaled Ps. 1,652 million, or 1.3 mmbbl, in 2016 and Ps. 1,516 million, or 1.4 mmbbl in 2015.

In addition, imports of high and low sulfur diesel, gasoline, AVGAS and JP1 in 2016 totaled 5.6 mmbbl, a decrease of 35% compared with 8.6 mmbbl in 2015. Imports of fertilizers, agrochemicals and paraffins totaled 0.2 million tons in 2016, an increase of 129% compared with 0.1 million tons in 2015. North America was the principal origin of these imports.

### ***Marketing Division***

Our Marketing Division supplies gasoline, diesel, LPG and other petroleum products throughout Argentina and other countries in the region. We supply several industries, including retail, transport and agriculture.

During 2016, YPF maintained its leading position in Argentina, reaching a market share of 55.6% for liquefied fuels.

YPF sells two types of gasoline: Infinia, a premium 98 octane gasoline, and Super, a regular 95 octane gasoline.

Our market share of Infinia and Super gasolines, according to our estimates, was 60.7% and 52.8%, respectively, as of December 31, 2016, compared with 62.0% and 55.1%, respectively, as of December 31, 2015. Our sales volume for Infinia was 1,477 mcm in 2016 (1.1% higher than in 2015) and 3,274 mcm for Super in 2016 (3.5% less than in 2015).

With respect to diesel, according to our own estimates, our market share was 56.1% as of December 31, 2016, compared to 58.5% as of December 31, 2015. Along with Infinia diesel (10 ppm), for which sales volume was 1,372 mcm in 2016 compared to 1,271 mcm in 2015, our diesel (500 and 1500 ppm) reached a sales volume of 6,239 mcm compared to 6,688 mcm in 2015. Finally, market penetration for Infinia diesel reached 18% of total diesel sales volumes, up from 16% in 2015.

During 2016, the competition was fiercer in the domestic Argentine market than in previous years. Our competitors implemented the following aggressive marketing activities:

opening several new gas station and improving existing ones;

reducing the gap between their prices and ours;

**Table of Contents**

launching various promotions, discounts with financial entities, fidelity programs and sports sponsorships. We expect that this market behavior will continue, challenging us to respond with effective marketing and promotional tools.

YPF responded to the market with regionalized promotions customized according to the needs of each location. We also applied a discount promotion through the Serviclub program, which allowed us to improve sales of Infinia gasoline and increase the number of active members of the program. The Serviclub fidelity program reached more than 1.5 million members in 2016 (36% higher than 2015). The marketing and communications activities carried out during 2016 resulted in an improvement in our products' image. Results from the polls carried out in 2015 and 2016 showed an increase of 8% of perceived quality in service stations (81% from August to December 2015 in a telephone poll and 89% from July to September 2016 in an online poll).

In November 2016, YPF launched Infinia diesel, a new premium diesel with a new formulation. The release plan involved an ambitious campaign in mass media and at sales points, and strong internal training of our salesforce. The launch of this product is aligned with the projected migration of heavy duty vehicles fleets to Euro 5 and 6 technology (regulatory command) in the coming years and, to a lesser extent, to capture particular premium customers. The product was received positively by light duty vehicle customers, as we increased the sales mix of Infinia Diesel by 2.2% compared to total diesel sales in the service stations sales (from 31.5% in October 2016 to 33.7% in December 2016). YPF markets lubricants through three segments of the domestic market: retail, agriculture and industry. Our three manufacturing facilities, part of the La Plata industrial complex, include lubricant, asphalt and paraffin production lines. Our line of automotive lubricants, including mono-grade, multi-grade and oil, has received approval and recommendations from leading global automotive and engine manufacturers, including Ford, Volkswagen, Renault, Audi, Deutz, Cummins, Volvo, MAN Truck, GM, Porsche, Scania, Detroit Diesel and Caterpillar.

We are engaged in the LPG wholesale business, which encompasses LPG storage, logistics and commercialization to domestic and foreign markets. We obtain LPG from our fractioning plants and refineries, as well as from third parties. In addition to butane and propane, we also sell propellants used in the aerosols manufacturing processes.

YPF also markets lubricants in Brazil and Chile, where we have subsidiary companies. Additionally, through a network of exclusive resellers, we market lubricants in three bordering countries (Uruguay, Paraguay and Bolivia).

The Domestic Marketing Division includes five main segments: Retail, Agriculture, Industry, Lubricants and Specialties and LPG.

***a) Retail Division***

As of December 31, 2016, the Retail Division's sales network in Argentina consisted of 1,547 retail service stations, compared to 1,538 as of December 31, 2015. Of these, 112 are owned by YPF. The remaining 1,435 service stations are associated service stations. OPESSA, our wholly-owned subsidiary, actively operates 173 retail service stations, of which 90 are owned by YPF, 26 are leased to the Automóvil Club Argentino and 57 are leased to independent owners. Additionally, YPF owns 50% of Refinor, a company operating 66 service stations.

According to our estimates, as of December 31, 2016, we were the main fuel retailer in Argentina, with 35.9% of the country's gasoline service stations, followed by Shell, Axion, Petrobras and Oil with 14.2%, 11.3%, 6.2% and 6.1%, respectively. During 2016, our market share in diesel and gasoline, marketed in all segments, decreased from 58.0% to 55.6%, from December 31, 2015 to December 31, 2016. This was due to increased market competition stemming primarily from an increase in the number of service stations of our competitors and a smaller gap between our competitors' prices and YPF's during 2016.



**Table of Contents**

The Red XXI program, released in October 1997, has significantly improved operational efficiency in service stations. This program provides performance data for each active and on-line station, connecting most of our network. As of December 31, 2016, 1,294 service stations were linked to the Red XXI network system.

Our convenience stores, YPF Full and YPF Full Express, are present in 428 and 101 points of sale, respectively, as of December 31, 2016. Additionally, a modern oil change service shop called YPF Boxes is present in 270 service stations across the country.

In November 2016, we launched Infinia diesel, a fuel compatible with the most modern and demanding technologies of diesel engines and with low sulfur content. Infinia diesel combines the technologies of TDM® (Metallic Deactivation Technology), which helps fuel stability and maintains its purity. In addition, it protects and gives a longer life to the engines and optimizes the operation of the injectors and the entire fuel circuit.

We also revamped our YPF Full convenience stores in order to make them more sustainable, technological and health-focused. Specific locations were designated for both health and sports products, which provide new experiences to customers and continue our focus on healthy living and eating. They will have wireless internet connections, as well as places where customers can recharge their devices in a comfortable and relaxed environment.

During 2016, we implemented Conexion, a retail project that accompanies our strategy of focusing on building a customer-surpassing experience. The program was implemented in all OPESSA-operated service stations in 2016. Tests have begun in the rest of the service station network and are expected to continue during 2017.

Conexion works on three fundamental pillars: customer experience, productivity and commitment. These three fundamentals encompass the same objective: to strengthen the competencies of the team, optimize operational management and, most importantly, reframe the relationship with the customer in our service stations.

This project focuses on using customer service and agility to promote a new experience for our customers. Faced with a competitive market and customers with new expectations, we strive to develop good practices that generate a difference in the customer experience as well as in the operational results of our service stations.

***b) Agriculture Division***

The Agriculture Division provides diesel, fertilizers, lubricants, phytosanitaries, and ensiling bags, among other products, directly or through a network of 105 sale points with exclusive commercial areas (two of the nine owned by YPF were relocated during 2016 to higher potential areas), offering an extensive portfolio of products and services to agricultural producers, including agricultural advice, and delivery and application of products at the consumption site, under a unified brand image. During 2016, YPF launched several new products (mainly phytosanitaries, fertilizers, biologic fertilizers and seeds), under the YPF brand or through distribution agreements with leading local and international suppliers. YPF developed crop financing with several instruments such as credit cards with local banks. YPF is the only domestic Argentine oil company that accepts different types of grains as payment (*canje*), mainly soybean, but also corn, rapeseed, rice, wheat, sorghum, soyflower and barley, some of which is processed by third-party companies to obtain soy oil, meal and other sub-products that we generally export. Some of the soybean oil is processed into fatty acid methyl esters ( FAME ) (a natural product added to commercial grade diesel), which partially covers YPF's refinery needs. Although this activity was negatively impacted by the change in related prices of YPF products and grains in 2016 after the Argentine government's decision to reduce exports taxes on grains and derivatives, we received approximately 1.17 million tons of grains (a 13% decrease compared to 1.35 million tons in 2015), primarily soybeans, that positions YPF among the top five exchangers in Argentina. During 2016, revenue from these exports represented U.S.\$ 340 million, a 14.5% decrease compared with 2015.



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**Table of Contents*****c) Industry Division***

This division supplies the entire national industry and transportation (ground and air) sectors, which require a broad portfolio of products and services that meet the needs of the customers. The division develops specific solutions for the mining, oil & gas, aviation, transport, infrastructure and construction sectors. We supply products such as fuels (diesel, gasoline, fuel oil, Jet A-1), lubricants, coal, asphalts, paraffin and derivatives (sulfur, CO<sub>2</sub>, decanted oil, aromatic extract), either directly from our refineries to the point of consumption (more than 5,000 direct customers) through our own ground and waterway network, or through a network of 11 industrial distributors with national coverage.

Our mission is to promote efficiency in the value chains of the industries we serve through energy solutions, supplies and services. Accordingly, our strategy is based on close relationships with our clients and the development of innovative solutions focused on creating value for YPF and the region's industries.

***d) Lubricants and Specialties Division***

During 2016, our lubricants and complementary products sales in the domestic market amounted to almost 118.3 mcm (a decrease of 7% compared to 2015). Exports also decreased 6% from 17.2 mcm in 2015 to 16.1 mcm in 2016. In 2016, sales of asphalts decreased 11% and paraffin decreased 16% compared to 2015.

We export to our wholly-owned companies in the main markets of Brazil and Chile. Sales volumes decreased 64% in Brazil, due to growth in local Brazilian production, and increased 10% in Chile, due to a decrease in local Chilean production compared to 2015. In both countries, we produce lubricants locally. We also export through our distribution network in Bolivia, Uruguay and Paraguay, in which sales volumes decreased 2% compared to 2015. This decrease was primarily due to a decline in activity in those three countries. Our Lubricants and Specialties Division has followed a strategy of differentiation, allowing it to achieve and maintain a leading position in the Argentine market. Our market share as of December 31, 2016 was 38.1% (a decrease of 1% compared to 2015) according to information provided by the Argentine Secretariat of Energy. As indicated above, our line of automotive lubricants has received approvals and recommendations from leading global automotive and engine manufacturers (Ford, Volkswagen, GM, Porsche and Scania).

With respect to lubricants, sales of the high-end light and heavy products, under the Elaion and Extravida brand names, were 42.2 mcm in 2016, compared to 43.7 mcm in 2015.

The Elaion brand reached sales volumes of 14.0 mcm in 2016, a decrease of 4% compared to 14.6 mcm in 2015. The Extravida brand reached sales volumes of 28.2 mcm, a decrease of 3% compared to 29.1 mcm in 2015.

The Lubricants and Specialties Division has had an integrated management system since 1995. This division currently holds the following certifications: ISO 9001:2008, ISO 14001:2004, OSHAS 18001:2007, and ISO/TS 16949-Third edition.

***e) LPG Division***

Through our LPG Division, we sell LPG to the foreign market, the domestic wholesale market and to distributors that supply the domestic retail market. The LPG Division does not directly supply the retail market. It is supplied by YPF Gas S.A., which is our affiliate. During 2016, we sold approximately 50% of our LPG production to YPF Gas S.A. for the domestic market.

We are the largest LPG producer in Argentina, with sales in 2016 reaching approximately 574 mtn, compared with 559 mtn in 2015. Of this, approximately 410 mtn were sold in the domestic market, compared to 378 mtn in 2015. Our main clients in the domestic market are companies that sell LPG in cylinders or bulk packing to end-consumers, also providing LPG to households in some regions. Additionally, exports in 2016 reached approximately 165 mtn, compared to 181 mtn in 2015. The main destinations were Chile, Paraguay and Bolivia. Transportation of LPG to overseas customers is carried out by truck, pipeline and barges.

Total sales of LPG, excluding LPG used as petrochemical feedstock, were Ps. 2,096 million and Ps. 1,415 million in 2016 and 2015, respectively.



**Table of Contents**

The LPG Division obtains LPG from natural gas processing plants and from our refineries and petrochemical plants. We produced 487 mtn of LPG in 2016, not including LPG destined for petrochemical usage, and purchased LPG from third parties, as detailed in the table below:

	<i>Purchase (mtn)</i> 2016
<b>LPG from Natural Gas Processing Plants<sup>(1)</sup></b>	
General Cerri	2.0
El Portón	105.6
San Sebastián	0
Total Upstream	107.6
<b>LPG from Refineries and Petrochemical Plants</b>	
La Plata refinery	200.8
Luján de Cuyo refinery	142.0
CIE	36.2
Total refineries and petrochemical plants <sup>(2)</sup>	379.0
<b>LPG purchased from joint ventures<sup>(3)</sup></b>	<b>30.1</b>
<b>LPG purchased from unrelated parties</b>	<b>72.8</b>
<b>Total</b>	<b>589.5</b>

- (1) The San Sebastian plant is a joint venture in which we own a 30% interest; El Portón is 100% owned by us; General Cerri belongs to a third party with which we have a processing agreement.
- (2) This production does not include LPG used as petrochemical feedstock (olefins derivatives, polybutenes and maleic).
- (3) Purchased from Refinor. We also have a 50% interest in Refinor, which produced 210,4 mtn of LPG in 2016.

**Chemicals Division**

Petrochemicals are produced at our petrochemical facilities in Ensenada and Plaza Huincul. Additionally, we also own a 50% interest in Profertil, a company that has a petrochemical complex in Bahía Blanca, as discussed below.

Petrochemical production operations in the *Complejo Industrial Ensenada* ( CIE ) are closely integrated to the refining activities at the La Plata refinery, allowing a flexible supply of feedstock, the efficient use of by-products, such as hydrogen, and the supply of aromatics to increase gasoline octane levels.

The main petrochemical products and production capacities per year are as follows:

Capacity  
(tons per year)

<i>CIE</i>	
BTX (Benzene, Toluene, Mixed Xylenes)	526,000
Paraxylene	38,000
Orthoxylene	25,000
Cyclohexane	95,000
Solvents	66,100
MTBE	60,000
Butene I	25,000
Oxoalcohols	35,000
TAME	105,000
LAB	52,000
LAS	32,000
PIB	26,000
Maleic Anhydride	17,500
<i>Plaza Huincul</i>	
<i>Methanol</i>	411,000

## **Table of Contents**

Natural gas, the raw material for methanol, is supplied by our Upstream business segment. The use of natural gas as a raw material allows us to monetize reserves, demonstrating the integration between the Chemical and the Upstream divisions.

During 2016, considering the increase in demand for methanol for biodiesel production from the domestic market and exports to the United States, which exceeded the production capacity of the Plaza Huincul plant, we imported 30,895 tons of the product to satisfy the demand of the domestic market.

Raw materials for petrochemical production in the CIE, including virgin naphtha, propane, butane and kerosene, are supplied mainly by the La Plata refinery.

In 2016 and 2015, 80% and 72%, respectively, of our petrochemicals sales (including propylene), were made in the domestic market, while we export to Mercosur countries, the rest of Latin America, Europe and the United States.

We also participate in the fertilizer business, directly and through Profertil, a 50%-owned subsidiary. Profertil is a joint venture with Agrium, a worldwide leader in fertilizers, which initiated operations in 2001. Profertil has a production facility in Bahía Blanca which produces 1.3 million tons of urea and 750,000 tons of ammonia per year. In addition, Profertil markets other nutrients and special blends of prepared land to optimize soil performance.

The CIE was certified under ISO 9001 in 1996 and recertified in 2013 (2008 version). The La Plata petrochemical plant was certified under ISO 14001 in 2001 and recertified in 2014 (2008 version). The plant was also certified under OHSAS 18001 in 2005 and recertified in 2014. Since 2008, the plant verified the inventory of CO<sub>2</sub> emissions under ISO 14064: 1 and, in 2011, inventories of CH<sub>4</sub> and N<sub>2</sub>O emissions were verified as well. The CIE laboratory was certified under ISO 17025, in 2005 and recertified in 2013.

The CIE has recently attained ISO 50001 certification (2011 version) in November 2015, covering the following processes: production of complex aromatics, olefins, maleic, polybutenes and the energy generation facilities that operate within the La Plata petrochemical complex.

The methanol plant was certified under ISO 9001 in December 2001 and recently recertified with ISO 9001 (2015 version) in July 2016. The methanol plant was also certified under ISO 14001 in July 1998 together with the Plaza Huincul refinery, and recertified in July 2016 with ISO 14001:2015. In addition, the plant was also certified under OHSAS 18001 in December 2008, and the last date of recertification was August 2014.

The certification of our petrochemical business covers the following processes:

refining process of crude oil and production of gas and liquid fuels, base stocks for lubricants and paraffin, petroleum coke (green coke) and petrochemical products in the units of refining, conversion, lubricants, aromatics, olefins PIB / Maleic and LAB / LAS, methanol production and storage.

management and development of our petrochemical business, planning and economic and commercial control, marketing and post-sale service of petrochemical products.

## ***Gas and Power***

During 2016, our Gas and Power activities included: (i) the commercialization and distribution of natural gas to third parties; (ii) the technical operation of LNG regasification in Bahía Blanca and Escobar terminals, through the contracting of two regasification vessels; and (iii) the generation of both conventional thermal electricity and renewable energy projects.

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**Table of Contents**

***Delivery commitments***

We are committed to providing fixed and determinable quantities of crude oil and natural gas in the near future under a variety of contractual arrangements.

With respect to crude oil, we sell substantially all of our Argentine production to our Refining and Marketing business segment to satisfy our refining requirements. As of December 31, 2016, we were not contractually committed to deliver material quantities of crude oil to third parties in the future.

As of December 31, 2016, we were contractually committed to deliver 8,626 mmcm (or 305 bcf) of natural gas in the future, (without considering interruptible export supply contracts) of which approximately 5,023 mmcm (or 177 bcf) will have to be delivered from 2017 through 2019. According to our estimates as of December 31, 2016, our contractual delivery commitments for the next three years could be met with our own production and, if necessary, with purchases from third parties.

However, since 2004 the Argentine government has established regulations for both the export and domestic natural gas markets which have affected Argentine producers' ability to export natural gas. Consequently, since 2004 we have been forced in many instances to partially or fully suspend natural gas export deliveries that are contemplated by our contracts with export customers. During 2016, no charges to income were recorded in connection with such commitments; however, Ps. 31 million and Ps. 52 million have been recorded in 2015 and 2014, respectively, in connection with our contractual commitments in the natural gas export market.

Among the regulations adopted by the Argentine government, on June 14, 2007, the Argentine Secretariat of Energy passed Resolution No. 599/07, compelling us to enter into an agreement with the Argentine government regarding the supply of natural gas to the domestic market during the period 2007 through 2011 (the Agreement 2007-2011). On January 5, 2012, the Official Gazette published S.E. Resolution No. 172, which temporarily extends the rules and criteria established by Resolution No. 599/07 until new legislation is passed replacing such rules and criteria. On February 17, 2012, we filed a motion for reconsideration of S.E. Resolution No. 172 with the Argentine Secretariat of Energy.

As a consequence of such agreement, YPF has not entered into any medium-term firm contractual commitment to supply natural gas to distribution companies. The purpose of Agreement 2007-2011 is to guarantee the supply of natural gas to the domestic market at the demand levels registered in 2006, plus the growth in demand by residential and small commercial customers. See Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation and Item 3. Key Information Risk Factors Risks Relating to Argentina We are subject to direct and indirect export restrictions, which have affected our results of operations and caused us to declare force majeure under certain of our export contracts. According to our estimates as of December 31, 2016, supply requirements under Agreement 2007-2011 (which we were compelled to enter into and which was approved by a resolution that has been challenged by us) could be met with our own production and, if necessary, with purchases from third parties. Additionally, on October 4, 2010, the National Gas Regulatory Authority (ENARGAS) issued Resolution No. 1410/2010, which approved the Procedure for Applications, Confirmations and Control of Gas setting new rules for natural gas dispatch applicable to all participants in the gas industry and imposing new and more severe priority demand gas restrictions on producers.

In addition, on June 1, 2016, MINEM published Resolution No. 89/2016, which:

Requires ENARGAS to develop a procedure to amend and supplement ENARGAS Resolutions No. 716/1998 and 1410/2010 and establish daily operating conditions of the Transportation and Distribution Systems.

Establishes the volumes that distributors may request in order to satisfy priority demand and, if there has been a contract with a producer to fulfill such request, reduces the contracted volume requirement in accordance with the framework provided by Resolution No. 1,410/2010.

**Table of Contents**

Pursuant to this resolution, on June 5, 2016 ENARGAS Resolution No. I/3833 was issued, which establishes the Supplementary Procedure for Gas Requests, Confirmations and Control.

See Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation.

We have appealed the validity of the aforementioned regulations and have invoked the occurrence of a force majeure event (government action) under our export natural gas purchase and sale agreements, although certain counterparties to such agreements have rejected our position. See Item 8. Financial Information Legal Proceedings.

*Natural gas supply contracts*

The Argentine government has established regulations for both the international and domestic natural gas markets, which have affected the ability of producers in Argentina to export natural gas. Our principal supply contracts are briefly described below.

We were committed to supplying a daily quantity of 125 mmcf/d (or 3.5 mmcm/d) to the Methanex plant in Cabo Negro, Punta Arenas, in Chile (under three original agreements entered into on January 5, 1995, March 11, 1997 and November 13, 2001, which expire between 2017 and 2025). Pursuant to instructions from the Argentine government, deliveries have been interrupted since 2007. In connection with these contracts, the Company signed three new agreements with Methanex through which YPF eliminated all contractual obligations and past and future potential claims related to the original agreements through 2018. The first agreement was signed in 2011, through which YPF committed to investments in E&P. The second one was signed in 2012, through which YPF committed to temporarily exporting gas to Chile and importing methanol as the final product ( Gas Tolling Agreement ), receiving the approval from the Argentine government. A new Gas Tolling Agreement was signed in December 2016, through which YPF committed to supplying a total volume of 4 bcf (115 mmcm) of gas to Methanex through April 2018. This last agreement was signed by YPF and Methanex and presented for approval of the Argentine government to temporarily export gas and import methanol.

We are currently engaged in a 15-year contract signed in 2003 with Gas Valpo, a natural gas distributor, to supply 35 mmcf/d (or 1 mmcm/d) through the Gas Andes pipeline linking Mendoza, Argentina to Santiago, Chile, which has a transportation capacity of 353 mmcf/d (or 10 mmcf/d) (designed capacity with compression plants). This contract has been modified to an interruptible contract.

We have a 21-year contract (entered into in 1999) to deliver 93 mmcf/d (or 2.63 mmcm/d) of natural gas to a Chilean distribution company (Innergy) that distributes natural gas to residential and industrial clients through a natural gas pipeline (with a capacity of 318 mmcf/d or 9 mmcm/d) connecting Loma La Lata in Neuquén, Argentina with Chile. The contract was modified to reduce its deliver or pay obligation, not to exceed an annual quantity of 20 mmcm with a daily basis of 7.1 mmcf/d (or 0.2 mmcm/d). The natural gas supply contracts with thermal power plants in Chile (Colbun, Edelnor, Electroandina, Nopel and Endesa) were completed in 2016.

With respect to Brazil, we entered into a 20-year supply contract in 2000 to provide 99 mmcf/d (or 2.8 mmcm/d) of natural gas to the thermal power plant of AES Uruguaiiana Empreendimentos S.A. ( AESU ) through a pipeline linking Aldea Brasileira, Argentina, to Uruguaiiana, Brazil (with a capacity of 560 mmcf/d or 15.8 mmcm/d). In May 2009, AESU notified us of the termination of the contract. On December 30, 2016, AESU, SULGAS and YPF reached a settlement agreement by which they have terminated all reciprocal claims and judicial actions except for YPF s annulment actions against the arbitral decisions. On January 6, 2017, YPF s Board of Directors approved the settlement agreement executed on January 10, 2017 Item 8. Financial Information Legal Proceedings.

Because of certain regulations implemented by the Argentine government, we could not meet our export commitments and were forced to declare force majeure under our natural gas export sales agreements, although certain counterparties have rejected our position. See The Argentine natural gas market and Item 8. Financial Information Legal Proceedings. As a result of actions taken by the Argentine government, through measures described in greater detail under Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation Natural gas, during recent years we have been forced to reduce the export volumes authorized to be provided under the relevant agreements and permits.



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**Table of Contents*****The Argentine natural gas market***

We estimate (based on preliminary reports of amounts delivered by gas transportation companies) that natural gas consumption in Argentina totaled approximately 1,762 bcf (or 49.89 bcm) in 2016. We estimate that the number of users connected to distribution systems throughout Argentina was approximately 8.6 million as of October 31, 2016.

In 2016, we sold approximately 38% of our natural gas to local residential distribution companies, approximately 5.8% to compressed natural gas end users, approximately 49.1% to industrial users (including our affiliates, Mega and Profertil) and power plants and 7.1% to YPF downstream operations. Sales were affected by increased consumption by residential consumers during winter months (June to August). During 2016, approximately 85.5% of our natural gas sales were produced in the Neuquina basin. In 2016, our domestic natural gas sales volumes were approximately equal to 2015.

During the past few years, the Argentine government has taken a number of steps aimed to satisfy domestic natural gas demand, including pricing, export regulations, higher export taxes and domestic market injection requirements. These regulations were applied to all Argentine producers, affecting natural gas production and exports from every producing basin. See [Delivery commitments](#) [Natural gas supply contracts](#). Argentine producers such as YPF complied with the Argentine government's directions to curtail exports in order to supply gas to the domestic market, whether such directions are issued pursuant to resolutions or otherwise. Resolutions adopted by the Argentine government provide penalties for non-compliance. Rule SSC No. 27/2004 issued by the Undersecretary of Fuels ( [Rule 27](#) ), for example, punishes the violation of any order issued thereunder by suspending or revoking the production concession. Resolutions No. 659 and No. 752 also provide that producers not complying with injection orders will have their concessions and export permits suspended or revoked and state that pipeline operators are prohibited from shipping any natural gas injected by a non-complying exporting producer.

The Argentine government began suspending natural gas export permits pursuant to Rule 27 in April 2004, and in June 2004 the Argentine government began issuing injection orders to us under Resolution No. 659. Thereafter, the volumes of natural gas required to be provided to the domestic market under the different mechanisms described above have continued to increase substantially. On January 8, 2017, Law No. 26,732, which establishes export duties on hydrocarbon exports, ceased to be in force. As a result, export duties are no longer imposed on natural gas exports.

See [Legal and Regulatory Framework and Relationship with the Argentine Government](#) for additional information on these and other related regulations.

***Argentine natural gas supplies***

Most of our proved natural gas reserves in Argentina (approximately 76.7% as of December 31, 2016) are situated in the Neuquina basin, which is strategically located in relation to the principal market of Buenos Aires and is supported by sufficient pipeline capacity during most of the year. Accordingly, we believe that natural gas from this region has a competitive advantage compared to natural gas from other regions. The capacity of the natural gas pipelines in Argentina has proven in the past to be inadequate at times to meet peak-day winter demand, and there is no meaningful storage capacity in Argentina. Since privatization, local pipeline companies have added capacity, improving their ability to satisfy peak-day winter demand, but no assurances can be given that this additional capacity will be sufficient to meet demand.

In order to bridge the gap between supply and demand, especially with respect to peak-day winter demand, the Argentine government has entered into gas import agreements.



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**Table of Contents**

YPF has provided regasification services to ENARSA since May 2008. In 2011, YPF executed an extension to the charter party agreement and a regasification services agreement with Excelerate Energy to provide and operate a 151,000 cm (or 533,25 cf) regasification vessel moored at the Bahía Blanca port facilities, which allows for the supply of up to 17 mmcm/d of natural gas (or 600.34 mmcf/d). In December 2013, 22 months before the expiration as established in this charter party agreement, the first automatic extension of 36 additional months was executed, with an application date as of November 1, 2015; therefore, the expiration date of the agreement has been extended to October 2018.

Since the beginning of its operations, the regasification vessel has converted 19.64 bcm (or 693.48 bcf) of LNG into natural gas, which has been injected into a pipeline which feeds the Argentine national network. Most of this volume was supplied during the peak winter demand period. In 2016, natural gas injected into the network amounted to approximately 2.25 bcm (or 79.46 bcf).

YPF is the operator of UTE Escobar (a joint venture formed by YPF and ENARSA), which operates an LNG Regasification Terminal ( LNG Escobar ) located in the km 74.5 of the Paraná River. The LNG Escobar terminal has a floating storage and regasification unit permanently moored at the new port facilities, for which UTE Escobar has executed agreements with Excelerate Energy to provide and operate a 151,000 cm (or 533,252 cf) regasification vessel moored at the LNG Escobar terminal with the capacity to supply up to 17 mmcm/d (or 600 mmcf/d) of natural gas.

***Natural gas transportation and storage capacity***

Natural gas is delivered by us through our own gathering systems to the five trunk lines operated by Transportadora de Gas del Norte S.A and Transportadora de Gas del Sur S.A. from each of the major basins. The capacity of the natural gas transportation pipelines in Argentina is mainly used by distribution companies. A major portion of the available capacity of the transportation pipelines is booked by firm customers, mainly during the winter, leaving capacity available for interruptible customers to varying extents throughout the rest of the year.

We have utilized natural underground structures located close to consuming markets as underground natural gas storage facilities, with the objective of storing limited volumes of natural gas during periods of low demand and selling such natural gas during periods of high demand. Our principal gas storage facility, Diadema, is located in the Patagonia region, near Comodoro Rivadavia city. The injection of natural gas into the reservoir started in January 2001.

***Other investments and activities******NGLs***

We participated in the development of our affiliate Mega to increase its ability to separate liquid petroleum products from natural gas. Through the fractionation of gas liquids, Mega increased production at the Loma La Lata gas field by approximately 5.0 mmcm/d (or 176.5 mmcf/d) in 2001 with our assistance.

We own 38% of Mega, while Petrobras and Dow Chemical have stakes of 34% and 28%, respectively.

Mega operates:

A separation plant, which is located in the Loma La Lata field, in the province of Neuquén.

An NGL fractionation plant, which produces ethane, propane, butane and natural gasoline and is located in the city of Bahía Blanca in the province of Buenos Aires.

A pipeline that links both plants and that transports NGLs.

Transportation, storage and port facilities in close proximity to the fractionation plant.

Mega s maximum annual production capacity is 1.62 million tons of natural gasoline, LPG and ethane. YPF is Mega s only supplier of natural gas. The production of the fractionation plant is used mainly in the petrochemical operations of PBBPolisur S.A. ( PBB ), owned by Dow Chemical Company, and is also exported by tanker to Petrobras facilities in Brazil.

**Table of Contents**

Pursuant to Decree No. 2067/08 and Resolutions No. 1982/2011 and 1991/2011 of ENARGAS, since December 1, 2011, Mega had been required to pay, on a monthly basis, a fee of Ps. 0.405 per cubic meter of natural gas it purchases. This requirement has a significant impact on the operations of Mega and has been challenged in the Argentine federal courts. On October 27, 2015, the Argentine Supreme Court ( CSJN ) ruled on the legal proceedings filed by Mega covering the period up to the issuance of Law No. 26,784 (November 13, 2012). It ruled that Decree 2067/08 was unconstitutional and did not apply to Mega.

In addition, on February 25, 2013, Mega filed another action requesting that the federal courts declare the unconstitutionality of Articles 53 and 54 of Law No. 26,784, which included within the provisions of Law No. 26,095 the fee created by Decree No. 2067/08 and ENARGAS regulations, which, as of the date hereof, has not been ruled on by the first instance judge.

Finally, on April 1, 2016, MINEM issued Resolution No. 28, which provided for the suspension of the application of the fee created by Decree No. 2067/08 and related ENARGAS regulations effective as of the date of issuance.

*Electricity market generation***The Argentine Electricity Market**

Argentina's energy demand was 0.7% higher in 2016 than 2015 according to Compañía Administradora del Mercado Mayorista Eléctrico S.A. ( CAMMESA ). Domestic consumption increased 0.6% and exports increased more than 500% (529 Gwh) during 2016.

In order to satisfy this energy demand, Argentina's overall power generation was 0.7% higher in 2016 than 2015 according to CAMMESA. In 2016, 65% of Argentina's power generation came from thermal power plants, 26% from hydroelectric power plants, 6% from nuclear power plants, 1% from renewable energy sources and 1% from spot imports from Uruguay and Paraguay (1470 Gwh). Those spot imports were used to satisfy peak demand hours without capacity reserves.

Peak capacity demand reached its maximum in February 2016 (25,380 Mw), leaving the electrical system without capacity reserve to satisfy that demand. Therefore, the Argentine Secretariat of Energy decided to invite the energy market to participate in two tender processes to add new power capacity to the system (Resolution No. 21/2016 and MINEM Resolution No. 136/2016).

Thermal power plants consumed 2,380,027 cm of diesel oil, a 6.4% increase compared to 2015, 2.65 million tons of fuel oil, a 14.1% decrease compared to 2015, and 15.7 billion cm of natural gas, an 8.6% increase compared to 2015.

The average electricity price was Ps. 1016.3/MWh, a 63% increase compared to 2015, while the annual average marginal cost of production was Ps. 2069.7/MWh, also a 63% increase compared to 2015.

In 2013, Resolution No. 95/2013 of the Secretariat of Energy changed the procedures and increased rates of remuneration that power generation plants receive, giving incentives to increase power plant reliability. In 2014, this rule was updated with Resolution No. 529/14 of the Secretariat of Energy, increasing the remuneration to be received by 75%. In 2015, the same rule was updated with Resolution No. 482/15 of the Secretariat of Energy, increasing the remuneration to be received by 25% and adding some new concepts. Finally, in 2016, the same rule was updated with Resolution No. 22/2016 of the Secretariat of Energy, increasing the remuneration to be received by old generation plants by 46%.

Resolution No. 420/2016 of the Secretariat of Electric Power, dated November 16, 2016, invited all interested parties to develop infrastructure projects that may contribute to cost reduction in the MEM by filing intent letters by December 9, 2016 (subsequently amended by Resolution No. 455/2016 to January 13, 2017). Projects

**Table of Contents**

could include the following: a) combining cycles with new technology; b) combining existing generation units; c) new thermoelectric generators with cost effective locations or logistics, or that could utilize generated heat for other purposes; d) alternative fuel supply infrastructures; or e) pipes and/or any other technical alternative that could minimize the costs associated with electricity generation.

*YPF in Power Generation*

We participate in three power generation plants with an aggregate installed capacity of 1,622 MW:

a 100% interest in Central Térmica Tucumán (410 MW combined cycle) through YPF Energía Eléctrica S.A ( YPF EE ), in which we have a 100% interest;

a 100% interest in Central Térmica San Miguel de Tucumán (370 MW combined cycle) through YPF EE, in which we have 100% interest; and

a 40% interest in Central Dock Sud (775 MW combined cycle and 67 MW gas turbines), directly and through Inversora Dock Sud S.A., in which we have a 42.86% interest.

On August 1, 2013, as a result of the spinoff of the assets of PlusPetrol Energy S.A., YPF EE was created to continue the power generation operations and businesses of Central Térmica Tucumán and Central Térmica San Miguel de Tucumán.

In 2016, YPF EE generated 5,383.9 GWh with its two combined cycle plants. Central Térmica Tucumán's production was 3,253.2 GWh, and Central Térmica San Miguel de Tucumán's production was 2,330.7 GWh. Additionally, Central Dock Sud generated 5,025.75 GWh. The energy produced by YPF EE and Central Dock Sud (10,409.65 GWh in total) represented 7.5% of Argentina's electricity generation in 2016.

Energy produced by both combined cycle plants in Tucumán was 5.8% higher in 2016 compared to 2015, despite major overhauls on unit SMTUTG02 at Central Térmica San Miguel de Tucumán in October 2016 and November 2016.

In August 2013, after taking over the power plants, YPF EE accepted Resolution No. 95/2013 issued by the Secretariat of Energy, which allowed the company to increase rates of remuneration it received for spot electricity sales.

Energy produced by Central Dock Sud in 2016 increased by 32% compared to 2015 because of a major overhaul and a serious failure in the electrical connection during 2015.

Additionally, we own assets that are part of Filo Morado Partnership, which has an installed capacity of 63 MW. However the relevant facilities have not been in operation since November 2008.

In addition to YPF EE, we also own and operate power plants supplied with natural gas produced by us, which produce power to supply our upstream and downstream activities:

Los Perales power plant (74 MW), which is located in the Los Perales natural gas field;

Chihuido de la Sierra Negra power plant (40 MW); and

Plaza Huincul power plant (40 MW).

During 2016, YPF EE developed the engineering, procurement and construction ( EPC ) of an important new thermal power generation plant, Central Térmica Loma Campana, which is located in Añelo, Neuquén. This additional generation plant is designed with the objective of supplying YPF s internal energy demand all over the country.



## **Table of Contents**

As a consequence of Law No. 27191 relating to renewable energy, YPF EE has commenced construction of its renewable generation project, Manantiales Behr Wind Farm, near Comodoro Rivadavia in the Chubut province, in order to supply the percentage of YPF total demand with clean generation that will be required by the law in 2018.

Within the framework of MINEM Resolution No. 21/2016, YPF EE, together with a subsidiary of General Electric, decided to engage in two projects for the development and operation of two power plants, both through special purpose vehicles under common control with the shareholders.

One project consists of a new 105 MW thermal power plant located at Loma Campana in Neuquén province, Argentina. The project has succeeded in obtaining a purchase price agreement at the second round of the power capacity auction established through S.E. Resolution No. 21/2016 and the reference terms issued by CAMMESA. The commercial operating date is estimated to be November 30, 2017.

The second project consists of a new 261 MW thermal power plant located at El Bracho in Tucumán province, Argentina. The project has succeeded in obtaining a purchase price agreement at the first round of the power capacity auction established through S.E. Resolution No. 21/2016 and the reference terms issued by CAMMESA. The commercial operating date is estimated to be January 31, 2018.

Both projects involve an aggregate investment of U.S.\$270 million, and the total shareholders' contribution is estimated to be U.S.\$75 million (approximately U.S.\$50 million payable by YPF EE), with the remainder of the investment amount financed by financial institutions.

### *Natural gas distribution*

We currently hold a 70% stake in Metrogas S.A. ( Metrogas ), a natural gas distribution company in the capital region and southern suburbs of Buenos Aires, and one of the main distributors in Argentina. During 2016, Metrogas distributed approximately 19.3 mmcm (or 681.0 mmcf) of natural gas per day to 2.4 million customers in comparison to approximately 19.5 mmcm (or 688.6 mmcf) of natural gas per day to 2.3 million customers in 2015. During May 2013, we, through our subsidiary YPF Inversora Energética S.A. ( YPF Inversora Energética ), gained 100% ownership of Gas Argentino S.A. ( GASA ), the controlling company of Metrogas, by acquiring shares representing the remaining 54.7% interest in GASA not already owned by us. In 2016, GASA and YPF Inversora Energética were both merged into us and dissolved without liquidation.

Additionally, on December 28, 2016, YPF received a copy of a letter sent to Metrogas from the National Gas Regulatory Authority (*Ente Nacional Regulador del Gas*), requesting that the shareholder structure of Metrogas be adapted to the term established in the Emergency Law (*Ley de Emergencia*) No. 25,561 and be in compliance with Article 34 of Law No. 24,076. YPF indirectly acquired a 70% participating interest in Metrogas, in a transaction that was authorized by ENARGAS Resolution No. I/2566 dated April 19, 2013, as reported on May 3, 2013 and, after the merger with YPF Inversora Energética S.A. and Gas Argentino S.A., became the equity holder of 70% of the shares of Metrogas.

In addition to complying with current regulations in this area and having all the necessary governmental authorizations, YPF will analyze the background of the aforementioned requirement and, based on this, will take the necessary actions to defend its interests and those of its shareholders.

### **Metrogas debt reorganization**

Given the adverse business conditions, Metrogas decided to file a voluntary reorganization petition in June 2010.

On September 9, 2013, Metrogas made a formal presentation in connection with the reorganization proceedings, requesting that the court formally declare the completion of the proceedings.

On November 18, 2013, Metrogas received a notice from the National Commercial Court of First Instance No. 26 that sets forth the court's decision to terminate the reorganization proceedings.

## **Table of Contents**

### *Metrogas tariff issues*

In January 2002, pursuant to the Public Emergency Law, the tariffs that Metrogas charges to its customers were converted from their original dollar values to pesos at a rate of Ps.1.00 to U.S.\$1.00. Thus, the company's tariffs were effectively frozen since indexation of any kind is not permitted under the Public Emergency Law.

The Public Emergency Law also provides that the Argentine government should renegotiate public utility services agreements affected by the change to Argentine peso prices.

The Public Emergency Law, which was originally scheduled to expire in December 2003, has been extended until December 31, 2017. As a consequence, the renegotiation terms for licenses and concessions of utility services were also extended.

Metrogas and the UNIREN (*Unidad de Renegociación y Análisis de Contratos de Servicios Públicos*) signed a temporary agreement in September 2008. In November 2012, ENARGAS published Resolution No. 2,407/12 that authorizes Metrogas, following the terms of the temporary agreement discussed above, to apply a fixed amount in each customer's bill, differentiating by type of customer according to the terms of the resolution and following the application of the methodology to be determined by the regulating agency.

Metrogas has been invoicing customers with this new tariff charge since December 3, 2012.

Resolution No. 2851/2014 issued by ENARGAS on April 7, 2014 approved new applicable tariffs effective April 1, 2014, June 1, 2014 and August 1, 2014 under a price scheme whereby customers that register a decrease in consumption of over 20% will continue with the same tariff level as that which was in effect until March 31, 2014, while customers that achieve a reduction of between 5% and 20% will be charged a tariff approximately 50% lower in relation with the actual price variation, which will be applied to customers unable to reduce their consumption or whose reduction is below 5%.

### **Temporary Economic Assistance in 2015**

On June 8, 2015, the Official Gazette published S.E. Resolution No. 263/2015 whereby the Argentine Secretariat of Energy approved the allocation of funds as temporary economic assistance to be paid in ten consecutive installments for Metrogas and other natural gas distributors effective from March 2015. The compensation was intended to cover expenditures and investments related to the regular operation of the natural gas public service and in advance of the Comprehensive Tariff Revision to be carried out in the future.

This resolution establishes that the beneficiaries will assign a portion of the funds received by each of the monthly installments to cancel unpaid past due debt as of December 31, 2014 with natural gas producers, and moreover, that distributors may not incur more debt resulting from the purchase of natural gas after the above-mentioned resolution has taken effect.

In the case of Metrogas, ENARGAS established a need for funds for 2015 to be disbursable monthly according to the schedule between March and December. ENARGAS also established that the company would assign a portion of the temporary economic assistance to pay debts to producers from December 31, 2014 in 36 monthly installments, plus interest, effective from January 2015, calculated using the current Average Active Rate of Banco Nación for Commercial Discount Operations (2.05% monthly), and would begin to pay the installments in March 2015.

ENARGAS stated that distributors would proceed to pay gas purchase invoices due in 2015, estimating payments within 30, 60 and 90 days in line with the receipt of invoices by clients.

In 2015, Metrogas accrued temporary economic assistance amounting to Ps. 711 million and collected Ps. 561.7 million in 2015 and Ps. 149.3 million in 2016. Metrogas has also entered into payment agreements with the majority of producers in accordance with the terms of S.E. Resolution No. 263/2015.

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**Table of Contents****Approved Tariffs and Temporary Economic Assistance in 2016**

After holding the public hearings required by MINEM (*Punto de Ingreso al Sistema de Transporte* or PIST prices) and ENARGAS (Transportation and Distribution Tariffs) and publishing the Final Report of the hearings (Art. 21 ENARGAS Resolution No. 3,158/2005), on October 7, 2016, the Official Gazette published MINEM Resolution No. 212 E/2016 (PIST prices), ENARGAS Resolution No. 4,044/2016, which describes tariff schedules for Metrogas customers, and ENARGAS Resolutions No. 4,053/2016 and 4,054/2016 with the tariff schedules for the transportation companies, Transportadora de Gas del Norte S.A. and Transportadora de Gas del Sur S.A., respectively. In this respect, MINEM Resolution No. 212 E/2016 provides for a gradual increase of PIST prices to reduce the application of the subsidies provided by the Argentine government according to a price proposal to be prepared and subject to approval of MINEM by the Secretariat of Hydrocarbon Resources.

ENARGAS Resolution No. 4,044/2016 decided to: (i) declare Public Hearing No. 83 valid; (ii) approve as from October 7, 2016, the new tariff schedules to be applied to customers within Metrogas license area; (iii) approve as from October 7, 2016, the new tariff schedules to be applied to customers within Metrogas license area that have a savings of 15% or higher on their consumption with respect to the same period of the previous year; and (iv) approve as from October 7, 2016, the new tariff schedules to be applied to customers within Metrogas license area registered with the Registry provided by ENARGAS Resolution No. I-2,905/14 (Social Tariff).

Furthermore, ENARGAS Resolution No. 4,044/2016 provides limits to increases for residential and small general service category customers when the total amount of the invoice is above Ps. 250. In line with the provisions of ENARGAS Resolution No. 3,726/2016, the monthly payment of the invoices shall be maintained and the Mandatory Investment Plan ratified.

Finally, on October 31, 2016, ENARGAS approved, effective as of October 7, 2016, the tariff charts corresponding to the category Social Welfare Institutions (ENARGAS Resolution No. 4,092/2016) under the terms of MINEM Resolution No. 218 - E/2016 and Law 27,218, which established the Specific Utilities Tariff Regime for Social Welfare Institutions.

Considering the aforementioned, the real impact will depend on a variable beyond our control, which is the reduction in consumption customers may have, which will depend not only on their individual actions to reduce the use of gas, but also on the effects of weather, among others, during the compared periods.

On November 16, 2016, ENARGAS called for a public hearing in order to consider (i) Metrogas Integral Tariff Review; (ii) amendment proposals, prepared by ENARGAS, to the Transportation and Distribution Service Regulations approved by Executive Order No. 2255/92 and, (iii) the methodology of six-month adjustments. MetroGas public hearing took place on December 7, 2016.

On March 30, 2017, Metrogas, MINEM and Ministry of Economy signed the Transitional Agreement 2017 and the Letter of Understanding of Contractual Renegotiation.

On March 30, 2017, ENARGAS issued Resolution No. I/4356/2017 that decided (i) the tariff schedules that resulted from the analysis made by ENARGAS within the framework of the Integral Tariff Review, (ii) the transitional tariff schedules to apply as of April 1, 2017, (iii) the mandatory investments plan, and (iv) the methodology of the six-month adjustments. See additionally Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation Natural Gas.

In addition, on December 30, 2016, the Official Gazette published MINEM Resolution No. 312 E/2016, which provides for new transitional economic assistance for Licensees of the Natural Gas Distribution Service in order to afford the established mandatory investments (with respect to Metrogas) in ENARGAS Resolutions No. 3726, dated March 31, 2016, and No. 4044, dated October 6, 2016, and the payment to gas producers, all of which will be included in the Integral Tariff Review.

## **Table of Contents**

According to the resolution, the transfer of amounts allocated to Metrogas, which totaled Ps 759.2 million, will be applicable as long as, in the opinion of ENARGAS, the financial situation of the Company that gave rise to the provision of the assistance continues, considering the availability of funds to face the investment obligations and payments to gas producers.

In order to obtain the funds of the transitional economic assistance, Metrogas shall submit to ENARGAS an affidavit under the terms of ENARGAS Note No. 106/2017 concerning the proposed use of the required amounts. According to ENARGAS instructions, should the affidavits be in line with the provisions of MINEM Resolution No. 312 E/2016, they shall be forwarded to the Secretariat of Hydrocarbon Resources reporting to MINEM to provide the transfer of the assistance. Furthermore, the resolution provides that Licensees shall not be able to distribute dividends under the terms of MINEM Resolution No. 31/2016.

Funds from a letter of understanding executed on November 21, 2012 with ENARGAS, a provisional agreement executed on March 26, 2014 with the UNIREN (*Unidad de Renegociación y Análisis de Contratos de Servicios Públicos*) and collections from the temporary economic assistance program in 2015 and 2016 are not at all sufficient to restore the financial condition of Metrogas to a reasonable state.

## **Seasonality**

For a description of the seasonality of our business, see Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Seasonality.

On February 16, 2017, MINEM published Resolution No. 29-E/2017, through which it called a public hearing to be held on March 10, 2017 to consider new natural gas prices at PIST that would be determined to apply to the half-year period commencing in April 2017. The hearing took place, and the final report by the Secretariat of Hydrocarbon Resources was issued to the MINEM; however, up to the date of this annual report, the MINEM resolution determining such prices is still pending.

## **Research and Development**

At the end of 2013, YPF created YPF Tecnología S.A. ( Y-TEC ), a highly specialized company focusing on research and development ( R&D ) activities. YPF holds an interest stake of 51% and CONICET, a state-owned research and development organization, holds an equity interest of 49%.

All lines of R&D carried out by Y-TEC are mainly aligned with the needs of YPF. The Board of Directors of Y-TEC consists of three directors appointed by YPF and two directors appointed by CONICET; additionally, the Chairman and the General Manager of Y-TEC are appointed by YPF.

For the operations of Y-TEC, five hectares from the National University of La Plata ( UNLP ) were acquired, and a 13,000 m<sup>2</sup> building consisting of 47 labs and 12 experimental plants was recently built. The team and the equipment moved into the new building in June 2016. More than 300 professionals work in the new building, to create innovative solutions for the energy sector.

The main goals of Y-TEC are: to generate high-impact technological solutions, provide high quality technical and laboratory support services and lead the fast implementation in the industry of existing innovative technologies (quick wins).

The new R&D portfolio consists of 65 projects, 28 short-term high impact quick wins and more than 80 technical assistance and specialized services.

In 2016, U.S.\$27.7 million was allocated to R&D activities, and U.S.\$12.23 million (YPF's working interest) was invested in new laboratory building and equipment. In 2015, U.S.\$29.7 million was allocated to R&D activities, and U.S.\$22.7 million (YPF's working interest) was invested in a new laboratory building and equipment. In 2014, approximately U.S.\$28.7 million was allocated to R&D activities, 28% of which corresponded to cooperation with external technology centers. In order to support these R&D activities, we invested U.S.\$25.4 million in the new laboratory building and equipment.



## **Table of Contents**

Y-TEC believes in the value of liaising with technological partners to reinforce regional leadership, adopting the open innovation concept. This concept allows us to reduce technological risk, shorten the time to have the product on the market and minimize costs.

In 2017, we have opened more than twenty Innovation Spaces. These are areas promoted by Y-TEC to complement scientific capacities in public and private institutions and allow the generation of technological products of high impact for the national energy industry. Knowledge, experience and state-of-the-art equipment are brought together by Y-TEC and CONICET.

All R&D will be supported by a staff of over 6,000 researchers and doctors from different areas of science, available to the CONICET through agreements with different universities and institutes of research and development.

Y-TEC explores opportunities throughout the energy sector. This is a broad and diversified strategy divided into six strategic areas: Non-Conventional Resources, Mature Fields, Refinery and Petrochemical, Gas, New Energies and Environmental Sustainability.

In exploration and production of unconventional resources, R&D efforts are focused on the design, development and application of very specific technologies. Our most important challenges include the design and development of simulation and modeling tools, specific software, measuring devices, proppants, fluids and materials for optimizing perforation, hydraulic stimulation and production operations in our oilfields.

To optimize production from mature fields, we focused on the development of enhanced oil recovery technologies and the development of new processes and materials to reduce the operational costs of our facilities, to increase their run life and integrity.

Regarding refining and marketing of petroleum products, we applied our technological knowledge to optimize refinery operations and improve product quality, with a strong focus on the achievement of energy efficiency and environmental improvements. In the petrochemical business, R&D activities are mainly focused on the development of new products with higher added value, such as special solvents, fertilizers and several agricultural products.

Renewable energy is a strategic R&D area. Energy storage based on li-ion technologies, solar energy (photovoltaics and thermal), hydrogen production, bioenergy and energy efficiency are among the greater challenges.

## **Competition**

In our Upstream business, we encounter competition from major international oil companies and other domestic oil companies in acquiring exploration permits and production concessions. Our Upstream business may also encounter competition from oil and gas companies created and owned by certain Argentine provinces, including La Pampa, Neuquén, Santa Cruz and Chubut. See [Legal and Regulatory Framework and Relationship with the Argentine Government Overview](#) and [Legal and Regulatory Framework and Relationship with the Argentine Government Law No. 26,197](#). However, changes introduced in the Hydrocarbons Law through Law No. 27,007 (2014) limit the ability of provincial companies to possess future exclusive rights over permits and concessions, which supports competition in the Argentine oil and gas industry. See [Legal and Regulatory Framework and Relationship with the Argentine Government Law No. 27,007](#), amending the Hydrocarbons Law. Moreover, during the last several years we have made a comprehensive move to secure, either by renewing, extending and converting through mechanisms provided in the Law, the majority of such permits and concessions in Argentina considered valuable in the long term.

Over the past few years, several measures to promote the development of the industry occurred. The Argentine government established a program to encourage additional production of natural gas which provides participating companies with a natural gas price of U.S.\$7.50/mmBtu for such additional production. Initially, larger producers with diversified portfolios joined the program. Later on, the program was adapted to include mid-

**Table of Contents**

and small-sized oil and gas companies with less diversified portfolios, so as to further promote the development of indigenous natural gas resources. Currently, 97% of natural gas production in Argentina is included into this program. Different tranches of the program are scheduled to expire between the end of 2017 and 2018. In connection with that, in March 2017 a new stimulus program for natural gas production from non-conventional reservoirs was created (see Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government MINEM Resolution No. 46/2017 ). Furthermore, by the end of 2016, the Argentine government established a new tariff scheme for certain types of natural gas consumers, which progressively reduces subsidies and introduces market prices. It is expected that similar regularization will occur with consumers of power generation, a sector where the Argentine government has already initiated a process to add new capacity during 2016 through a series of tenders that award 10-year contracts at market prices. See additionally Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation Natural Gas and Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation Electricity.

Still another measure to promote the oil and gas industry was the creation of the Investment Promotion Scheme for the Exploitation of Hydrocarbons in Argentina set forth in in Decree 929/13. The Decree creates an allowance to export, free of export taxes, up to 20% of hydrocarbons produced from projects requiring an investment in excess of U.S.\$1 billion. Companies accessing the allowance can also retain U.S. dollars from their exports abroad. Both the natural gas pricing program and the investment promotion scheme were incorporated into the Hydrocarbons Law, as amended by Law No. 27,007, reinforcing their position as an instrumental part of the energy policy in Argentina. Furthermore, the investment threshold for investments funded with U.S. dollars brought to Argentina's financial market has been reduced to U.S.\$250 million. In October 2014, the Argentine congress passed Law No. 27,007, which amended the Hydrocarbons Law and introduced very important changes in order to have a more modern framework that recognizes specific considerations for petroleum companies, such as those working in unconventional resources, offshore and in enhanced oil recovery. The changes further strengthen synergies, promote investments and seek uniformity. Besides recognizing the benefits of the gas pricing scheme and the promotional regime for investments, Law No. 27,007 reflects new terms and conditions for permits and concessions according to the types of exploration projects. The 35-year concession term for unconventional exploitation is a distinctive key feature for the development of the unconventional resources in Argentina. See Legal and Regulatory Framework and Relationship with the Argentine Government Law No. 27,007, amending the Hydrocarbons Law. YPF believes that these measures further help attract strategic partners for the development of its unconventional resource base. Following Chevron and Dow Chemical, YPF was able to create development projects with Pampa Energía and Petronas. During 2016, and following the cases of Loma Campana, La Amarga Chica, Bajada de Añelo and Bandurria Sur, YPF further converted into unconventional resource permits and concessions 11 key blocks, including some where YPF works with partners such as Exxon Mobil, Total and Pluspetrol. The conversion of these blocks according to Law No. 27,007 also eliminated or reduced substantially certain carried interest of the provincial company, Gas y Petróleo de Nequen, thus augmenting the possibilities of future development of these highly prospective areas. At the same time, other companies were able to advance their exploration and pilot projects, in some instances with new partners, including YPF as a non-operating party to some existing JVs where YPF is used to participating. We believe that increasing the number of participants in the market causes the industry to become more dynamic in the long term and that with additional critical mass it will become more efficient as well.

In our Refining and Marketing and Chemicals businesses, we face competition from several major international oil companies, such as Axion (previously ESSO, a former subsidiary of ExxonMobil acquired by Bridas Corporation), Shell and Petrobras (recently acquired by Pampa Energía), as well as several domestic oil companies. In our export markets, we compete with numerous oil and trading companies.

We operate in a dynamic market in the Argentine downstream industry and the crude oil and natural gas production industry. Crude oil and most refined products prices are subject to international supply and demand and, in certain

cases, to Argentine regulations. Although the Argentine market has its own dynamics and fundamentals, changes in the domestic and international prices of crude oil and refined products have some direct effect on our results of operations and on our levels of capital expenditures. See Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business Oil and gas prices, including the recent decline in global prices for oil and gas, could affect our business.

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## **Table of Contents**

On May 3, 2012, the Expropriation Law was passed by the Argentine congress. See [Legal and Regulatory Framework and Relationship with the Argentine Government](#) [The Expropriation Law](#). Although the Expropriation Law and its principles are still in place, the Government seems to endorse the idea that these principles could be better served introducing more competition into the market which should lead to an improved supply of energy sources of the oil and gas industry in Argentina, thus benefiting the consumers in the long term. The progressive elimination of subsidies in the gas sector and the promotion of the rapid convergence to international oil prices highlight certain changes in the energy policy.

Finally, on a daily basis our business manages competitive factors that are in turn influenced by international and local variables, such as international crude oil and refining products pricing, inflation, foreign exchange rates and employment rates. YPF continually adjusts its product offerings and the costs of its operations in order to adapt to these variables. Since the end of 2014, producers, refiners, the Argentine government and other relevant players have been working to progressively adapt to the abrupt change in international oil and gas prices that occurred during 2014. Producers and refiners have agreed to adjust local crude oil prices according to certain schemes while the Argentine government has been reducing or eliminating certain taxes, such as those that levied crude oil export. See [Item 5. Operating and Financial Review and Prospects](#) [Factors Affecting Our Operations](#) [Macroeconomic conditions](#). In some cases, the Argentine government has allowed export premiums and other stimuli benefits for local producers. Producers and refiners continue to work closely to encourage contractors and unions to contribute by reducing costs and increasing productivity, thus making 2017 an opportunity to further improve the competitiveness of the industry as a whole. One such move in this direction is the Amendment to Union Collective Bargaining Agreement as of February 2017 in order to reflect new conditions for Non-Conventional Operations. See [Item 6. Directors, Senior Management and Employees](#) [Employee Matters](#) and [Item 3. Key Information](#) [Risk Factors](#) for a description of the main risks and uncertainties we face.

## **Environmental Matters**

### ***YPF-Argentine operations***

Our operations are subject to a wide range of laws and regulations relating to the general impact of industrial operations on the environment, including air emissions and waste water, the disposal or remediation of soil or water contaminated with hazardous or toxic waste, fuel specifications to address air emissions and the effect of the environment on health and safety. We have made and will continue to make expenditures to comply with these laws and regulations. In Argentina, local, provincial and national authorities are moving towards more stringent enforcement of applicable laws. In addition, since 1997, Argentina has been implementing regulations that require our operations to meet stricter environmental standards that are comparable in many respects to those in effect in the United States and in countries within the European Community. These regulations establish the general framework for environmental protection requirements, including the establishment of fines and criminal penalties for their violation. We have undertaken measures to achieve compliance with these standards and are undertaking various abatement and remediation projects, the more significant of which are discussed below. We cannot predict what environmental legislation or regulation will be enacted in the future or how existing or future laws will be administered or enforced. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of regulatory agencies, could require additional expenditures in the future by us, including the installation and operation of systems and equipment for remedial measures, and could affect our operations generally. In addition, violations of these laws and regulations may result in the imposition of administrative or criminal fines or penalties and may lead to personal injury claims or other liabilities.

We continued making investments in order to comply with new Argentine fuel specifications, pursuant to Resolution No. 1283/06 (amended by Resolution No. 478/2009) of the Argentine Secretariat of Energy (which replaces

Resolution No. 398/03) relating to, among other things, the purity of diesels. In the La Plata refinery, a new ultra-low sulfur diesel desulfurization plant was started up during 2012. In Luján de Cuyo refinery, new HDS III (diesel desulfurization) and HTN II (gasoline desulfurization) plants were started up in 2013. Additionally, we are increasing the tankage capacity of several of our terminals in order to optimize fuel distribution logistics. First stage projects related to biofuels, such as the addition of bioethanol to gasoline and FAME to diesel, were accomplished by the end of 2009 and were operational by the beginning of 2010. During 2010 and 2011, additional bioethanol facilities at several terminals were installed and became ready to operate. Also, during this period, further investments were made in several terminals in order to allow the increased addition of FAME to diesel and to

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**Table of Contents**

improve the related biofuel logistics. A new facility for FAME blending was started up in 2013 in the Montecristo terminal. In 2014, a 3,000 cm FAME tank at Terminal Dock Sud ( TDS ) a 3,000 cm FAME tank at TVM and two 200 cm ethanol tanks at Concepción del Uruguay were built. A new 3,000 cm FAME tank was also completed in the San Lorenzo terminal.

At each of our refineries during 2016, we continued with the initiatives relating to remedial investigations, feasibility studies and pollution abatement projects, which are designed to address potentially contaminated sites and air emissions. In addition, we have implemented an environmental management system to assist our efforts to collect and analyze environmental data in our upstream and downstream operations.

Also, as part of our commitment to satisfying domestic demand for fuels and meeting high environmental standards, during 2013 we started up a new Continuous Catalyst Regeneration ( CCR ) unit which involved an investment of U.S.\$453 million. The plant uses the latest worldwide technology to perform chemical processes and improvements in productivity, safety and environmental standards. Additionally, the plant produces aromatics that can be used as octane enhancers for gasoline and automotive applications, as well as increases hydrogen production to feed the fuel hydrogenation processes to increase fuel quality and reduce sulfur content, further reducing the environmental impact of internal combustion engines.

On September 2016, we started up a new coke unit at the La Plata refinery, which involved an investment of U.S.\$ 978 million, replacing the one that was severely damaged in the incident that occurred on April 2, 2013. The new unit design is expected to optimize energy efficiency and minimize particulate matter emissions. In addition to the projects mentioned above, we have begun to implement a broad range of environmental projects in the domestic Exploration and Production, Refining & Marketing and Chemicals segments, such as increasing the capacity of biological treatment in the La Plata refinery, a new flare in the Luján de Cuyo refinery, wastewater treatment and fire protection facilities, new flare in CIPH, improvement of fireproofing in existing facilities and implementation of bottom loading systems in terminals.

We and several other industrial companies operating in the La Plata area have entered into a community emergency response agreement with three municipalities and local hospitals, firefighters and other health and safety service providers to implement an emergency response program. This program is intended to prevent damages and losses resulting from accidents and emergencies, including environmental emergencies. Similar projects and agreements were developed at other refineries and harbor terminals as well. During 2016, we began to implement a similar program in the Luján de Cuyo area.

In 1991, we entered into an agreement with certain other oil and gas companies to implement a plan to reduce and assess environmental damage resulting from oil spills in Argentine surface waters to reduce the environmental impact of potential oil spills offshore. This agreement involves consultation on technological matters and mutual assistance in the event of any oil spills in rivers or at sea due to accidents involving tankers or offshore exploration and production. During 1997 and 1998, each of our refineries (La Plata, Luján de Cuyo, and Plaza Huincul) were certified under the ISO (International Organization for Standardization) 9001 (quality performance) and ISO 14001 (environmental performance). All of them are also certified under the OHSAS 18001 (occupational health and safety performance) standard. In addition, since 2008, the La Plata and Luján de Cuyo complexes have been verified in accordance with ISO 14064 for the inventories of industrial greenhouse gases. The refineries maintain their systems under continuous improvement and revision by accredited organizations.

With respect to climate change, YPF has:

committed to active promotion of identification and pursuit of opportunities to reduce greenhouse gas emissions in our operations;

established a new internal corporate commitment on climate change and energy efficiency which was developed in June 2015. This document sets the framework for the company to work on reducing greenhouse gas emissions, contributing to mitigation activities while promoting sustainable development and preserving natural resources;



**Table of Contents**

intensified the execution of internal projects to obtain credits under the relevant clean development mechanisms through the efficient use of resources, contributing to the transfer of technology and to the sustainable development of Argentina;

obtained the approval of the United Nations in December 2010 for an industrial project developed by YPF in Argentina defined as a Clean Development Mechanism ( CDM ) project, the first of its kind in the world. The project in the La Plata refinery reduces the emissions of greenhouse gases from fossil fuels used for process heating by replacing these fuels with recovered waste gases that were previously burned in flares. The project increases energy efficiency by reducing the demand for fuel oil and natural gas, allowing an estimated annual emission reduction of approximately 200,000 tons of CO<sub>2</sub>. On September 7, 2012, 89,930 Certified Emission Reductions (CERs) were issued by the United Nations after a peer review of the reported reduction in emissions. During 2016, the La Plata project reduced CO<sub>2</sub> emissions by approximately 130,000 tons;

obtained the approval of the United Nations in December 2011 for an industrial project developed by YPF in Argentina defined as a CDM at the Luján de Cuyo refinery. During 2016, the Luján de Cuyo project reduced CO<sub>2</sub> emissions by approximately 26,000 tons;

developed a new methodology which was approved by the United Nations in 2007 under the name of AM0055 Baseline and Monitoring Methodology for the recovery and utilization of waste gas in refinery facilities. Currently, six CDM projects are being developed around the world (Argentina, China, Kuwait and Egypt) applying this methodology developed by YPF;

undertook third-party greenhouse gas emission inventory verification for refining and chemical operations in accordance with the ISO 14064 Standard. The inventory at CIE has been verified since 2008. In July 2016, the inventory verification process for greenhouse gases in the La Plata complex and the Luján de Cuyo refinery was completed. During 2016, we began to implement third-party greenhouse gas emission inventory verification in the Plaza Huincul refinery, with the goal of completing the verification during 2017;

estimated the contribution that its forestry projects located in the province of Neuquén had with respect to climate change. These projects constitute approximately 6,500 hectares of trees forested under a long-term work program. Using the afforestation methodologies and tools available at the United Nations Framework Convention on Climate Change ( UNFCCC ) Clean Development Mechanism web site, it was possible to arrive to a conservative estimated amount of approximately 760,000 tons of CO<sub>2</sub> equivalents that were captured by the afforestation project activities from 1984 (when the first afforestation activity occurred) through 2013;

strengthened the relationship established with the Argentinean Environmental Authority (*Ministerio de Ambiente y Desarrollo Sustentable de la Nación*), in particular with its Climate Change Unit (*Dirección de Cambio Climático*) in order to collaborate with the development of the Third National Communication on Climate Change to the UNFCCC;

signed a framework agreement with the Argentinean Environmental Authority for a mutual collaboration on environmental issues, particularly relating to climate change; and

executed a pilot project on adaptation activities in a particular site of the company, using an adaptation tool that required the identification of climate risks, research on past, current and future climate trends and the identification of current taken and needed adaptation activities.

In relation with water management activities, the Local Water Tool has been implemented on two sites for the identification of water risks and practices taken of the proper management of water and effluents. Furthermore, during the past years a baseline study on water management has been performed for the different facilities of the company, which allowed us to establish the points of water intake and water disposal (effluent) with corresponding volumes. Focusing on the development and research, the company created YPF Tecnología S.A. (see Item 4. Information on the Company Research and Development ) where environmental activities are being undertaken in different fields. In particular, during 2016 activities on strengthening the biological restoration of sites were performed. These activities were supported by local universities as well.

## **Table of Contents**

Our estimated capital expenditures are based on currently available information and on current laws. Any future information or future changes in laws or technology could cause a revision of such estimates. Moreover, while we do not expect environmental expenditures to have a significant impact on our future results of operations, changes in management's business plans or in Argentine laws and regulations may cause expenditures to become material to our financial position, and may affect results of operations in any given year.

### **Unconventional oil and gas efforts led by YPF**

Organically rich shale gas and oil accumulations are drawing increasing attention worldwide as sources of significant natural gas and oil reserves.

Since 2008, YPF has led various exploration and development projects related to unconventional resources in Argentina, the most important being in the Vaca Muerta formation within Neuquina basin.

The Vaca Muerta formation is found between 2,500 and 4,000 meters of depth, more than 2,000 meters below the water table, which is usually located at depths of 300-500 meters. See Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business Our domestic operations are subject to extensive regulation and Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business Oil and gas activities are subject to significant economic, environmental and operational risks.

Hydraulic stimulation, a long time proven technology, allows these resources to be extracted in an efficient and environmentally-friendly way. Hydraulic stimulation consists of injecting high pressure fluids and sand into the wellbore to crack the rock and enable the trapped hydrocarbons in the formation to flow to the surface like in any conventional well.

Generally, this technique uses water and sand (99.5% of the water can be recycled) and additives (0.5%). These additives are the same as those used in products for household and commercial applications, such as sodium chloride (used in table salt), borate salts (used in cosmetics), potassium carbonate (used in detergents), guar gum (used in ice cream) and isopropyl alcohol (used in deodorants).

The water used for the development of these reservoirs is acquired from bodies of running water and it represents only a small percentage of the total flow, which involves much lower volumes than those used for agricultural and human consumption in the province of Neuquén.

From the beginning of unconventional operations, YPF has considered the environmental protection as one of the values of its health, safety and environment policy.

In accordance with law Disposition No. 112/2011 of the Environmental Subsecretary of Neuquén, the project has an Environmental Baseline Study ( EBS ). The EBS includes the current description and environmental characterization of the concession areas and specifically environmental components that may be affected significantly by the projects and activities.

YPF developed a water management framework, which focuses on three key areas of water use: water resources (sustainability factors, measures that consider the needs of other local water users, and the net environmental effect); water use and efficiency (controls of replacing water use, reducing water consumption, and the reuse and recycling to consider the net environmental effect); and wastewater management (consider similar sustainability factors and the net environmental effect as outlined for water resources).

In addition, YPF commissioned the following studies: (i) a hydrogeological study of confined and semi-confined aquifers of Neuquén and Rayoso Groups and hydrogeological study of the unconfined aquifer of the alluvial plain of the Neuquén River in the Loma Campana area and (ii) a similar study in the Nambuena area, which was conducted in 2016.

**Table of Contents*****Offshore Operations***

All the offshore blocks in which we have a working interest are included in a Health, Safety and Environmental ( HSE ) Management system to address risks and environmental impacts during each phase of the offshore activities.

**Property, Plant and Equipment**

Most of our property, which comprises investments in assets which allow us to explore or exploit crude oil and natural gas reserves, as well as refineries, storage, manufacturing and transportation facilities and service stations, is located in Argentina. See Downstream Refining division and Downstream Logistics Division. As of December 31, 2016, 10 of our proved reserves were located in Argentina.

Our petroleum exploration and production rights are in general based on sovereign grants of concession. Upon the expiration of the concession, our exploration and production assets associated with the particular property subject to the relevant concession revert to the government. See Exploration and Production Overview Main properties. In addition, as of December 31, 2016, we leased 83 service stations to third parties and also had activities with service stations that are owned by third parties and operated by them under a supply contract with us for the distribution of our products.

**Insurance**

The scope and coverage of the insurance policies and indemnification obligations discussed below are subject to change, and such policies are subject to cancellation in certain circumstances. In addition, the indemnification provisions of certain of our drilling, maintenance and other service contracts may be subject to differing interpretations, and enforcement of those provisions may be limited by public policy and other considerations. We may also be subject to potential liabilities for which we are not insured or in excess of our insurance coverage, including liabilities discussed in Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business We may not have sufficient insurance to cover all the operating hazards that we are subject to, Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business The oil and gas industry is subject to particular economic and operational risks and Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business We may incur significant costs and liabilities related to environmental, health and safety matters.

***Argentine Operations***

We insure our operations against risks inherent in the oil and gas industry, including loss of or damage to property and our equipment, control-of-well incidents, loss of production or profits incidents, removal of debris, sudden and accidental pollution, damage and clean up and third-party claims, including personal injury and loss of life, among other business risks. Our insurance policies are typically renewable annually and generally contain policy limits, exclusions and deductibles.

Our insurance policy covering our Argentine operations provides third party liability coverage up to U.S.\$400 million per incident, with a deductible of U.S.\$2 million, in each and every loss. Certain types of incidents, such as intentional pollution and gradual and progressive pollution are excluded from the policy s coverage. The policy s coverage extends to control-of-well incidents, defined as an unintended flow of drilling fluid, oil, gas or water from the well that cannot be contained by equipment on site, by increasing the weight of drilling fluid or by diverting the fluids safely into production. Our policy provides coverage for third-party liability claims relating to pollution from a control-of-well event ranging from U.S.\$75 million for certain onshore losses and a maximum combined single limit of

U.S.\$250 million for offshore losses.

Our insurance policy also covers physical loss or damage in respect of, but not limited to, onshore and offshore property of any kind and description (whether upstream or downstream), up to U.S.\$2 billion per incident combined for downstream and upstream operations, with varying deductibles of between U.S.\$1 million and U.S.\$5 million, including loss of production or profits with deductibles of 90 days for downstream operations and 60 days with a minimum deductible of U.S.\$20 million for upstream operations.

## **Table of Contents**

Argentine regulations require us to purchase from specialized insurance companies (*Aseguradoras de Riesgos de Trabajo*) insurance covering the risk of personal injury and loss of life of our employees. Our insurance policies cover medical expenses, lost wages and loss of life, in the amounts set forth in the applicable regulations. These regulatory requirements also apply to all of our contractors.

We have adopted a position in agreements entered into with contractors that provide drilling services, well services or other services to our exploration and production operations ( E&P Services Agreements ), whereby contractors are generally responsible for indemnifying us to varying degrees for certain damages caused by their personnel and property above the drilling surface. Similarly, we are generally responsible under our drilling contracts to indemnify our contractors for any damages caused by our personnel and property above the drilling surface.

In connection with losses or liabilities resulting from damages caused below the surface, we have agreed with some contractors that YPF assumes responsibility for indemnifying our contractors provided that such damages below the surface have not been caused by the negligence of the contractor in which case the contractor shall be liable up to a limited amount agreed by the parties in the E&P Services Agreements. However, we have also agreed with a number of contractors that YPF shall be responsible and shall indemnify contractors for damages or liabilities caused below the surface, unless such damages or liabilities result from the gross negligence or willful misconduct of contractors, in which case contractor shall be liable in full or, in certain cases, up to a limited amount.

E&P Services Agreements usually establish that contractors are responsible for pollution or contamination including clean-up costs and third party damages caused above the surface by the spill of substances under their control, provided that the damage has been caused by the negligence or willful misconduct of the contractor. In the event of pollution or contamination produced below the surface, contractors shall also typically be liable for damages caused due to the contractor's negligence or willful misconduct. However, in this last case the damages are also usually limited to an amount agreed upon by the parties in the E&P Services Agreement.

We are also partners in several joint ventures and projects that are not operated by us. Contractual provisions, as well as our obligations arising from each agreement, can vary. In certain cases, insurance coverage is provided by the insurance policy entered into by the operator, while in others, our risks are covered by our insurance policy covering our Argentine operations. In addition, in certain cases we may contract insurance covering specific incidents or damages that are not provided for in the operator's insurance policy. We also retain the risk for liability not indemnified by the field or rig operator in excess of our insurance coverage. With respect to downstream servicing contracts, contractors are usually responsible for damages to their own personnel and caused by them to third parties and they typically indemnify us for damages to equipment. A mutual hold-harmless provision for indirect damages such as those resulting from loss of use or loss of profits is normally included.

## **Legal and Regulatory Framework and Relationship with the Argentine Government**

### **Overview**

The Argentine oil and gas industry is regulated by Law No. 17,319, referred to as the Hydrocarbons Law, which was enacted in 1967 and amended by Law No. 26,197 enacted in 2007 and Law No. 27,007 enacted in 2014, which established the general legal framework for the exploration and production of oil and gas, and Law No. 24,076, referred to as the Natural Gas Law, enacted in 1992, which established the basis for deregulation of natural gas transportation and distribution industries. See Law No. 27,007, amending the Hydrocarbons Law.

The National Executive Office issues the regulations to complement these laws. The regulatory framework of the Hydrocarbons Law was established on the assumption that the reservoirs of hydrocarbons would be national

properties and Yacimientos Petrolíferos Fiscales Sociedad del Estado, our predecessor, would lead the oil and gas industry and operate under a different framework than private companies. In 1992, the Privatization Law privatized YPF and provided for transfer of hydrocarbon reservoirs from the Argentine government to the provinces, subject to the existing rights of the holders of exploration permits and production concessions.



## **Table of Contents**

The Privatization Law granted us 24 exploration permits covering approximately 132,735 km<sup>2</sup> and 50 production concessions covering approximately 32,560 km<sup>2</sup>. Limits under the Hydrocarbons Law on the number of concessions for transportation that may be held by any entity, and the total area of exploration permits that may be granted to a single entity, were eliminated by Law No. 27,007. As a consequence of the transfer of ownership of certain hydrocarbons areas to the provinces, we participate in competitive bidding rounds organized since the year 2000 by several provincial governments for the award of contracts for the exploration of hydrocarbons.

In October 2004, the Argentine congress enacted Law No. 25,943, creating a new state-owned energy company, 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 to ENARSA all exploration concessions in respect to offshore areas located beyond 12 nautical miles from the coast line up to the outer boundary of the continental shelf that were vacant at the time of the effectiveness of this law (i.e., November 3, 2004). Law No. 25,943 has been modified by Law No. 27,007, as described below, eliminating all permits and hydrocarbon production concessions where association agreements with ENARSA have not been signed and reverting them to the Argentine Secretariat of Energy (except for permits and concessions granted prior to Law No. 25,943). Additionally, Law No. 27,007 provides for a six month negotiating period to convert association agreements with ENARSA into permits or concessions. In September 2015, the National Executive Office and YPF began negotiating the conversion of association agreements executed with ENARSA. As of the date of this annual report, these negotiations are ongoing.

In addition, in October 2006, Law No. 26,154 created a regime of tax incentives aimed at encouraging hydrocarbon exploration and which apply to new exploration permits awarded in respect of the offshore areas granted to ENARSA and those over which no rights have been granted to third parties under the Hydrocarbons Law, provided the provinces in which the hydrocarbon reservoirs are located adhere to this regime. Association with ENARSA is a precondition to qualifying for the benefits provided by the regime created by Law No. 26,154. The benefits include: early reimbursement of the value added tax for investments made and expenses incurred during the exploration period and for investments made within the production period; accelerated amortization of investments made in the exploration period and the accelerated recognition of expenses in connection with production over a period of three years rather than over the duration of production; and exemptions to the payment of import duties for capital assets not manufactured within Argentina. As of the date of this annual report, we have not used the tax incentives previously mentioned.

Ownership of hydrocarbons reserves was transferred to the provinces through the enactment of the following legal provisions that effectively amended the Hydrocarbons Law:

In 1992, the Privatization Law approved the transfer of the ownership of hydrocarbons reserves to the provinces where they are located. However, this law provided that the transfer was conditioned on the enactment of a law amending the Hydrocarbons Law to contemplate the privatization of Yacimientos Petrolíferos Fiscales Sociedad del Estado.

In October 1994, the Argentine National Constitution was amended and pursuant to Article 124 thereof, provinces were granted the primary control of natural resources within their territories.

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 January 2007, Law No. 26,197 acknowledged the provinces' ownership of the hydrocarbon reservoirs in accordance with Article 124 of the National Constitution (including reservoirs to which concessions were granted prior to 1994) and granted provinces the right to administer such reservoirs.

**Table of Contents**

**The Expropriation Law**

On May 3, 2012, the Expropriation Law (Law No. 26,741) was passed by the Argentine congress and, on May 7, 2012, it was published in the Official Gazette of the Republic of Argentina. The Expropriation Law declared achieving self-sufficiency in the supply of hydrocarbons, as well as in the exploitation, industrialization, transportation and sale of hydrocarbons, a national public interest and a priority for Argentina. In addition, its stated goal is to guarantee socially equitable economic development, the creation of jobs, the increase of the competitiveness of various economic sectors and the equitable and sustainable growth of the Argentine provinces and regions.

Article 3 of the Expropriation Law provides that the principles of the hydrocarbon policy of the Republic of Argentina are the following:

- (a) Promote the use of hydrocarbons and their derivatives to promote development, and as a mechanism to increase the competitiveness of the various economic sectors and that of the provinces and regions of Argentina;
- (b) Convert hydrocarbon resources to proved reserves and their exploitation and the restoration of reserves;
- (c) Integrate public and private capital, both national and international, into strategic alliances dedicated to the exploration and exploitation of conventional and unconventional hydrocarbons;
- (d) Maximize the investments and the resources employed for the achievement of self-sufficiency in hydrocarbons in the short, medium and long term;
- (e) Incorporate new technologies and categories of management that contribute to the improvement of hydrocarbon exploration and exploitation activities and the advancement of technological development in the Republic of Argentina in this regard;
- (f) Promote the industrialization and sale of hydrocarbons with a high added-value;
- (g) Protect the interests of consumers with respect to the price, quality and availability of hydrocarbon derivatives; and
- (h) Export hydrocarbons produced in excess of local demand, in order to improve the trade balance, ensuring a rational exploitation of the resources and the sustainability of its exploitation for use by future generations.

According to Article 2 of the Expropriation Law, the National Executive Office will be responsible for setting forth this policy and shall introduce the measures necessary to accomplish the purpose of the Expropriation Law with the participation of the Argentine provinces and public and private capital, both national and international.

*Creation of Federal Council of Hydrocarbons*

Article 4 of the Expropriation Law provides for the creation of a Federal Council of Hydrocarbons which shall include the participation of (a) the Ministry of Economy, the Ministry of Federal Planning, the Ministry of Labor and the Ministry of Industry, through their respective representatives; and (b) the provinces of Argentina and the City of Buenos Aires, through the representatives that each may appoint. According to Article 5 of the Expropriation Law, the responsibilities of the Federal Council of Hydrocarbons will be the following: (a) promote the coordinated action of the national and provincial governments, with the purpose of ensuring the fulfillment of the objectives of the Expropriation Law; and (b) adopt decisions regarding all questions related to the accomplishment of the objectives of the Expropriation Law and the establishment of the hydrocarbons policy of the Republic of Argentina that the National Executive Office may submit for consideration.

*Expropriation of shares held by Repsol YPF*

For purposes of ensuring the fulfillment of its objectives, the Expropriation Law provided for the expropriation of 51% of the share capital of YPF represented by an identical stake of Class D shares owned, directly or indirectly, by Repsol YPF S.A. and its controlled or controlling entities. According to the Expropriation Law, the

## **Table of Contents**

shares subject to expropriation, which have been declared of public interest and were transferred to the Republic of Argentina, will be assigned as follows: 51% to the Argentine Republic and 49% to the governments of the provinces that compose the National Organization of Hydrocarbon Producing States. In addition, the Expropriation Law provided for the expropriation of 51% of the share capital of the company Repsol YPF GAS S.A. represented by 60% of the Class A shares of such company owned, directly or indirectly, by Repsol Butano S.A. and its controlled or controlling entities.

As of the date of this annual report, the transfer of the shares subject to expropriation between the National Executive Office and the provinces that compose the National Organization of Hydrocarbon Producing States is still pending. According to Article 8 of the Expropriation Law, the distribution of the shares among the provinces that accept their transfer must be conducted in an equitable manner, considering their respective levels of hydrocarbon production and proved reserves.

To ensure compliance with its objectives, the Expropriation Law provides that the National Executive Office, by itself or through an appointed public entity, shall exercise all the political rights associated with the shares subject to expropriation until the transfer of political and economic rights to the provinces that compose the National Organization of Hydrocarbon Producing States is completed. In addition, in accordance with Article 9 of the Expropriation Law, each of the Argentine provinces to which shares subject to expropriation are allocated must enter into a shareholder's agreement with the federal government that will provide for the unified exercise of its rights as a shareholder.

Any future transfer of the shares subject to expropriation is prohibited without the permission of the Argentine congress by a vote of two-thirds of its members.

In accordance with Article 9 of the Expropriation Law, the appointment of YPF Directors representing the expropriated shares shall be made proportionately considering the holdings of the Argentine Republic and provincial governments, and one Director shall represent the employees of YPF.

In accordance with Article 16 of the Expropriation Law, the federal government and the provinces must exercise their rights pursuant to the following principles: (a) the strategic contribution of YPF to the achievement of the objectives set forth in the Expropriation Law; (b) the administration of YPF pursuant to the industry's best practices and corporate governance, safeguarding shareholders' interests and generating value on their behalf; and (c) the professional management of YPF.

See Law No. 26,932 for descriptions of the agreement between Repsol and the Argentine Republic relating to compensation for the expropriation of 51% of the share capital of YPF owned, directly or indirectly, by Repsol, and the arrangement between Repsol and YPF for the withdrawal of certain claims and actions relating to such expropriation.

### *Legal nature of the Company*

YPF is and will continue to operate as a publicly traded corporation pursuant to Chapter II, Section V of Law No. 19,550 and its corresponding regulations, and neither is nor will not be subject to any legislation or regulation applicable to the management or control of companies or entities owned by the federal government or provincial governments.

In accordance with Article 17 of the Expropriation Law, YPF will resort to internal and external sources of funding, strategic alliances, joint ventures, transitory business unions, and cooperation partnerships, whether public, private or

mixed companies, domestic and foreign.

You can find a copy of an English translation of the Expropriation Law in the report on Form 6-K furnished by the Company to the SEC on May 9, 2012.

## **Table of Contents**

### **Law No. 26,932**

On February 25, 2014, the Republic of Argentina and Repsol reached an agreement (the Repsol Agreement) in relation to compensation for the expropriation of 200,589,525 of YPF's Class D shares pursuant to the Expropriation Law under the Repsol Agreement. As a result, the Republic of Argentina is definitively the owner of 51% of capital stock of each of YPF and YPF GAS S.A.

### **Law No. 26,197**

Law No. 26,197, which amended the Hydrocarbons Law, transferred to the provinces and the City of Buenos Aires the ownership over all hydrocarbon reservoirs located within their territories and in the adjacent seas up to 12 nautical miles from the coast. Law No. 26,197 also provides that the hydrocarbon reservoirs located beyond 12 nautical miles from the coast to the outer limit of the continental shelf shall remain within the ownership of the federal government.

Pursuant to Law No. 26,197, the Argentine congress shall continue to enact laws and regulations to develop oil and gas resources existing within 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 production concessions. However, the administrative powers granted to the provinces shall be exercised within the framework of the Hydrocarbons Law and the regulations that complement this law.

Consequently, even though Law No. 26,197 established that the provinces shall be 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 Republic retained the power to determine the national energy policy.

It is expressly stated that the transfer will not affect the rights and obligations of exploration permit and production concession holders, or the basis for the calculation of royalties, which shall be calculated in accordance with the concession title and paid to the province where the reservoirs are located.

Law No. 26,197 provides that the Argentine Republic shall retain the authority to grant transportation concessions for: (i) transportation concessions located within two or more provinces within the 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. Finally, Law No. 26,197 grants the following powers to the provinces: (i) the exercise, in a complete and independent manner, of all activities related to the supervision and control of the exploration permits and production concessions transferred by Law No. 26,197; (ii) the enforcement of all applicable legal and/or contractual obligations regarding investments, rational production and information and surface fee and royalties payment; (iii) the extension of legal and/or contractual terms; (iv) the application of sanctions provided in the Hydrocarbons Law; and (v) all the other faculties related to the granting power of the Hydrocarbons Law.

### **Decree No. 1277/2012**

Decree No. 1277/12 derogated the main provisions relating to free availability of hydrocarbons which were specifically contained in section 5 subsection d) and sections 13, 14 and 15 of Decree No. 1055/89, sections 1, 6 and 9 of Decree No. 1212/89 and sections 3 and 5 of Decree No. 1589/89. Decree No. 1277/12 enacted the Hydrocarbons Sovereignty Regime Rules, regulating the Expropriation Law.

This regulation created a commission, the Commission for Planning and Strategic Coordination of the National Plan of Hydrocarbons Investments (the Commission ). This Commission was entrusted with annually making the National Plan for Hydrocarbons Investments.

Decree No. 1277/12 required every company that performs activities of exploration, exploitation, refining, transport and commercialization of hydrocarbons to supply the Commission with all required technical information. The Commission was also responsible for a National Hydrocarbons Investments Registry for all companies performing the activities of exploration, exploitation, refining, transport and commercialization. All these companies were required to file an annual plan of investments before the Commission.



## **Table of Contents**

With respect to the refining industry, Decree No. 1277/12 gave the Commission the power to regulate the minimum utilization rates for primary or secondary refining. It also had the ability to enact measures of promotion and coordination, aimed to guarantee the development of the local processing capacity according with the goals established by the National Plan of Hydrocarbons Investments.

With respect to commercialization, the Commission was entitled to publish reference prices of every component of the costs and sales prices of hydrocarbons and fuels, which should enable the recovery of production costs plus a reasonable profit margin. The Commission also had to periodically audit the reasonability of the informed costs and the respective sales prices, being entitled to adopt necessary measures to prevent or correct distortive practices that might affect the interests of consumers.

This Commission was dissolved by Decree No. 272/2015 on January 4, 2016, and its remaining functions were assumed by MINEM. See Decree No. 272/2015 below.

### **Decree No. 13/2015**

On December 11, 2015, Decree No. 13/2015 was published in the Official Gazette of the Republic of Argentina, modifying the Ministries Law No. 22,520. Among other changes, it created MINEM, which absorbed the functions of the Secretaries of Energy and Mining and decentralized entities, from the Ministry of Federal Planning, Public Investment and Services. The responsibilities of MINEM include participating in the management of the State's shareholdings in the corporations and companies operating in the area of its competence.

### **Decree No. 272/2015**

On January 4, 2016, Decree No. 272/2015 was published in the Official Gazette of the Republic of Argentina, which modified Decree No. 1277/12. Among other changes, it dissolved the Commission, derogated certain responsibilities of the Commission and stated that the tasks previously assigned to the Commission will be performed by MINEM.

Furthermore, the decree established that the rights derived from the shares owned by the Republic of Argentina in YPF and YPF GAS S.A., with the exception of the shares that belong to the Sustainability Guarantee of the Public Securities Regime Fund created by Decree No. 897/07, will be exercised by MINEM, as of its publication date.

In addition, the decree established that MINEM will conduct a comprehensive review and reorganization regarding the creation of records and information duties in the hydrocarbon industry, which remains in force as long as it is not derogated by the dispositions of the decree or addressed by the re-organization plan to be determined by MINEM.

### **Decree No. 2/2017**

On January 3, 2017, Decree No. 2/2017 was published in the Official Gazette of the Republic of Argentina, modifying the Ministries Law No. 22,520. Among other changes, it split the Ministry of Economy and Public Finance, creating the Ministry of Economy and the Ministry of Finance and separating their respective powers and responsibilities.

### **Law No. 27,275 and Decree No. 79/2016 - Access to Public Information**

On November 10, 2015, the Argentine Supreme Court ordered us to furnish information regarding an agreement we entered into based on the requirements of Decree No. 1172/03, which regulates access to information considered public. The agreement aims to develop hydrocarbon resources in Argentina. The information was



**Table of Contents**

delivered to the court on February 23, 2016. We believe that public disclosure of confidential information could put us at a competitive disadvantage in relation to our contracting parties and potential partners. For this reason, and given the business, industrial, technical, economic and financial value as well as the nature of the information requested, we pursued all avenues to preserve its confidentiality. We have stated we intend to comply with the requirements of aforementioned Decree No. 1172/03 while preserving our right to keep certain industrial, commercial, financial and technical matters confidential as provided by the decree. Notwithstanding the foregoing, on March 14, 2016, the court ordered us to deliver the requested agreement within five business days without an opportunity to keep certain information confidential as requested by us and in accordance with the exemptions contemplated by Decree No.1172/03. On March 16, 2016, the Company appealed this decision.

On July 14, 2016, the Federal Administrative Court – Room I (*Cámara Contencioso Administrativo Federal Sala I*) upheld the ruling of the Court of First Instance, stipulating that the Company must comply with the order to deliver the required documentation in relation to its agreement with Chevron within five business days.

On August 11, 2016, the Company filed a Federal Extraordinary Appeal contesting the decision of the Federal Administrative Court.

On September 22, 2016, the Company reported that it was served with notice on September 15, 2016 of the decision handed down by Panel I of the Federal Administrative Court of Appeals hearing Disputed Administrative Matters (*Cámara Contencioso Administrativo Federal*), which rejected the Federal Extraordinary Appeal filed by the Company from such Panel’s docket that ordered the Company to deliver the Project Investment Agreement (PIA) executed with Chevron on July 16, 2013.

The Company submitted a full copy of the PIA in compliance with the decision of the Federal Administrative Court Room I.

In both cases, the Company noted that the PIA was entered into under Law No. 19,550 and the confidentiality of the terms thereof was intended to safeguard geological, commercial and financial information, which was of strategic value to both parties to the PIA.

Delivery of the PIA does not imply the Company’s waiver of rights in the event that any other confidential information and/or documents of the Company are required to be disclosed in the future.

On September 29, 2016, Law No. 27,275 was published in the Official Gazette of the Republic of Argentina, guaranteeing a right of access to public information. This right includes the ability to freely seek, access, request, receive, copy, analyze, process, use and distribute information in possession of the bound parties as defined under the law. State-owned companies, companies with majority state-owned capital, mixed-economy companies and all other business organizations where the National State has a majority interest in capital or in the formation of corporate decisions are deemed bound parties, except for companies authorized to make public offerings of their securities. Law No. 20,275 will come into effect one year after its publication in the Official Gazette.

On January 31, 2017, Decree No. 79/2016 was published in the Official Gazette of the Republic of Argentina, modifying the public information access right established under the General Regulation of Access to Public Information for the National Executive Office. The decree established that exceptions to the definition of bound parties, as described in Law No. 27,275, will come into effect the day after their publication in the Official Gazette.

**Law No. 27,007, amending the Hydrocarbons Law**

On October 31, 2014, Law No. 27,007 amending the Hydrocarbons Law was published in the Official Gazette of the Republic of Argentina. The Hydrocarbons Law applies in certain aspects of some of YPF's existing concessions, as well as future concessions. The most relevant modifications in that law are detailed below.

## Table of Contents

With respect to exploration permits, it distinguishes between those with conventional and unconventional objectives, and those in which exploration is undertaken in the territorial sea and continental shelf. Law No. 27,007 modifies the basic time periods governing such activities, from three to two periods and limiting the two basic periods to (i) three years each for exploration with conventional objectives and (ii) four years each for exploration with unconventional objectives and (iii) four years each for exploration in the territorial sea or on the continental shelf. In each of these cases, the extension period of up to five years (already established in the Hydrocarbons Law) is maintained, although it is subject to the permit holder having complied with its investment and other obligations. At the end of the first basic period and so long as the permit holder has complied with its obligations under the permit, the permit holder may continue to hold the entire area. After the second basic period ends, the permit holder may surrender the entire area or, if the holder decides to trigger the extension period, 50% of the remaining area.

In relation to concessions, Law No. 27,007 provides for three types of concessions: conventional production, unconventional production and production in the territorial sea or on the continental shelf. Each of these concessions will last 25, 35 and 30 years, respectively. In addition, permit holders or production concessionaires may request unconventional production concessions on the basis of the development of a pilot plan. So long as the concessionaires (i) have complied with their obligations, (ii) are producing hydrocarbons in the areas under consideration and (iii) present an investment plan for the development of such areas as requested by the competent authorities up to a year prior to the termination of each term of the concession, they may request extension periods of ten years each.

The amounts to be paid with respect to annual surface fee pursuant to Sections 57 and 58 of the Hydrocarbons Law for the periods of exploration and production have been increased with the goal of incentivizing exploration and development of these areas. Additionally, beginning with the second basic exploration period, these may be reduced partially in light of investments actually carried out in the relevant areas. Restrictions on the number of exploration permits and/or production concessions that an individual or legal entity may hold were eliminated.

The Hydrocarbons Law established a 35-year term for those concessions granted for the transportation of oil, gas and petroleum products that holders of production concessions are entitled to receive. Law No. 27,007 modified the awarded term for hydrocarbon transportation concessions to be synchronized with the production concession periods.

In connection with exploration and production offerings, tenders may be made by Argentine and foreign companies, with the goal of obtaining the highest number of tenders possible. In addition, the bidding documents must be prepared by the competent authorities on the basis of the model bidding document which will be drafted jointly by the competent authorities of the provinces and the Argentine Secretariat of Energy. This model bidding document must be prepared within 180 days of the effective date of Law No. 27,007. Tenders will be awarded to offerors who present the most relevant offer, in particular, the one proposing the highest amount of investments or exploratory activity.

Royalties have been set at a maximum of 12% on the results of liquid hydrocarbons or natural gas production. Royalties may be reduced, taking into account the productivity of the area and the type of

production. In cases of extension periods, an additional royalty of 3% will be added for each extension, up to a maximum of 18%. In addition, in case of such extensions, the competent authority may include the payment of an extension bond, which maximum amount shall equal the result of multiplying the remaining proved reserves at the end of the concession period to be extended by 2% of the average basin price, for the two-year period prior to the moment when the extension is granted, applicable to the hydrocarbons at issue.

Law No. 27,007 also provides that the Argentine Republic and the provinces may not establish, in the future, new areas reserved in favor of state-owned entities or companies with state participation. Further, with respect to existing reserved areas that do not have association agreements with third parties as of the date of this new law, associative schemes may be carried out so long as, during the development phase, the participation of state-owned entities or companies with state participation is proportional to the effective investments promised and carried out by them.

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**Table of Contents**

Law No. 27,007 additionally incorporates into the Investment Promotion Regime for the Exploration of Hydrocarbons (Decree No. 929/2013) projects, as authorized by the MINEM, that imply direct investments in foreign currency greater than U.S.\$250 million to be invested during the first three years of the project. Also, it modifies the percentages of hydrocarbons that, beginning with the third year, will be subject to the benefits of the regime. For conventional and unconventional production concessions, as well as offshore concessions at depths less than or equal to 90 meters, the percentage shall be 20%; for offshore concessions at depths greater than 90 meters, the percentage shall be 60%.

Within the framework of the Investment Promotion Regime for the Exploration of Hydrocarbons, Law No. 27,007 provides for contributions by companies to the provinces where the projects take place, which amount to 2.5% of the initial investment amount of the project, to be directed to Corporate Social Responsibility contributions. In addition, an amount to be determined by the Commission in light of the extent of the project must be contributed by the Argentine Republic to finance infrastructure.

Law No. 27,007 establishes that capital goods and inputs that are essential to the execution of the investment plans of companies registered in the National Registry of Hydrocarbon Investments shall pay import duties as indicated in Decree 927/13 (reduced rates). This list may be extended to other strategic products.

According to Law No. 27,007, the federal government and the provinces shall attempt to establish uniform environmental legislation and the adoption of uniform fiscal treatment in this sector. The competent authorities, including the Argentine Secretariat of Energy and the MINEM, will promote unification of procedures and registries.

All national offshore permits and offshore hydrocarbon production concessions that had no association agreements with ENARSA as of the date of the new law reverted and were transferred to the Argentine Secretariat of Energy. Permits and concessions granted prior to Law No. 25,943 shall be exempted from this provision. The National Executive Office may negotiate, for 180 days following the enactment of the new law, the conversion of association agreements signed with ENARSA to permits or production concessions. In September 2015, the National Executive Office and YPF began negotiating the conversion of association agreements executed with ENARSA. As of the date of this annual report, there has been no agreement on the conversion.

**Resolution No. 14/2015**

On February 4, 2015, the Commission issued Resolution No. 14/2015 that created the Crude Oil Production Stimulus Program (*Programa de Estímulo a la Producción de Petróleo Crudo*) (the Program), which was in force from January 1, 2015 through December 31, 2015. This Program provided for a payment in Argentine pesos to beneficiary companies, in an amount of up to U.S.\$3.00 per barrel when such company's quarterly production of crude oil was equal to or greater than the base production level under the Program, in addition to the compliance with certain other requirements related to the level of activity of the Company as set for Resolution No. 33/2015. The base production level under the Program was the total production of crude oil of the beneficiary company for the fourth quarter of 2014. Those beneficiary companies that had satisfied the demand of all of the domestic refineries operating within Argentina may direct a portion of their production to the international market and receive an additional payment of U.S.\$2.00 or U.S.\$3.00 per barrel of crude oil exported, depending on the volume exported.

The payments would be made in Argentine pesos using the Reference Exchange Rate of BCRA Communication A 3500 of the last business day prior to the presentation of the information of the corresponding quarter to the Commission. See Item 5. Operating and Financial Review and Prospects Results of Operations Revenues.



**Table of Contents****MINEM Resolution No. 21/2016**

On March 9, 2016, MINEM Resolution No. 21/2016 was published in the Official Gazette, which established an export stimulus program of crude oil surplus, after satisfying domestic demand for crude oil Escalante from the San Jorge Gulf basin. The stimulus was paid for each shipment to the extent that the average price of Brent oil did not exceed U.S.\$47.50 per barrel two days after the shipment, and was valid until December 31, 2016. The compensation paid by the Argentine government amounted to U.S.\$7.50 per barrel as long as the criteria was met.

**Decree No. 442/2016 Province of Chubut**

On April 11, 2016, Decree No. 442/2016 was published in the Official Gazette of the province of Chubut, which established an export stimulus program of crude oil surplus, after satisfying domestic demand. The stimulus was paid for each shipment to the extent that the average price of Brent oil did not exceed U.S.\$47.20 per barrel two days after the shipment, and was valid until December 31, 2016. The compensation paid by the province of Chubut amounted to U.S.\$2.50 per barrel as long as the criteria was met.

**MINEM Decree No. 192/2017**

On March 21, 2017, Decree No. 192/2017 was published in the Official Gazette of the Republic of Argentina, which created the Oil and its Byproducts Import Operations Registry (the Registry), which authority of application is MINEM (through the Secretariat of Hydrocarbon Resources). The Registry involves import operations of: (i) crude oil and (ii) certain other specific byproducts listed in section 2 of the decree. By means of this regulation, any company that wishes to perform such import operations is obligated to register such operation in the Registry and obtain authorization from MINEM before the import takes place. The registration of the operation with MINEM will be filed in accordance with a specific proceeding that MINEM will establish for such purpose.

According to this decree, MINEM will also set the methodology applicable to issue import authorizations, which will be based in the following criteria: (a) lack of crude oil with the same same characteristics offered in the domestic market; (b) lack of additional treatment capacity in domestic refineries with domestic crude oil; and (c) lack of byproducts listed in section 2 of the decree offered in the domestic market. This regime excepts any import by CAMMESA in order to supply power plants with the main purpose of technical supply to the Inter-connection Argentinean System (*Sistema Argentino de Interconexión* or SADI).

**Public Emergency**

On January 6, 2002, the Argentine congress enacted the Public Emergency Law, which represented a profound change in the economic model effective as of that date, and rescinded the Convertibility Law No. 23,928, which had been in effect since 1991 and had pegged the peso to the dollar on a one-to-one basis. In addition, the Public Emergency Law granted to the National Executive Office the authority to enact all necessary regulations in order to overcome the economic crisis that Argentina was then facing. The situation of emergency declared by Law No. 25,561 has been extended until December 31, 2019 by Law No. 27,345. The National Executive Office is authorized to execute the powers delegated by Law No. 25,561 until such date.

After the enactment of the Public Emergency Law, several other laws and regulations have been enacted to overcome the economic crisis, including (1) the conversion into pesos of deposit, obligations and tariffs of public services, among others, and (2) the imposition of customs duties on the export of hydrocarbons with instructions to the National Executive Office to set the applicable rate thereof. The application of these duties and the instruction to the National Executive Office has been extended until January 2017 by Law No. 26,732. On January 8, 2017, export duties upon

hydrocarbon exports established by Law No. 26,732 ceased to be enforceable. See Taxation.

### **Exploration and Production**

The Hydrocarbons Law establishes the basic legal framework for the regulation of oil and gas exploration and production in Argentina. The Hydrocarbons Law empowers the National Executive Office to establish a national policy for development of Argentina's hydrocarbon reserves, with the principal purpose of satisfying domestic demand.

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**Table of Contents**

Pursuant to the Hydrocarbons Law, exploration and production of oil and gas is carried out through exploration permits, production concessions, exploitation contracts or partnership agreements. The Hydrocarbons Law also permits surface reconnaissance of territory not covered by exploration permits or production concessions upon authorization of the Argentine Secretariat of Energy and/or competent provincial authorities, as established by Law No. 26,197, and with permission of the private property owner. Information obtained as a result of surface reconnaissance must be provided to the Argentine MINEM and/or competent provincial authorities, which may not disclose this information for two years without permission of the party who conducted the reconnaissance, except in connection with the grant of exploration permits or production concessions.

Under the Hydrocarbons Law, the federal and/or competent provincial authorities may grant exploration permits after submission of competitive bids. Permits were granted to third parties in connection with the deregulation and demonopolization process and permits covering areas in which our predecessor company, Yacimientos Petrolíferos Fiscales Sociedad del Estado, was operating at the date of the Privatization Law were granted to us by such law. In 1991, the National Executive Office established a program under the Hydrocarbons Law (known as Plan Argentina) pursuant to which exploration permits were auctioned. 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. Under the Hydrocarbons Law, each exploration permit may cover only unproved areas not to exceed 10,000 km<sup>2</sup> (15,000 km<sup>2</sup> offshore), and may have a term of up to 14 years (17 years for offshore exploration). The 14-year term is divided into three basic terms and one extension term. The first basic term is up to four years, the second basic term is up to three years, the third basic term is up to two years and the extension term is up to five years. At the expiration of each of the first two basic terms, the acreage covered by the permit is reduced, at a minimum, to 50% of the remaining acreage covered by the permit, with the permit holder deciding which portion of the acreage to keep. At the expiration of the three basic terms, the permit holder is required to surrender all of the remaining acreage to the Argentine government, unless the holder requests an extension term, in which case such grant is limited to 50% of the remaining acreage. Under Law No. 27,007, which applies to exploration permits issued on or after October 31, 2014, each exploration permit may have a term of up to 11 years for conventional objectives and 13 years for unconventional objectives and offshore exploration. The terms are divided into two basic terms and one extension term. The first and second basic terms are up to three years for conventional objectives and up to four years for unconventional objectives and offshore exploration, and the extension term is up to five years, so long as the permit holder has complied with its investments and other obligations. At the expiration of the first basic term, the permit holder will have the right to continue exploring the entire area for the second basic term so long as it has complied with all its obligations under the permit. At the expiration of the second basic term, the permit holder is required to surrender all of the remaining acreage, unless the holder requests an extension term, in which case such grant is limited to 50% of the remaining acreage.

If the holder of an exploration permit discovers commercially exploitable quantities of oil or gas, the holder has the right to obtain an exclusive concession for the production and development of this oil and gas. The Hydrocarbons Law, as modified by Law No. 27,007, provides that new conventional oil and gas production concessions shall remain in effect for 25 years from the date of the award of the production concession, new unconventional oil and gas production concessions shall remain in effect for 35 years from that date, and new offshore oil and gas production concessions shall remain in effect for 30 years from that date, in addition to any remaining exploration term at the date of such award. The Hydrocarbons Law, as modified by Law No. 27,007, further provides for the concession term to be extended for periods of up to ten additional years each, subject to terms and conditions approved by the grantor at the time of the extension. Such conditions may include the payment of an extension bond with a maximum amount equal to the result of multiplying the remaining proved reserves at the end of the concession period by 2% of the average basin price, for the period two years prior to the date the extension is granted, applicable to the hydrocarbons at issue. Under Law No. 26,197, the authority to extend the terms of current and new permits and concessions has been vested in the governments of the provinces in which the relevant block is located (and the Argentine government in respect of

offshore blocks beyond 12 nautical miles). In order to be entitled to the extension, a concessionaire, such as us, must have complied with all of its obligations under the Hydrocarbons Law, including, without limitation, evidence of payment of taxes and royalties and compliance with environmental, investment and development obligations, must be producing hydrocarbons in the area at issue and must present an investment plan to develop the concession. A production 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 and production concessions. A production concession entitles the holder to obtain a transportation concession for the oil and gas produced. See Transportation of Liquid Hydrocarbons.

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**Table of Contents**

Exploration permits and production concessions require holders to carry out all necessary work to find or extract hydrocarbons, using appropriate techniques, and to make specified investments. In addition, holders are required to:

avoid damage to oil fields and waste of hydrocarbons;

adopt adequate measures to avoid accidents and damage to agricultural activities, fishing industry, communications networks and the water table; and

comply with all applicable federal, provincial and municipal laws and regulations.

According to the Hydrocarbons Law, holders of production concessions, including us, are also required to pay royalties to the province where production occurs. As modified by Law No. 27,007, royalty rates are set at a maximum of 12% (though 3% will be added for each extension up to a maximum of 18%). They are payable on the value at the wellhead (equal to the price upon delivery of the product, less transportation, treatment costs and other deductions) of crude oil production and natural gas volumes sold. These royalty rates may be reduced taking into account productivity and the type of production at issue. Notwithstanding the foregoing, in concessions extended prior to the effectiveness of Law No. 27,007, October 31, 2014, the previous conditions remain in force. In some cases, an additional 3% royalty has been added. See Main Properties Argentine Exploration Permits and Exploitation Concessions. In the extension of our concessions in Santa Cruz, we agreed to a 10% royalty (instead of 12%) for unconventional hydrocarbons. The value is calculated based upon the volume and the sale price of the crude oil and gas produced, less the costs of transportation and storage. In addition, pursuant to S.E. Resolution No. 435/04 issued by the Argentine Secretariat of Energy, 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 Argentine Secretariat of Energy, as applicable, on the reference price to be used for purposes of calculating royalties.

As a result of Resolution No. 394/07 of the Ministry of Economy, among other things, which increased duties on exports of certain hydrocarbons, Argentine companies began to negotiate the price for crude oil in the domestic market, which would in turn be used as the basis for the calculation of royalties. In January 2013, the Ministry of Economy issued Resolution No. 1/13, modifying exhibit I of Resolution No. 394/07 of the Ministry of Economy, thus setting a new reference price for crude oil (U.S.\$70 per barrel) and certain products. In October 2014, the Ministry of Economy issued Resolution No. 803/2014, incorporating exhibit III to Resolution No. 394/07 of the Ministry of Economy, thus modifying the applicable percentages of duties of exports for certain products below certain prices.

However, on December 29, 2014, Resolution No. 1077/2014 repealed Resolution No. 394/07, as amended, and set forth a new withholding program based on the international price of crude oil (the International Price). The International Price was calculated based on the Brent value for the applicable month less U.S.\$8 per barrel. The new program established a 1% general nominal withholding applicable to all products covered by the resolution, including crude oil, diesel, gasoline and lubricants as well as other petroleum products, to the extent that the International Price was below U.S.\$71 per barrel. The resolution further provides an increasing variable withholding rate for crude oil exports to the extent the International Price exceeds U.S.\$71 per barrel. As a result, the maximum a producer may charge was approximately U.S.\$70 per barrel exported, depending on the quality of crude sold. The resolution also sets forth increasing withholding rates for exports of diesel, gasoline, lubricants and other petroleum when the International Price exceeds U.S.\$71 per barrel at rates that allow the producer to receive a portion of the elevated price.

On January 8, 2017, export duties on hydrocarbon exports established by Law No. 26,732 ceased to be enforceable.

**Table of Contents**

In addition to the above, the Public Emergency Law, which created the export withholdings, established that export withholdings 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 (as explained in Exploration and Production Oil and gas production, production prices and production costs ). According to the Hydrocarbons Law, any oil and gas produced by the holder of an exploration permit prior to the grant of a production concession is subject to the payment of a 15% royalty.

Furthermore, pursuant to Sections 57 and 58 of the Hydrocarbons Law, holders of exploration permits and production concessions must pay an annual surface fee that is based on acreage of each block and that varies depending on the phase of the operation, such as exploration or production, and in the case of the former, depending on the relevant period of the exploration permit. These amounts were updated by Law No. 27,007 and may be partially adjusted as from the second basic exploration period in light of investments actually carried out. Exploration permits and production or transportation concessions may be terminated upon any of the following events:

failure to pay annual surface taxes within three months of the due date;

failure to pay royalties within three months of the due date;

substantial and unjustifiable failure to comply with specified production, conservation, investment, work or other obligations;

repeated failure to provide information to, or facilitate inspection by, authorities or to utilize adequate technology in operations;

in the case of exploration permits, failure to apply for a production concession within 30 days of determining the existence of commercially exploitable quantities of hydrocarbons;

bankruptcy of the permit or concession holder;

death or end of legal existence of the permit or concession holder; or

failure to transport hydrocarbons for third parties on a non-discriminatory basis or repeated violation of the authorized tariffs for such transportation.

The Hydrocarbons Law further provides that a cure period, of a duration to be determined by the Argentine Secretariat of Energy and/or the competent provincial authorities, must be provided to the defaulting concessionaire prior to the termination.

When a production 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 Republic in the case of

reservoirs under federal jurisdiction (for instance, located on the continental shelf or beyond 12 nautical miles offshore), without compensation to the holder of the concession.

Most of our production concession expirations have been extended from their original expiration dates. See Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business Argentine oil and gas production concessions and exploration permits are subject to certain conditions and may be cancelled or not renewed. The granting of an extension is an unregulated process and normally involves lengthy negotiations between the applicant and the relevant government. Although the Hydrocarbons Law, as modified, provides that applications must be submitted at least one year prior to the concession expiration date, it is industry practice to commence the process far earlier, typically as soon as the technical and economic feasibility of new investment projects beyond the concession term become apparent.



## **Table of Contents**

On March 16, 2006, the Argentine Secretariat of Energy issued S.E. Resolution No. 324/06 requiring that holders of exploration permits and hydrocarbon concessions must file with such agency details of their proved reserves existing in each of their areas, certified by an external reserves auditor, each year. Holders of hydrocarbon concessions that export hydrocarbons are obliged to certify their oil and gas proved reserves. The aforementioned certification only has the meaning established by S.E. Resolution No. 324/06, according to which it is not to be interpreted as a certification of oil and gas reserves under the SEC rules. See Exploration and Production Overview Oil and Gas Reserves. On November 7, 2016, MINEM issued Resolution No. 69/2016, which included technical modifications to S.E. Resolution No. 324/06 by amending some of its technical annexes regulating the reserves information required to be provided. It also established sanctions for hydrocarbon producers in the case of irregularities in the reserves reports filed, including admonishment, suspension or cancellation of the Hydrocarbons Producers Registry, depending on the magnitude of the irregularity.

In March 2007, the Argentine Secretariat of Energy issued Resolution No. 407/07 that approved new regulations concerning the Oil and Gas Exploration and Production Companies Registry. According to Resolution No. 407/07, YPF, as a holder of production concessions and exploration permits, is banned from hiring or in any way benefiting from any company or entity which is developing or has developed oil and gas exploration activities within the Argentine continental platform without an authorization from the relevant Argentine authorities.

In connection with the extension of concessions, see Exploration and Production Overview Main properties.

## **Security Zones Legislation**

Argentine law restricts the ability of non-Argentine companies to own real estate, oil concessions or mineral rights located within, or with respect to areas defined as, security zones (principally border areas).

Additionally, prior approval of the Argentine government is required:

for non-Argentine shareholders to acquire control of us; or

if and when the majority of our shares belong to non-Argentine shareholders, as was the case when we were controlled by Repsol for any additional acquisition of real estate, mineral rights, oil or other Argentine government concessions located within, or with respect to, security zones.

## **Natural Gas Transportation and Distribution**

The gas transmission system is currently divided into two systems principally on a geographical basis (the northern and the southern trunk pipeline systems), designed to give both systems access to gas sources and to the main centers of demand in and around Buenos Aires. These systems are operated by two transportation companies. In addition, the distribution system is divided into nine regional distribution companies, including two distribution companies serving the greater Buenos Aires area.

The regulatory structure for the natural gas industry creates an open-access system, under which gas producers, such as us, will have 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 such as us had been exporting natural gas to the Chilean and Brazilian markets, to the extent permitted by the Argentine government. During the last several years the Argentine authorities have adopted a number of measures restricting exports of natural gas from Argentina, including issuing domestic supply instruction pursuant to Regulation No. 27/04 and Resolutions No. 265/04, 659/04 and 752/05 (which require exporters to supply natural gas to the Argentine domestic market), issuing express instructions to suspend exports, suspending processing of natural gas and adopting restrictions on natural gas exports imposed through transportation companies and/or emergency committees created to address crisis situations. See [Market Regulation](#) [Natural gas export administration and domestic supply priorities](#).

## **Table of Contents**

### **Transportation of Liquid Hydrocarbons**

The Hydrocarbons Law permits the National Executive Office 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 production 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 National Executive Office.

Law No. 27,007, which applies to concessions issued on or after October 2014 other than those already governed by previous laws, for the transportation of liquid hydrocarbons, permits the National Executive Office to award concessions for the transportation of oil, gas and petroleum products for terms equivalent to those granted for production concessions linked to those transport concessions, following submission of competitive bids. The term of a transportation concession may be extended for additional terms equivalent to those of the associated production concession. 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 is obligated to 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 concession. Transportation tariffs are subject to approval by the Argentine Secretariat of Energy for oil and petroleum pipelines and by ENARGAS for gas pipelines. Upon expiration of a transportation concession, the pipelines and related facilities automatically revert to the Argentine government without payment to the holder. The Privatization Law granted us a 35-year transportation concession with respect to the pipelines operated by Yacimientos Petrolíferos Fiscales Sociedad del Estado at the time. Gas pipelines and distribution systems sold in connection with the privatization of Gas del Estado are subject to a different regime as described above.

Additionally, pursuant to Law No. 26,197, all transportation concessions located entirely within a province's jurisdiction and not directly connected to any export pipeline are to be transferred to such province. The National Executive Office retains the power to regulate and enforce all transportation concessions located within two or more provinces and all transportation concessions directly connected to export pipelines.

### **Refining**

Crude oil refining activities conducted by oil producers or others are subject to prior registration of oil companies in the registry maintained by the Argentine Secretariat of Energy and compliance with safety and environmental regulations, as well as to provincial environmental legislation and municipal health and safety inspections.

In January 2008, the Argentine Secretariat of Domestic Commerce issued Resolution No. 14/2008, whereby the refining companies were instructed to optimize their production in order to obtain maximum volumes according to their capacity.

Executive Decree No. 2014/08 of November 25, 2008, created the Refining Plus program to encourage the production of diesel and gasoline. The Argentine Secretariat of Energy, by S.E. Resolution No. 1312/08 of December 1, 2008, approved the regulations of the program. Pursuant to this program, refining companies that undertook the construction of a new refinery or the expansion of their refining and/or conversion capacity, and whose plans were approved by the Argentine Secretariat of Energy, were entitled to receive export duty credits to be applied to exports of products within the scope of Resolution No. 394/07 and Resolution No. 127/08 (Annex) issued by the Ministry of Economy. In February 2012, by Notes No. 707/12 and 800/12 (the Notes ) of the Argentine Secretariat of Energy, YPF was notified that the benefits granted under the Refining Plus program had been temporarily suspended. The effects of the suspension extend to benefits accrued and not yet redeemed by YPF at

## **Table of Contents**

the time of the issuance of the Notes. The reasons alleged for such suspension were that the Refining Plus program had been created in a context where domestic prices were lower than prevailing prices and that the objectives sought by the program had already been achieved. On March 16, 2012, YPF challenged this temporary suspension.

## **Market Regulation**

### *Overview*

Under the Hydrocarbons Law and the Oil Deregulation Decrees, holders of production concessions, such as us, have the right to produce and own the oil and gas they extract and are allowed to sell such production in the domestic or export markets, in each case subject to the conditions described below.

The Hydrocarbons Law authorizes the National Executive Office to regulate the Argentine oil and gas markets and prohibits the export of crude oil during any period in which the National Executive Office finds domestic production to be insufficient to satisfy domestic demand. If the National Executive Office restricts the export of crude oil and petroleum products or the sale of natural gas, the Oil Deregulation Decrees provide that producers, refiners and exporters shall receive a price for the crude oil and petroleum products, not lower than that of imported crude oil and petroleum products of similar quality.

Furthermore, the Oil Deregulation Decrees required the National Executive Office to give twelve months notice of any future export restrictions. Notwithstanding the above provisions, certain subsequently-enacted resolutions (S.E. Resolution No. 1679/04, S.E. Resolution No. 532/04 and Ministry of Economy Resolution No. 394/07) have modified the aforementioned price mechanism, resulting, in certain cases, in prices to producers that are below the levels described above.

In addition, in May 2012, the Expropriation Law was passed by the Argentine congress and became effective. See The Expropriation Law and Decree No. 1277/2012 and Decree No. 272/2015.

On July 15, 2013, Decree No. 929/2013 was published in the Official Gazette, which provides for the creation of an Investment Promotion Regime for the Exploitation of Hydrocarbons (the Promotion Regime), both for conventional and unconventional hydrocarbons to be applied across the Argentine territory. Applications to be included in this Promotion Regime may be filed by subjects duly registered with the National Registry of Hydrocarbon Investments who are holders of exploration permits and/or exploitation concessions and/or third parties associated with those holders and who submit an Investment Project for Hydrocarbon Exploitation (the Investment Project) to the Commission created by Decree No. 1,277/12, entailing a direct investment in foreign currency of at least U.S.\$1 billion, calculated at the time of submission of the Investment Project, and to be invested in the first five years of the Investment Project. Beneficiaries of this Promotion Regime shall enjoy the following benefits, among others: i) they shall be entitled, under the terms of the Hydrocarbons Law, from the fifth anniversary of the start-up of their respective Investment Project, to freely export 20% of the production of liquid and gaseous hydrocarbons produced under such Investment Projects, at a 0% export tax rate, if applicable; ii) they shall freely dispose of 100% of the proceeds derived from the export of the hydrocarbons mentioned in i) above, provided the approved Investment Project would have generated an inflow of foreign currency into Argentina's financial market equal to at least U.S.\$1 billion, following the requirements mentioned above; iii) if hydrocarbon production in Argentina is not enough to cover domestic supply needs in accordance with section 6 of the Hydrocarbons Law, beneficiaries of the Promotion Regime, from the fifth anniversary of the start-up of their respective Investment Projects, shall be entitled to obtain, in relation to the aforementioned exportable rate of liquid and gaseous hydrocarbons produced in the Investment Projects, a price not lower than the reference export price calculated without deducting any export duties that would have been applicable. Law No. 27,007, as described above, has incorporated into this regime projects submitted to the

Commission entailing a direct investment in foreign currency of at least U.S.\$250 million, calculated at the time of submission of the Investment Project, and to be invested in the first three years of the Investment Project. Further, Law No. 27,007 modifies the percentages of hydrocarbons to be benefitted under this regime to 20% of the production of conventional, unconventional and offshore concessions at depths less than or equal to 90 meters and 60% of the production of offshore concessions at depths greater than 90 meters. See Law No. 27,007, amending the Hydrocarbons Law and Decree No. 272/2015.

**Table of Contents**

Additionally, the decree discussed above created a new type of concession for the Exploitation of Unconventional Hydrocarbons, which has been incorporated into the Hydrocarbons Law by Law No. 27,007, consisting of the extraction of liquid and/or gaseous hydrocarbons through unconventional stimulation techniques applied to reservoirs located in geological formations of schist and slates (shale gas or shale oil), tight sands (tight oil and tight gas), coal layers (coal bed methane) and, in general, from any reservoir that presents low-permeability rock as its main feature. The Decree provides that holders of exploration permits and/or exploitation concessions that are beneficiaries of the Promotion Regime shall be entitled to apply for a Concession for Unconventional Hydrocarbons Exploitation. Likewise, holders of a Concession for Unconventional Hydrocarbons Exploitation who are also holders of an adjacent and pre-existing concession may request the unification of both areas into a single unconventional exploitation concession, provided the geological continuity of such areas is duly proven.

As noted above, Law No. 27,007 provides for contributions by companies to the provinces where the projects take place, which amount to 2.5% of the initial investment amount of the project, to be directed to Corporate Social Responsibility contributions. In addition, an amount to be determined by the Commission in light of the extent of the project, to finance infrastructure, have to be contributed by the Argentine Republic. Finally, Law No. 27,007 establishes that capital goods and inputs that are essential to the execution of the investment plans of companies registered in the National Registry of Hydrocarbon Investments shall pay import duties indicated in Decree No. 927/13 (reduced rates). This list may be extended to other strategic products.

***Production of crude oil and reserves***

Executive Decree No. 2014/08 of November 25, 2008, created the Petroleum Plus program to encourage the production of crude oil and the increase of reserves through new investments in exploration and development. The Argentine Secretariat of Energy, through S.E. Resolution No. 1312/08 of December 1, 2008, approved the regulations of the program. The program entitled production companies which increased their production and reserves within the scope of the program, and whose plans were approved by the Argentine Secretariat of Energy, to receive export duty credits to be applied to exports of products within the scope of Resolution No. 394/07 and Resolution No. 127/08 (Annex) issued by the Ministry of Economy. In February 2012, YPF was notified by the Argentine Secretariat of Energy that the benefits granted under the Petroleum Plus program had been temporarily suspended. The effects of the suspension extend to benefits accrued and not yet redeemed by YPF at the time of the issuance of the notice. The reasons stated for the suspension were that the Petroleum Plus program had been created in a context where domestic prices were lower than prevailing prices and that the objectives sought by the program had already been achieved. On March 16, 2012, YPF challenged this temporary suspension. Executive Decree No. 1330/2015 of July 13, 2015 provided for the termination of the Petroleum Plus program, establishing compensation in BONAR 2024 Argentine public bonds. As of the date of this report, YPF has not been compensated for the benefits accrued and not yet redeemed by YPF.

***Refined products***

In April 2002, the Argentine government and the main oil companies in Argentina, including us, reached an agreement on a subsidy provided by the Argentine government to public bus transportation companies. The Agreement on Stability of Supply of Diesel was approved by Executive Decree No. 652/02 and assured the transportation companies their necessary supply of diesel at a fixed price of Ps. 0.75 per liter from April 22, 2002 to July 31, 2002. Additionally, it established that the oil companies are to be compensated for the difference between this fixed price and the market price through export duty credits. Subsequent agreements entered into between the Argentine government and the main oil companies in Argentina extended the subsidy scheme until December 2009, while the aforementioned fixed price was revised from time to time.

In March 2009, Executive Decree No. 1390/09 empowered the Chief of Staff to sign annual agreements extending the diesel subsidy to transportation companies for the fiscal year 2009 and until the end of the public emergency declared by the Public Emergency Law and its amendments, and instructed such official to incorporate the necessary modifications in order to extend the possibility to compensate with export duty credits on all hydrocarbon products currently exported, or with cash. As of the date of this annual report, execution of the annual agreements for the fiscal years 2010 and 2011 is pending. Nevertheless, the subsidy scheme has continued to be in place on the basis of the monthly communications issued by the Argentine Secretariat of Transport notifying oil companies of the volumes to be delivered to each beneficiary of the scheme at the fixed price, and the Argentine government has continued to compensate oil companies for deliveries of diesel made under the scheme.



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**Table of Contents**

In addition, on January 11, 2012, the Argentine Secretary of Transport filed with the National Antitrust Commission ( CNDC ) a complaint against five oil companies (including YPF) for alleged abuse of a dominant position regarding bulk sales of diesel to public bus transportation companies. The alleged conduct consists of selling bulk diesel to public bus transportation companies at prices higher than the retail price charged in service stations. On January 26, 2012, the Argentine Secretariat of Domestic Commerce issued Resolution No. 6/2012 whereby, effective from the date of the resolution, (i) each of these five oil companies was ordered to sell diesel to public bus transportation companies at a price no higher than the retail price charged by its nearest service station, while maintaining both historic volumes and delivery conditions; and (ii) created a price monitoring scheme for both the retail and the bulk markets to be implemented by the CNDC. YPF challenged Resolution No. 6/2012 and requested a preliminary injunction against its implementation. YPF's preliminary injunction has been granted and the effects of Resolution No. 6/2012 have been temporarily suspended. On December 9, 2014, the Federal Civil and Commercial Appeals Court issued a ruling stating that the case had become moot and that there are no actual consequences for YPF arising from the challenged Resolution, since prices of diesel to public bus transportation companies have suffered several variations since the date such Resolution entered into effect. See Item 8. Financial Information Legal proceedings.

On March 13, 2012, YPF was notified of Resolution No. 17/2012, issued by the Argentine Secretariat of Domestic Commerce, pursuant to which YPF, Shell and Axion (previously Esso) were ordered to supply jet fuel for domestic and international air transport at a price, net of taxes, not to exceed by 2.7% the price, net of taxes, of medium octane gasoline (not premium) offered at its closest service station to the relevant airport, while maintaining its existing supply logistics and its usual supply quantities. The resolution benefits companies that operate in the field of commercial passenger and/or cargo aviation which are registered under the Argentine National Aircraft Registry. According to a later clarification from the Argentine Secretariat of Domestic Commerce, the beneficiaries of the measure adopted by this resolution are the following companies: Aerolíneas Argentinas, S.A., Andes Líneas Aéreas S.A., Austral Cielos del Sur, LAN Argentina, S.A. and Sol S.A. Líneas Aéreas. In addition, in said resolution, the Argentine Secretariat of Domestic Commerce suggested the implementation of a price surveillance system by the CNDC. YPF appealed Resolution No. 17/2012 and on May 15, 2012 it was notified that the Federal Civil and Commercial Court of Appeals accepted YPF's presentation and suspended the effectiveness of Resolution No. 17/2012 until the final judgment regarding its legality. On August 31, 2012, the Court of Appeals declared Resolution No. 17/2012 to be null, on the basis of lack of authority of the Argentine Secretariat of Domestic Commerce. This decision was appealed by the Secretariat. On November 3, 2015, the CSJN finally accepted an extraordinary petition submitted by the Argentine government. In December 2015, the CSJN ruled in favor of the appeal filed by the Argentine government and confirmed the jurisdiction of the Secretariat of Domestic Commerce to issue administrative injunctive measures under Section 35 of Law No. 25,156. In addition, it ordered that the case file be returned to the original court, so that it may issue a new ruling on the basis of the decision. Accordingly, the Federal Civil and Commercial Court of Appeals must issue a new ruling on the legality of Resolution No. 17/2012 on the basis of the additional grounds timely alleged by YPF regarding the merits of this matter. On February 21, 2017, the Secretary of Domestic Commerce issued Resolution No. 97/17 after a legal opinion published by the CNDC, which ordered that the legal proceedings against YPF (and other companies) be concluded and filed due to lack of grounds. Consequently, the process has concluded with no contingency for YPF.

The Argentine Secretariat of Energy has issued a series of resolutions in order to provide the market with information about liquid fuel prices and volumes. For example, S.E. Resolution No. 1,102/04 created the Registry of Liquid Fuels Supply Points, Self-Consumption, Storage, Distributors and Bulk Sellers of Fuels and Hydrocarbons, and of Compressed Natural Gas; S.E. Resolution No. 1,104/04 created a bulk sales price information module as an integral part of the federal fuel information system, as well as a mechanism for communication of volumes sold. S.E. Resolution No. 1,834/05 compels service stations and/or supply point operators and/or self-consumption of liquid fuels and hydrocarbons who have requested supply, and have not been supplied, to communicate such situation to the Argentine Secretariat of Energy. S.E. Resolution No. 1,879/05 established that refining companies registered by the

Argentine Secretariat of Energy, who are parties to contracts that create any degree of exclusivity between the refining company and the fuel seller, shall assure continuous, reliable, regular and non-discriminatory supply to its counterparties, giving the right to the seller to obtain the product from a different source, and thereupon, charging any applicable cost overruns to the refining company.

**Table of Contents**

Disposition S.S.C. No. 157/06 of the Undersecretariat of Fuels provides that fuel sellers who are parties to contracts that create any degree of exclusivity between the refining company and the fuel seller, and which for any reason are seeking to terminate such contract, shall report the termination in advance with the Undersecretariat of Fuels in order to inform the Argentine Secretariat of Domestic Commerce of the situation. In that case, the Argentine Secretariat of Domestic Commerce is to: (i) issue a statement regarding the validity of the termination of the contract and (ii) use all necessary means to allow the fuel seller terminating the contract to execute another agreement with a refining company and/or fuel broker in order to guarantee its fuel supply. The Disposition has not been imposed by the authorities in cases involving YPF.

S.E. Resolution No. 1679/04 reinstated the registry of diesel and crude oil export transactions created by Executive Decree No. 645/02, and mandated that producers, sellers, refining companies and any other market agent that wishes to export diesel or crude oil to register such transaction and to demonstrate that domestic demand has been satisfied and that they have offered the product to be exported to the domestic market. In addition, S.E. Resolution No. 1338/06 added other petroleum products to the registration regime created by Executive Decree No. 645/02, including gasoline, fuel oil and its derivatives, aviation fuel, coke coal, asphalts, certain petrochemicals and certain lubricants. Resolution No. 715/07 of the Argentine Secretariat of Energy empowered the National Refining and Marketing Direction to determine the amounts of diesel to be imported by each company, in specific periods of the year, to compensate exports of products included under the regime of Resolution No. 1679/04; the fulfillment of this obligation to import diesel is necessary to obtain authorization to export the products included under Decree No. 645/02 (crude, fuel oil, diesel, coke coal and gasoline, among others). In addition, Resolution No. 25/06 of the Argentine Secretariat of Domestic Commerce, issued within the framework of Law No. 20,680, imposes on each Argentine refining company the obligation to supply all reasonable diesel demand, by supplying certain minimum volumes (established pursuant to the resolution) to their usual customers, mainly service station operators and distributors. YPF has duly fulfilled its obligation under this Resolution and has not received any type of sanction from the authorities in this regard.

On August 17, 2010, the Argentine Secretariat of Domestic Commerce issued Resolution No. 295/10, imposing that the trade price of liquid fuels should be rolled back to those prices prevailing on July 31, 2010. This resolution has been successfully challenged by another company and a preliminary injunction was granted suspending the effectiveness of such Resolution. This Resolution was later on repealed by Resolution No. 543/10 of the Argentine Secretariat of Domestic Commerce.

On February 2, 2011, the Argentine Secretariat of Domestic Commerce issued Resolution No. 13/11 stating that the retail price of liquid fuels had to be rolled back to those prices prevailing on January 28, 2011. This resolution also required refineries and oil companies to continue to supply amounts of fuel to the domestic market consistent with amounts supplied the prior year, as adjusted for the positive correlation between the increase in the demand of fuel and gross domestic product. On March 29, 2011, however, the Argentine Secretariat of Domestic Commerce issued Resolution No. 46/11, which repealed Resolution No. 13/11, alleging that market conditions had changed since its issuance.

On April 10, 2013, Resolution No. 35/2013 of the Argentine Secretariat of Domestic Commerce, determined a price cap for fuel at all service stations for period of six months, which shall not exceed the highest outstanding price as of April 9, 2013 in each of the regions identified of the Annex of the Resolution.

The above resolutions affecting domestic prices expired on November 24, 2013 and are no longer in effect.

In addition, in May 2012, the Expropriation Law was enacted by the Argentine congress and became effective. See The Expropriation Law and Decree No. 1277/2012.

On December 30, 2013, the Commission approved, through Resolution No. 99/2013, the general rules for the grant of quotes of liquid fuels volumes allowed to be imported by locally registered companies, including, among others, oil companies registered in the relevant registries of the Secretariat of Energy. These rules regulate the requirements, grant of volumes to be imported and other conditions to be complied with by the companies that wish to import liquid fuels free of the tax on liquid fuels (imposed by Law No. 23,966) and the tax on diesel (imposed by Law No. 26,098), jointly with other fuels up to a maximum aggregate amount of 7 mmcm.

**Table of Contents**

The Secretariat of Hydrocarbon Resources from MINEM approved Resolution No. 5/2016 on May 31, 2016, replacing Annex II of Resolution No. 1283/2006, which previously established specifications for Argentina's two grades of gasoline, naphtha grades 2 and 3. The resolution's new Annex includes modifications to the content of lead, manganese, oxygen and ethanol and, most significantly, sulfur, and requires oil and gas companies to implement a plan to lower sulfur limits to 50mg/kg for grade 2 gasoline, 10mg/kg for grade 3 gasoline, and to 350mg/kg for diesel between 2019 and 2022. Oil and gas companies must file with the Secretariat of Hydrocarbon Resources a detailed timeline of the program of investments for the next four years, to reach the goals provided in Annex I. From June 1, 2016, the sulfur limit for fuel oil will be 7,000 mg/kg. Local refineries producing fuel oil that does not fulfill the above mentioned specifications must present to the Secretariat of Hydrocarbon Resources a remediation plan that includes steps and actions to fulfill the maximum limit of sulfur within 24 months. Based on the above, YPF has undertaken several studies in respect of investment configurations and estimations, under the advice of main technological experts in the field in order to adapt its industrial networking units according to the parameters required by the regulation. In October 2016, YPF submitted to the MINEM the following information: a) an investment plan towards 2019 containing detailed information about projects and terms necessary to fulfill the new quality specification of products required by Resolution No. 5/2016; and b) an evaluation of the necessary terms in order to develop the configuration of studies, as discussed in the previous sentence. Once those studies, together with their economic impact, are completed, YPF will obtain internal approval from its Board of Directors and then submit to the MINEM its investment program towards 2022 to fulfill additional quality requirements established by Resolution No. 5/2016.

**Agricultural Commodity Export Tax Changes**

By Executive Decree No. 133/2015, published in the Official Gazette on December 17, 2015, the Argentine government reduced the export tax on soybeans and soybean byproducts by 5% to 30% and eliminated the export taxes on all other commodities. Agricultural commodities with a new 0% export tax include meat products, grains, fruits, and vegetables, among other products. In addition, through Executive Decree No. 1343/2016, published in the Official Gazette on December 30, 2016, the Argentine government established that, beginning January 2018, the soybean export tax will be reduced by 0.5 % each month until December 2019. By the end of 2019, the soybean export tax will be 18%, down from its current level of 30%.

Finally, by Joint Resolutions Nos. 4/2015 and 7/2015 of the Ministries of Agroindustry, Treasury and Public Finance and Production published in the Official Gazette on December 29, 2015, the export permits known as ROEs were eliminated and replaced by the registration of a Sworn Affidavit of Exports Sales, known as a DJVE.

**Automatic and Non-Automatic Import Licenses**

On December 23, 2015, the Ministry of Production published Resolution No. 5/2015, in the Official Gazette, which reinstated the automatic and non-automatic import licenses ( LAI and LNA, respectively). In 2013, the former Ministry of Economy and Public Finance eliminated the LNA, stating that it existed alongside the Anticipated Import Affidavit (*Declaración Jurada Anticipada de Importación*) requirement implemented in February 2012, which was recently repealed by AFIP Resolution No. 3823.

Resolution No. 5/2015 also established that importers of products included in the Mercosur Tariff Code must obtain an LAI prior to the entrance of the product into Argentina.

Certain products which are listed in Annexes II to XVII of Resolution No. 5/2015 will be subject to an LNA. The LNA will be applicable to a wide variety of products, including, but not limited to, textile, footwear, toys, domestic appliances, motorbikes, and automobile parts.

In order to obtain the LNA, importers must submit certain information from the importer itself (name, tax identification number) and the product (FOB value, type and quantity, commercial brand, model, country of origin and of shipping, etc.) through the Import Monitoring System (*Sistema Integral de Monitoreo de Importaciones*) ( SIMI ) created by AFIP Resolution No. 3823. After submitting this information, importers will have ten business days to complete certain additional information required by Resolution No. 5/2015. If the ten-day term expires, the SIMI declaration will be automatically cancelled.

**Table of Contents**

Regarding the LNA, Resolution No. 5/2015 establishes that, at any stage of the process, importers may be required to submit additional information or documents of the product subject to the LNA and request verification of technical agencies, as applicable.

Import licenses will be valid for 90 calendar days, once approved by the SIMI.

The following imports are exempt from the import regime established by Resolution No. 5/2015:

1. Donation regime.
2. Sample regime.
3. Diplomatic exemption regime.
4. Import of products with duties and tax exemption.
5. Import of products from Special Custom Zone (Tierra del Fuego, Antártida and Islas del Atlántico Sur).
6. Import of products by the General Secretary of Executive Branch (Secretaria General de la Presidencia de la Nación).
7. Courier and mail delivery, only for importer private use or consumption.

Resolution No. 5/2015 became effective on December 24, 2015, and the Secretariat of Trade is the application authority.

***Natural gas***

In January 2004, Executive Decree No. 180/04 (i) created the Electronic Gas Market ( MEG ) for the trade of daily spot sales of gas and a secondary market of transportation and distribution services, and (ii) established information obligations 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 (further regulated by Resolution No. 1,146/04 issued on November 9, 2004 and Resolution No. 882/05 issued by the Argentine Secretariat of Energy). According to Executive Decree No. 180/04, all daily spot sales of natural gas must be traded within the MEG.

In January 2004, Executive Decree No. 181/04 authorized the Argentine Secretariat of Energy to negotiate with natural gas producers a pricing mechanism for natural gas supplied to industries and electric generation companies. Domestic market prices at the retail market level were excluded from these negotiations.

On June 14, 2007, Resolution No. 599/07 of the Argentine Secretariat of Energy approved a proposed agreement with natural gas producers regarding the supply of natural gas to the domestic market during the period 2007 through 2011 ( Agreement 2007-2011 ). We executed Agreement 2007-2011 taking into account that producers that did not enter into Agreement 2007-2011 would be required to satisfy domestic demand before those who entered into Agreement 2007-2011. The purpose of Agreement 2007-2011 was to guarantee the supply of the domestic market demand at the levels registered in 2006, plus the growth in demand by residential and small commercial customers. However, we expressly stated that the execution of Agreement 2007-2011 did not entail any recognition by us of the validity of the terms and conditions of the various resolutions of the Argentine Secretariat of Energy establishing programs for the curtailment or re-routing of exports to satisfy domestic demand. We challenged Resolution No. 599/07 and stated that we signed Agreement 2007-2011 taking into account the potential consequences of not doing so.

The Argentine Secretariat of Energy created, through Resolution No. 24/08 issued on March 13, 2008, a program named Gas Plus to encourage natural gas production resulting from discoveries, new fields and tight gas, among other factors. The natural gas produced under the Gas Plus program is not subject to Agreement 2007-2011 and the price conditions established under such agreement.



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**Table of Contents**

The Argentine Secretariat of Energy, through Resolution No. 1031/08 issued on September 12, 2008, modified Resolution No. 24/08, establishing the specific conditions petitioners must meet in order to qualify for the Gas Plus program. Certain of such conditions were modified by Resolution No. 695/09 of the Argentine Secretariat of Energy, which demands compliance with commitments already assumed.

The Argentine Secretariat of Energy, through Resolution No. 1070/08 issued on October 1, 2008, ratified the complementary agreement entered into between Argentine natural gas producers and the Argentine Secretariat of Energy on September 19, 2008 (the Complementary Agreement), which (i) modified gas prices at the wellhead and segmented the residential sector in terms of natural gas demand, and (ii) established the requirement that natural gas producers contribute to the fiduciary fund created by Law No. 26,020. The Complementary Agreement also contains certain requirements concerning the provision of LPG to the domestic market. See Liquefied petroleum gas. Through Resolution No. 1417/08, the Secretariat of Energy determined the basin prices for the residential segment applicable to the producers that signed the Complementary Agreement. On January 13, 2010, the natural gas producers signed an addendum to the Complementary Agreement which extended the commitment to contribute to the fiduciary funds created by Law No. 26,020 until December 31, 2010. On January 25, 2011, the natural gas producers signed a second addendum to the Complementary Agreement which extended such commitment until December 31, 2011.

On March 19, 2012, the Official Gazette published S.E. Resolution No. 55/2012 of the Secretariat of Energy, which extended the Complementary Agreement for 2012 and established the following with respect to non-signing parties: (i) the natural gas price increase established by the Complementary Agreement will not be applicable to natural gas injected into the gas system by non-signing parties; (ii) natural gas injected by non-signing parties will be consumed first in the order of priority by residential users, which has the lowest tariffs; and (iii) non-signing parties must fulfill all of the commitments undertaken by natural gas producers under Agreement 2007-2011, which was extended by Resolution S.E. No. 172. On March 23, 2012, S.E. Resolution No. 55/2012 was supplemented by ENARGAS Resolution No. 2087/2012, which sets forth, among others, the procedure that distribution companies should follow to secure amounts to be deposited with the fiduciary fund created by Law No. 26,020. Additionally, according to this resolution, producers that have not signed the 2012 extension of the Complementary Agreement are not allowed to charge the wellhead price increases for gas set forth in S.E. Resolutions No. 1070/2008 and 1417/2008 to consumers directly supplied by distribution companies. Thus, such non-signing producers have to invoice the lower prices which were in effect prior to the adoption of these resolutions for the gas supplied to the distribution companies.

Thereafter, on April 19, 2012, December 18, 2012 and December 19, 2013, YPF signed the 2012, 2013 and 2014 extensions of the Complementary Agreement, respectively. The dispatch mechanism for natural gas was regulated further by Resolution No. 1410, as explained below.

Executive Decree No. 2067/08 of December 3, 2008, created a fiduciary fund to finance natural gas imports destined for injection into the national pipeline system, when required to satisfy the internal demand. The fiduciary fund is funded through the following mechanisms: (i) various tariff charges which are 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 assessed by the Argentine Secretariat of Energy on participants in the natural gas industry. This decree has been subject to different judicial claims and judges throughout the country have issued precautionary measures suspending its effects. On November 8, 2009, ENARGAS published Resolution No. 1982/11, which supplements Decree No. 2067/08. This Resolution adjusts the tariff charges established by Executive Decree No. 2067/08 to be paid by users in the residential segment and gas processing and electric power companies, among others, starting December 1, 2011. On November 24, 2011, ENARGAS issued Resolution No. 1991/11, which extends the type of users that will be required to pay tariff charges. YPF has challenged these resolutions. On April 13, 2012, a precautionary measure was granted regarding the processing plant El Porton, suspending the effects of these

resolutions with respect to such plant.

## Table of Contents

Through Resolution No. 28/2016, published on April 1, 2016, MINEM declared that all acts which determined the imposition of the tariff charge ceased to be effective and instructed ENARGAS to adopt measures to cease invoicing the tariff charge.

On November 5, 2012 the Official Gazette published Law No. 26,784 which approves the National Administration Budget for 2013. Article 54 of the Law established that the tariff charges and the fiduciary fund established by Executive Decree No. 2067/08 and all its supplementary acts shall be ruled by Law No. 26,095.

On July 17, 2009, the Ministry of Federal Planning and certain natural gas producers (including YPF) signed an agreement which sets forth: (i) natural gas prices at the wellhead for the electric power generators segment from July to December 2009, and (ii) amounts to be received by natural gas producers for volumes sold to the residential segment from August 2009 onwards. These amounts are adjusted on a monthly basis so that they represent 50% of the amount collected by the fiduciary fund to finance natural gas imports.

On October 4, 2010, the Official Gazette published ENARGAS Resolution No. 1410/10, which set forth new rules for natural gas dispatch applicable to all participants in the gas industry and imposing the following new and more severe priority demand gas restrictions on producers:

Distributors remain able to solicit all the gas necessary to cover the priority demand despite such gas volumes exceeding those that the Argentine Secretariat of Energy would have allocated by virtue of Agreement 2007-2011 ratified by the Resolution No. 599/07. See Exploration and Production Overview Delivery commitments.

Producers are obligated to confirm all the natural gas requested by distributors in respect of the priority demand. The producers' portion of such volumes follows the allocation criterion established by the Resolution No. 599/07. We cannot predict the amount of the estimated domestic demand that a producer may be required to satisfy, regardless of whether such producer signed Agreement 2007-2011.

Once the priority demand has been satisfied, the remaining demands are fulfilled, with exports last in order of priority.

In the event a producer is unable to meet the requested demand, transporters are responsible for redirecting gas until a distributor's gas demand is met. The gas deficiency is either (i) deducted from the producer suffering the deficiency if it is able to meet the demands of its other clients in the same basin or (ii) recuperated from the remainder of the gas producers in the event the deficient producer is not able to serve any of its clients in the same basin.

As a result, this regime imposes a jointly liable supply obligation on all producers in the event any producer experiences a gas supply deficiency. We have challenged the validity of the aforementioned regulation. On December 9, 2015, ENARGAS denied our administrative appeal.

Rules established by ENARGAS Resolution No. 1410/16 were amended by MINEM Resolution No. 89/2016, dated June 1, 2016, which: required ENARGAS to develop a procedure to amend and supplement ENARGAS Resolutions No. 716/1998 and 1410/2010 and establish daily operating conditions of the Transportation and Distribution Systems,

establishes the volumes that distributors may request in order to satisfy priority demand and, if there has been a contract with a producer to fulfill such request, reduces the contracted volume requirement in accordance with the framework provided by Resolution No. 1,410/2010. Pursuant to this resolution, ENARGAS Resolution I/3833 was issued on June 5, 2016, which establishes the Supplementary Procedure for Gas Requests, Confirmations and Control.

On December 17, 2010 certain natural gas producers (including YPF) signed an agreement which set forth the percentage of regasified LNG assigned to each natural gas producer for 2011. Amounts produced under this agreement were counted towards such producers' commitments to supply natural gas to distributors under Resolution No. 599/07. As of the date of this annual report, similar agreements have not been entered into for years subsequent to 2011.

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**Table of Contents**

On August 27, 2012, the Official Gazette published S.E. Resolution No. 1445/2012 of the Secretariat of Energy, according to considerations set by Decree No. 1,277/2012, which modified gas prices at the wellhead for compressed natural gas (CNG) which represents an increase of approximately 369% of the prices realized by the Company for such segment product.

On February 14, 2013, Resolution No. 1/2013 of the Commission was published in the Official Gazette. This resolution creates the Natural Gas Additional Injection Stimulus Program. Under this regulation, gas producing companies were invited to file with the Commission before June 30, 2013 projects to increase natural gas injection, in order to receive a compensation up to U.S.\$7.50 per mmBtu for all additional natural gas injected. These projects shall comply with minimum requirements established in Resolution No. 1/2013, and will be subject to consideration approval by the Commission, including a maximum term of five years, renewable at the request of the beneficiary, upon decision of the Commission. If the beneficiary company in a given month does not reach the committed production increase it will have to make up for such volumes not produced. In addition, the Commission may withdraw a previously approved proposal to increase the total injection of natural gas if some of the following events occur: (i) any omission, inaccuracy or distortion of information provided by a company participating in a project or during its execution; (ii) breach of the obligations set forth in Decree No. 1,277/2012 and its regulations or supplementary acts; (iii) breach by a company of its obligations under the program after notice of not less than 15 business days; (iv) if the import price is equal to or lower than the price of the additional natural gas injected for at least 180 days or (v) if the value of a company's supply contracts or invoices used in the monthly calculation corresponding to each month covered by the program had weighted average price decreases or unjustified amounts. On May 23, 2013, the Commission approved the project submitted by YPF. A similar program was created under Resolution No. 60/2013 of the Commission, as amended by Resolution No. 83/2013 of the Commission for gas producers that failed to file their natural gas additional injection program filings before the expiration date established by Resolution No. 1/2013 of the Commission. The compensation to be received under this new program varies from U.S.\$4.00 per mmBtu to U.S.\$7.50 per mmBtu, depending on the production curve reached by the applicable company. Additionally, a third stimulus program entered into effect under Commission Resolution No. 185/2015 for companies without any prior gas production in Argentina at the time of issuance of the resolution. Similar to the Gas Plan, companies with an approved program under this new resolution will receive compensation for the difference between the price obtained in the market for the sale of all their gas production and U.S.\$7.50 per mmBtu. The gas production subject to such compensation only applies to the production from areas acquired by companies with approved programs under either Resolution No. 1/2013 or Resolution No. 60/2013, as long as such production was computed under these programs as increased injection as opposed to base injection.

On May 18, 2016, MINEM Resolution No. 74/2016 created the Natural Gas New Projects Stimulus Program in order to incentivize natural gas production for companies submitting new natural gas projects that are not beneficiaries of the Natural Gas Additional Injection Stimulus Program or the Natural Gas Injection Stimulus for Companies with Reduced Injection created by Resolutions No. 1/2013 and 60/2013, respectively, of the former Commission. The submission of new projects, which must be approved by the Secretariat of Hydrocarbon Resources, may obtain a stimulus price of U.S.\$7.50/mmBtu.

The Natural Gas New Projects Program will be effective from the date of the publication of the resolution in the Argentine Official Gazette (May 18, 2016) until December 31, 2018. The requirements to be considered a new natural gas project are as follows: it must (i) come from an exploitation concession granted as a result of a discovery reported after the effective date of Resolution No. 1/2013 of the former Commission; (ii) come from an exploitation concession of areas classified as Tight Gas or Shale Gas; or (iii) belong to companies without natural gas injection registers which acquire an interest in areas belonging to companies registered in the Natural Gas Additional Injection Stimulus Program or the Natural Gas Injection Stimulus for Companies with Reduced Injection created by Resolutions No. 1/2013 and 60/2013, respectively, of the former Commission, but for which total injection coming from the areas

in question, including the acquired areas, would have been zero during the period in which the selling company would have calculated its base injection.

By means of National Decree No. 704/2016, the pending payments under the Program of Stimulus for Surplus Natural Gas Injection for injection of natural gas supplied until December 31, 2015 was cancelled through the delivery of public debt instruments, specifically 8% Argentine Bonds denominated in U.S. Dollars due 2020 ( BONAR 2020 USD ).

## **Table of Contents**

### **MINEM Resolution No. 46/2017**

On March 6, 2017, MINEM Resolution No. 46/2017 was published in the Official Gazette, which approved the Investment in Natural Gas Production from Non-Conventional Reservoirs Stimulus Program. The program was established in order to stimulate the investments in natural gas from non-conventional reservoirs in the Neuquina basin and will be in effect until December 31, 2021.

Resolution No. 46/2017 establishes compensation for the volume of non-conventional gas production from concessions located in the Neuquina basin included in the program. To be included in the program, the concessions must have a specific investment plan approved by the province's application authority and the Secretariat of Hydrocarbon Resources.

The compensation will be determined by deducting from the effective sales price obtained from sales to the internal market, including conventional and non-conventional natural gas, the minimum sales prices established by Resolution No. 46/2017 each year, multiplied by the volumes of production of non-conventional gas. The minimum prices established by Resolution No. 46/2017 are U.S.\$7.50 per mmBtu for 2018, U.S.\$7.00 per mmBtu for 2019, U.S.\$6.50 per mmBtu for 2020 and U.S.\$6.00 per mmBtu for 2021.

Compensation from the program shall be paid, for each concession included in the program, 88% to the companies and 12% to the province corresponding to each concession included in the program.

### **Tariffs**

On April 4, 2014, Resolution S.E. No. 226/2014 of the Argentine Secretariat of Energy was published in the Official Gazette. Under this resolution, the Secretariat of Energy set new prices for residential, commercial consumers and compressed natural gas consumers. Residential and commercial consumers that achieve certain consumption savings compared to prior years will be: (i) excluded from the price increase or (ii) subject to a lower price increase. Industrial users and power generation plants are excluded from the price increase. Consumers served by distributor Camuzzi Gas del Sur S.A., which is not an affiliate of YPF, or its sub-distributors, are excluded.

On November 17, 2014, Resolution No. 231/2014 of the Commission was published in the Official Gazette. Under this resolution, the price of compressed natural gas in service stations will be raised by the same percentage as the weighted average price within Argentina, excluding taxes, of super quality gasoline over 93 octane or of any product that replaces it in the future as provided for under the resolution.

After public hearings with respect to the tariff review were held on September 16, 17 and 18, 2016, MINEM issued Resolution No. 212/2016 on October 7, 2016 that set forth new PIST prices for natural gas and new natural gas tariff schedules for users who purchase gas from distributors.

Resolution No. 212/2016 instructs the Secretariat of Hydrocarbons to, until PIST gas prices are established by the free interaction of supply and demand, submit to the MINEM for its approval a proposal of natural gas PIST prices corresponding to each half-year period, starting April 1 and October 1 of each year, based on the values contemplated in the subsidy reduction scheme, adjusting the target price for each half-year period, as per the market conditions at the time of elaboration of the proposed prices. Such a proposal shall be submitted 30 days in advance at the beginning of each half-year period, and shall be submitted with a report containing the basis of the adjustments or modifications proposed.

Resolution No. 212/2016 also instructs ENARGAS to provide for any such measures as required so that the final amount, including taxes of bills issued by distributors of utility gas through networks across the country, that users are required to pay based on consumptions after the effective date of the PIST gas prices established in this resolution, does not exceed maximum amounts equivalent to the percentages below, considered as incremental percentages over the total amount, including taxes, of the bill issued to the same user for the same billing period in the previous year:



**Table of Contents**

Users R1-R23: 300%;

Users R31-R33: 350%;

Users R34: 400%; and

Users SGP: 500%.

It further sets forth that the increase limits established above on the final invoiced amounts shall apply, provided that the total amount of the bill exceeds the amount of Ps. 250.

On such same date, ENARGAS published Resolutions No. 4044/2016, 4045/2016, 4046/2016, 4047/2016, 4048/2016, 4049/2016, 4050/2016, 4051/2016, 4052/2016, 4053/2016 and 4054/2016, whereby it approved the tariff schedules for the users in the following license areas: Metrogas S.A., Gasnea S.A., Gas Natural Ban S.A., Camuzzi Gas Del Sur S.A., Camuzzi Gas Pampeana S.A., Distribuidora de Gas Cuyana S.A., Distribuidora de Gas del Centro S.A., Gasnor S.A., Litoral Gas S.A., Transportadora de Gas del Norte S.A. and Transportadora de Gas del Sur S.A.

On February 16, 2017, MINEM published Resolution No. 29-E/2017, through which it called a public hearing to be held on March 10, 2017 to consider new natural gas prices at PIST that would be determined to apply to the half-year period commencing in April 2017. The hearing took place, and the final report by the Secretariat of Hydrocarbon Resources was issued to the MINEM; however, up to the date of this annual report, the MINEM resolution determining such prices is still pending.

On March 30, 2017, Metrogas, MINEM and Ministry of Economy signed the Transitional Agreement 2017 and the Letter of Understanding of Contractual Renegotiation.

On March 30, 2017, ENARGAS issued Resolution No. I/4356/2017 that decided (i) the tariff schedules that resulted from the analysis made by ENARGAS within the framework of the Integral Tariff Review, (ii) the transitional tariff schedules to apply as of April 1, 2017, (iii) the mandatory investments plan, and (iv) the methodology of the six-month adjustments. See additionally [Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation Natural Gas](#).

**Natural gas export administration and domestic supply priorities**

In March 2004, the Argentine Secretariat of Energy issued S.E. 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 surplus 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 Argentine Secretariat of Energy; and

the authorization to 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 S.E. Resolution No. 265/04, issued S.S.C. Regulation No. 27/04 establishing a rationalization plan of gas exports and transportation capacity. Among other things, S.S.C. Regulation No. 27/04 established a limit on natural gas export authorizations, which, absent an express authorization by the Undersecretariat of Fuels, may not be executed for volumes exceeding exports registered during 2003.

In June 2004, the Argentine Secretariat of Energy issued S.E. 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 S.S.C. Regulation No. 27/04). Under S.E. Resolution No. 659/04 (amended by S.E. Resolution No. 1,681/04), natural gas exports may be restricted due to shortages of natural gas in the domestic market, because 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.

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**Table of Contents**

This program was further amended and supplemented by S.E. Resolution No. 752/05 issued by the Argentine Secretariat of Energy in May 2005, which further reduced the ability of producers to export natural gas, and created a mechanism under which the Argentine Secretariat of Energy 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. Based on the provisions of Rule No. 27/04, S.E. Resolution No. 659/04 and S.E. Resolution No. 752/05, the Argentine Secretariat of Energy and/or the Undersecretariat of Fuels have instructed us to redirect natural gas export volumes to the internal market, thereby affecting natural gas export commitments. We have challenged the validity of the aforementioned regulations and resolutions, and have invoked the occurrence of a force majeure event under the corresponding natural gas export purchase and sale agreements. The counterparties to such agreements have rejected our position. See Item 8. Financial Information Legal Proceedings.

S.E. 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 Argentine Secretariat of Energy 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 Argentine Secretariat of Energy 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. S.E. Resolution No. 1886/06, 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 S.E. Resolution No. 1329/06, later supplemented by S.S.C. Note No. 1011/07, the Argentine Secretariat of Energy required producers to give first priority in their injections of natural gas into the gas pipelines to certain preferential consumers and obligated 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.

Also, beginning during the severe Argentine winter in 2007 and continuing thereafter, we and most gas producers, as well as the transportation companies in Argentina, received instructions from the government to decrease exports, except for certain volumes addressed to satisfy Chilean residential consumption and other specific consumption.

National Decree No. 893/2016, dated July 25, 2016, determined that MINEM would be empowered to regulate the award of export permits for the following purposes: i) to deliver assistance with natural gas emergency situations of foreign countries, and ii) to replace natural local transport restrictions by means of utilizing foreign transportation infrastructure to ease transportation of natural gas within the Argentine market and allow for an increase in local production.

MINEM Resolution No. 8/2017 regulated National Decree No. 893/2016, establishing an especial procedure to grant natural gas export permits subject to importing commitments. Solicitors for both types of permits will have to commit to importing the volumes of natural gas exported and to indemnify the Argentine government for breaching such

obligation, including the payment of 150% of the import costs incurred by the Argentine government to replace the outstanding natural gas. Permits would be extended for a maximum period of two years and are subject to possible termination in the event that public interest makes it convenient for local market supply in accordance with MINEM's criteria.

**Table of Contents**

On January 8, 2017, export duties on hydrocarbon exports established by Law No. 26,732 ceased to be enforceable. Thereafter, there will be no export duties on natural gas exports.

***Liquefied petroleum gas***

Law No. 26,020, enacted on March 9, 2005, sets forth the regulatory framework for the industry and commercialization of LPG. This law regulates the activities of production, bottling, transportation, storage, distribution, and commercialization of LPG in Argentina and declares such activities to be of public interest. Among other things, the law:

creates the registry of LPG bottlers, obliging LPG bottlers to register the bottles of their property;

protects the trademarks of LPG bottlers;

creates a reference price system, pursuant to which the Argentine Secretariat of Energy shall periodically publish reference prices for LPG sold in bottles of 45 kilograms or less;

requires the Argentine Secretariat of Energy to comply with the following tasks: (i) create LPG transfer mechanisms, in order to guarantee access to the product to all the agents of the supply chain; (ii) establish mechanisms for the stabilization of LPG prices charged to local LPG bottlers; and (iii) together with the CNDC, analyze the composition of the LPG market and its behavior, in order to establish limitations on market concentration in each phase, or limitations to the vertical integration throughout the chain of the LPG industry (such limitations apply to affiliates, subsidiaries and controlled companies);

grants open access to LPG storage facilities; and

creates a fiduciary fund to finance bottled LPG consumption for low-income communities in Argentina and the extension of the natural gas distribution network to new areas, where technically possible and economically feasible. The fiduciary fund is funded through the following mechanisms: (i) penalties established by Law No. 26,020, (ii) assignments from the General State Budget, (iii) funds from special credit programs that may be arranged with national or international institutions, and (iv) funds that may be assessed by the Argentine Secretariat of Energy on participants in the LPG industry.

The Argentine Secretariat of Energy established, through several subsequent resolutions, reference prices applicable to sales of LPG bottles of less than 45 kilograms, and to sales of bulk LPG exclusively to LPG bottlers. Also, the Argentine Secretariat of Energy approved the method for calculating the LPG export parity, to be updated monthly by the Undersecretariat of Fuels. In 2007, the Argentine Secretariat of Energy increased the LPG volumes to be sold to bottlers at the reference prices set forth in the unconventional above mentioned resolutions.

Disposition No. 168/05 of the Undersecretariat of Fuels requires companies intending to export LPG to first obtain an authorization from the Argentine Secretariat of Energy. Companies seeking to export LPG must first demonstrate that the local demand is satisfied or that an offer to sell LPG to local demand has been made and rejected.

On September 19, 2008, the Secretariat of Energy and Argentine LPG producers entered into the Complementary Agreement which, among other objectives, seeks to stabilize the price of LPG in the domestic market. The Complementary Agreement applies only to LPG sold to bottlers that declare their intention to bottle such LPG in LPG bottles of 10, 12 or 15 kilograms. The Complementary Agreement requires LPG producers to supply LPG bottlers with a prescribed volume and accept the price per ton set forth in the Complementary Agreement. The Complementary Agreement was then extended in the following years until 2015 with certain modifications in quantities and prices to be provided every year.

On April 7, 2015, Resolution No. 73 of the Argentine Secretariat of Energy terminated the fiduciary agreement to which YPF was a party as a natural gas producer, contributing funds for the payment of compensation for LPG producers and bottlers. As a result, natural gas producers that were parties to the Complementary

## **Table of Contents**

Agreement are no longer required to contribute funds. At the same time, a new program for the provision of bottled LPG at reference prices was established by Decree No. 470/2015 dated March 31, 2015. This decree established that LPG producers and bottlers provide LPG at reference prices in the domestic market, gradually increasing the volumes provided in 2014.

## **Electricity**

Through Resolution No. 06/2016, published in January 2016, MINEM established new seasonal reference prices of power and energy in the MEM from February 1, 2016 to April 30, 2016. The resolution also establishes a stimulus plan, with reference prices for residential consumers that reduce their consumption over the same month in 2015, and a social tariff.

Through Resolution No. 41/2016, published in January 2016, which modifies Resolution No. 06/2016, MINEM established new seasonal reference prices of power and energy in the MEM from May 1, 2016 to October 31, 2016. It also confirms the applicability of the stimulus plan and social tariff until October 31, 2016.

Through Resolution No. 20/2017, published in January 2017, MINEM established, among other things, new seasonal reference prices of power and energy in the MEM from February 1, 2017 to April 30, 2017.

National Decree No. 531/2016, dated March 31, 2016, regulates Law No. 27,191 (regarding the national incentive for the use of renewable sources to generate electricity) and, among other things, establishes that big consumers shall contract for or co-generate renewable energy to comply with the obligation to consume 8% of its electricity from renewable sources, by December 2017. If such requirement is not met, the big consumers will be punished with a fine equal to the variable cost of producing the unmet electricity by a thermos-electrical power plant with imported gasoil fuel.

Argentine Secretariat of Electric Power Resolution No. 22/2016, dated March 30, 2016, modified Resolution No.482/2015, adjusting the remuneration components for power generators that adhered to Resolutions No. 95/2013, 529/2014 and 482/2015, retroactively to February 2016.

MINEM Resolution No. 41/2016, dated April 13, 2016, establishes new prices on the natural gas at PIST for each basin which would then be acquired for electric generation purposes and therefore commercialized within the MEM or generally destined to the satisfy the electricity distribution services.

Through Resolution No. 19/2017, published in January 2017, MINEM, through its Secretariat of Electric Power established a new set of prices for installed electricity generation facilities for any new contracts regarding guaranteed energy offers. Prices have been dollarized and represent an increase with respect to those in force in 2016. Resolution No. 19/2017 also determined a stimulus mechanism towards operative efficiency.

## **Argentine Environmental Regulations**

The enactment of Articles 41 and 43 in the National Constitution, as amended in 1994, as well as new federal, provincial and municipal legislation, has strengthened the legal framework dealing with damage to the environment. Legislative and government agencies have become more vigilant in enforcing the laws and regulations regarding the environment, increasing sanctions for environmental violations.

Under the amended Articles 41 and 43 of the National Constitution, all Argentine inhabitants have both the right to an undamaged environment and a duty to protect it. The primary obligation of any person held liable for environmental

damage is to rectify such damage according to and within the scope of applicable law. The federal government sets forth the minimum standards for the protection of the environment and the provinces and municipalities establish specific standards and implementing regulations.

Federal, provincial and municipal laws and regulations relating to environmental quality in Argentina affect our operations. These laws and regulations set standards for certain aspects of environmental quality, provide for penalties and other liabilities for the violation of such standards, and establish remedial obligations in certain circumstances.



**Table of Contents**

In general, we are subject to the requirements of the following federal environmental regulations (including the regulations issued thereunder):

National Constitution (Articles 41 and 43);

Law No. 25,675 on National Environmental Policy;

Law No. 25,612 on Integrated Management of Industrial and Service Industry Waste;

Law No. 24,051 on Hazardous Waste;

Law No. 20,284 on Clean Air;

Law No. 25,688 on Environmental Management of Waters;

Law No. 25,670 on the Management and Elimination of Polychlorinated Biphenyls;

Criminal Code; and

the Argentine Civil and Commercial Code, which sets forth the general rules of tort law.

These laws address environmental issues, including limits on the discharge of waste associated with oil and gas operations, investigation and cleanup of hazardous substances, workplace safety and health, natural resource damages claims and toxic tort liabilities. Furthermore, these laws typically require compliance with associated regulations and permits and provide for the imposition of penalties in case of non-compliance.

In addition, we are subject to various other provincial and municipal regulations, including those relating to gas venting, oil spills and well abandonment, among other matters.

By Resolution No. 404/94, the Argentine Secretariat of Energy amended Resolution No. 419/93, and created the Registry of Independent Professionals and Safety Auditing Companies (*Registro de Profesionales Independientes y Empresas Auditoras de Seguridad*), which may act with respect to areas of hydrocarbons storage, oil refineries, gas stations, fuel commercialization plants and plants for fractionation of LPG in containers or cylinders. The Resolution provides that external audits of oil refineries, gas stations and all fuel storage plants must be carried out by professionals registered in the Registry. Domestic fuel manufacturing companies and companies that sell fuels are prohibited from supplying these products to any station failing to comply with its obligations. Penalties for failure to perform the audits and remedial or safety tasks include the disqualification of plants or gas stations. In addition, a set of obligations was established regarding underground fuel storage systems, including a mechanism for instant notification in cases of loss or suspicion of loss from the storage facilities.

On July 19, 2001, the Secretariat of Environmental Policy of the province of Buenos Aires issued Resolution No. 1037/01 ordering us to clean up certain areas adjacent to the La Plata refinery. The resolution was appealed through an administrative procedure which has not yet been resolved. Nevertheless, we have commenced certain actions in order to identify potential technical solutions for the treatment of the historical contamination, while reserving that the remediation must be made by the parties responsible for the environmental damage. Under current law, the Argentine government has the obligation to indemnify us against any liability and hold us harmless for events and claims arising prior to January 1, 1991, according to the Privatization Law.

During 2005, the Argentine Secretariat of Energy, by means of Resolution No. 785/05, created the National Program of Hydrocarbons Warehousing Aerial Tank Loss Control, a measure aimed at reducing and correcting environmental pollution caused by hydrocarbons warehousing-aerial tanks.

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**Table of Contents**

The description of the material Argentine environmental regulations is only a summary and does not purport to be a comprehensive description of the Argentine environmental regulatory framework. The summary is based upon Argentine regulations related to environmental issues as in effect on the date of this annual report, and such regulations are subject to change.

**Taxation**

Holders of exploration permits and production concessions are subject to federal, provincial and municipal taxes and regular customs duties on imports. The Hydrocarbons Law grants such holders a legal guarantee against new taxes and certain tax increases at the provincial and municipal levels, except in the case of a general increase in taxes.

Pursuant to Sections 57 and 58 of the Hydrocarbons Law, holders of exploration permits and production concessions must pay an annual surface fee that is based on acreage of each block and which varies depending on the phase of the operation, i.e., exploration or production, and in the case of the former, depending on the relevant period of the exploration permit. On October 17, 2007, the Official Gazette published Executive Decree No. 1,454/07, which significantly increased the amount of exploration and production surface fees expressed in Argentine pesos that are payable to the different jurisdictions where the hydrocarbon fields are located. Law No. 27,007 published in the Official Gazette on October 31, 2014 updated amounts that must be paid pursuant to Sections 57 and 58 of the Hydrocarbons Law. See Exploration and Production.

In addition, net profit (as defined in the Hydrocarbons Law) of holders of permits, or concessions accruing from activity as such holders, might be subject to the application of a special 55% income tax. This tax has never been applied. Each permit or concession granted to an entity other than us has provided that the holder thereof is subject instead to the general Argentine tax regime, and a decree of the National Executive Office provides that we are also subject to the general Argentine tax regime.

Following the introduction of market prices for downstream petroleum products in connection with the deregulation of the petroleum industry, Law No. 23,966 established a volume-based tax on transfers of certain types of fuel, replacing the prior regime, which was based on the regulated price. Law No. 25,745 modified, effective as of August 2003, the mechanism for calculating the tax, replacing the old fixed-value per liter according to the type of fuel for a percentage to apply to the sales price, maintaining the old fixed value as the minimum tax. Through Laws No. 26,028 and 26,181, new taxes on diesel and gasolines sales have been established.

**Reduction in tax rates for fuels**

On December 30, 2014, Decree No. 2579/2014 set forth a reduction in fuel taxes established by Laws No. 23,966 and 26,181 with respect to diesel and unleaded gasoline products. The reductions took effect on January 1, 2015.

**Export taxes**

In 2002, the Argentine government began to implement customs duties on the export of hydrocarbons. Export tax rates were increased on crude oil to 20%, on butane, methane and LPG to 20% and on gasoline and diesel oil to 5%. In May 2004, Resolution No. 337/04 of the Ministry of Economy increased export duties on crude oil to 25%. These export tax rates were increased again in 2004, when the Ministry of Economy issued Resolution No. 532/04, establishing a progressive scheme of export duties for crude oil, with rates ranging from 25% to 45%, depending on the quotation of the WTI reference price at the time of the exportation. In addition, in May 2004, pursuant to Resolution No. 645/04 of the Ministry of Economy, an export duty on natural gas and NGLs was established at a rate of 20%. The export duty on natural gas was increased again in July 2006, when the Ministry of Economy increased

the rate to 45% and instructed the Customs General Administration to apply the price fixed by the framework agreement between Argentina and Bolivia as the base price to which to apply the new tax rate, irrespective of the actual sales price. In addition, on October 10, 2006, the Ministry of Economy imposed prevalent export duties on exports from the Tierra del Fuego province, which were previously exempted from taxes. Moreover, in May 2007, the Ministry of Economy increased to 25% the export duty on butane, propane and LPG.

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**Table of Contents**

Resolution No. 394/07 of the Ministry of Economy, effective as of November 16, 2007, increased export duties on Argentine oil exports (as defined by the regulator) on crude oil and other crude derivatives products. The new regime provides that when the WTI international price exceeded the reference price, which was fixed at U.S.\$60.90/barrel, the producer should 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 was under the reference price but over U.S.\$45/barrel, a 45% withholding rate would apply. If such price was under U.S.\$45/barrel, the applicable export tax was to be determined by the Argentine government within a term of 90 business days. Through Resolution No. 1/2013 of the Ministry of Economy and Public Finances, Resolution No. 394/07 was amended, increasing cutoff values from U.S.\$42/barrel to U.S.\$70/barrel, and the reference price from U.S.\$60.90 to U.S.\$80 for crude oil. This means that when the international price of crude oil was over U.S.\$80/barrel, the local producer would be allowed to collect at U.S.\$70/barrel, with the remainder being withheld by the Argentine government.

However, on December 31, 2014, Resolution No. 1077/2014 was published in the Official Gazette and repealed Resolution No. 394/07, as amended, setting forth a new withholding program based on the International Price. The International Price is calculated based on the Brent value for the applicable month less U.S.\$8 per barrel. The new program establishes a 1% general nominal withholding applicable to all products covered by the resolution, including crude oil, diesel, gasoline and lubricants, as well as other petroleum products, to the extent that the International Price is below U.S.\$71 per barrel. The resolution further provides an increasing variable withholding rate on crude oil exports to the extent the International Price exceeds U.S.\$71 per barrel. As a result, the maximum price a producer may charge is approximately U.S.\$70 per barrel exported, depending on the quality of crude sold. The resolution also sets forth increasing withholding rates for exports of diesel, gasoline, lubricants and other petroleum derivatives when the International Price exceeds U.S.\$71 per barrel at rates that allow the producer to receive a portion of the price increase.

Resolution No. 127/08 of the Ministry of Economy 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). Resolution No. 127/08 provides, with respect to LPG products (including butane, propane and blends thereof), that if the international price of the relevant LPG product, as reported daily by the Argentine Secretariat of Energy, is under the reference price established for such product in the resolution (U.S.\$338/cm for propane, U.S.\$393/cm for butane and U.S.\$363/cm for blends of the two), the applicable export duty for such product will be 45%. If the international price exceeds the reference price, the producer shall be allowed to collect the maximum amount established by the resolution for the relevant product (U.S.\$233/cm for propane, U.S.\$271/cm for butane and U.S.\$250/cm for blends of the two), with the remainder being withheld by the Argentine government as an export tax.

Export duties on hydrocarbons were established by Law No. 25,561 of Public Emergency, for a term of five years. This term was extended by five more years by Law No. 26,732. The second extension expired on January 7, 2017, and since its term has not been extended, it ceased to be in force. As a result, export duties on hydrocarbons are no longer imposed.

We cannot give any assurances as to future levels of export taxes.

**Repatriation of Foreign Currency**

Executive Decree No. 1,589/89, relating to the deregulation of the upstream oil industry, allowed us and other companies engaged in oil and gas production activities in Argentina to freely sell and dispose of the hydrocarbons we produce. Additionally, under Decree No. 1,589/89, we and other oil producers were entitled to keep up to 70% of

foreign currency proceeds we received from crude oil and gas export sales outside of Argentina, but were required to repatriate the remaining 30% through the exchange markets of Argentina.

Decree No. 1722/2011 of October 26, 2011 requires all oil and gas companies (including YPF), among other entities, to repatriate 100% of their foreign currency export receivables. Although the mandatory requirement imposed by Decree No. 1722/2011 remains in force and effect, its practical application was essentially relaxed during 2016, since the term required for the repatriation of foreign currency export receivables was significantly extended, from 30 calendar days as of December 2015, up to 5 years on December 2016, through Argentine Secretariat of Commerce Resolutions No. 91/2016 and 242/2016. More recently, the Argentine Secretariat of Commerce issued Resolution No. 47-E/2017 in January 2017, which extended such term up to 10 years.

## **Table of Contents**

### **ITEM 4A. Unresolved Staff Comments.**

YPF does not have any unresolved Staff comments.

### **ITEM 5. Operating and Financial Review and Prospects**

The following discussion should be read in conjunction with our Audited Consolidated Financial Statements included in this annual report.

#### **Overview**

We are Argentina's leading energy company, operating a fully integrated oil and gas chain with leading market positions across the domestic upstream and downstream segments. See Item 4. Information on the Company History and Development of YPF Overview.

#### **Presentation of Financial Information**

Our Audited Consolidated Financial Statements are prepared in accordance with IFRS as issued by the IASB. Our Audited Consolidated Financial Statements are fully compliant with IFRS.

We fully consolidate the results of subsidiaries in which we have a sufficient number of voting shares to control corporate decisions. Interest in joint operations and other agreements which give the Company a percentage contractually established over such percentage in the assets and obligations that emerge from the contract (joint operations), have been consolidated line by line on the basis of the assets, liabilities, income and expenses related to each contract. See Note 2.a to the Audited Consolidated Financial Statements for additional information.

The financial data contained in this annual report as of December 31, 2016, 2015 and 2014 and for the years ended December 31, 2016, 2015 and 2014 has been derived from our Audited Consolidated Financial Statements included in this annual report, which were approved at the Board of Directors meeting and authorized to be issued on March 9, 2017 and which include subsequent events until such date.

Finally, certain oil and gas disclosures are included in Note 35 to the Audited Consolidated Financial Statements included in this annual report under the heading Supplemental information on oil and gas producing activities (unaudited).

#### **Segment Reporting**

We report our business into the following segments: (i) Upstream, which consists of our Upstream segment; (ii) Downstream, which consists of our Refining and Marketing and Chemicals segments; (iii) Gas and Power, which consists of our Natural Gas Distribution and Electricity Generation segment; and (vi) Corporate and other, which consists of our Corporate and Other segment. In connection with our segment reporting, see Note 5 to our Audited Consolidated Financial Statements and Item 4. Information on the Company Business Organization.

Sales between business segments are made at internal transfer prices established by us, which generally seek to approximate market prices.





**Table of Contents****Summarized Statement of Comprehensive Income**

	<i>For the Year Ended December 31,</i>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(in millions of pesos)</i>		
Revenues	210,100	156,136	141,942
Costs	(177,304)	(119,537)	(104,492)
Gross profit	32,796	36,599	37,450
Administrative expenses	(7,126)	(5,586)	(4,530)
Selling expenses	(15,212)	(11,099)	(10,114)
Exploration expenses	(3,155)	(2,473)	(2,034)
Impairment of property, plant and equipment and intangible assets	(34,943)	(2,535)	
Other operating results, net	3,394	1,682	(1,030)
Operating income	(24,246)	16,588	19,742
Income on investments in companies	588	318	558
Financial income (expense) net	(6,146)	12,157	1,772
Net income before income tax	(29,804)	29,063	22,072
Income tax	1,425	(24,637)	(13,223)
Net income	(28,379)	4,426	8,849
Total other comprehensive income	27,414	43,758	16,276
Total comprehensive income	(965)	48,184	25,125

**Factors Affecting Our Operations**

Our operations are affected by a number of factors, including:

the volume of crude oil, oil byproducts and natural gas we produce and sell;

regulation of domestic pricing;

export administration by the Argentine government and domestic supply requirements;

international and domestic prices of crude oil and oil products;

our capital expenditures and financing availability;

cost increases;

domestic market demand for hydrocarbon products;

operational risks, labor strikes and other forms of public protest in Argentina;

taxes, including export taxes;

regulation of capital flows;

the Argentine peso/U.S. dollar exchange rate;

the revocation of our concessions in case of noncompliance with certain provisions as set by laws and agreements with provinces in Argentina;

dependence on the infrastructure and logistics network used to deliver our products;

laws and regulations affecting our operations, such as import regulations; and

interest rates.

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**Table of Contents**

Our operating income in 2016 decreased by 246.2% compared to 2015. This decrease was attributable to, among other things, the recognition of a loss in the value of assets at the time of completion of the evaluation of impairment of properties, plant and equipment and intangible assets as mentioned below under Principal Income Statement Line Items Impairment of property, plant and equipment and intangible assets, an increase in depreciation of properties, plant and equipment as a result of the higher investment in properties, plant and equipment and asset remeasurement in pesos, as a result of the devaluation of the Argentine peso against the U.S. dollar, which is the functional currency of the Company. Other factors that contributed to this decrease in operating income include increased royalties, driven mainly by higher crude oil prices at the wellhead and higher natural gas prices, higher costs of sales and general cost increases (mainly preservation, repair and maintenance costs, salaries and social security costs and costs of services rendered by third parties). This increase in costs is attributable mainly to price increases in Argentina. The above-mentioned negative effects were partially offset mainly by the increase in domestic prices of diesel, gasoline and natural gas and by the deconsolidation of the Maxus Entities (see Note 27 to the Audited Consolidated Financial Statements).

Our business is inherently volatile due to the influence of external factors, such as internal demand, market prices, availability of financial resources for our business plan and its corresponding costs and government regulations. Consequently, our past financial condition, results of operations and the trends indicated by such results and financial condition may not be indicative of the financial conditions, results of operations or trends in future periods. We will continue to focus on increasing productivity and efficiency in 2017. We believe that we need to create a more efficient industry that is sustainable in a lower crude oil price environment. Therefore, we estimate that we will not see production growth this year (estimated to be 2% lower compared to 2016 on a boe basis, but expect to increase our gas production compared to 2016). We do not expect to cut capital expenditures significantly during 2016 compared to 2015. Notwithstanding the foregoing, a slight reduction in capital expenditures in our Downstream segment is expected to be compensated by an increase of capital expenditures in our Gas and Power segment (mainly in connection with projects that we expect will improve our efficiency in our Upstream operations). We note that gas capital expenditures are expected to be higher than oil capital expenditures during 2017. In addition, we expect to continue to explore partnerships to explore shale potential in Argentina, as we see partnerships as critical given the size of the opportunity in shale areas.

Most of our shale oil production comes from the Loma Campana area through our joint venture with Chevron, which was the first and largest farm-out. As we gathered more experience, drilling activity migrated to horizontal wells, obtaining wells with a promising relation between expected EURs and well costs. As we pushed forward several initiatives to improve efficiency and significantly reduce well costs, we reached at the end of 2016 an average well cost of approximately U.S.\$8.2 million for each horizontal well of 1,500 meters in lateral length and 18 frac stages (approximately 40% lower than the average cost in 2015). Our strategy is to continue to invest and de-risk, but at a slower pace than the last couple of years.

Crude oil prices in Argentina were recently renegotiated among market participants, which had previously been set at levels above current international oil prices, with the goal of bringing domestic prices in line with international prices in the short term, taking into account that domestic prices and costs had previously been decoupled from international prices. In January 2017, we increased diesel and gasoline prices and expect to continue to increase diesel and gasoline prices in Argentine peso terms throughout 2017, mainly considering the agreement reached by market participants (see Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Macroeconomic conditions ). Nevertheless, we cannot assure we will have the chance to implement those increases, principally considering the relevant conditions that affect the domestic market such as demand and inflation, among others.

We expect to implement fuel price increases following Argentine peso and biofuel pricing evolution. We expect to preserve refining margins and do not expect refining margins to decrease going forward.

Notwithstanding the foregoing, there can be no assurance that our production, costs, prices or our estimates of future cash flows from operations, among other items, could not be affected by factors beyond our control and, as such, differ from our estimates. See Item 3. Key Information Risk Factors.

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**Table of Contents*****Macroeconomic conditions***

Substantially all of our revenues are derived from our operations in Argentina and are therefore subject to prevailing macroeconomic conditions in Argentina. Changes in economic, political and regulatory conditions in Argentina and measures taken by the Argentine government have had and are expected to continue to have a significant impact on us.

The Argentine economy has experienced significant volatility in past decades, characterized by periods of low or negative growth and high variable levels of inflation. Inflation reached its peak in the late 1980s and early 1990s. Due to inflationary pressures prior to the 1990s, the Argentine currency devalued repeatedly and macroeconomic instability led to broad fluctuations in the real exchange rate of the Argentine currency relative to the U.S. dollar. To address these pressures, past Argentine governments implemented various plans and utilized a number of exchange rate systems.

In the fourth quarter of 1998, adverse international financial conditions caused the Argentine economy to enter into a recession and GDP to decrease between 1999 and 2001. By the end of 2001, Argentina suffered a profound deterioration in social and economic conditions, accompanied by high political and economic instability. The restrictions on the withdrawal of bank deposits, the imposition of exchange controls, the suspension of the payment of Argentina's public debt and the abrogation of the peso's one-to-one peg to the dollar (with the consequent devaluation of the peso against the dollar) caused a decline in economic activity. Real GDP declined by 10.9% in 2002, annual inflation rose to 41%, the exchange rate continued to be highly volatile, and the unemployment rate rose to more than 20%. The political and economic instability not only curtailed commercial and financial activities in Argentina but also severely restricted the country's access to international financing.

Strong economic growth in the world's developed economies, favorable raw material prices from 2003 through the first half of 2008 and the implementation of new macroeconomic policies paved the way for Argentina's economic recovery. Real GDP grew at an average cumulative rate of 8.5% between 2003 and 2008. As a result of the crisis in the global economy, Argentina's real GDP growth rate decelerated in 2009 to 0.9%, but recovered in 2010 and 2011 growing by approximately 9% each year.

After the growth in 2010 and 2011, several factors led to a decrease in growth of the Argentine economy in 2012 and 2013. The growth of the global economy was not as strong as expected following the easing of U.S. economic crisis that started in 2007, and financial volatility continued at high levels. The decline in the price of Brent crude to below U.S.\$50 per barrel, among other things, presents a complicated international scenario that creates uncertainty about the future performance, including potential downside risks, of developed and emerging economies, including Argentina.

Mauricio Macri was elected president of Argentina, and his administration took office on December 10, 2015. The new administration has been facing and continues to face challenges in respect of Argentina's economy, such as reducing the rate of inflation, the devaluation of the Argentine peso, improving the competitiveness of the local industries and normalizing or adjusting prices of certain goods and services, such as electricity and natural gas for certain residential consumers of Argentina. Some of the measures necessary to meet these objectives could be unpopular and generate political and social opposition or unrest. As a result, it is difficult to predict the impact of these measures on the Argentine economy as a whole and the energy sector in particular, including revisions and reforms to pricing mechanisms for oil and gas and elimination of energy subsidies, as well as other policy changes that may affect the energy sector. This includes decisions that the new administration has already taken, such as the elimination of exchange restrictions, the partial adjustment of gas and electricity prices, or future measures it may take to address inflation or changes to the exchange rate. Uncertainty regarding the measures to be taken on the economy

could further lead to price volatility of Argentine companies, including in particular companies like ours in the energy sector, given the high level of regulation. In addition, there can be no assurance that current government programs and policies that apply to the oil and gas sector will continue to be in place in the future. See Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business Limitations on local pricing in Argentina may adversely affect our results of operations and Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business Oil and gas prices, including the recent decline in global prices for oil and gas, could affect our business.

**Table of Contents**

According to the IMF's estimates, global economic growth reached 3.1% in 2015, although the rate of growth or, in some cases, contraction, varied significantly from region to region. On March 27, 2014, the Argentine government announced a new method of calculating GDP by reference to 2004 as the base year (as opposed to 1993, which was the base reference year under the prior method of calculating GDP). However, on January 7, 2016 through Decree No. 55/2016, the new leadership of INDEC issued a report declaring a national statistical emergency. INDEC stated that since 2006 its administration has been irregular and due to that they revised the published data from 2005 to 2015. As a result of this revision, the GDP growth rate for 2013 and 2014 was revised from 2.9% to 2.4% and from 0.5% to a decline rate of 2.5%, respectively. As of the date of this annual report, Argentina's provisional GDP growth rate for 2015 and the preliminary GDP growth rate for 2016 published by INDEC were positive 2.6% and negative 2.3%, respectively.

The official exchange rate of the Argentine peso to the U.S. dollar as of December 31, 2015 was Ps. 13.01 per U.S.\$1.00, a devaluation of approximately 52% compared to Ps. 8.55 per U.S.\$1.00 as of December 31, 2014. In addition, as of December 31, 2016, the peso fell to Ps. 15.85 per U.S.\$1.00, a devaluation of approximately 21.9% compared to the rate as of the end of 2015.

Argentina has confronted and continues to confront inflationary pressures. According to inflation data published by INDEC, from 2008 to 2013, the Argentine consumer price index (CPI) increased 7.2%, 7.7%, 10.9%, 9.5%, 10.8% and 10.9%, respectively, and the wholesale price index increased 8.8%, 10.3%, 14.5%, 12.7%, 13.1% and 14.7%, respectively. In 2014, the Argentine government established a new consumer price index known as the IPCNU that more broadly reflects consumer prices by considering price information from the 24 provinces of the country, divided into six regions. According to INDEC, the IPCNU increased 23.9% in 2014. In 2015, the new administration of INDEC published an alternative CPI that showed an increase of 26.9%. In 2016, the alternative CPI, from January to April, increased 4.1%, 4.0%, 3.3% and 6.5%, respectively, and from May to December, a new CPI was published that showed increases of 4.2%, 3.1%, 2.0%, 0.2%, 1.1%, 2.4%, 1.6% and 1.2% respectively. In January and February 2017, the provisional CPI increased 1.3% and 2.5%, respectively.

The wholesale price index increased 28.3% and 34.5% in 2014 and 2015, respectively. In January and February 2017, the provisional wholesale price index increased 1.5% and 1.7%, respectively. Before the new administration took office, certain private sector analysts believed that inflation was significantly higher than the rate published by INDEC.

See Item 3. Key Information Risk Factors Risks Relating to Argentina Our business is largely dependent upon economic conditions in Argentina.

During 2016, Argentina's provisional trade balance was a surplus of approximately U.S.\$2.1 billion according to preliminary estimates from INDEC, with total exports of approximately U.S.\$57.7 billion during 2016, representing a 1.6% increase compared to the same period in 2015. Total imports were approximately U.S.\$55.6 billion, representing a decrease of 6.9% compared to the same period in 2015.

In Argentina, domestic fuel prices have increased over the past five years, but have not kept pace with either increases or decreases in international market prices for petroleum products due to the market conditions and regulations affecting the Argentine market.

The drop in the international price of Brent crude has affected and will likely continue to affect the oil industry's expected activities worldwide, particularly with respect to expected investments in the industry. In 2015, this decline resulted in an approximately U.S.\$7 reduction to the domestic price per barrel compared to the price in effect on December 31, 2014. This change stemmed from negotiations between producers and refiners to reduce the domestic

price of Medanito and Escalante crude during January 2015 to U.S.\$77 and U.S.\$63 per barrel, respectively. These prices stood at U.S.\$75 and U.S.\$61, respectively, as of November 30, 2015.

In 2016, following the continuous drop in the average international price of Brent crude, a new reduction of approximately 10% in the domestic crude oil price per barrel compared to the price in effect on December 31, 2015 was agreed upon. This change stemmed from negotiations between producers, refiners and MINEM, whereby it was agreed to reduce the domestic price of Medanito crude and Escalante crude since January 2016 until July 2016 to U.S.\$67.50 and U.S.\$54.90 per barrel, respectively. In addition, in August 2016 a new agreement between producers, refiners and MINEM provided for a new gradual reduction in the domestic crude oil price per barrel by 2% per month in August, September and October for a 6% aggregate drop before November 2016.



**Table of Contents**

In 2017, continuing with the gradual reduction of crude oil prices in the domestic market, an agreement among producers, refiners and MINEM was reached to attain price parity with international markets during the course of 2017 and sustain domestic production and labor sources. This agreement establishes decreasing prices for domestic crude oil during 2017, with the aim of reaching the price of Brent crude in the international market as of the effective date of the agreement. As a starting point, a reference price of U.S.\$59.40 and U.S.\$48.30 was set for Medanito and Escalante crude, respectively, for January 2017, with a gradual reduction to U.S.\$55.00 and U.S.\$47.00, respectively, in July 2017 and maintaining those prices until December 2017, provided that the price of Brent crude oil and the exchange rate of the Argentine peso to the U.S. dollar remains within certain parameters. It was also agreed that imports of crude oil and petroleum products as a complement to domestic production of these hydrocarbons will be subject to the shortage of both products in the domestic market, for which MINEM will promote the creation of a registry of imports of crude oil and derivatives to ensure the full utilization of domestic production within the constraints of production and processing of each producer and/or refiner.

Additionally, the agreement establishes mechanisms to adjust fuel prices in the domestic market in 2017. During the first quarter of 2017, no additional increases will be made from the 8% already granted during January 2017 and from April 1, 2017, prices of fuels may be adjusted on a quarterly basis to reflect the impact of changes in crude oil prices, biofuels and changes to the exchange rate, in accordance with the formula established in the agreement.

Notwithstanding the foregoing, the agreement will be in force to the extent that the price of the dollar and/or the price of Brent crude oil is not outside certain parameters established in the agreement, in which case the terms of the agreement will be suspended, with the exception of the creation of the registry of imports of crude oil and derivatives, and the reference prices may be renegotiated.

Energy consumption in Argentina has increased significantly since 2003. Continued growth in demand has led to fuel shortages and power outages, prompting the Argentine government to take additional measures to assure domestic supply. As a result of this increasing demand, declines in the production of certain products and companies in our industry, and actions taken by the Argentine regulatory authorities to prioritize domestic supply the volumes of hydrocarbon product exports, especially natural gas, have declined steadily during this period. At the same time, in recent years, Argentina has increased its imports of natural gas and refined products.

On December 17, 2015, as a result of Decree No. 134/2015, the new government declared an emergency of the national electricity system until December 31, 2017 and instructed the Ministry of Energy and Mining to develop and propose measures that would ensure power supply under adequate technical conditions. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation Electricity, Item 3. Key Information Risk Factors Risks Relating to Argentina Our business is largely dependent upon economic conditions in Argentina.

The table below shows Argentina's total sales, production, exports and imports of crude oil, diesel and gasoline products for the periods indicated.

	Year Ended December 31,		
	2016	2015	2014
<b>Crude Oil in Argentina</b>			
Production (mmbbl)	178.96	186.63	189.40
Exports (mmbbl)	16.48	13.27	13.41
Imports (mmbbl)	5.79	1.84	3.45

<b>Diesel Fuel in Argentina</b>			
Sales (mcm) <sup>(1)</sup>	14,324.35	14,290.54	14,012.95
Production (mmbbl)	11,945.86	12,181.12	11,521.57
Exports (mcm)	5.87	1.84	123.99
Imports (mcm)		1,933.69	2,001.31
<b>Gasoline in Argentina</b>			
Sales (mcm) <sup>(1)</sup>	8,848.96	8,720.81	8,360.31
Production (mmbbl)	8,431.55	8,320.07	7,280.89
Exports (mcm)			
Imports (mcm)	246.52	15.00	449.16

(1) Includes domestic market sales.

Source: Argentine Secretariat of Energy

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**Table of Contents*****Policy and regulatory developments in Argentina, including the Expropriation Law***

The Argentine oil and gas industry has been subject to certain governmental policies and regulations that have resulted in: (i) domestic prices that do not keep pace with those prevailing in international markets (which usually resulted in lower local prices compared to prevailing international market prices before the recent decrease in international oil prices); (ii) export and import regulations; (iii) domestic supply requirements that oblige us from time to time to divert supplies from the export or industrial markets in order to meet domestic consumer demand; (iv) increasingly higher export duties on the volumes of hydrocarbons allowed to be exported, before the recent decrease in international oil prices and before Law No. 26,732 ceased to be in force, which established export duties; (v) increasingly higher investment and costs expenditure requirements in order to satisfy domestic demand and (vi) increasingly higher taxes, although certain taxes have recently declined as a result of the incentives set by the Argentine government in response to the decrease in international oil prices to promote domestic activity. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government. These governmental pricing and tax policies have been implemented in an effort to satisfy increasing domestic market demand and, recently, to incentivize domestic activity as a result of recent decreases in international oil prices. As discussed in Item 3. Key Information Risk Factors and elsewhere in this annual report, actions by the Argentine government have had and will continue to have a significant effect on Argentine companies, including us.

Policy and regulatory developments relating to the oil and gas industry in Argentina include, among others:

*Price administration.* In order to support economic growth, the Argentine government has sought a number of policies and measures to limit increases in hydrocarbon prices which could directly affect final consumers. See Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Macroeconomic conditions for additional information. Notwithstanding the foregoing, the Argentine government has implemented from time to time certain price and investment incentives for certain products which allowed companies to receive increased prices mainly in connection with investments and certain sales. See above Gas programs and Refining Plus and Petroleum Plus programs.

*Export administration.* Since 2004, the Argentine government has prioritized domestic demand and adopted policies and regulations partially restricting the export of certain hydrocarbon products. These regulations have impacted our export sales as described in Declining export volumes.

*Export duties.* Since the economic crisis in 2002, the Argentine government has imposed export taxes on certain hydrocarbon products. These taxes have substantially increased over time as international prices have surged. On January 8, 2017, Law No. 26,732, which established export duties on hydrocarbon exports, ceased to be in force. For more information, see Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Taxation.

*Domestic supply requirements.* The Argentine government has at times issued regulatory orders requiring producers to inject natural gas in excess of contractual commitments and supply other hydrocarbon products to the domestic market. As a result, we have had to limit our exports. In addition, we have imported diesel in order to satisfy domestic demand, which has increased our operating costs. See Cost of sales.



**Table of Contents**

*Gas programs.* Since 2013, different types of gas programs have been created. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Natural Gas.

*Refining Plus and Petroleum Plus programs.* Decree No. 2014/2008 of the Department of Federal Planning, Public Investment and Services of November 25, 2008 created the Refining Plus and the Petroleum Plus programs to encourage (a) the production of diesel and gasoline and (b) the production of crude oil and the increase of reserves through new investments in exploration and operation. The Argentine Secretariat of Energy, by S.E. Resolution No. 1312/2008 of December 1, 2008, approved the regulation of these programs. The programs entitle refining companies that undertake the construction of a new refinery or the expansion of their refining and/or conversion capacity and production companies that increase their production and reserves within the scope of the program to receive export duty credits to be applied to exports of products within the scope of Resolution No. 394/2007 and Resolution No. 127/2008 (Annex) issued by the Department of Economy and Production. In February 2012, by Notes No. 707/12 and 800/12 of the Argentine Secretariat of Energy, YPF was notified that the benefits granted under the Refining Plus and the Petroleum Plus programs have been temporarily suspended. The reasons alleged for such suspension are that the programs were created in a context where domestic prices were lower than currently prevailing prices and that the objectives sought by the programs have already been achieved. Executive Decree No. 1330/2015 of July 13, 2015 declared the termination of the Petroleum Plus program, establishing compensation in public bonds ( BONAR 2024 ). As of the date of this annual report, YPF has not been compensated for the benefits accrued and not yet redeemed by YPF.

*Affidavit Import .* On January 5, 2012, the Federal Administration of Public Revenue ( AFIP ) issued Resolution No. 3252, which requires importers to submit a sworn declaration prior to the placing of a purchasing order for all imports to Argentina, with effect from February 1, 2012. Depending on the nature of the goods to be imported as well as other criteria, certain State agencies may have access to this declaration and can raise objections. The criteria for the approval or rejection of the sworn declaration are not legally defined. On December 23, 2015, the Ministry of Production published Resolution No. 5/2015, which reinstated the automatic and non-automatic import licenses. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Automatic and Non-Automatic Import Licenses.

*Cross-border services information reporting.* On February 9, 2012, the AFIP issued Resolution No. 3276, which requires Argentine individuals and companies that employ the services of providers located outside of Argentina, where the fee for such services is equal to or greater than U.S.\$100,000, to submit a sworn declaration in respect of such services, with effect from April 1, 2012.

The Expropriation Law declared achieving self-sufficiency in the supply of hydrocarbons, as well as in the exploitation, industrialization, transportation and sale of hydrocarbons, a national public interest and a priority for Argentina. In addition, its stated goal is to guarantee socially equitable economic development, the creation of jobs, the increase of the competitiveness of various economic sectors and the equitable and sustainable growth of the Argentine provinces and regions. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government The Expropriation Law. Upon the passage of the Expropriation Law, the Argentine government gained control over the Company. See Item 3. Key Information Risk Factors Risks Relating to Argentina The Argentine Republic owns 51% of the shares of the Company.

***Declining export volumes***

The exported volumes of many of our hydrocarbon products have declined significantly in recent years, driven mainly by increasing domestic demand and export administration, as well as by declines in production. This shift from exports to domestic sales has impacted our results of operations as the prices for hydrocarbons in the domestic market have, due to price administration, generally not kept pace with international and regional prices. Notwithstanding the foregoing, and as a result of export taxes in 2016, 2015 and 2014, affecting hydrocarbon products (see Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Taxation ), prices in the export market do not materially differ from those prevailing in the domestic market.

**Table of Contents**

The table below presents, for the periods indicated, the exported volumes of certain of our principal hydrocarbon products.

<b>Product</b>	<b>Year Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(units sold)</b>		
Natural gas (mmcm)	0	2	9
Gasoline (mcm)	125	90	72
Fuel oil (mtn) <sup>(1)</sup>	375	462	607
Petrochemicals (mtn)	202	301	254

(1) Includes bunker oil sales of 375 mtn, 462 mtn and 607 mtn in 2016, 2015 and 2014, respectively.

Due to the decreased export product volumes indicated above, the portion of our revenues accounted for by exports decreased steadily in recent years. Exports accounted for 7.8%, 7.9% and 17.1% of our consolidated revenues in 2016, 2015 and 2014, respectively. Export duties are accounted for as tax expenses in our Audited Consolidated Financial Statements.

The Argentine government currently requires companies intending to export crude oil, diesel and LPG to obtain prior authorization from the Argentine Ministry of Energy and Mining by demonstrating that local demand for those products has been satisfied. Since 2005, because domestic diesel oil production has generally not been sufficient to satisfy Argentine consumption needs, exports of diesel oil have been substantially restricted.

***International oil and gas prices and Argentine export taxes***

Since the economic crisis in 2002, the Argentine government has imposed export taxes on certain hydrocarbon products. These taxes have substantially increased over time as international prices surged, prior to significant price decreases since late 2014. Notwithstanding the foregoing, the Argentine government launched a series of measures designed to sustain the activity and production in the domestic oil industry, including reductions to withholding taxes applicable to exports of certain petroleum products. For a description of these taxes, reference prices and prices allowed to producers, see Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation and Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Taxation.

On January 8, 2017, Law No. 26,732, which established export duties on hydrocarbon exports, ceased to be in force. For a description of these taxes, reference prices and prices allowed to producers, see Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Taxation.

***Seasonality***

Historically, our results have been subject to seasonal fluctuations during the year, particularly as a result of greater natural gas sales during the winter. After the 2002 devaluation and as a consequence of the natural gas price freeze imposed by the Argentine government, the use of this fuel has diversified, generating an increase in its long-term demand throughout the year. However, sales of natural gas are still typically much higher in the winter to the residential sector of the Argentine domestic market, the prices for which are significantly lower than in other sectors

of the Argentine market. Notwithstanding the foregoing, under the Gas Plan, gas producing companies were invited to file with the Commission before June 30, 2013 projects to increase natural gas injection, in order to receive an increased price of U.S.\$7.50/mmBtu for all additional natural gas injected. These projects shall comply with minimum requirements established in the Gas Plan, and will be subject to approval by the Commission, including a maximum term of five years, renewable at the request of the beneficiary, upon decision of the Commission. If the beneficiary company in a given month does not reach the committed production increase it will have to make up for such volumes not produced. The natural gas pricing program was incorporated into the Hydrocarbons Law, as modified by Law No. 27,007.



**Table of Contents**

**Critical Accounting Policies**

Our accounting policies are described in Note 2.a to the Audited Consolidated Financial Statements. IFRS requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosures of contingent assets and liabilities in our financial statements. Actual results could differ from those estimates. We consider the following policies or matters to be most critical in understanding the judgments that are involved in preparing our Audited Consolidated Financial Statements and the uncertainties that could impact our results of operations, financial condition and cash flows:

Functional and reporting currency. See Note 2.b.1 to the Audited Consolidated Financial Statements.

Impairment of long-lived assets. See Notes 2.b.8 and 2.b.9 to the Audited Consolidated Financial Statements. Furthermore, for additional information regarding assumptions used for our impairment calculation as of December 31, 2016, see Note 2.c to the Audited Consolidated Financial Statements.

Depreciation of oil and gas producing properties. See Note 2.b.6 to the Audited Consolidated Financial Statements.

Asset retirement obligations. See Note 2.b.6 to the Audited Consolidated Financial Statements.

Environmental liabilities, litigation and other contingencies. See Notes 14.a.4, 27.a and 28.b to the Audited Consolidated Financial Statements.

Income tax and deferred tax. See Note 15 to the Audited Consolidated Financial Statements.

In connection with the disclosure of the impact that recently issued accounting standards will have on financial statements in future periods, see Note 2.b.24 to the Audited Consolidated Financial Statements as of December 31, 2016.

In addition, for information regarding our estimates of oil and gas reserves, see Item 4. Information on the Company Exploration and Production Oil and Gas reserves.

During 2016, YPF recorded an impairment for property, plant and equipment of Ps. 34,943 million. As discussed in Note 2.c to the Audited Consolidated Financial Statements as of December 31, 2016, the recoverable amount of property, plant and equipment and intangible assets analysis is performed on the year-end date or whenever there is evidence of impairment of the recoverable value.

As a result of negotiations between Argentine producers and refiners in the second half of 2016, there has been a gradual 6% reduction in the prices of sales of Medanito and Escalante crude oil on the local market (2% monthly as of August 2016). Moreover, in January 2017, the producers and refiners reached a new agreement for the transition to international prices, in which a path of prices was established for the sale of oil in the domestic market, for the purpose of achieving parity with the international market during 2017. This readjustment of prices in the domestic

market and other signs that would point to a convergence with international prices in the near future, coupled with a decline in the prices expected in the medium term compared to the estimates as of December 31, 2015, have been considered evidence of impairment of the value of the assets of the CGU Oil YPF.

Accordingly, the following local market price assumptions have been taken into account for different varieties of crude oil in order to set such expectations: (i) for 2017, it derives from the prices agreed upon between producers and refiners mentioned above which result in prices of US\$ 57.50/bbl for Medanito crude oil and US\$ 49.10/bbl for Escalante crude oil; (ii) for 2018, 2019 and 2020, the local market prices have been estimated based on international price estimates based on available analyst consensus; and (iii) subsequently, estimated prices rise based on predicted inflation in the United States.

**Table of Contents**

For fiscal year 2016, the discount rate used has been 8.67% after taxes (the discount rate used for fiscal year 2015 was 10.33% after taxes).

Based on the aforementioned methodology, the CGU Oil YPF recorded an impairment for property, plant and equipment in the Upstream segment of Ps. 34,943 million and Ps. 2,361 million as of December 31, 2016 and 2015, respectively, mainly due to the expected decrease in the oil price, together with the evolution of cost behavior in terms of macroeconomic variables and the operational behavior of YPF's assets.

The recoverable value of the CGU Oil YPF, after taxes, amounts to 71,495 and 76,829 as of December 31, 2016 and 2015, respectively.

In addition, as of December 31, 2015, YPF recorded a charge for impairment of property, plant and equipment, with respect to the CGU-Oil YPF Holdings, which grouped the assets of the crude oil production fields in the United States which amounted to Ps. 94 million, due to a reduction in international crude oil prices. The fair value of the CGU Oil YPF Holdings amounted to Ps. 179 million. YPF also recorded an impairment charge of intangible assets of Ps. 80 million related to rights in exploratory areas whose recoverable value was zero. During the current year, this CGU was deconsolidated.

It is difficult to predict with reasonable certainty the amount of expected future impairment losses given the many factors impacting the asset base and the cash flows used in the prescribed ceiling test calculation. These factors include, but are not limited to, future prices, operating costs and negotiated savings, foreign exchange rates, capital expenditures timing and negotiated savings, production and its impact on depletion and cost base, upward or downward reserve revisions, reserve additions, and tax attributes. According to the foregoing, and in connection with impairment of long-lived assets according to our estimation as of December 31, 2016, if the average of the oil prices used for impairment tests as of December 31, 2016 were reduced by U.S.\$5 each year, holding all other factors constant, our ceiling test limitation related to the net book value of our proved oil properties would be reduced by approximately U.S.\$2.0 billion. As a result of the estimated reduction in the ceiling test limitation, a negative charge of U.S.\$1.3 billion would be recorded, net of the effect in the income tax. This hypothetical calculation was prepared assuming all other factors remain constant to isolate the impact of commodity prices on our ceiling test limitation. Consequently, as noted above, actual cash flows may be materially affected by other factors. There are numerous uncertainties inherent in the estimation present value of future cash flow, so this hypothetical calculation should not be construed as indicative of our development plans or future results. For more information on recent declines in the international Brent crude oil prices, domestic crude oil prices and domestic gasoline prices, see Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Macroeconomic conditions. For information regarding our domestic oil prices and reserves sensitivity analysis, See Item 3. Key Information Risk Factors Risks Relating to Argentina Our oil and natural gas reserves are estimates.

**Principal Income Statement Line Items**

The following is a brief description of the principal line items of our income statement.

***Revenues***

Revenues include primarily our consolidated sales of crude oil and natural gas and refined fuel and chemical products net of the payment of applicable fuel transfer taxes and turnover taxes. Customs duties on exports are accounted as selling expenses in our consolidated results of operations. Royalty payments required to be made to a third party, whether payable in cash or in kind, which are a financial obligation, or are substantially equivalent to a production or similar tax, are accounted for as a cost of production and are not deducted from revenues. See Item 4. Information on

the Company Exploration and Production Oil and gas production, production prices and production costs and Note 19 to the Audited Consolidated Financial Statements.

**Table of Contents****Costs**

The following table presents, for each of the years indicated, a breakdown of our consolidated cost of sales by category:

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(in millions of pesos)</b>		
Inventories at beginning of year	19,258	13,001	9,881
Purchases for the year	48,760	33,886	35,951
Production costs <sup>(1)</sup>	127,075	85,550	68,840
Translation effect	4,031	6,358	2,821
Inventories at end of year	(21,820)	(19,258)	(13,001)
<b>Costs</b>	<b>177,304</b>	<b>119,537</b>	<b>104,492</b>

(1) The table below presents, for each of the years indicated, a breakdown of our consolidated production costs by category:

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(in millions of pesos)</b>		
Salaries and social security costs	10,228	7,566	5,341
Fees and compensation for services	1,037	775	554
Other personnel expenses	2,773	2,303	1,622
Taxes, charges and contributions	1,861	1,144	2,260
Royalties and easements	17,114	11,932	9,503
Insurance	1,037	831	705
Rental of real estate and equipment	5,097	3,360	2,630
Depreciation of properties, plant and equipment	43,077	25,706	19,201
Amortization of intangible assets	499	185	140
Industrial inputs, consumable material and supplies	5,732	3,801	3,415
Operational services and other service contracts	10,494	6,261	5,297
Preservation, repair and maintenance	16,710	14,231	11,322
Transportation, products and charges	6,952	4,796	3,874
Fuel, gas, energy and miscellaneous	4,464	2,659	2,976
<b>Total</b>	<b>127,075</b>	<b>85,550</b>	<b>68,840</b>

Our cost of sales accounted for 84.4%, 76.6% and 73.6% of our consolidated revenues in 2016, 2015 and 2014, respectively. Our cost of sales increased by 48.3% from 2015 to 2016, mainly as a result of: (i) increased purchases of

crude oil from third parties driven by the increase in oil prices in pesos in the domestic market; (ii) increased royalties, driven mainly by higher crude oil prices at the wellhead as a result of the foregoing and higher natural gas prices; (iii) higher labor costs; (iv) higher costs related to the renegotiation of certain service contracts; (v) increased depreciation of properties, plant and equipment as a result of the higher investment in properties, plant and equipment and asset remeasurement in pesos as a result of the devaluation of the Argentine peso against the U.S. dollar, which is our functional currency and (vi) no insurance compensation was recorded in 2016, compared to Ps. 1,688 million of insurance compensation recorded in 2015, related to a fire that occurred at the La Plata refinery in April 2013 and a fire that occurred at the Cerro Divisadero crude oil treatment plant in March 2014. All of this was partially offset by decreased purchases of crude oil and refined products, principally gasoline and diesel, in the international market driven by lower volume.

**Table of Contents*****Other operating results, net***

Other operating results, net principally include provisions for pending lawsuits and other claims, provisions for environmental remediation and provisions for defined benefit pension plans and other post-retirement benefits.

The following items, among others, are also included as of December 31, 2016: (i) the deconsolidation process of the Maxus group of entities, (ii) the income generated by the Area Magallanes Integral Project ( PIAM ), (iii) the temporary economic assistance received by Metrogas in accordance with Resolution No. 312-E/2015 2016 of the Argentine MINEM and (iv) the incentive for domestic manufacturers of capital goods received by A-Evangelista in accordance with the provisions of the Decree No. 379/2001 of the Ministry of Economy. For more information on the Metrogas temporary economic assistance, see Note 22 and 30 to the Audited Consolidated Financial Statements as of December 31, 2016.

***Financial income (expense), net***

Financial income (expense), net consists of the net of gains and losses on interest paid and interest earned and foreign currency exchange differences.

***Taxes***

The effective income tax rates for the periods discussed in this annual report differ from the statutory tax rate (35%) mainly because: the registration of the deferred income tax as a result of the effect of applying the current tax rate (35%) on the difference generated between the tax basis of fixed and intangible assets (for which any asset remeasurement from the original value in pesos is not acceptable under income tax law) and their book value under IFRS, measured in its functional currency and converted into pesos, as described in Note 2.b.1 to our Audited Consolidated Financial Statements. See Note 15 to the Audited Consolidated Financial Statements for a more detailed description of the difference between statutory income tax rate and effective income tax rate.

**Results of Operations*****Consolidated results of operations for the years ended December 31, 2016, 2015 and 2014***

The following table sets forth certain financial information as a percentage of revenues for the years indicated.

	<b>Year Ended</b>		
	<b>December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(percentage of revenues)</b>		
Revenues	100.0	100.0	100.0
Costs	(84.4)	(76.6)	(73.6)
Gross profit	15.6	23.4	26.4
Administrative expenses	(3.4)	(3.6)	(3.2)
Selling expenses	(7.2)	(7.1)	(7.1)
Impairment of property, plant and equipment and intangible assets	(16.6)	(1.6)	
Other operating results, net	1.6	1.1	(0.7)

Exploration expenses	(1.5)	(1.6)	(1.5)
Operating (loss) income	(11.5)	10.6	13.9

The tables below present, for the years indicated, volume and price data with respect to our sales of our principal products in the domestic and export markets, respectively. Due to the decreased export product volumes, the portion of our revenues accounted for by exports decreased steadily in recent years. Exports accounted for 7.8%, 7.9% and 17.1% of our consolidated revenues in 2016, 2015 and 2014, respectively.



**Table of Contents****Domestic Market**

Product	Year Ended December 31,					
	2016		2015		2014	
	Average		Average		Average	
	Price per		Price per		Price	
Units sold	unit <sup>(1)</sup> (in pesos)	Units sold	unit <sup>(1)</sup> (in pesos)	Units sold	per unit <sup>(1)</sup> (in pesos)	
Natural gas	13,816 mcm	2,636 /mcm	14,009 mcm	1,571 /mcm	13,535 mcm	1,284 /mcm
Diesel	7,803 mcm	9,096 /cm	8,134 mcm	6,970 /cm	8,166 mcm	6,280 /cm
Gasoline	4,828 mcm	9,580 /cm	4,894 mcm	7,141 /cm	4,723 mcm	6,261 /cm
Fuel oil	1,226 mtn	7,869 /ton	1,387 mtn	5,095 /ton	1,129 mtn	4,505 /ton
Petrochemicals	629 mtn	6,465 /ton	587 mtn	5,620 /ton	643 mtn	6,109 /ton

(1) Average prices shown are net of applicable domestic fuel transfer taxes payable by consumers.

**Export Markets**

Product	Year Ended December 31,					
	2016		2015		2014	
	Average		Average		Average	
	Price per		Price per		Price per	
Units sold	unit <sup>(1)</sup> (in pesos)	Units sold	unit <sup>(1)</sup> (in pesos)	Units sold	unit <sup>(1)</sup> (in pesos)	
Gasoline	54 mcm	10,061 /cm	50 mcm	7,843 /cm	65 mcm	7,334 /cm
Fuel oil	375 mtn	3,864 /ton	462 mtn	2,972 /ton	607 mtn	4,382 /ton
Petrochemicals <sup>(2)</sup>	202 mtn	11,638 /ton	301 mtn	5,694 /ton	254 mtn	7,751 /ton

(1) Average prices shown are gross of applicable export withholding taxes payable by us.

(2) Includes exports of refined paraffinic.

**Revenues**

Revenues in 2016 were Ps. 210,100 million, representing a 34.6% increase compared to Ps. 156,136 million in 2015. Among the main factors contributing to the increase were:

Diesel revenues increased by Ps. 14,303 million, or 25.2%, as a result of an increase in the average price for diesel mix of 30.5%, partially offset by a decrease in sales volumes of 4.1%, despite an 8.3% increase in sales volumes of Infinia diesel, a premium diesel;

Gasoline revenues increased by Ps. 11,298 million, or 32.3%, primarily as a result of an increase in the average price for gasoline mix of 34.1%, partially offset by a decrease in sales volumes of 1.3%, despite an 1.1% increase in sales volumes of Infinia gasoline;

Fuel oil revenues in the Argentine domestic market increased by Ps. 2,583 million, or 36.6%, primarily as a result of an increase in the average price of 54.5%, partially offset by a decrease in sales volumes of 11.6%;

Natural gas revenues increased by Ps. 14,409 million, or 65.5%, primarily as a result of an increase of 67.8% in the average sale price in Argentine peso terms (or a 5.8% increase in U.S. dollar terms), which includes not only higher prices from third parties but also the Gas Plan, which increased the average prices obtained by YPF as a result of increasing YPF's natural gas production, partially offset by a decrease in sales volumes of 1.4%;

Natural gas revenues to the retail segment (residential and small general service category) increased by Ps. 2,866 million, or 78.0%, primarily due to an increase in the average price of approximately 60.1% and an increase in sales volumes of 11.2%;

Export revenues increased by Ps. 4,054 million, or 33.0%, primarily due to increases in exports of flour, grains and oils of 38.8%, aerokerosene of 29.0%, and petrochemicals of 37.2%, all due to an increase in average prices in Argentine peso terms, partially offset by decreases in sales volumes; and

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**Table of Contents**

Partially compensating for the effect of the above mentioned increments, in 2015, the Company recorded Ps. 1,988 million of revenue corresponding to the Crude Oil Production Stimulus Program (*Programa de Estímulo a la Producción de Petróleo Crudo*) set forth under Resolution No. 14/2015 of the Hydrocarbon Commission. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation Resolution No. 14/2015. This program was discontinued in 2016.

Revenues in 2015 were Ps. 156,136 million, representing a 10.0% increase compared to Ps. 141,942 million in 2014. Among the main factors contributing to the increase were:

Diesel revenues increased by Ps. 3,466 million, or 6.5%, as a result of an increase in the average price for diesel mix of approximately 11.0% with a decrease in sales volumes of approximately 0.4%, reflecting a 24.6% increase in sales volume of Eurodiesel, a premium diesel;

Gasoline revenues increased by Ps. 4,780 million, or 15.8%, primarily as a result of an increase in the average price for gasoline mix of approximately 14.1% and an increase in sales volumes of approximately 3.6%, reflecting a 25.6% increase in sales volume of Infinia gasoline;

Fuel oil revenues increased by Ps. 697 million, or 9.0%, primarily as a result of an increase in the average price of fuel oil of approximately 2.3% and an increase in sales volumes of 6.6%;

Natural gas revenues increased by Ps. 4,629 million, or 26.6%, primarily as a result of an increase in sales volumes of approximately 3.5%, which was driven by increased production. The increase was further due to an increase of 22.4% in the average sale price obtained by YPF in Argentine peso terms (or a 7.2% increase in U.S. dollar terms). This includes not only higher prices from third parties but also the Gas Plan, which increased the average prices obtained by YPF as a result of increasing YPF's natural gas production;

Crude oil revenues decreased by Ps. 826 million, or 31.4%, primarily due to a decrease in the average price for crude oil of approximately 7.0% and a decrease in sales volumes of approximately 26.2%, mainly as a result of a single significant export event in February 2014;

LPG and aviation fuel sales to foreign markets decreased by Ps. 1,434 million, or 27.2%, mainly due to a decrease in international aviation fuel prices of approximately 31.9%, which was partially offset by an increase in sales volumes of 6.9%;

Exports of flour, grain and oil increased by Ps. 570 million, or 18.6%, due to an increase in sales volumes of 35.6%, which was partially offset by a decrease in international prices of 12.5%.

In addition, in 2015, the Company recorded Ps. 1,988 million of revenue corresponding to the Crude Oil Production Stimulus Program (*Programa de Estímulo a la Producción de Petróleo Crudo*) set forth under Resolution No. 14/2015 of the Hydrocarbon Commission. See Item 4. Information on the Company Legal and Regulatory

Framework and Relationship with the Argentine Government Market Regulation Resolution No. 14/2015.

***Cost of sales***

Cost of sales in 2016 was Ps. 177,304 million, representing a 48.3% increase compared to Ps. 119,537 million in 2015, including increases in production costs and purchases of 48.5% and 43.9%, respectively. Among the main factors contributing to this increase were:

Property, plant and equipment depreciation costs increased by Ps. 17,371 million, or 67.6%, primarily as a result of (i) increased investments in assets and (ii) overall increases in Argentine peso terms of the value of fixed assets, which was related to the devaluation of the Argentine peso against the U.S. dollar, which is the functional currency of the Company;

Total lifting costs increased by Ps. 8,405 million, or 29.1%, considering an increase of the unit indicator in Argentine peso terms of 28.2%;

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**Table of Contents**

Refining costs increased by Ps. 2,530 million, or 42.0%. This increase was driven by higher charges for consumption of materials, spare parts, electricity and other supplies and fuels, considering an increase of the unit indicator in Argentine peso terms of 44.2%;

Royalty payments increased by Ps. 5,163 million, or 45.7%, primarily as a result of increases of (i) Ps. 3,179 million related to crude oil production and (ii) Ps. 1,984 million related to natural gas production, due to the higher wellhead values of these products;

Transportation costs increased by Ps. 2,156 million, or 45.0%, mainly due to increases in rates in 2016;

Purchases of crude oil from third parties increased by Ps. 2,228 million, or 19.5%, primarily as a result of an increase in average prices charged by third parties in Argentine peso terms of approximately 35%, which was mainly related to the devaluation of the Argentine peso, in comparison, there was a 13.4% decrease in average prices charged by third parties in U.S. dollar terms, partially offset by a decrease in purchased volumes of approximately 11.4%;

Purchases of biofuels increased by Ps. 5,454 million, or 70.5%, primarily as a result of an increase in the average prices of FAME and ethanol biofuel of approximately 76.3% and 45.6%, respectively, and an increase in purchased volumes of FAME and ethanol biofuel of 1.4% and 11% (due to an increase in the cut rate of naphthas), respectively;

Purchases of natural gas from other producers for resale in the distribution segment to retail customers (residential and small businesses and industries) increased by Ps. 2,274 million, or 78.2%, primarily as a result of an increase in the purchase price of approximately 70.0% and an increase in purchased volumes of 4.8%; and

Grain purchases in the agricultural sales segment through the form of barter, which were recorded as purchases for accounting purposes, increased by Ps. 1,526 million, or 58.1%. This increase is due to an increase in the average price of approximately 91.1%, partially offset by a decrease in volumes of 17.3%.

All of this was partially offset by the following:

Imports of fuels decreased by Ps. 621 million, or 10.0%, primarily as a result of a decrease in purchased volumes of gas oil of 38.5%, partially offset by an increase in imported volumes of gasoline and jet fuel of 15.7% and an increase in average prices of fuels of 23.9%; and

Additionally, insurance payments related to the losses suffered from an incident at our La Plata refinery in April 2013 were Ps. 615 million in 2015, which did not recur in 2016. This had a negative impact on cost of sales for 2016 compared to the same period in 2015. In addition, with respect to the

incident that affected the facilities of our oil treatment plant in Cerro Divisadero in Mendoza in March 2014, an insurance payment amount of Ps. 1,165 million was recorded in 2015, of which Ps. 794 million was recorded as a lower cost for purchases and Ps. 371 million as other operating income, which did not recur in 2016.

Cost of sales in 2015 was Ps. 119,537 million, representing a 14.4% increase compared to Ps. 104,492 million in 2014. Among the main factors contributing to this increase were:

Fixed asset depreciation costs increased by Ps. 6,505 million, or 33.9%, primarily as a result of (i) increased investments in assets and (ii) overall increases in Argentine peso terms of the value of fixed assets, which was related to the depreciation of the Argentine peso against the U.S. dollar, which is the functional currency of the Company;

**Table of Contents**

Total lifting costs increased by Ps. 5,994 million, or 26.2%, primarily as a result of an increase of the unit indicator, expressed in pesos, of 22.9% and the previously mentioned increase of crude oil and natural gas production;

Refining costs increased by Ps. 912 million, or 17.8%. This increase was driven by inflation, wage increases and a higher processing level of refineries as mentioned above;

Royalty payments increased by Ps. 1,535 million, or 15.5%, primarily as a result of increases of (i) Ps. 692 million related to crude oil production and (ii) Ps. 843 million related to natural gas production;

Transportation costs increased by Ps. 922 million, or 23.8%, mainly due to increases in rates in 2015;

Imports of gasoline, diesel, and jet fuel, especially premium and ultradiesel, decreased by Ps. 4,425 million, or 41.5%, primarily as a result of lower international prices of 40.6% and lower purchased volumes of 16.1%;

Purchases of crude oil from third parties increased by Ps. 1,175 million, or 11.5%, primarily as a result of an increase in average prices charged by third parties in Argentine peso terms of approximately 6.6%, which was mainly related to the devaluation of the Argentine peso and an increase in purchased volumes of approximately 4.6%. In comparison, there was a 7.0% decrease in average prices charged by third parties in U.S. dollar terms; and

Purchases of biofuels increased by Ps. 803 million, or 11.6%, primarily as a result of an increase in purchased volumes of FAME and ethanol biofuel of 7% and 30%, respectively, partially offset by an approximately 3.6% decrease in the price of FAME and a 5.7% decrease in the price of ethanol biofuel.

Additionally, insurance payments related to the losses suffered from an incident at our La Plata refinery in April 2013 were Ps. 615 million in 2015, compared to Ps. 2,117 million in 2014. This had a negative impact on cost of sales for the 2015 period compared to the same period in 2014. In addition, with respect to the incident that affected the facilities of our oil treatment plant in Cerro Divisadero in Mendoza in March 2014, an insurance payment amount of Ps. 1,165 million was recorded in 2015, of which Ps. 794 million was recorded as a lower cost for purchases and Ps. 371 million as other operating income.

***Administrative expenses***

Administrative expenses in 2016 were Ps. 7,126 million, representing a 27.6% increase compared to Ps. 5,586 million in 2015, primarily as a result of increases in personnel costs and IT service contracts.

Administrative expenses in 2015 were Ps. 5,586 million, representing a 23.3% increase compared to Ps. 4,530 million in 2014, primarily as a result of increases in personnel costs and IT service contracts.

***Selling expenses***

Selling expenses in 2016 were Ps. 15,212 million, representing a 37.1% increase compared to Ps. 11,099 million in 2015, primarily as a result of higher charges for product transportation, mainly related to increased rates for the transportation of fuels in the domestic market, as well as increases in personnel costs, charges related to depreciation of property, plant and equipment, advertising and promotional activities, and in the provision for doubtful accounts, which was negatively affected by recoveries in the provision for doubtful accounts in the natural gas distribution segment in 2015.

Selling expenses in 2015 increased to Ps. 11,099 million, representing a 9.7% increase compared to Ps. 10,114 million in 2014, primarily as a result of higher charges for product transportation, mainly related to increased rates for the transportation of fuels in the domestic market and higher volumes transported and sold and higher personnel costs. This increase was partially offset by lower export taxes, mainly due to the rate reduction established by Resolution No. 1077/2014, lower export volumes of crude oil and the fall in prices for exports of LPG and petrochemicals, as well as lower charges related to recoveries of provisions for doubtful accounts in the segment of natural gas distributors.



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**Table of Contents*****Exploration expenses***

Exploration expenses in 2016 were Ps. 3,155 million, representing a 27.6% increase compared to Ps. 2,473 million in exploration expenses in 2015, primarily as a result of a Ps. 625 million increase in negative results from unproductive exploratory drilling in 2016 compared to 2015. Additionally, expenditures for the development of geological and geophysical studies did not vary significantly in 2016 compared with 2015. However, total investments in exploration decreased Ps.1,375 million, or 49.7%, compared to 2015.

Exploration expenses in 2015 increased to Ps. 2,473 million, representing a 21.6% increase compared to Ps. 2,034 million in exploration expenses in 2014, primarily as a result of an increase in exploration activities in which the Company made investments. Total investments in exploration increased to Ps. 503 million, representing a 22.2% increase compared to the total investment in exploration in 2014. In addition, negative results from unproductive exploratory drilling in 2015 compared to 2014 increased by Ps. 160 million. Additionally, expenditures for the performance of geological and geophysical studies increased by Ps. 253 million, mainly as a result of seismic survey studies in the Chachahuén and Zampal Norte areas in the province of Mendoza.

***Impairment of property, plant and equipment and intangible assets***

In 2016, the Company recorded an impairment for property, plant and equipment of Ps. 34,943 million, mainly due to an estimated reduction in the price of oil marketed in the Argentine domestic market, together with the estimated evolution of costs based on both macroeconomic variables and the operational behavior of the Company's assets. For a more detailed description, see Item 5. Operating and Financial Review and Prospects Critical Accounting Policies and Note 2.c to the Audited Consolidated Financial Statements as of December 31, 2016.

In 2015, the Company recognized an impairment of property, plant and equipment and intangible assets of Ps. 2,535 million, mainly due to a reduction in the price of domestically traded oil in the short term and a reduction in expected medium and long-term international prices. This loss impacted the assets of fields in Argentina with reserves and oil production in the amount of Ps. 2,361 million and the assets of fields with crude oil production in the United States for Ps.174 million.

***Other operating results, net***

Other operating results, net, in 2016 were a gain of Ps. 3,394 million, or 101.8%, compared to the gain of Ps. 1,682 million in 2015. In 2016, other operating results mainly includes a net income of Ps.1,528 million attributable to the deconsolidation of the Maxus Entities (see Note 27 to the Consolidated Financial Statements as of December 31, 2016) and an income of Ps. 1,407 million related to the PIAM under the concession agreement with the Company's partner to participate in the extension of the concession of this area. The remaining variation mainly corresponds to a Ps. 199 million decrease in construction incentives received by our subsidiary A-Evangelista S.A and a Ps. 48 million increase in the temporary economic assistance accrued by our subsidiary Metrogas.

Other operating results, net, in 2015 were a gain of Ps. 1,682 million, representing a 263.3% increase compared to a loss of Ps. 1,030 million in 2014. In 2015, our subsidiary Metrogas recorded additional revenues of Ps. 711 million related to the temporary economic assistance established by Resolution No. 263/2015 of the Ministry of Energy and Mining. Also, the provision for contingencies increased by Ps. 650 million in connection with a ruling against YPF regarding a claim filed by the Union of Consumers and Users (*Unión de Usuarios y Consumidores*) for claims from 1993 to 1997. The claim alleges that excess fees were charged to LPG consumers during that period. In the fourth quarter of 2015, there was also a decrease in the provision for abandonment and dismantling obligations for wells of Ps. 524 million, mainly due to the agreement reached with our partner in the Magallanes area. In 2014, a provision of

Ps. 1,227 million was recorded by Maxus Energy Corporation, a subsidiary of YPF Holdings, linked to third party claims based on alleged breach of contract. See Note 27 to the Audited Consolidated Financial Statements.

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**Table of Contents*****Operating loss***

Operating loss in 2016 was Ps. 24,246 million due to the factors discussed above, representing a 246.2% decrease compared to a gain of Ps. 16,588 million in 2015.

Operating income in 2015 was Ps. 16,588 million due to the factors discussed above, representing a 16.0% decrease compared to Ps. 19,742 million in 2014.

***Financial results, net***

In 2016, financial results, net, was a loss of Ps. 6,146 million, representing a 150.6% decrease compared to income of Ps. 12,157 million in 2015. The Company recorded lower positive foreign exchange differences on net monetary liabilities in pesos of Ps. 8,603 due to lower devaluation of the Argentine peso against the U.S. dollar in 2016 compared to the same period in 2015. The Company recorded higher interest expenses and other financial expenses of Ps. 9,700, as a result of higher average indebtedness and higher interest rates in 2016 compared to the same period in 2015. The average net debt in 2016 was Ps. 116,976 million, while the average net debt in 2015 was Ps. 64,956 million. The average amount of net debt was calculated as the linear average of current and non-current loans at the beginning and end of the corresponding period, net of the linear average of cash and cash equivalents at the beginning and end of the corresponding period.

In 2015, financial results, net, was income of Ps. 12,157 million, representing a 586.1% increase compared to income of Ps. 1,772 million in 2014. The Company registered a higher positive foreign exchange difference in net monetary liabilities in pesos due to higher depreciation of the Argentine peso against the U.S. dollar in 2015 compared to the same period in 2014. The Company registered higher interest expenses as a result of higher average indebtedness and higher interest rates in 2015 compared to the same period in 2014. The average net debt in 2015 was Ps. 64,956 million, while the average net debt in 2014 was Ps. 30,362 million. The average net amount of financial indebtedness was calculated as the linear average of current and non-current loans at the beginning and end of the corresponding period, net of the linear average of cash and cash equivalents at the beginning and end of the corresponding period.

***Income tax***

Income tax in 2016 was a gain of Ps. 1,425 million, representing a 105.8% decrease compared to a loss of Ps. 24,637 million in 2015. This decrease was mainly due to lower deferred tax of Ps. 27,313 million, partially offset by an increase of Ps. 1,251 in current income tax. The lower deferred tax charge is due to the recognition of the deferred tax assets of Ps. 12,230 related to the impairment for property, plant and equipment discussed above and the lower difference generated by the revaluation of the book value of the Company's property, plant and equipment in U.S. dollars, which is the functional currency of the Company, with respect to the tax values of property, plant and equipment held in historical Argentine pesos to be deducted from tax as they are depreciated and the lower devaluation of the Argentine peso in 2016.

Income tax in 2015 was Ps. 24,637 million, representing a 86.3% increase compared to Ps. 13,223 million in 2014. This increase was due to higher deferred tax related to greater devaluation of the Argentine peso compared to 2014. This resulted in a deferred tax liability substantially higher than in 2014. In addition, a lower current tax was recorded in 2015 because the devaluation of the Argentine peso resulted in no current tax in 2015.

***Net income and other comprehensive income***

Net income in 2016 was a loss of Ps. 28,379 million, representing a 741.2% decrease compared to a net income of Ps. 4,426 million in 2015.

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**Table of Contents**

Other comprehensive income in 2016 was Ps. 27,414 million, representing a 37.4% decrease compared to Ps. 43,758 million in 2015. This decrease was mainly attributable to lower appreciation of property, plant and equipment.

As a result of the foregoing, total comprehensive income in 2016 was a loss of Ps. 965 million, representing a 102.0% increase compared to a gain of Ps. 48,184 million in 2015.

Net income in 2015 was Ps. 4,426 million, representing a 50.0% decrease compared to Ps. 8,849 million in 2014.

Other comprehensive income in 2015 was Ps. 43,758 million, representing a 168.8% increase compared to Ps. 16,276 million in 2014. This increase was mainly attributable to higher appreciation of property, plant and equipment.

As a result of the foregoing, total comprehensive income in 2015 was Ps. 48,184 million, representing a 91.8% increase compared to Ps. 25,125 million in 2014.

**Consolidated results of operations by business segment for the years ended December 31, 2016, 2015 and 2014**

In 2016, our activities related to power generation and natural gas distribution was separated from the Downstream activities. See Item 4. Information on the Company Business Organization.

See the table of revenues and operating income for each of our business segments for the years ended December 31, 2016, 2015 and 2014 in Item 4. Information on the Company Business Organization.

*Upstream*

Revenues from the Upstream business segment in 2016 were Ps. 114,143 million, representing a 42.2% increase compared to Ps. 80,287 million in 2015.

Operating income in 2016 for the Upstream business segment was a loss of Ps. 26,845 million, including an impairment for property, plant and equipment of Ps. 34,943 million in 2016, compared to a gain of Ps. 7,535 million in 2015, including an impairment for property, plant and equipment and intangible assets of Ps. 2,535 million in 2015.

This decrease in operating income was principally due to the following factors:

The intersegment oil price measured in U.S. dollars decreased 13.1%, while increasing 38.8% in Argentine peso terms. Oil production in 2016 reached 244,700 barrels per day, representing a 2.0% decrease compared to 2015. This contributed to the increase of 82 mcm of crude oil, or 0.6%, transferred from the Upstream business segment to the Downstream business segment and a decrease of approximately 40 mcm of crude oil, or 8.4%, in sales to third parties; and

Natural gas production in respect of our operations in Argentina in 2016 reached 44.6 mmcm per day, representing a 0.9% increase compared to 2015. With the exception of the YSUR production, all natural gas produced, net of internal consumption, is assigned to the Gas and Power segment for sale to third parties (in the case of YSUR, the Gas and Power segment is solely responsible for the commercialization of the gas produced by YSUR). Sales volumes decreased 1.4% in 2016 compared to 2015. The Upstream business segment records the average price obtained by YPF in such sales, net of

sales and marketing fees. The Upstream segment also includes revenues from the Gas Plan, which increases the average prices obtained by YPF as a result of increasing YPF and YSUR's natural gas production. The average natural gas revenue recorded by the Company in 2016, including revenues from the Gas Plan, was U.S.\$4.76 per million BTU, a 5.8% increase compared to U.S.\$4.50 per million BTU in 2015.

**Table of Contents**

All of this was more than offset by the following:

In 2015, the Company recorded Ps. 1,988 million corresponding to the Crude Oil Production Stimulus Program (*Programa de Estímulo a la Producción de Petróleo Crudo*) set forth by Resolution No. 14/2015 of the Hydrocarbon Commission. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation Resolution No. 14/2015. This program was discontinued as of 2016.

Total operating costs in respect of our operations in Argentina in 2016 were Ps. 103,965 million (excluding exploration costs), representing a 51.9% increase compared to Ps. 68,421 million in 2015. Among the main factors contributing to the increase were:

- i Property, plant and equipment depreciation costs increased by Ps. 15,050 million, or 65.2%, primarily as a result of (i) increased investments in property, plant and equipment and (ii) overall increases in Argentine peso terms of the value of fixed assets, which was related to the devaluation of the Argentine peso against the U.S. dollar, which is the functional currency of the Company;
- i Total lifting costs increased by Ps. 8,405 million, or 29.1%, considering an increase of the unit indicator in Argentine peso terms of 28.2%;
- i Royalty payments increased by Ps. 5,163 million, or 45.7%, primarily as a result of increases of (i) Ps. 3,179 million related to crude oil production and (ii) Ps. 1,984 million related to natural gas production; and
- i Transportation costs increased by Ps.641 million, or 40.2%, mainly due to increases in rates in 2016.

Exploration expenses in 2016 were Ps. 3,155 million, representing a 27.6% increase compared to Ps. 2,473 million in exploration expenses in 2015, primarily as a result of a Ps. 625 million increase in negative results from unproductive exploratory drilling in 2016 compared to 2015. Additionally, expenditures for the development of geological and geophysical studies did not vary significantly in 2016 compared with 2015. However, total investments in exploration decreased Ps.1,375 million, or 49.7%, compared to 2015.

In 2016, the Company recorded an impairment for property, plant and equipment of Ps. 34,943 million, mainly due to an estimated reduction in the price of oil marketed in the domestic market, together with the estimated evolution of costs based on both macroeconomic variables and the operational behavior of the Company's assets. For a more detailed description, see Note 2.c to the Consolidated Financial Statements as of December 31, 2016.

In 2015, the Company recognized an impairment of property, plant and equipment and intangible assets for Ps. 2,535 million, mainly due to a reduction in the price of domestically traded oil in the short term and a reduction in expected medium and long-term international prices. This loss impacted the assets of fields in Argentina with reserves

and oil production in the amount of Ps. 2,361 million and the assets of fields with crude oil production in the United States for Ps.174 million.

In 2016, other operating results includes income of Ps. 1,407 million related to the PIAM under the concession agreement with the Company's partner to participate in the extension of the concession of this area.



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**Table of Contents**

With respect to the incident that affected the facilities of our oil treatment plant in Cerro Divisadero in Mendoza in March 2014, an insurance payment amount of Ps. 1,165 million was recorded in 2015, which did not recur in 2016, and of which Ps. 794 million was recorded as a lower cost for purchases and Ps. 371 million as other operating income.

Revenues from the Upstream business segment in 2015 were Ps. 80,287 million, representing a 13.6% increase compared to Ps. 70,697 million in 2014.

Operating income in 2015 for the Upstream business segment was Ps. 7,535 million, a decrease of 39.0% compared to Ps. 12,353 million in 2014. This decrease in operating income was principally due to the following factors:

The intersegment oil price measured in U.S. dollars decreased 8.4%, while increasing 4.5% in Argentine peso terms. Oil production in respect of our operations in Argentina in 2015 reached 248,500 barrels per day, representing a 2.1% increase compared to 2014. This contributed to the increase of 0.2 mmcm of crude oil, or 1.7%, transferred from the Upstream business segment to the Downstream business segment and a decrease of 167,000 cm of crude oil, or 26.2%, in sales to third parties;

Natural gas production in respect of our operations in Argentina in 2015 reached 44.1 mmcm per day, representing a 4.2% increase compared to 2014. With the exception of the YSUR production, all natural gas produced, net of internal consumption, is assigned to the Downstream segment for sale to third parties. Sales volumes increased 3.5% in 2015 compared to 2014. The Upstream business segment records the average price obtained by YPF in such sales net of sales and marketing fees. The Upstream segment also includes revenues from the Gas Plan, which increases the average prices obtained by YPF as a result of increasing YPF and YSUR's natural gas production. The average natural gas revenue recorded by the Company in 2015, including revenues from the Gas Plan, reached U.S.\$4.62 per million BTU, a 7.2% increase compared to U.S.\$4.31 per million BTU in 2014;

In addition, in 2015, the Company recorded Ps. 1,988 million corresponding to the Crude Oil Production Stimulus Program (*Programa de Estímulo a la Producción de Petróleo Crudo*) set forth by Resolution No. 14/2015 of the Hydrocarbon Commission. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation Resolution No. 14/2015 ; and

In addition, with respect to the incident that affected the facilities of our oil treatment plant in Cerro Divisadero in Mendoza in March 2014, an insurance payment of Ps. 1,165 million was recorded in 2015. Of this amount, Ps. 794 million was recorded as a lower cost for purchases and Ps. 371 million as other operating income.

All of this was partially offset by:

Total operating costs in respect of our operations in Argentina in 2015 were Ps. 67,744 million (excluding exploration costs and impairment ), representing a 20.3% increase compared to Ps. 56,311 million in 2014. Among the main factors contributing to the increase were:

- i Fixed asset depreciation costs increased by Ps. 5,895 million, or 34.3%, primarily as a result of overall increases in the value of fixed assets in Argentine peso terms, which was related to the devaluation of the Argentine peso against the U.S. dollar, as well as increased investments in fixed assets and increased production;
  
- i Lifting costs increased by Ps. 5,994 million, or 26.2%, considering an increase of the unit indicator, expressed in pesos, of 22.9% and the increase of crude oil and natural gas production discussed above; and

**Table of Contents**

- i Royalty payments increased by Ps. 1,535 million, or 15.5%, primarily as a result of increases of (i) Ps. 692 million related to crude oil production and (ii) Ps. 843 million related to natural gas production.

Exploration expenses in 2015 increased to Ps. 2,473 million, representing a 21.6% increase compared to Ps. 2,034 million in exploration expenses in 2014, primarily as a result of an increase in exploration activities in which the Company made investments. Total investments in exploration increased to Ps. 503 million, representing a 22.2% increase compared to the total investment in exploration in 2014. In addition, negative results from unproductive exploratory drilling in 2015 compared to 2014 increased by Ps. 160 million. Additionally, expenditures for the performance of geological and geophysical studies increased by Ps. 253 million, mainly as a result of seismic survey studies in the Chachahuén and Zampal Norte areas in the province of Mendoza.

As discussed above, while conducting an evaluation of impairment of property, plant and equipment and intangible assets, the Company recognized an impairment of Ps. 2,535 million, which was recorded as other operating results, net. This impacted field assets in Argentina with reserves and production primarily of oil within the Upstream business segment by Ps. 2,361 million, driven mainly by estimated future lower oil prices. Field assets with oil production and intangible assets in the U.S. decreased by Ps. 174 million due to the decline in international crude oil prices.

*Downstream*

Revenues from the Downstream business segment in 2016 were Ps. 163,463 million, representing a 30.0% increase compared to Ps. 125,766 million in 2015.

Operating income for the Downstream business segment in 2016 was Ps. 3,093 million, representing a 55.5% decrease compared to Ps. 6,948 million in 2015. This decrease in operating income is primarily due to the following factors:

The average volume of oil processed per day in YPF's refineries decreased 1.8% to 293,500 barrels of oil per day, with decreased production of diesel by 1.3%, gasoline by 1.0% and fuel oil by 16.0% and with increased production of LPG by 8.8% and petrochemical gasoline by 5.6%;

Diesel revenues increased by Ps. 14,303 million, or 25.2%, as a result of an increase in the average price for diesel mix of approximately 30.5%, partially offset by a decrease in sales volumes of approximately 4.1%, despite an 8.3% increase in sales volumes of Infinia diesel, a premium diesel;

Gasoline revenues increased by Ps. 11,298 million, or 32.3%, primarily as a result of an increase in the average price for gasoline mix of approximately 34.1%, partially offset by a decrease in sales volumes of approximately 1.3%, despite a 1.1% increase in sales volumes of Infinia gasoline;

Fuel oil revenues in the Argentine domestic market increased by Ps. 2,583 million, or 36.6%, primarily as a result of an increase in the average price of approximately 54.5%, partially offset by a decrease in sales volumes of approximately 11.6%;

Export revenues obtained by the Downstream segment increased by Ps. 3,979 million, or 32.5%, primarily due to increases in exports of flour, grains and oils of 38.8%, aerokerosene of 29.0%, and petrochemicals of 37.2%, all due to an increase in average prices in Argentine peso terms, partially offset by decreases in sales volumes; and

Imports of fuels decreased by Ps. 621 million, or 10.0%, primarily as a result of a decrease in purchased volumes of gas oil of 38.5%, partially offset by an increase in imported volumes of gasoline and jet fuel of 15.7% and an increase in average prices of fuels of 23.9%.

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**Table of Contents**

All of this was more than offset by the following:

Purchases of crude oil increased by Ps. 23,744 million, or 36.1%, primarily as a result of an increase in oil prices of approximately 38.0% in Argentine peso terms as a result of the devaluation of the Argentine peso against the U.S. dollar, partially offset by a decrease in purchased volumes. Crude oil transferred volumes from the Upstream business segment increased by 0.6% (approximately 82 mcm), and crude oil purchased volumes from third parties decreased approximately 11.4% (approximately 304 mcm);

Purchases of biofuels increased by Ps. 5,454 million, or 70.5%, primarily as a result of an increase in the average prices of FAME and ethanol biofuel of approximately 76.3% and 45.6%, respectively, and an increase in purchased volumes of FAME and ethanol biofuel of 1.4% and 11% (due to an increase in the cut rate of naphthas), respectively;

Grain purchases in the agricultural sales segment through the form of barter, which were recorded as purchases for accounting purposes, increased by Ps. 1,526 million, or 58.1%. This increase is due to an increase in the average price of approximately 91.1%, partially offset by a decrease in volumes of 17.3%;

Property, plant and equipment depreciation increased by Ps. 2,504 million, or 100.5%, primarily as a result of (i) increased investments in assets (in particular, the launch of the new Coke unit at the La Plata refinery) and (ii) an overall increase in property, plant and equipment values in Argentine pesos, which was related to the devaluation of the Argentine peso against the U.S. dollar, which is the functional currency of the Company;

Selling expenses increased by Ps. 3,820 million, or 35.6%, primarily as a result of (i) increases in transport expenses, mainly related to increased fuel prices in the Argentine domestic market and (ii) the increase in the depreciation of assets linked to commercial use and of advertising and promotional activities; and the provision for contingencies increased in 2015 by Ps. 650 million in connection with a ruling against YPF regarding a claim filed by the Union of Consumers and Users (*Unión de Usuarios y Consumidores*) for claims alleging that excess fees were charged to LPG consumers during the period 1993 to 1997;

Production costs related to refining costs increased by Ps. 2,530 million, or 42.0%. This increase was driven by higher charges for consumption of materials, spare parts, electricity and other supplies and fuels. As a consequence of this, and considering also that the level of processing in refineries was 1.8% lower, the cost of unit refining increased by 44.2% in 2016 compared to 2015. In turn, transportation costs related to production (naval and pipelines) increased by Ps. 1,182 million, or 40.0%.

Revenues from the Downstream business segment in 2015 were Ps. 125,766 million, representing a 4.5% increase compared to Ps. 120,261 million in 2014.

Operating income for the Downstream business segment in 2015 was Ps. 6,948 million, representing a 34.9% decrease compared to Ps. 10,668 million in 2014. This decrease in operating income is primarily due to the following factors:

The average volume of oil processed per day in YPF's refineries increased 2.9% to 299,000 barrels of oil per day, with diesel production increasing by 1.4%, gasoline by 7.6% and fuel oil by 10.4%;

Diesel revenues increased by Ps. 3,466 million, or 6.5%, as a result of an increase in the average price for diesel mix of approximately 11.0% with a decrease in sales volumes of approximately 0.4%, reflecting a 24.6% increase in sales volume of Eurodiesel, a premium diesel;

**Table of Contents**

Gasoline revenues increased by Ps. 4,780 million, or 15.8%, primarily as a result of an increase in the average price for gasoline mix of approximately 14.1% and an increase in sales volumes of approximately 3.6%, reflecting a 25.6% increase of sales volume for Infinia gasoline;

Fuel oil revenues increased by Ps. 697 million, or 9.0%, primarily as a result of an increase in the average price of fuel oil of approximately 2.3% and an increase in sales volumes of 6.6%;

Petrochemical products revenues decreased by Ps. 879 million, or 14.9%, mainly due to the fall in prices in both the domestic and international markets;

LPG and aviation fuel sales to foreign markets decreased by Ps. 1,434 million, or 27.2%, mainly due to a decrease of international aviation fuel prices of approximately 31.9%, which was partially offset by an increase in sales volumes of 6.9%; and

Exports of flour, grain and oil increased by Ps. 570 million, or 18.6%, due to an increase in sales volumes of approximately 35.6% which was partially offset by a decrease in international prices of 12.5%.

All of this was more than offset by the following:

Oil prices increased in Argentine peso terms as a result of the devaluation of the Argentine peso against the U.S. dollar as well as higher volumes of crude oil transferred from the Upstream business segment and an increase in the volume of crude oil purchased from third parties of approximately 4.6% (about 117,000 cm). The average purchase price in Argentine peso terms for crude oil transferred from the Upstream business segment increased approximately 4.5% compared to an increase for oil purchased from third parties of approximately 6.6%. This variation in the percentage amounts is due to different mixes of grades of crude oil purchased from third parties;

Imports of gasoline, diesel and jet fuel, especially premium and ultradiesel, decreased by Ps. 4,425 million, or 41.5%, primarily as a result of lower international prices of 40.6% and lower purchase volumes of 16.1%;

Purchases of biofuels increased by Ps. 803 million, or 11.6%, primarily as a result of an increase in purchased volumes of FAME and ethanol biofuel of 7% and 30%, respectively, partially offset by an approximately 3.6% decrease in the price of FAME and a 5.7% decrease in the price of ethanol biofuel;

Production costs related to refining costs increased by Ps. 912 million, or 17.8%. This increase was driven by inflation wage increases, and also considering a higher processing level of refineries as mentioned above;

Property, plant and equipment depreciation increased by Ps. 607 million, or 32.2%, primarily as a result of (i) increased investments in assets and (ii) an overall increase in fixed assets values in Argentine pesos, which was related to the depreciation of the Argentine peso against the U.S. dollar, which is the functional currency of the Company;

Selling expenses increased by Ps. 1,317 million, or 14.0%, primarily as a result of (i) higher product transportation charges, mainly related to increased costs for transportation related to increased fuel prices in the domestic market and (ii) higher volumes transported and sold. This increase was partially offset by lower withholdings over exports, mainly due to the rate reduction established by Resolution No. 1077/2014, the fall of export prices of LPG and petrochemicals and lower charges related to recoveries in provisions for indebtedness in the segment of natural gas distributors;

The provision for contingencies increased by Ps. 650 million in connection with a ruling against YPF regarding a claim filed by the Union of Consumers and Users (*Unión de Usuarios y Consumidores*) for claims from 1993 to 1997. The claim alleges that excess fees were charged to LPG consumers during that period. See Note 14 to the Consolidated Financial Statements; and



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**Table of Contents***Gas and Power*

In 2016, the Company began to report separately its Gas and Power business segment, as explained in Item 4. Information on the Company Business Organization, which includes the transportation, distribution and commercialization of natural gas to third parties, natural gas liquid (NGL), regasification services and electricity generation.

The operating income for the Gas and Power business segment in 2016 was a gain of Ps. 2,008 million, representing a 34.0% increase compared to a gain of Ps. 1,498 million in 2015. This increase was mainly due to (i) the improved results in pesos obtained by LNG regasification services in Bahía Blanca and Escobar, which rates are set in U.S. dollars, (ii) the improved results obtained by our subsidiary YPF Energía Eléctrica S.A. and (iii) the Transitional Economic Assistance of Ps. 759 million accrued by our subsidiary Metrogas in 2016 in comparison with Ps. 711 million accrued in 2015.

The operating income for the Gas and Power business segment in 2015 was a gain of Ps. 1,498 million, representing a 383.2% increase compared to a gain of Ps. 310 million in 2014. This increase was mainly due to (i) the improved results in pesos obtained by LNG regasification services in Bahía Blanca and Escobar, which rates are set in U.S. dollars, (ii) the improved results obtained by our subsidiary YPF Energía Eléctrica S.A. and (iii) the Transitional Economic Assistance, established by MINEM Resolution No. 263/2015, of Ps. 711 million accrued by our subsidiary Metrogas.

*Corporate and Other*

The operating loss for the Corporate and Other in 2016 was a loss of Ps. 1,615 million, representing a 30.7% decrease compared to a loss of Ps. 2,331 million in 2015. During 2016, this group of activities includes a net income of Ps. 1,528 million attributable to the deconsolidation of the Maxus Entities (see Note 27 to the Audited Consolidated Financial Statements), offset by the increase in personnel costs, mainly due to higher wages, IT service contracts and depreciation of property, plant and equipment.

The operating loss for the Corporate and Other business segment in 2015 was a loss of Ps. 2,331 million, representing a 30.3% decrease compared to a loss of Ps. 3,343 million in 2014. The results in 2014 were affected mainly by a provision of Ps. 1,227 million recorded by our subsidiary Maxus Energy Corporation linked to third party claims based on alleged breach of contract. See Note 14 to the Audited Consolidated Financial Statements. In addition, in 2015, higher costs from increased wages, social contributions and IT services were recorded.

**Liquidity and Capital Resources***Financial condition*

Total loans outstanding as of December 31, 2016, 2015 and 2014 were Ps. 154,345 million, Ps. 105,751 million and Ps. 49,305 million, respectively, consisting of (i) current loans (including the current portion of non-current loans) of Ps. 26,777 million and non-current loans of Ps. 127,568 million as of December 31, 2016, (ii) current loans of Ps. 27,817 million (including the current portion of non-current loans) and non-current loans of Ps. 77,934 million as of December 31, 2015 and (iii) current loans of Ps. 13,275 million (including the current portion of non-current loans) and non-current loans of Ps. 36,030 million as of December 31, 2014. As of December 31, 2016, 2015 and 2014, 70%, 73%, and 65% of our loans were denominated in U.S. dollars, respectively.

In the past we have repurchased certain of our publicly-traded bonds in open market transactions on an arms-length basis. As of December 31, 2016, we had repurchased U.S.\$42 million of our outstanding bonds. We may, from time to time, make additional purchases of, or effect other transactions relating to, our publicly-traded bonds if, in our own judgment, the market conditions are attractive.

**Table of Contents**

The following tables set forth our consolidated cash flow information for the periods indicated.

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(in millions of pesos)</b>		
Net cash flows provided by operating activities	49,183	41,404	46,154
Net cash flows used in investing activities	(66,174)	(64,049)	(53,405)
Net cash flows provided by financing activities	10,817	23,665	4,986
Translation differences generated by cash and equivalents	1,692	4,609	1,310
Deconsolidation of subsidiaries	(148)		
Net (decrease) increase in cash and equivalents	(4,630)	5,629	(955)
Cash and equivalents at the beginning of period	15,387	9,758	10,713
Cash and equivalents at the end of period	10,757	15,387	9,758

Net cash flows provided by operating activities were Ps. 49,183 million in 2016 compared to Ps. 41,404 million in 2015. This 19% increase was primarily attributable to better operating results, without considering impairment of property, plant and equipment and intangible assets, depreciation of property, plant and equipment and intangible assets, increased non-cash provisions, which did not involve expenditures, and lower income tax. This was partially offset by an increase in working capital in 2016 related to the accrual of accounts receivable, including the Gas Plan. In addition, in 2016, we received pending payments under the Gas Plan until December 31, 2015, through the delivery of public debt instruments, specifically Argentine Bonds denominated in U.S. Dollars due 2020 ( BONAR 2020 USD ) (see Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Market Regulation Natural gas ). The bonds are still in portfolios as of December 31, 2016 and did not increase the operating cash of the Company. We believe that, given the high level of cash flow provided by operating activities, including our expectation of reducing accounts receivable from transactions with government entities (see Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business A significant percentage of our cash flow from operations is derived from counterparties that are governmental entities ) and certain private clients, our working capital is reasonable for the current requirements of the Company.

Net cash flows provided by operating activities were Ps. 41,404 million in 2015 compared to Ps. 46,154 million in 2014. This 10% decrease was primarily attributable to the increase in working capital in 2015, related to the accrual of accounts receivable, including the Crude Oil Production Stimulus Program and the Gas Plan and higher income tax, which was partially offset by higher operating income of the Company, without considering depreciation of properties, plant and equipment and increased non-cash provisions, which did not involve expenditures. We believe that, given the high level of cash flow provided by operating activities, including our expectation of reducing accounts receivable from transactions with government entities (see Item 3. Key Information Risk Factors A significant percentage of our cash flow from operations is derived from counterparties that are governmental entities ), our working capital is reasonable for the current requirements of the Company.

Cash flows used in investing activities were Ps. 66,174 million in 2016, compared to Ps. 64,049 million in 2015, representing a 3% increase compared with 2015, which related mainly to investments made by our Upstream business segment and investment in our refineries. Cash flows used in investing activities were Ps. 64,049 million in 2015, compared to Ps. 53,405 million in 2014, representing a 19.9% increase compared with 2014, which related mainly to investments made by our Upstream business segment and investment in our refineries. This was partially offset by the fact in 2014 we registered the acquisitions of YSUR and the additional interests in the Puesto Hernández, Lajas, La Amarga Chica and Bajada de Añelo areas as well as the collection of insurance payments for material damages related

to the incident suffered by our La Plata refinery in April 2013.

Net cash flows provided by financing activities in 2016 were Ps. 10,817 million, which came primarily from the issuance of notes in the local market and international markets, net of repayments of principal and interest, including issuance of notes in the international debt capital markets for an aggregate principal amount of Ps. 13.3 billion, U.S.\$1.2 billion and of CHF 0.3 billion.

**Table of Contents**

Net cash flows provided by financing activities in 2015 were Ps. 23,665 million, which came primarily from the issuance of notes in the local market and international markets, net of repayments of principal and interest, including issuance of notes in the international debt capital markets for an aggregate principal amount of Ps. 9.6 billion and U.S.\$2.1 billion.

In 2016, at the shareholders' ordinary and extraordinary general meeting held on April 29, 2016, a dividend of Ps. 889 million (Ps. 2.26 per share or ADS) was authorized for payment in 2016. In 2015, at the shareholders' ordinary and extraordinary general meeting held on April 30, 2015, a dividend of Ps. 503 million (Ps. 1.28 per share or ADS) was authorized for payment in 2015. In 2014, at the shareholders' general ordinary and extraordinary meeting held on April 30, 2014, and its continuation on May 21, 2014, a dividend of Ps. 464 million (Ps. 1.18 per share or ADS) was authorized for payment in 2014.

A Global Medium-Term Notes Program was approved at a shareholders' meeting held on January 8, 2008 for an amount up to U.S.\$1.0 billion. On September 13, 2012 and on April 30, the shareholders' meeting approved the increase of the amount of the program, mentioned above, for an amount of U.S.\$2.0 billion each time, resulting in a maximum nominal amount in circulation at any time under the program of U.S.\$5.0 billion, or its equivalent in other currencies, and providing the use of the proceeds to cover all alternatives contemplated by Article 36 of Law No. 23,576 of Negotiable Obligations and Supplementary rules. On February 5, 2015, the shareholders' meeting resolved by a majority of computable votes to approve the increase of the amount of the Company's Global Medium-Term Notes Program of U.S.\$5.0 billion or its equivalent in other currencies by U.S.\$3.0 billion, resulting in the total maximum nominal amount outstanding under the program at any time becoming U.S.\$8.0 billion, or its equivalent in other currencies, or a lower amount as may be determined by the Board of Directors.

On April 29, 2016, the Ordinary and Extraordinary General Meeting of Shareholders approved the increase of the amount of the Company's Global Medium Term Note Program (*Programa Global de Emisión de Títulos de Deuda de Mediano Plazo de la Compañía*) by U.S.\$2.0 billion, to a total of U.S.\$10.0 billion, or its equivalent in other currencies to remain outstanding at any time under the program.

Under the Global Medium-Term Notes Program, the Company issued several series of notes in the local and international markets at different interest rates. All such securities are authorized to be traded on the Buenos Aires Stock Exchange (*Bolsa de Comercio de Buenos Aires*) and the Electronic Open Market (*Mercado Abierto Electrónico*) in Argentina. For additional information about the outstanding notes of YPF S.A. and our controlled companies as of December 31, 2016, see Notes 4 and 16 to the Audited Consolidated Financial Statements.

The following table sets forth our commitments for the periods indicated below with regard to the principal amount of our debt, as of December 31, 2016, plus accrued but unpaid interest as of that date:

	Total	Less than 1 year	Expected Maturity Date					More than 5 years
			1 Years	2 Years	3 Years	4 Years	5 Years	
Loans	154,345	26,777	28,103	10,919	19,481	18,470	50,595	

(in millions of pesos)

For detailed information regarding our indebtedness, see Notes 4 and 16 to the Audited Consolidated Financial Statements.

*Contractual obligations*

The following table sets forth information with regard to our commitments, expressed in U.S. dollars, under commercial contracts for the periods indicated below, as of December 31, 2016:

**Table of Contents**

Contractual Obligations <sup>(1)</sup>	Total	Less than 1	1	3	3	5	More than 5
		year	Years	Years	Years	years	
		(in millions of U.S.\$) <sup>(7)</sup>					
Debt <sup>(2)</sup>	14,217	2,542	4,281	3,415			3,979
Operating lease obligations	781	261	354	147			18
Purchase obligations <sup>(3)(4)</sup>	1,570	941	444	143			43
Purchases of services	1,250	641	430	141			39
Purchases of goods	320	300	14	2			4
LPG	42	42					
Electricity	96	83	7	2			4
Gas	39	39					
Steam	10	5	5				
Others	133	131	2				
Other liabilities <sup>(5)(8)</sup>	8,735	3,480	1,301	1,348			2,607
Total <sup>(5)(6)</sup>	25,303	7,223	6,380	5,053			6,647

- (1) The expected timing for payments of the obligations in the preceding table is estimated based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations.
- (2) These projected amounts include interest due during all the periods presented. Interest on variable rate instruments is calculated using the rate as of December 31, 2016 for all periods. See additionally Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Covenants in our indebtedness.
- (3) Purchase obligations are obligations under contractual agreements to purchase goods or services, including capital projects. These obligations are enforceable and legally binding on YPF and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. For obligations with cancellation provisions, the amounts included in the preceding table were limited to the non-cancellable portion of the agreement terms or the minimum cancellation fee. In addition, the table includes purchase commitments under commercial agreements that do not provide for a total fixed amount, which have been valued using our best estimates. Accordingly, our actual purchase obligations may differ from the estimated amounts shown in the table.
- (4) Some of our purchase orders represent authorizations to purchase rather than binding agreements. In that regard, we have entered into certain agreements for the purchase of products that specify minimum prices and quantities based on a percentage of the total available market or based on a percentage of our future purchasing requirements. Due to the uncertainty of the future market and our future purchasing requirements, as well as the non-binding nature of these agreements, obligations under these agreements have been excluded from the preceding table. Payments related to these obligations were not significant as of December 31, 2016.
- (5) Provisions for contingent liabilities under commercial contracts, which amounted to U.S.\$ 617 million as of December 31, 2016, are not included in the table above since we cannot, based on available evidence, reasonably estimate the settlement dates of such contingencies.
- (6) As a result of the extension of our concessions in certain exploration areas, we are committed to carrying out exploration activities and making certain investments and expenditures until the expiration of some of our concessions. The commitments for these investments and expenditures amounted to U.S.\$14.6 billion as of December 31, 2016. The table includes the portion of this amount for which contracts have been executed.
- (7) The table is presented in U.S.\$, which is the Company's functional currency, and not in its reporting currency, as the majority of the Company's contractual obligations are originally denominated in U.S.\$.
- (8) Includes accounts payable, salaries and social security, taxes payable, provisions for pensions, provisions for environmental liabilities and provisions for hydrocarbon wells abandonment obligations as set forth in our

audited consolidated financial statements included as of December 31, 2016.



## **Table of Contents**

We have additional commitments under guarantees. For a discussion of these additional commitments see [Guarantees provided](#).

### ***Covenants in our indebtedness***

Our financial debt generally contains customary covenants. With respect to a significant portion of our loans totaling Ps. 154,345 million, including accrued interest (current and non-current debt) as of December 31, 2016, we have agreed, among other things and subject to certain exceptions, not to establish liens or charges on our assets. In addition, approximately 63% of our loans outstanding as of December 31, 2016 were subject to financial covenants related to our leverage ratio and debt service coverage ratio.

Our credit facility provides a material source of liquidity for the Company. Under the terms of our credit agreement, if we fail to comply with the covenants previously described, we will be in default, an event that would prevent us from borrowing under our credit facility and would therefore materially limit our sources of liquidity. In addition, if we were in default under our credit facility and unable to obtain a waiver of that default from the lenders, the lenders under that facility and under the indentures governing our outstanding Senior Notes would let us remedy a default during a period of time.

Regarding our outstanding notes amounting to Ps. 124,070 million as of December 31, 2016, the holders of such notes may, upon an event of default, declare due and immediately payable the principal and accrued interest on amounts owed to them.

Almost all of our total outstanding financial debt is subject to cross-default provisions. As a result of these cross-default provisions, a default on our part or, in certain cases, the part of any of our consolidated significant subsidiaries covered by such provisions, could result in a substantial portion of our debt being declared in default or accelerated.

As of the date of this annual report, none of our debt is under any event of default that could trigger an acceleration provision. As of December 31, 2016, we were in compliance with all covenants in connection with our indebtedness.

### ***Guarantees provided***

As of December 31, 2016, we have issued letters of credit in an aggregate total amount of U.S.\$7 million to guarantee certain environmental obligations and guarantees in an aggregate amount of U.S.\$ 243 million in relation with the performance of contracts.

In addition, see Note 29 to the Audited Consolidated Financial Statements for a description of the transaction we entered into with Chevron.

### ***Capital investments, expenditures and divestitures***

Capital investments and expenditures

Capital investments in 2016 totaled Ps. 63,910 million. The table below sets forth our capital expenditures and investments by activity for each of the years ended 2016, 2015 and 2014.

	<b>2016</b>		<b>2015</b>		<b>2014</b>	
	<b>(in</b>		<b>(in</b>		<b>(in</b>	
	<b>millions of</b>	<b>(%)</b>	<b>millions of</b>	<b>(%)</b>	<b>millions of</b>	<b>(%)</b>
	<b>pesos)</b>		<b>pesos)</b>		<b>pesos)</b>	
Capital expenditures and investments(1)						
Upstream	50,258	79	50,927	82	42,408	81
Downstream	9,839	15	8,874	14	8,084	16
Gas and Power	2,134	3	469	1	308	
Corporate and Other	1,679	3	1,939	3	1,408	3
Total	63,910	100	62,209	100%	52,208	100%

(1) Includes acquisitions of properties, plant and equipment and exploration expenses, net of unproductive drilling expenses and well abandonment costs.

## **Table of Contents**

We make capital expenditures to achieve the goals of the Company's strategy described under Item 4. Information on the Company History and Development of YPF.

### *Capital divestitures*

We have not made any significant divestitures in the past three years.

## **Quantitative and Qualitative Disclosures about Market Risk**

For a description of our exposure to market risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk.

## **Off-Balance Sheet Arrangements**

We do not have any material off-balance sheet agreements. Our off-balance sheet agreements are described in Liquidity and Capital Resources Guarantees provided.

## **Research and Development, Patents and Licenses, etc.**

For a description of our research and development policies, see Item 4. Information on the Company Research and Development.

## **ITEM 6. Directors, Senior Management and Employees Management of the Company**

On May 3, 2012, the Argentine congress enacted the Expropriation Law. Among other matters, the Expropriation Law provided for the expropriation of 51% of the share capital of YPF represented by an identical stake of Class D shares owned, directly or indirectly, by Repsol and its controlled or controlling entities. The shares subject to expropriation, which have been declared of public interest, will be assigned as follows: 51% to the Argentine Republic and 49% to the governments of the provinces that compose the National Organization of Hydrocarbon Producing States. To ensure compliance with its objectives, the Expropriation Law provides that the National Executive Office, by itself or through an appointed public entity, shall exercise all the political rights associated with the shares subject to expropriation until the transfer of political and economic rights to the provinces that compose the National Organization of Hydrocarbon Producing States is completed.

The Expropriation Law states that YPF shall continue as a publicly traded corporation and the management of the shares subject to expropriation shall be carried out according to the following principles: (i) strategic contribution of the Company to the aims established in the Expropriation Law; (ii) the management of the Company in accordance with the best industry and corporate governance practices, preserving the interests of the Company's shareholders and creating value for them; and (iii) the professional management of the Company. The information provided below describes the composition and responsibilities of our Board of Directors and committees as of the date of this annual report.

**Table of Contents****Board of Directors***Composition of our Board of Directors*

Our business and affairs are managed by the Board of Directors in accordance with our by-laws and the Argentine General Corporations Law. Our by-laws provide for a Board of Directors composed of 11 to 21 members and up to an equal number of alternates. Alternates are those elected by the shareholders or the Supervisory Committee, when applicable, to replace directors who are absent from meetings or who are unable to exercise their duties, when and for whatever period appointed to do so by the Board of Directors. Alternates have the responsibilities, duties and powers of directors only if and to the extent they are called upon to attend board meetings and as long as they perform the duties of a director.

Directors shall hold office from one to three years, as determined by the shareholders' meetings. As of the Board of Directors meeting held on March 29, 2017, our Board of Directors is composed of 15 directors and 10 alternates.

In accordance with our by-laws, the Argentine government, as the sole holder of Class A shares, is entitled to elect one director and one alternate.

Under the Argentine General Corporations Law, a majority of our directors must be residents of Argentina and all directors must establish a legal domicile in Argentina for service of notices in connection with their duties.

Our by-laws require the Board of Directors to meet at least once every quarter in person or by video conference, and a majority of directors is required to constitute a quorum. If a quorum is not met within one hour after the start time set for the meeting, the President or his substitute may invite alternates of the same class as that of the absent directors to join the meeting or call a meeting for another day. Resolutions must be adopted by a majority of the directors present (including those connected by video conference), and the President or his substitute is entitled to cast the deciding vote in the event of a tie.

The current members of our Board of Directors, the year in which they were appointed and the year their term of appointment expires is as follows:

<i>Name</i>	<i>Position</i>	<i>Age</i>	<i>Director Since</i>	<i>Term Expiration</i>
Miguel Ángel Gutiérrez	Chairman and Director	58	2016	2017
Roberto Luis Monti	Director	78	2016	2017
Norberto Alfredo Bruno	Director	57	2016	2017
Néstor José Di Pierro	Director	61	2016	2017
Juan Franco Donnini	Director	33	2016	2017
Gabriel Alejandro Fidel (3)	Director	54	2017	2017
Armando Isasmendi	Director	41	2016	2017
Carlos Alberto Felices	Director	71	2016	2017
Daniel Gustavo Montamat	Director	62	2016	2017
Fabián Jorge Rodríguez Simón	Director	58	2016	2017
Inés María Leopoldo	Director	59	2016	2017
Daniel Alberto Kokogian (2)	Director	62	2016	2017
Octavio Oscar Frigerio	Director	78	2016	2017

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Luis Augusto Domenech	Director	64	2016	2017
Emilio José Apud (1)	Director	71	2016	2017
Gerardo Damián Canseco (2)	Alternate Director	51	2016	2017
Alejandro Rodrigo Monteiro	Alternate Director	43	2016	2017
Luis Gustavo Villegas	Alternate Director	44	2016	2017
Lucio Mario Tamburo	Alternate Director	56	2016	2017
Miguel Lisandro Nieri(4)	Alternate Director	44	2017	2017
Facundo Daniel Massafra	Alternate Director	42	2016	2017
Daniel Cristián González Casartelli (2)	Alternate Director and CFO	47	2016	2017
Carlos Alberto Alfonsi (2)	Alternate Director and Downstream Executive Vice President	56	2016	2017
Fernando Raúl Dasso (2)	Alternate Director and Human Resources Vice President	51	2016	2017
Fernando Pablo Giliberti (2)	Alternate Director and Supply Chain Vice President	50	2016	2017

- (1) Represents our Class A shares.
- (2) As of March 10, 2017, the individual owns less than one percent of our Class D shares.
- (3) Designated by the Supervisory Committee and assumed the position of Director at the Board of Directors meeting held on March 29, 2017, replacing Mr. Enrique Andrés Vaquié, who resigned for strictly personal reasons.
- (4) Designated by the Supervisory Committee and assumed the position of Alternate Director at the Board of Directors meeting held on March 29, 2017, replacing Mr. Pedro Martín Kerchner Tomba, who resigned for strictly personal reasons.

## **Table of Contents**

The General Ordinary and Extraordinary Shareholders' meeting held on April 29, 2016 approved, by a majority of computable votes, the modification of Article 17, subsections i) and xiii); Article 18, subsections a), b), c), d) and e); and Article 19, subsections iii), iv) and v) of the Company's By-laws, which separated the functions of the Chairman and the Chief Executive Officer (CEO).

The Chairman of the Board of Directors, who, according to our by-laws, must be a Class D director, was elected by the Board of Directors at the meeting held on April 29, 2016. All other officers serve at the discretion of the Board of Directors and may be terminated at any time without notice.

On June 6, 2016, the Board of Directors approved the appointment of Mr. Ricardo Darré as CEO of the Company. Mr. Darré assumed the position effective as of July 1, 2016. See Item 3. Key Information Risk Factors Risks Relating to the Argentine Oil and Gas Business and Our Business Our performance is largely dependent on recruiting and retaining key personnel.

On December 14, 2016, the Board of Directors accepted Mr. Sergio Affronti's resignation as Alternate Director of Class D shares, for strictly personal reasons.

## **Outside business interests and experience of the members of our Board of Directors**

### *Miguel Ángel Gutiérrez*

Mr. Gutiérrez is a founding partner of The Rohatyn Group and leads its private investments, real estate, infrastructure and renewable energy activities. From 1980 to 2001, he held various positions at J.P. Morgan, including Managing Director in charge of Global Emerging Markets and member of the Management Committee for Global Markets. In addition, he served as Chairman of the Board of Directors of Autopistas de Oeste S.A. and Chairman and CEO of Grupo Telefonica de Argentina S.A. Currently, he is a member of the Consultative Council of CIPPEC, the Economic and Social Council of the Torcuato Di Tella University, the International Advisory Board of the IAE Business School and the Council of the Fundación Cruzada Argentina. He has been a member of the Board of Directors of YPF since December 2015 and Chairman of the Board of Directors since April 2016.

### *Roberto Luis Monti*

Mr. Monti earned undergraduate and master's degrees in electrical engineering from the University of Buenos Aires and a master's degree in business administration from the American Management Association in New York. He has broad experience in the national and international energy industry. From 1995 to 1997, he was Chairman and CEO of Maxus Energy Corporation. From 1997 to 1999 he held various positions at YPF, including CEO during 1997 and Chairman and CEO from 1998 to 1999. From 1999 to 2000, he was Executive Vice-President of Exploration and Production of Repsol YPF in Argentina. He was also a member of the Board of Directors of Petrobras Argentina S.A. until July 26, 2016. He is a member of the Board of Directors of Tenaris S.A. and has been a member of the Board of Directors of YPF since April 2016.

### *Norberto Alfredo Bruno*

Mr. Bruno earned a degree in business administration and completed postgraduate studies in strategic management at the Institute of Strategic Management, Organization and Business Management and the Argentine Institute of Energy Economics, as well as in energy economics at the Massachusetts Institute of Technology. From 1983 to 1998, he held various positions at YPF, including International Development Manager. From 1998 to 2000, he was CEO of YPF Peru. From October 2001 to December 2013, he was CEO of Empresa de Energía Río Negro S.A. Thereafter, he

served as a business consultant and advisor. Since December 2015, Mr. Bruno has served as Minister of Economy and Infrastructure of the Province of Neuquén. He has been a member of the Board of Directors of YPF since April 2016.

**Table of Contents**

*Néstor José Di Pierro*

Mr. Di Pierro was a Deputy in the Legislature of the Province of Chubut from 1991 to 1995, Secretary of Social Welfare for the Municipality of Comodoro Rivadavia in the Province of Chubut from 1995 to 1999, a Councilman in the Deliberative Council of Comodoro Rivadavia from 1999 to 2001, Controller of Petrominera Chubut S.E from 2003 to 2009, President of Correo Oficial de Argentina S.A. from 2009 to 2011, and Mayor of the Municipality of Comodoro Rivadavia from 2011 to December 2015. He has been a member of the Board of Directors of YPF since December 2015.

*Juan Franco Donnini*

Mr. Donnini earned an economics degree from the Argentine University of Business, completed a specialization in Economy of Oil and Natural Gas at the Technological Institute of Buenos Aires and earned a master's degree in Finance from CEMA University. Among other positions, he served as Advisor to the Mining, Energy and Combustible Commission at the Senate in 2012 and as Advisor to the Undersecretary of Economic Policy and Development Planning at the National Ministry of Economy and Public Finance in 2013. Additionally, he worked as Administrative Secretary for the Planning and Strategic Coordination of the National Plan of Hydrocarbon Investments Commission and was Undersecretary of Economic Policy at the National Ministry of Economy and Finance. Currently, he is Minister of Economy and Public Works for the Province of Santa Cruz. He has been a member of the Board of Directors of YPF since April 2015.

*Gabriel Alejandro Fidel*

Mr. Fidel obtained business administration and political science degrees from the National University of Cuyo and has a master's degree in Public Affairs from The University of Texas, Austin, specialized in political economics. He has held various positions throughout his career, including Under Secretary of Tourism, Ministry of Government, and Ministry of Economy, all of them of the Province of Mendoza. Currently, he is a member of the Board of Directors of Transener S.A., President of the Fundación ProMendoza and a member of the Mercosur Parliament. He was designated a member of the Board of Directors of YPF on March 29, 2017.

*Armando Isasmendi*

Mr. Isasmendi earned a law degree from the Pontifical Catholic University of Argentina, a master's degree in administrative law from Austral University and completed the Business Management Program at IAE Business School. He served as an advisor to the National Ministry of Justice and Human Rights at the Undersecretary of Coordination and Innovation to the Public Ministry of the Autonomous City of Buenos Aires and to the Ministry of Economic Development of the Province of Salta. From 2008 to 2013, he was President of the Regulatory Entity of Public Services for the Province of Salta. Since 2013, he has served as President of Recursos Energéticos y Mineros de Salta S.A. He was a member of the Board of Directors of YPF from December 2013 to April 2014 and has been a member of the Board of Directors of YPF since April 2016.

*Carlos Alberto Felices*

Mr. Felices earned a business administration degree from the University of Buenos Aires and completed postgraduate studies in the United States. He has held various positions at Pfizer Inc., including Treasurer in Argentina, CFO in Brazil and Director of Administration for Latin America in the United States. From 1993 to 2002, he worked for YPF eventually serving as CFO. He was CEO of Telecom Argentina S.A. from 2002 to 2007 and Chairman of the Board of Directors of Telecom Argentina S.A. from 2007 to 2008. He has been a member of the Board of Directors of YPF,



President of the Audit Committee and the Audit Committee Financial Expert since December 2015.

*Daniel Gustavo Montamat*

Mr. Montamat holds a degree in economics and law and is a Certified Public Accountant. He earned a master's degree in economics from Michigan State University in the United States and two doctoral degrees in economic sciences and in law and social sciences from the Catholic University of Córdoba. He has held various positions,

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**Table of Contents**

including Director of Gas del Estado, Director and President of YPF and Secretary of Energy of Argentina. In 1991, he founded Montamat & Asociados in the Autonomous City of Buenos Aires where he serves as Executive Director. Currently, he is a consultant for the World Bank and the Inter-American Development Bank and a postgraduate professor for the Energy Regulation Study Centre at the University of Buenos Aires. He has been a member of the Board of Directors of YPF and the Audit Committee since December 2015.

*Fabián Jorge Rodríguez Simón*

Mr. Rodríguez Simón earned a law degree from the University of Buenos Aires and completed coursework at Harvard Law School. He has held various positions, including Advisor to the Mayor of the Autonomous City of Buenos Aires, Chief of Staff for the Ministry of Environment and Public Space of the Autonomous City of Buenos Aires from 2007 to 2009 and President of the Commission Act 1840 Zero Waste. He was a founding partner of Llerena & Abogados and served as Director of its Executive Committee. He is a member of the Governing Council of the Instituto de Empresa (Madrid) and is President of the Fundación Pericles (Buenos Aires). Currently, he is a senior partner of AlfaLegalGroup. He has been a member of the Board of Directors of YPF since December 2015.

*Inés María Leopoldo*

Mrs. Leopoldo graduated as an electronic engineer from the National Technological University and earned a master's degree in business administration from the University of Buenos Aires. Additionally, she completed diverse Senior Management Programs at IESE Business School, the INSEAD and Columbia Business School and a Corporate Governance Program at IC-A in Spain. She has broad experience in the IT, telecommunications and internet industries and has held various positions at Telecom, La Nación newspaper and Telefónica. She is senior member of the IEEE (Institute of Electronic and Electrical Engineers). Currently, Mrs. Leopoldo is a partner at Neo Labels SL, an advertising agency in Spain. She has been a member of both the Board of Directors of YPF and the Audit Committee since April 2016.

*Daniel Alberto Kokogian*

Mr. Kokogian earned a degree in geological sciences and a postgraduate degree in oil engineering from the University of Buenos Aires. From 1981 to 1989 he held several positions at YPF, including Chief of the Geological Commission. He also worked at Pioneer Natural Resources where he served as Vice-President of Exploration and Development and Vice-President of New Business. He was a member of the Board of Directors of Estrella Servicios Petroleros. Currently, Mr. Kokogian is a director and technical advisor to Compañía General de Combustibles, serves as an advisor to the Southern Cross Group and is the founder and President of New Milestone, an oil and gas consulting firm. He has been a member of the Board of Directors of YPF since April 2016.

*Octavio Oscar Frigerio*

Mr. Frigerio earned a degree in agricultural engineering from the University of Buenos Aires and a master's degree in genetic science from Iowa State University. From 1972 to 1981, he held several positions at Clarín. In 1989, he served as Comptroller of YPF. From 1991 to 1993, he was a National Deputy and in 1997 served as legislator for the Autonomous City of Buenos Aires. From 1997 to 1999, he was Secretary of State to the President of the White Helmets. Since 2000, Mr. Frigerio has been the President of a family-owned agricultural company and is a consultant at and Vice-President of Economía y Regiones. He has been a member of the Board of Directors of YPF since April 2016.

*Luis Augusto Domenech*

Mr. Domenech earned a degree in business administration from the University of Buenos Aires and completed the Senior Management Program at IAE Business School and the Executive Education Program at the Business School at the University of Michigan in the United States. From 1993 to 2004, he held several positions at Metrogas S.A., including CFO from 1993 to 2002 and CEO from 2002 to 2004. From 2004 to 2013, he was President and CEO of Companhia do Gas do Sao Paulo (COMGAS) in Brazil. He has been a member of both the Board of Directors of YPF and the Audit Committee since April 2016.

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**Table of Contents***José Emilio Apud*

Mr. Apud earned an industrial engineering degree and completed postgraduate degrees in energy economics and management control of large projects at the Engineering School of the University of Buenos Aires. He earned a postgraduate degree in Regional Economic Analysis at the Institute for Economic and Social Development at Torcuato Di Tella Institute and a postgraduate specialization in energy conservation at Dupont W.L. in the United States. He has held various positions, including Director of CAMMESA and Secretary of Energy and Mining of Argentina in 2001. From 1983 to 1989, he founded and served as Vice President of IAE and the Energy Institute G. Mosconi. He has owned Apud & Associates, a consulting firm in energy and the environment, since 2005. Currently, he serves as partner and director of AMPAR, a Paraguayan consulting firm and of Ecoriental, an Uruguayan consulting firm. In addition, he serves as Chairman of BAE S.A., a builder and developer, as Counselor at the Fundación Libertad y Progreso and as member of Fundación Pensar. He has been a member of our Board of Directors since 2015.

*Gerardo Damián Canseco*

Mr. Canseco earned a degree in law and specializes in Trade Union Law. Since 1984, he has been an employee of YPF. He has held several other positions, including Government Secretary for the Municipality of San Lorenzo in the Province of Santa Fe from 2007 to 2011, Undersecretary of Labor for the Labor and Social Security Ministry from 2011 to 2014, and President of the Centro de Estudios Laborales y Sociales from 2014 to 2016. He has been an alternate member of the Board of Directors of YPF since April 2016.

*Alejandro Rodrigo Monteiro*

Mr. Monteiro earned a degree in economics from the Argentine University of Business. He has held various positions for the government in the Province of Neuquén, including Provincial Director of Economic Coordination for the Undersecretary of Public Revenue, Ministry of Finance and Public Works from 2003 to 2007 and Fiscal and Economic Coordinator for the Undersecretary of Public Revenue from 2007 to 2011. Since December 2011, Mr. Monteiro has been the President of the Court of Appraisals and Undersecretary of Public Revenue for the Economy and Infrastructure Ministry in the Province of Neuquén. He has been an alternate member of the Board of Directors of YPF since April 2016.

*Luis Gustavo Villegas*

Mr. Villegas has served in several positions within the oil industry since 1990. Currently, he serves as Undersecretary for the Union of Senior Staff and Professionals in the Southern Patagonian Oil and Gas Private Sector and as a Senior Staff Member of the Oil Tankers Mutual Commission. He has been an alternate member of the Board of Directors of YPF since December 2015.

*Lucio Mario Tamburo*

Mr. Tamburo earned a civil engineering degree from the National University of the South in Bahía Blanca. He has held various positions, including Inspection Assistant for the Provincial Roads Direction in the Province of Río Negro and as Sanitation Consultant for the National Undersecretary of Water Resources. He was the Engineering and Construction Manager and Service and Maintenance Chief of Bahía Blanca at Azurix Buenos Aires S.A. He also served as Administrator of the National Entity of Water Works of Sanitation ENOHSA until December 2015. He has been an alternate member of the Board of Directors of YPF since December 2015.

*Miguel Lisandro Nieri*

Mr. Nieri earned a degree in economics from the National University of Cuyo and holds a master's degree in finance and management control from the ADEN Business School, University of San Francisco. He has held various positions throughout his career, including Advisor of the Ministry of Finance of the Province of Mendoza from January 2000 to November 2003, Subdirector of Finance of the Provincial Fund for the Transformation and Growth of Mendoza from July 2004 to February 2007, member of the Board of Directors of Mendoza Fiduciaria S.A. from June 2006 to April 2007, business manager of the Cuyo area of Puente Hnos. Sociedad de Bolsa from March 2008 to June 2009, and Administrator of Financing for the Development of Mendoza Agency from December 2015 to March 2017. Currently, he has been Minister of Finance of the Province of Mendoza since March 2017 and alternate member of the Board of Directors of YPF since March 2017.

**Table of Contents**

*Facundo Daniel Massafra*

Mr. Massafra earned a public accounting degree from the University of Buenos Aires. He has held various positions, including managing the Auditing Department at Consultora Pluss S.A. from 2003 to 2009, serving as partner at Integra Consultora S.A. from 2009 to 2011 and as Director of Personnel Management, Liquidations and Assets for the Finance Secretary of the Municipality of the City of Salta from 2011 to 2015. Since June 2015, Mr. Massafra has been the CEO of Recursos Energéticos y Mineros de Salta S.A. He has been an alternate member of the Board of Directors of YPF since April 2016.

*Daniel Cristian González Casartelli*

Mr. Gonzalez earned a degree in business administration from the Pontifical Catholic University of Argentina. He worked for the investment bank Merrill Lynch & Co. in Buenos Aires and New York for 14 years and held the positions of Head of Mergers and Acquisitions for Latin America and President for the Southern Cone (Argentina, Chile, Peru and Uruguay), among others. While at Merrill Lynch, Mr. Gonzalez played a leading role in several of the most important investment banking transactions in the region and was an active member of the firm's global fairness opinion committee. He remained as a consultant to Bank of America Merrill Lynch after his departure from the bank. Additionally, he has held the position of Head of Financial Planning and Investor Relations in Transportadora de Gas del Sur SA. Currently, he is a member of the Board of Directors of Adecoagro S.A. He has been an alternate member of our Board of Directors since April 2016 and is the President of our Disclosure Committee. He has been our Chief Financial Officer since July 2012. He served as an alternate member of our Board of Directors from April to June 2014, as a member of our Board of Directors from June 2014 to April 2016 and as CEO on an interim basis from April 29, 2016 until June 30, 2016.

*Carlos Alberto Alfonsi*

Mr. Alfonsi earned a degree in chemistry from the National Technological University in Mendoza, a degree in IMD Managing Corporate Resources from the University of Lausanne and has studied at the Massachusetts Institute of Technology. Since 1987, he has held various positions at YPF, including Operations Manager, Director of La Plata Refinery, Operation Planning Director, Director of Commerce and Transportation for Latin America, Director of Refinery and Marketing in Peru, Country Manager for Peru and R&M for Peru, Chile, Ecuador and Brazil. Mr. Alfonsi has been our Downstream Executive Vice President since June 2010. He was an alternate member of the Board of Directors from March 2008 to June 2012 and a member of the Board of Directors from 2012 to 2016. He has been an alternate member of the Board of Directors of YPF since April 2016.

*Fernando Dasso*

Mr. Dasso earned a degree in labor relations from the University of Buenos Aires and completed the Management Development Program at IAE Business School in 1993. Throughout his career, he has held several positions within YPF. In 2006, he was appointed Director of Human Resources of Argentina, Bolivia and Brazil for the Exploration and Production Business. He was a member of the Board of Directors from June 2012 to April 2016. He has been our Human Resources Vice President since July 2007 and has been an alternate member of the Board of Directors of YPF since April 2016.

*Fernando Pablo Giliberti*

Mr. Giliberti earned a certified public accountant degree from the Pontifical Catholic University of Argentina, a master's degree in business administration from the Argentine University of Business, a postgraduate diploma from the

College of Petroleum and Energy Studies at the University of Oxford and a Master of Science in Management degree from the Sloan Master's Program at Stanford University. He has held several positions at YPF, including Head of Accounting and Finance at our headquarters in Mendoza, South Division Business Support Manager, Asset Manager of the El Guadal-Lomas del Cuyo, Business Development Manager and Exploration and Production

## **Table of Contents**

Business Development Director. In San Antonio, he was Vice President of Business Development and Vice President of the Latin America Division of Pride International. He later served as Vice President of Business Development at Pioneer Natural Resources of Argentina. In 2006, he founded Oper-Pro Services S.A. He was our Strategy and Business Development Vice President from June 2012 until December 2016. He was member of the Board of Directors of YPF from June 2012 to April 2013. He has been an alternate member of the Board of Directors of YPF since April 2014 and our Supply Chain Vice President since December 2016.

## **Board practices**

The information provided below describes the composition and responsibilities of our Board of Directors.

### *Board practices of our Board of Directors*

In accordance with the Argentine General Corporations Law, directors have an obligation to perform their duties with loyalty and with the diligence of a prudent business person. Directors are jointly and severally liable to us, our shareholders and to third parties for the improper performance of their duties, for violating the law or our by-laws or regulations, and for any damage caused by fraud, abuse of authority or gross negligence. Specific duties may be assigned to a director by the by-laws, applicable regulations, or by shareholder resolution. In such cases, a director's liability will be determined by reference to the performance of those specific duties so long as the director's appointment and assignment of duties was approved at a shareholders' meeting and is registered with the Superintendency of Corporations.

Only shareholders, through a shareholders' meeting, may authorize directors to engage in activities in competition with us. Transactions or contracts between directors and us in connection with our activities are permitted to the extent they are performed under fair market conditions. Transactions that do not comply with the above requirements may only be carried out with prior approval of the Board of Directors or, in the absence of a quorum at a Board of Directors meeting, the Supervisory Committee. In addition, these transactions must be subsequently approved by our shareholders at a general meeting. If our shareholders do not approve the relevant transaction, the directors and members of the Supervisory Committee who approved the transactions will be held jointly and severally liable for any damages caused to us.

Any director whose personal interests conflict with ours on any matter shall notify the Board of Directors and the Supervisory Committee and abstain from voting on the matter. Otherwise, such director may be held liable to us.

A director will not be liable if, notwithstanding his presence at the meeting at which a resolution is adopted or his knowledge of such resolution, a written record exists of his opposition to such resolution and he reports his opposition to the Supervisory Committee before any complaint against him is brought before the Board of Directors, the Supervisory Committee, the shareholders' meeting, the appropriate governmental agency or the courts. Any liability of a director to us terminates upon approval of the director's actions by the shareholders at a general meeting, provided that shareholders representing at least 5% of our capital stock do not object and provided further that such liability does not result from a violation of the law, our by-laws or other regulations.

## **Senior Management**

Our current senior management as of the date of this annual report consists of:



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Name	Position
Ricardo Darré	Chief Executive Officer
Daniel Cristian González Casartelli <sup>(1)</sup>	Chief Financial Officer
Germán Fernández Lahore <sup>(1)</sup>	Legal Affairs Corporate Vice President
Santiago Martínez Tanoira <sup>(1)</sup>	Upstream Executive Vice President
Carlos Alfonsi <sup>(1)</sup>	Downstream Executive Vice President
Marcos Browne	Gas and Energy Executive Vice President
Sergio Giorgi	Business Development and Project Architecture Vice President
Fernando Giliberti <sup>(1)</sup>	Supply Chain Vice President
Sebastián Mocerrea <sup>(1)</sup>	Communication and Institutional Relations Vice President
Fernando Dasso <sup>(1)</sup>	Human Resources Vice President
Gustavo Chaab <sup>(2)</sup>	Environment, Security and Health Vice President
Vacant <sup>(3)</sup>	Executive Manager of Technology and Innovation

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**Table of Contents**

- (1) As of March 10, 2017, the individual owns less than one percent of our Class D shares.
- (2) On March 29, 2017, the Board of Directors designated Mr. Gustavo Chaab as our Environment, Security and Health Vice President in place of Mr. Daniel Palomeque.
- (3) On December 14, 2016, the Board of Directors elevated the role of Chief Information Officer (CIO) within the Senior Management Structure to be a part of the Vice Presidency of Environment, Health and Security, and designated the position with the title Executive Manager of Technology and Innovation (CTO). The position of Executive Manager of Technology and Innovation is vacant and the Company is in the process of candidates selection.

In addition to the members of our senior management for whose outside business interests and experiences were described above, we include the following:

*Ricardo Darré*

Mr. Darré earned degrees in mechanical engineering and industrial engineering from the Buenos Aires Institute of Technology. He started his career at Schlumberger where he held various positions within the oil production field in Angola, Zaire and Neuquén. In 1987, he joined Total where he held several roles in oil exploration and exploitation areas in Argentina, Thailand, Norway, Russia, the United Kingdom and France. In 1999, he was appointed Operations Director in Russia, Engineering Chief in Paris in 2002 and Corporate Director of Perforation and Termination in 2006. In 2014, he was appointed Chairman and CEO of Exploration and Production of Total based in Houston, United States. Mr. Darré has been our CEO since July 2016.

*Germán Fernández Lahore*

Mr. Fernández Lahore earned a law degree from the University of Buenos Aires and participated in the Academy for American and International Law. He further earned a master's degree in Natural Resources Law and Policy from the University of Dundee, Scotland, United Kingdom, as a Chevening scholar, a postgraduate degree in tax law from Austral University in Argentina, and completed the Management Development Program at IAE Business School. He is a member of the Academic Council of the Argentine Journal of Energy, Hydrocarbons and Mining Law (*Revista Argentina de Derecho de la Energía, Hidrocarburos y Minería*). His areas of expertise include oil, natural gas and mining law and natural resource taxation and financing. Prior to joining YPF, he served as an attorney at Beccar Varela, a foreign associate at Haynes and Boone, LLP in Dallas, Texas. He joined our Oil Affairs Management in February 2002 and served as our Upstream Legal Affairs Manager. Mr. Lahore has been our Legal Affairs Corporate Vice President since December 2015.

*Santiago Martínez Tanoira*

Mr. Martínez Tanoira earned a degree in industrial engineering from the Buenos Aires Institute of Technology, a master's degree in business administration from Austral University, and completed specialization courses at the University of Virginia Darden School of Business, Wharton School of the University of Pennsylvania and Harvard University in the United States. In 1998, he joined YPF and took on several roles within the Petrochemical Business Development area of the Petro-chemistry Division. He was in charge of marketing and Business Development within the Industrial Products Business Unit and served as Planning Manager of YPF Petrochemicals Division. Moreover he held the position of Base Petrochemical and Intermediate Director at Repsol in Spain. In 2011, he was appointed Director of YPF Chemicals and a member of the Board of Directors of Profertil. Over the last four years, he served as Executive Manager of the Mendoza Region, managing the Upstream operations. Mr. Martinez Tanoira has been our Upstream Executive Vice President since October 2016.



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**Table of Contents***Marcos Miguel Browne*

Mr. Browne earned a degree in industrial engineering from the Buenos Aires Institute of Technology, a master's degree in business administration from Henley Management College in the United Kingdom and a diploma in natural gas management and economics from the College of Petroleum and Energy Studies, validated by the University of Oxford in the United Kingdom. He further completed a specialization in the economics of petroleum and natural gas at the Buenos Aires Institute of Technology and the Management Development Program at IAE Business School. He has held several positions at YPF, including Head of Supply and Processing of Natural Gas from February 1994 to May 2000. He served as Head of the Gas and Liquid Gas Processing Business at TGS S.A. where he held various roles from June 2000 to March 2004. He is a founding partner of Endriven S.A. and served as a Director until March 14, 2016. He also served as General Manager of Gas Meridional S.A., General Manager of C3Plus S.A. and President of Fuels Meridional S.A. Mr. Browne has been our Gas & Energy Executive Vice President since March 2016.

*Sergio Giorgi*

Mr. Giorgi earned a degree in civil engineering from the University of Buenos Aires and a postgraduate degree from the French Institute of Petroleum. He completed a General Management Program organized by Total Group, in partnership with HEC Paris and Saïd Business School from Oxford University. In 1994, he joined YPF as a drilling engineer. In 1996, he joined Total where he assumed different positions within the oil exploration and exploitation areas for Argentina, Scotland, Indonesia, Italy, Libya and France. In 2007, he managed Total's drilling and wells operations for Asia, North Africa, Middle East and Australia. In 2009, he was in charge for Development and Planning Studies group with focus in Africa. From 2011 to 2013, he was appointed Total's New E&P Business Project Director for Latin America. Thereafter, he joined Total Austral in Argentina as Unconventional Resources Director. Mr. Giorgi has been our Business Development and Project Architecture Vice President since December 2016.

*Sebastián Mocerrea*

Mr. Mocerrea earned a degree in law from the University of Buenos Aires and a degree in political science from the Pontifical Catholic University of Argentina. From 1996 to 1998, he served as Chairman of the Asociación de Televisión Argentina and as Vice President of Argentina's Information and Communications Chamber from 1998 to 2000. In 1997, he joined IBM as Director of Communications and External Relations of IBM South Latin-America Argentina, Chile, Paraguay and Uruguay. In 2000, he became a Regional Director of IBM Latin America in the United States. He also served as Vice President of Public Affairs of IBM Europe in Brussels. In 2012, he founded Argencon, an institution that promotes the export of knowledge-based services. Currently, he serves as Board Adviser of Argencon and participates in the Council of the Americas and ACDE. From October 2012 to May 2016, Mr. Mocerrea was Vice-President of Public Affairs and Regulations, Latin America and Global Business Support of IBM Corporation. Mr. Mocerrea has been our Communication and Institutional Relations Vice President since May 2016.

*Gustavo Chaab*

Mr. Chaab earned a degree in industrial engineering from the National University of Cuyo, a postgraduate degree in energy and energetic planning from the IDEE/Fundación Bariloche, a master's degree in International Business from the National Ponts et Chaussées Ecole and completed the Advanced Study Program from the Massachusetts Institute of Technology. In 1994, he joined YPF at the Luján de Cuyo Refinery and took on several roles, including Chief of Administration and Sales Area of this Refinery in 1999, Downstream Operative Planning Manager in 2004, Lubricants Business Manager in 2006, and Planning and Technical Development Manager for Refinement, Logistic

and Chemistry in 2008. From 2011 to March 2017, he served as Manager of the Industrial Complex in La Plata. Mr. Chaab has been our Environment, Security and Health Vice President since March 2017.

**The Audit Committee**

The information provided below describes the composition and responsibilities of our Audit Committee.

**Table of Contents**

**Composition and responsibilities of our Audit Committee**

The Stock Market Law, as defined in Item 9. The Offer and Listing Argentine Securities Market, and Resolution No. 622/2013 of the Argentina National Securities Commission (*Comision Nacional de Valores*) ( the CNV ) require Argentine public companies to appoint an Audit Committee (*comité de auditoría*) composed of at least three members of the Board of Directors. The by-laws must set forth the composition and regulations for the operation of the Audit Committee and a majority of its members must be independent directors. See Independence of the Members of our Board of Directors and Audit Committee.

The Board of Directors of the Company, at its meeting held on April, 29, 2016, appointed the current members of the Audit Committee, who as of the date of this filing are: the Chairman, Carlos Felices, and the members Daniel Gustavo Montamat, Luis Augusto Domenech, Emilio José Apud and Inés María Leopoldo. Additionally, Mr. Felices was determined by our Board of Directors to be an Audit Committee Financial Expert pursuant to the rules and regulations of the SEC.

Executive directors may not sit on the Audit Committee.

Our Audit Committee, among other things:

periodically inspects the preparation of our financial and economic information;

reviews and opines on the Board of Directors proposals regarding the designation of the external auditors and the renewal, termination and conditions of their appointment;

evaluates internal and external audit work, monitors our relationship with the external auditors, and assures their independence;

provides appropriate disclosure regarding transactions where a conflict of interest exists among members of the corporate committees or controlling shareholders;

opines on the reasonability of proposals brought forth by the Board of Directors on fees and stock option plans for directors and administrators;

verifies compliance with applicable national or international regulations for matters related to behavior in the stock markets; and

ensures that the internal Code of Ethics complies with normative demands and is adequate.

*Activities of the Audit Committee*

The Audit Committee, pursuant to its regulations, must meet as many times as needed and at least once every quarter. From March 2016 to March 2017, the Audit Committee held thirteen meetings.

The Audit Committee must support the Board of Directors in its oversight duties, periodically review economic and financial information relating to us, supervise the internal financial control systems and oversee the independence of external auditors.

*Economic and financial information*

Using the assessment of the CFO and the work performed by our external and internal auditors, the Audit Committee analyzes the consolidated annual and quarterly financial statements before they are submitted to the Board of Directors. The Audit Committee reviewed our consolidated financial statements as of and for the year ended December 31, 2016 included in our report on Form 6-K furnished to the SEC on March 22, 2017.

*Oversight of the internal control system*

The Audit Committee oversees the progress of our annual internal audit, which is aimed at identifying critical risks, to supervise internal financial control systems and ensure that they are sufficient, appropriate and efficient.

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**Table of Contents**

Throughout the year, the Audit Committee is kept informed by our internal audit department of the most relevant facts and recommendations arising out of its work and the status of the recommendations issued in prior years.

The Audit Committee supervised the alignment of our internal control system for financial reporting with the requirements established by Section 404 of the Sarbanes-Oxley Act. These regulations require that, along with the annual audit, a report must be presented by our management relating to the design, maintenance and periodic evaluation of the internal control system for financial reporting and be accompanied by a report from our external auditor. Several of our departments are involved in this activity, including the internal audit department.

*Relations with the external auditors*

The Audit Committee interacts closely with the external auditors, allowing them to make a detailed analysis of the relevant aspects of the audit of financial statements and to obtain detailed information on the planning and progress of the work.

The Audit Committee also evaluates the services provided by our external auditors, determines whether the conditions for independence of the external auditors, as required by applicable law, are met and monitors the performance of external auditors to ensure that it is satisfactory.

As of the date of this annual report, and pursuant to the evaluation process described in the above paragraph, the Audit Committee had no objections to the designation of Deloitte & Co. S.A. as our external auditors of the financial statements for the year ended December 31, 2016. In addition, the Audit Committee, at its meeting held on March 8, 2017, as a result of the evaluation process outlined in the preceding paragraph, had no objections to the designation of Deloitte & Co. S.A. as our external auditors for the year ended December 31, 2017 which will be voted on at the next general shareholders meeting.

*Independence of the Members of our Board of Directors and Audit Committee*

Pursuant to CNV regulations, a director is not considered independent when such director (i) owns at least a 15% equity interest in a company, or a lesser interest if the director has the right to appoint one or more directors of the company (hereinafter Significant Participation), or has a Significant Participation in another company that in turn has a Significant Participation in the company or a significant influence on the company (significant influence as defined by Argentine GAAP); (ii) is a member of the Board of Directors of, or depends on, or is otherwise related to shareholders who have a Significant Participation in the company or another company in which these shareholders have a direct or indirect Significant Participation or significant influence; (iii) is or has been in the previous three years an employee of the company; (iv) has a professional relationship with, or is a member of a company that maintains professional relationships with, or receives remuneration (other than that received in consideration of his performance as a director) from the company or any of its shareholders who has a direct or indirect Significant Participation in or significant influence on the company, or with a third-party company that has a direct or indirect Significant Participation or a significant influence; (v) directly or indirectly sells or provides goods or services to the company or to any of its shareholders who has a direct or indirect Significant Participation in or significant influence on the company for an amount exceeding his remuneration as a member of the Board of Directors or Audit Committee; or (vi) is the spouse or parent (up to second grade of affinity or up to fourth grade of consanguinity) of persons who, if they were members of the Board of Directors or Audit Committee, would not be independent, according to the above-listed rules.

As of the date of this annual report, Directors Miguel Ángel Gutiérrez, Roberto Luis Monti, Norberto Alfredo Bruno, Néstor José Di Pierro, Juan Franco Donnini, Enrique Andrés Vaquié, Armando Isasmendi, Carlos Alberto Felices,



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Daniel Gustavo Montamat, Fabián Jorge Rodríguez Simón, Inés María Leopoldo, Octavio Oscar Frigerio, Luis Augusto Domenech and Emilio José Apud, and Alternate Directors Alejandro Rodrigo Monteiro, Luis Gustavo Villegas, Lucio Mario Tamburo, Pedro Martín Kerchner Tomba and Facundo Daniel Massafra qualified as independent members of our Board of Directors under the above-described criteria.

**Table of Contents**

**Disclosure Committee**

**Composition and responsibilities of our Disclosure Committee**

In February 2003, the Board of Directors created a Disclosure Committee to:

monitor overall compliance with regulations and principles of conduct of voluntary application, especially in relation to listed companies and their corporate governance;

direct, establish and maintain procedures for the preparation of accounting and financial information to be approved and filed by us or generally released to the markets;

direct, establish and maintain internal control systems that are adequate and efficient in order to ensure that our financial statements included in annual and quarterly reports as well as any accounting and financial information to be approved and filed by us is accurate, reliable and clear;

identify significant risks to our businesses and activities that may affect the accounting and financial information to be approved and filed by us;

assume the activities that, according to U.S. laws and SEC regulations, are applicable to us and may be assumed by disclosure committees or other internal committees of a similar nature, especially those activities relating to the SEC regulations dated August 29, 2002 ( Certification of Disclosure in Companies Quarterly and Prospectus SEC Release number 33-8124) and the existence and maintenance of adequate procedures and controls for the generation of the information to be included in our annual reports on Form 20-F and other information of a financial nature as required to be certified by our Chief Executive Officer and Chief Financial Officer;

take on activities similar to those stipulated in SEC regulations for a disclosure committee with respect to the existence and maintenance of adequate procedures and controls for the preparation and content of the information to be included in the annual financial statements and any accounting or financial information to be filed with the CNV and other regulators of the stock markets where our stock is traded; and

formulate proposals for an internal code of conduct with respect to stock markets that follow applicable rules and regulations or any other standards deemed appropriate.

In addition, the Disclosure Committee reviews and supervises our procedures for the preparation and filing of:

official notices to the SEC, the Argentine stock market authorities and other regulators of the stock markets where our stock is traded;

interim financial reports;

press releases containing financial data on results, earnings, large acquisitions, divestitures or any other information relevant to shareholders;

general communications to shareholders; and

presentations to analysts, investors, rating agencies and lending institutions.

**Table of Contents**

As of the date of this annual report, the Disclosure Committee is composed of the following individuals:

Name	Position
Ricardo Darré	Chief Executive Officer
Daniel Cristin González Casartelli	Chief Financial Officer and President of the Disclosure Committee
Germán Fernández Lahore	Legal Affairs Corporate Vice President and Secretary of the Disclosure Committee
Santiago Martínez Tanoira	Upstream Executive Vice President
Daniel Palomeque	Environment, Security and Health Vice President
Carlos Alfonsi	Downstream Executive Vice President
Marcos Browne	Gas and Energy Executive Vice President
Sergio Giorgi	Business Development and Project Architecture Vice President
Fernando Giliberti	Supply Chain Vice President
Sebastián Mocerrea	Communication and Institutional Relations Vice President
Fernando Dasso	Human Resources Vice President
Javier Fevre	Internal Auditor
Javier Sanagua	Reserves Auditor

In addition to the members of our senior management whose outside business interests and experiences were described above, we include the following:

*Javier Sanagua*

Mr. Sanagua earned a degree in geology from the National University of Tucumán and completed the Management Development Program at IAE Business School at Austral University. In 1996, he joined YPF after having worked as a university teacher and researcher. He held various positions at YPF over the course of 18 years, including roles within the Reservoir, Development, Exploration and Production areas, and roles as District Chief, Manager of the Los Perales area, Manager of the Economic Unit from Cañadón Seco in the province of Chubut and Director of Business Unit in Mendoza. He has been our Reserves Auditor since February 2013.

*Javier Fevre*

Mr. Fèvre earned a certified public accountant degree from the Argentine University of Business. He has held several positions throughout his career, including Auditor for the General Auditor Office, Advisor to the Deputy General Syndic at the Argentine Office of the General Comptroller, Assistant Internal Auditor at the Ministry of Foreign Affairs, International Trade and Worship and General Coordinator of Internal Audit at Aerolíneas Argentinas S.A. He has been our Internal Auditor since September 2012.

**Compliance with New York Stock Exchange Listing Standards on Corporate Governance**

In accordance with the NYSE corporate governance rules, effective as of July 31, 2005, all members of the Audit Committee are required to be independent. Independence is determined in accordance with highly detailed rules promulgated by the NYSE and SEC. Each of the members of our Audit Committee was determined to be independent in accordance with the applicable NYSE and SEC rules.

**Significant differences between our corporate governance practices and those required by NYSE listing standards**

Non-U.S. NYSE-listed companies may, in general, follow their home country corporate governance practices in lieu of most of the NYSE corporate governance requirements. The NYSE rules, however, require that non-U.S. companies disclose any significant ways in which their specific corporate governance practices differ from those of U.S. companies under the NYSE listing standards.

The following is a summary of the significant differences between our corporate governance practices and those applicable to U.S. companies under the NYSE listing standards.

*Independence of the directors on the Board of Directors*

In accordance with the NYSE corporate governance rules, a majority of the board of directors of U.S. companies listed on the NYSE must be composed of independent directors, whose independence is determined in accordance with highly detailed rules promulgated by the NYSE. The relevant Argentine rules for determining director independence are described under Independence of the Members of our Board of Directors and Audit Committee above.

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**Table of Contents***Compensation and nomination committees*

In accordance with the NYSE corporate governance rules, all U.S. companies listed on the NYSE must have a compensation committee and a nomination committee and all members of such committees must be independent in accordance with highly detailed rules promulgated by the NYSE. Under Argentine law, these committees are not mandatory, but are recommended by the CNV under CNV's General Resolution No. 622/13. The Company follows the CNV's recommendation and has a Compensation and Nomination Committee established by the Board of Directors under the option provided in Article 17 clause (xii) of the Company's by-laws, which currently is composed of Directors Daniel Gustavo Montamat, Roberto Luis Monti, Carlos Alberto Felices, Fabián Jorge Rodríguez Simón and Daniel Alberto Kokogian. Mr. Kokogian is not independent. As a result of the foregoing, most of the members of the Compensation and Nomination Committee are independent.

*Shareholder approval of equity compensation plans*

The NYSE rules require that, with limited exemptions, all equity compensation plans be subject to a shareholder vote. Under Argentine law, the approval of equity compensation plans is within the authority of the Board of Directors.

*Separate meetings for non-management directors*

In accordance with the NYSE corporate governance rules, independent directors must meet periodically outside of the presence of its executive directors. Under Argentine law, this practice is not required and as such, the independent directors on our Board of Directors do not meet outside of the presence of the other directors, except for the meetings of the Audit Committee, which is comprised of independent directors.

**Compensation of members of our Board of Directors and Supervisory Committee**

Argentine law provides that the aggregate annual compensation paid to the members of the Board of Directors (including those directors acting in an executive capacity) and the Supervisory Committee with respect to a fiscal year may not exceed 5% of net income for such year if YPF is not paying dividends in respect of such net income, which percentage is increased up to 25% of net income based on the amount of dividends, if any, are paid. The compensation of the Chairman and other directors acting in an executive capacity, together with the compensation of all other directors and members of the Supervisory Committee, requires the ratification of an ordinary general shareholders meeting as provided by Argentine law. When the exercise of special commissions or technical administrative functions by one or more directors and the reduced or lack of profits exceed the limits, such remunerations may only be paid in excess if expressly agreed by the shareholders' meeting, for which the matter should be included on the agenda. For the year ended December 31, 2016, the aggregate compensation accrued by the members of the Board of Directors and YPF's executive officers for services in all capacities was Ps. 310.3 million, excluding social security payments made by the Company as required by law, but including Ps. 34.6 million in the form of equity compensation plans, pensions, retirement or similar benefits that YPF provides to its Board of Directors and executive officers and Ps. 3.5 million in compensation paid to the members of the Supervisory Committee. During 2016, YPF's performance-based compensation programs included a performance bonus program for approximately 6,880 non-unionized YPF employees and 9,000 unionized YPF employees. This bonus program is intended to motivate and reward individuals for the annual achievement of business objectives. The program compensated participants in cash based on a measurable and specific set of objectives established by YPF's Management by Objectives Program and individual performance results.

In 2016, our shareholders' meeting, as proposed by our Board of Directors, approved the creation of a voluntary reserve of Ps. 50 million for the fulfillment our long-term incentive plan which contemplates compensation in shares

for certain employees. To that end, the Company purchased its own shares in accordance with Section 64 et seq. of Law No. 26,831. For additional information see Note 2.b.10.iii to our Audited

**Table of Contents**

Consolidated Financial Statements. The share-based benefit plan: (i) encourages key personnel to align their performance with the objectives of the Company's strategic plan, (ii) generates a clear and direct link between the creation of shareholder value and compensation of key personnel, rewarding them for achieving long-term results reflected in share price and (iii) assists in the retention of key personnel in the organization.

YPF's directors do not have any service contracts with YPF involving the payment of compensation other than those previously mentioned for the performance of their duties with the Company.

**Supervisory Committee**

The Supervisory Committee is responsible for overseeing compliance by the management and the Board of Directors with Argentine General Corporations Law, the by-laws and regulations (if any), and shareholders' resolutions. The functions of the Supervisory Committee include, among others, attending all meetings of the Board of Directors, preparing a report of the financial statements for our shareholders, attending shareholders' meetings and providing information upon request to holders of at least 2% of our capital stock.

The by-laws provide for a Supervisory Committee composed of three to five members and three to five alternate members that are elected for one-year terms. The Class A shares are entitled to elect one member and one alternate member of the Supervisory Committee so long as one share of such class remains outstanding. The holders of Class D shares may elect up to four members and up to four alternates. Under the by-laws, meetings of the Supervisory Committee may be called by any member. The meetings require the presence of all members and a majority vote of the members in order to make a decision. The members and alternate members of the Supervisory Committee are not members of our Board of Directors. The role of our Supervisory Committee is distinct from that of the Audit Committee. See The Audit Committee. In 2016, the aggregate compensation paid to the members of the Supervisory Committee was Ps. 3.5 million.

The current members of the Supervisory Committee, the year in which they were appointed and the year their current term expires is as follows:

Name	Class of Shares Represented	Age	Member Since	Term Expires
Alejandro Fabián Díaz	A	52	2016	2017(*)
Silvana Rosa Lagrosa (**)	D	58	2016	2017(*)
Gustavo Adolfo Mazzoni	D	65	2016	2017(*)
Guillermo Stok (alternate member)	A	61	2016	2017(*)
Raquel Inés Orozco (alternate member)	D	61	2016	2017(*)

(\*) Members of our Supervisory Committee are appointed each fiscal year. Our shareholders, in the Ordinary and Extraordinary General Shareholders' meeting held on April 29, 2016 appointed the members of our Supervisory Committee for fiscal year 2016.

(\*\*) On December 14, 2016, the Board of Directors noted Mr. Gustavo Gutiérrez's resignation as a member of the Supervisory Committee for Class D shares for strictly personal reasons. As resolved at the shareholders' meeting on April 29, 2016, Mr. Gutiérrez was replaced by Mrs. Silvana Rosa Lagrosa until the election of new members of the Supervisory Committee at the next shareholders' meeting.



*Alejandro Fabián Díaz*

Mr. Díaz earned a certified public accountant degree from the University of Buenos Aires and completed postgraduate studies in social responsibility, social accounting and business management. Since 2000, he has held several roles for the Argentine National Office of the Comptroller General, including Auditing Supervisor, Certified Accountant, member of the Supervisory Committee of first-tier businesses and Manager of Business Audits. He has been a member of the Organization for Economic Cooperation and Development since 2014 and a member of the Latin American Network on Corporate Governance of State-Owned Enterprises since 2010.

## **Table of Contents**

### *Silvana Rosa Lagrosa*

Ms. Lagrosa earned a degree as a certified public accountant from the University of Buenos Aires. She has been a member of the Argentine National Office of the Comptroller General since 2000 and is currently a member of the Supervisory Committees of YPF S.A., Aerolíneas Argentinas S.A., Austral S.A., Administradora Recursos Humanos Ferroviarios S.A., Banco Nación Seguros S.A. and Banco Nación Seguros de Retiro S.A.

### *Gustavo Adolfo Mazzoni*

Mr. Mazzoni earned a certified public accountant degree and a postgraduate degree in finance from the University of Buenos Aires and a degree in social psychology from the Pichon Riviere School of Psychology. He has held various positions throughout his career, including Senior Auditor for Price Waterhouse & Co. He further held a managerial role with the Argentine National Office of the Comptroller General, supervising private companies and different national ministries, including Justice, Labor, Health and Social Development. Currently, he is the statutory auditor of Aerolíneas Argentinas S.A., Austral S.A., Optar S.A. and Centro de Ensayos de Alta Tecnología S.A.

### *Guillermo Stok*

Mr. Stok earned a certified public accountant degree and business administration degree from the Pontifical Catholic University of Argentina and completed postgraduate studies in public sector economics, the management of sustainable economic development and social economics. He was appointed by the World Bank (PNDU) to advise the Finance Secretary at the Buenos Aires City Government. In 2001, he was designated General Manager of the National Administration of Social Security (ANSES). Currently, he works for the Argentine National Office of the Comptroller General as an Assistant Manager supervising majority state-owned enterprises.

### *Raquel Inés Orozco*

Ms. Orozco earned a law degree from the University of Buenos Aires. Currently, she is member of the Supervisory Committees of Central Térmica Guemes S.A., Telam S.E., Ubatec S.A., Inder S.E. (e.I), Foncap S.A., LT10 Radio Universidad del Litoral S.A., and an alternate member of the Supervisory Committee at Loteria Nacional S.E.

## ***The Compliance Committee***

The information provided below describes the composition and responsibilities of our Compliance Committee as of the date of this annual report.

### *Composition and responsibilities*

In April 2016, the Board of Directors created the Compliance Committee: to encourage compliance with the requirements of laws, regulations, rules, policies and/or organizational codes and principles of good corporate management and ethical standards applicable to the Company; to monitor the control systems of YPF processes in accordance with the rules that regulate YPF's operation; to reduce exposure to financial, legal and operational risks that could arise from illicit behavior; to safeguard the image and reputation of the Company; and to promote, facilitate and regulate cooperation between the various sectors of the Company to ensure the effectiveness of measures and actions enacted to prevent, detect, punish and eradicate corruption, among other functions.

As of the date of this annual report, the Compliance Committee is composed of the following members:

Name	Position
Fabián Rodríguez Simón	Director President
Inés María Leopoldo	Director
Emilio José Apud	Director
Octavio Oscar Frigerio	Director
Juan Franco Donnini	Director

**Table of Contents****The Risk and Sustainability Committee**

The information provided below describes the composition and responsibilities of our Risk and Sustainability Committee as of the date of this annual report.

*Composition and Responsibilities*

In April 2016, the Board of Directors created the Risk and Sustainability Committee: to establish comprehensive management policies for business risks and to monitor their adequate implementation; to identify and evaluate the principal risk factors that are specific to the Company and/or its activity; and to monitor risks and implement corresponding mitigation actions, among other functions.

As of the date of this annual report, the Risk and Sustainability Committee is composed of the following members:

Name	Position
Roberto Luis Monti	Director President
Nestor José Di Pierro	Director
Daniel Alberto Kokogian	Director
Norberto Alfredo Bruno	Director

**Employee Matters**

Our total workforce consists of permanent and temporary employees. As of December 31, 2014, 2015 and 2016, we had 22,032, 22,025 and 19,257 employees, respectively. In 2016, the number included 9,680 employees in the Downstream business segment, 3,911 employees in the Upstream business segment, 161 employees in the Gas & Energy business segment and 5,505 employees in the Corporate and Other business segments. We had 776 temporary employees in 2016. The most significant variations in 2016 included a decrease in the Upstream business of 357 employees, a decrease in the Downstream business of 207 employees and a decrease of 100 employees in the Corporate and Other business segments as a result of an efficiency and cost reduction project. In addition, the number of employees at A-Evangelista S.A., which is part of the Corporate and Other business segments, decreased by approximately 1,940 employees during 2016 (mainly as a result of the completion of the construction of the coke unit at our refinery in La Plata). Approximately 45% of our employees are represented by the Federation of Oil Workers Union ( SUPeH ) that negotiates labor agreements and salaries applicable to YPF and OPESSA unionized employees. SUPeH is continually negotiating with us, and we maintain a good level of communication. In general, requests of labor unions in connection with the petrochemical industry were consistent with general wage increases given by the General Unions Confederation.

In addition, labor conditions and salaries of third-party employees are represented by sixteen other unions. Approximately 55% of third-party employees, mostly in the Upstream business, are represented by nine unions with whom we directly negotiate labor agreements and salaries. These unions are clustered into three groups: Petroleros Privados, which consists of five unions, Personal Jerárquico, which consists of three unions, and SUPeH Emprendimientos. The remaining 45% of third-party employees are represented by unions with whom we do not participate in labor agreements.

During 2016, YPF sought to create an addendum to the main Union s Labor Agreements that would result in greater levels of efficiency, productivity and sustainability in the Shale and Tight operations. As a result of collaboration with the main actors in the industry, including the Argentine government, provincial governors, Unions and representatives

of the main production companies, the addendum was signed with both Neuquén Unions in January 2017.

**Table of Contents**

As part of its privatization, YPF restructured its internal organization and significantly reduced its number of employees. YPF reduced its work force from over 51,000 employees (including approximately 15,000 personnel under contract) as of December 31, 1990 to approximately 7,500 as of December 31, 1993. YPF paid employees affected by these reductions termination payments as required by Argentine labor laws that amounted to Ps. 686 million. A substantial number of lawsuits originating from this restructuring process have been brought by former employees, alleging they received insufficient severance payments in connection with their dismissal and various job-related illnesses and injuries and typically seek unspecified relief.

As of December 31, 2016, YPF was a party to approximately 1,138 labor lawsuits related to events or acts that took place after December 31, 1990. The outcome of these lawsuits will depend on factual issues that vary from case to case, and it is not always feasible to predict the outcome of particular cases. However, based on the number and nature of the lawsuits already commenced, the estimated likelihood of additional claims in view of the number of dismissed employees, applicable statutes of limitations, the legal principles involved in the suits and the financial statement reserves previously established, our management does not expect the outcome of these lawsuits to have a material adverse effect on our financial condition or future results of operations.

As of December 31, 2016, there were also approximately 45,000 third-party employees under contract, mostly with large international service providers. Although we have policies regarding compliance with labor and social security obligations for our contractors, we are not in a position to ensure that the contractors' employees will not initiate legal actions against us seeking indemnification based upon a number of Argentine judicial labor court precedents that recognized joint and several liability between the contractor and the entity to which it was supplying services under certain circumstances.

The following table provides a breakdown of our employees by segment as of December 31, 2016.

<i>Employees by Business Units</i>	
Upstream	3,911
Downstream	8,436
Refining and Marketing	8,403
Chemicals	33
Natural Gas & Energy (1) (2)	1,405
Corporate and Other (3)	5,505
<b>Total YPF</b>	<b>19,257</b>

(1) Includes 1,244 employees of Metrogas S.A. and its subsidiaries.

(2) Includes 88 employees of YPF Energia Eléctrica S.A. and its subsidiaries.

(3) Includes 3,496 employees of A-Evangelista S.A. and its subsidiaries.

The following table provides a breakdown of our employees by geographic location.

<i>Employees by geographic location</i>	
Argentina	19,149

Rest of South America	108
<b>Total YPF</b>	<b>19,257</b>

**ITEM 7. Major Shareholders and Related Party Transactions**

The Expropriation Law has significantly changed our shareholding structure. The Class D shares subject to expropriation from Repsol or its controlling or controlled entities, which represent 51% of our share capital and have been declared of public interest, will be assigned as follows: 51% to the Argentine Republic and 49% to the governments of the provinces that compose the National Organization of Hydrocarbon Producing States. In

**Table of Contents**

addition, the Argentine Republic and certain provincial governments already own our Class A and Class B shares. See Item 3. Key Information Risk Factors Risks Relating to Argentina The Argentine Republic owns 51% of the shares of the Company. Additionally, see Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Law No. 26,932 for a description of the agreement between Repsol and the Argentine Republic relating to compensation for the expropriation of 51% of the share capital of YPF owned, directly or indirectly, by Repsol.

As of the date of this annual report, the transfer of the shares subject to expropriation between the National Executive Office and the provinces that compose the National Organization of Hydrocarbon Producing States is still pending. According to Article 8 of the Expropriation Law, the distribution of the shares among the provinces that accept their transfer must be conducted in an equitable manner, taking into account their respective levels of hydrocarbon production and proved reserves. To ensure compliance with its objectives, the Expropriation Law provides that the National Executive Office, by itself or through an appointed public entity, shall exercise all the political rights associated with the shares subject to expropriation until the transfer of political and economic rights to the provinces that compose the National Organization of Hydrocarbon Producing States is completed. In addition, in accordance with Article 9 of the Expropriation Law, each of the Argentine provinces to which shares subject to expropriation are allocated must enter into a shareholder's agreement with the federal government which will provide for the unified exercise of its rights as a shareholder. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government The Expropriation Law.

The following table sets forth information relating to the beneficial ownership of our shares as of March 10, 2017:

	<i>Number of shares</i>	<i>(%)</i>
National State Ministry of Energy and Mining <sup>(1)</sup>	200,589,525	51.000%
Floating <sup>(2)</sup>	141,331,396	35.933%
Lazard Asset Management LLC <sup>(3)</sup>	31,365,367	7.975%
Slim Family <sup>(4)</sup>	19,974,695	5.079%
Argentine federal and provincial governments <sup>(5)</sup>	11,388	0.003%
Employee fund <sup>(6)</sup>	40,422	0.010%

- (1) The expropriated Class D shares, which represent 51% of our share capital, and which now are owned by the Republic of Argentina, will be assigned as follows: 51% to the Argentine Republic and 49% to the governments of the provinces that compose the National Organization of Hydrocarbon Producing States. The completion of this assignment is pending. To ensure compliance with its objectives, the Expropriation Law provides that the National Executive Office, by itself or through an appointed public entity, shall exercise all the political rights associated with the shares subject to expropriation until the transfer of political and economic rights to the provinces that compose the National Organization of Hydrocarbon Producing States is completed. In addition, in accordance with Article 9 of the Expropriation Law, each of the Argentine provinces to which shares subject to expropriation are allocated must enter into a shareholder's agreement with the federal government which will provide for the unified exercise of its rights as a shareholder. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government The Expropriation Law, Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Decree No. 13/2015 and Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Decree No. 272/2015.



- (2) According to data provided by The Bank of New York Mellon, as of March 10, 2017, there were 172,694,906 ADSs outstanding and 52 holders of record of ADSs. Such ADSs represented approximately 44% of the total number of issued and outstanding Class D shares as of such date.
- (3) According to Schedule 13G filed with the SEC on February 2, 2017.
- (4) According to Schedule 13G filed with the SEC on February 14, 2017, Slim Family consists of Carlos Slim Helú, Carlos Slim Domit, Marco Antonio Slim Domit, Patrick Slim Domit, María Soumaya Slim Domit, Vanessa Paola Slim Domit and Johanna Monique Slim Domit through Inmobiliaria Carso, S.A. de C.V. and Grupo Financiero Inbursa, S.A.B. de C.V.

## **Table of Contents**

- (5) Reflects the ownership of 3,764 Class A shares and 7,624 Class B shares by the Argentine Republic and provincial governments, respectively.
- (6) Reflects the ownership of 40,422 Class C shares.

### **Related Party Transactions**

All material transactions and balances with related parties as of December 31, 2016 are set forth in Note 31 to the Audited Consolidated Financial Statements. The main related party transactions were our sales of refined and other products to certain joint ventures and affiliates (which amounted to Ps. 5,974 million in 2016), our purchase of petroleum and other products that we do not produce ourselves from certain joint ventures and affiliates (which amounted to Ps. 2,393 million in 2016), all this in addition to what is mentioned in the following paragraphs.

In addition, the Expropriation Law was passed by the Argentine congress, which was ruled by Decree No. 660 of the National Executive Office. See Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government The Expropriation Law. Consequently, since the passage on May 3, 2012 of the Expropriation Law, the Argentine Republic owns 51% of the shares of the Company. Consequently, and in addition to transactions mentioned in paragraph above, we are party to numerous agreements with the federal government, as well as with certain agencies or institutions dependent on such governments and stated-owned companies.

The information disclosed in Note 31 to the Audited Consolidated Financial Statements disclose the balances with joint ventures and affiliated companies as of December 31, 2016, December 31, 2015 and December 31, 2014, and transactions with the aforementioned parties for the twelve-month periods ended December 31, 2016, 2015 and 2014. Additionally, the balances and transactions held with the entities within the Repsol group are included until the date the conditions required to be considered as related parties were met. Information regarding major transactions with government entities are also described in Note 31 to the Audited Consolidated Financial Statements.

In addition, see Note 2.b.10.iii to our Audited Consolidated Financial Statements regarding our long-term share compensation plan offered to certain personnel.

For an organizational chart showing our organizational structure, including our interests in our principal affiliates, see Item 4. Information on the Company History and Development of YPF Overview.

### **Argentine Law Concerning Related Party Transactions**

Section 72 of the Stock Market Law provides that before a company whose shares are listed in Argentina may enter into an act or contract involving a significant amount with a related party or parties, such company must obtain approval from its board of directors, and obtain an opinion, prior to such board approval, from its audit committee or from two independent valuation firms that states that the terms of the transaction are consistent with those that could be obtained on an arm's-length basis.

For the purpose of Section 72 of the Stock Market Law and CNV Regulations, significant amount means an amount that exceeds 1% of the issuer's net worth as reflected in the latest approved financial statements. For purposes of the Stock Market Law, related party means (i) directors, members of the supervisory committee or managers; (ii) the persons or entities that control or hold a significant participation in the company or in its controlling shareholder (to be regulated by CNV); (iii) any other company under common control; (iv) direct relatives of the persons mentioned in (i) and (ii); or (v) companies in which the persons referred to in (i) to (iv) hold directly or indirectly significant participations.

The acts or contracts referred to above, immediately after being approved by the board of directors, shall be disclosed to the CNV, making express indication of the audit committee's or independent valuation firm's opinion, as the case may be. Also, beginning on the business day following the day the transaction was approved by the board of directors, the audit committee's or independent valuation firm's reports shall be made available to the shareholders at the company's principal executive offices.

## **Table of Contents**

If the audit committee or the two independent valuation firms do not find that the contract is on arm's-length terms, prior approval must be obtained at the company's shareholders' meeting.

## **ITEM 8. Financial Information** **Financial Statements**

See Item 18 for our Audited Consolidated Financial Statements.

## **Legal Proceedings**

The descriptions of the legal proceedings in Notes 14.a, 27.a and 28.b to the Audited Consolidated Financial Statements are incorporated herein by reference. On March 28, 2017, in connection with the reorganization proceedings under Chapter 11 of the United States Bankruptcy Code filed by the Maxus Entities, the Creditors Committees and the Maxus Entities submitted an alternative restructuring plan (the "Alternative Plan") that does not incorporate the agreement (the "Agreement") with the YPF Entities, to settle any and all claims held by the Maxus Entities against the YPF Entities, including any alter ego claims, all of which claims the YPF Entities believe are without merit (as described in Note 27.a.2 to the Audited Consolidated Financial Statements). Under the Alternative Plan, a liquidating trust (the "Liquidating Trust") may pursue alter ego claims or any other estate claims against the Company and the YPF Entities. The Liquidating Trust will be funded by Occidental Chemical Corporation, a creditor of the Maxus Entities. As a consequence of the filing of the Alternative Plan, an event of default has occurred under the U.S.\$ 63.1 million debtor-in-possession loan ("DIP Loan") provided by YPF Holdings Inc. and YPF Holdings sent a notice of default accordingly.

## **Dividend Policy**

See Item 10. Additional Information - Dividends.

## **Significant Changes**

Since December 31, 2016, there have been no significant changes regarding the Company. Notwithstanding the foregoing, see Note 34 to the Audited Consolidated Financial Statements.

## **ITEM 9. The Offer and Listing** **Shares and ADSs**

### ***New York Stock Exchange***

The ADSs, each representing one Class D share, are listed on the NYSE under the trading symbol "YPF". The ADSs began trading on the NYSE on June 28, 1993, and have been issued by The Bank of New York Mellon, as depositary (the "Depositary").

The following table sets forth, for the five most recent full financial years and for the current financial year, the high and low closing prices in U.S. dollars of our ADSs on the NYSE:

	<i>High</i>	<i>Low</i>
2012	41.14	9.57
2013	34.17	12.26
2014	38.91	21.85
2015	31.58	14.91
2016	21.98	12.83
2017 <sup>(1)</sup>	23.78	16.50

(1) Through March 27, 2017

The following table sets forth, for each quarter of the most recent two financial years and for each quarter of the current financial year, the high and low closing prices in U.S. dollars of our ADSs on the NYSE.

**Table of Contents**

	<i>High</i>	<i>Low</i>
<b>2015:</b>		
First Quarter	29.55	23.00
Second Quarter	31.58	26.18
Third Quarter	27.42	14.91
Fourth Quarter	22.18	15.05
<b>2016:</b>		
First Quarter	18.83	12.83
Second Quarter	21.98	16.52
Third Quarter	19.77	16.88
Fourth Quarter	19.46	15.09
<b>2017:</b>		
First Quarter <sup>(1)</sup>	23.78	16.50

(1) Through March 27, 2017

The following table sets forth, for each of the most recent six months and for the current month, the high and low closing prices in U.S. dollars of our ADSs on the NYSE.

	<i>High</i>	<i>Low</i>
<b>2016:</b>		
September	18.22	16.88
October	19.46	17.76
November	17.38	15.81
December	16.57	15.09
<b>2017:</b>		
January	22.50	16.50
February	22.16	20.75
March <sup>(1)</sup>	23.78	20.61

(1) Through March 27, 2017

According to data provided by The Bank of New York Mellon, as of March 10, 2017, there were 172,694,906 ADSs outstanding and 52 holders of record of ADSs. Such ADSs represented approximately 44% of the total number of issued and outstanding Class D shares as of such date.

The Buenos Aires Stock Market is the principal Argentine market for trading the ordinary shares.

The Buenos Aires Stock Market (*Mercado de Valores de Buenos Aires*) ( *MERVAL* ) is the largest stock market in Argentina and has been authorized by the CNV to delegate certain functions to the Buenos Aires Stock Exchange ( *BASE* ). Trading on the *MERVAL* is conducted either through the traditional auction system from 11 a.m. to 5 p.m. on trading days, or through the Computer-Assisted Integrated Negotiation System (*Sistema Integrado de Negociación Asistida por Computación*) ( *SINAC* ). *SINAC* is a computer trading system that permits trading in both debt and equity securities and is accessed by brokers directly from workstations located in their offices. Currently, all transactions relating to listed negotiable obligations and listed government securities can be effectuated through *SINAC*. In order to control price volatility, *MERVAL* imposes a 15-minute suspension on trading when the price of a

security registers a variation in price between 10% and 15% and between 15% and 20%. Any additional 5% variation in the price of a security will result in an additional 10-minute successive suspension period.

Investors in the Argentine securities market are mostly individuals and companies. Institutional investors, which are responsible for a growing percentage of trading activity, consist mainly of insurance companies and to a lesser extent mutual funds.

**Table of Contents**

The last information available to us regarding the Argentine stock market is set forth in the table below:

	2015	2014	2013	2012	2011	2010
Market capitalization (in billions of pesos)	3,292	3,893	3,356	2,300	1,611	1,900
As percent of GDP	56%	86%	124%	107%	87%	132%
Volume (in millions of pesos)	749,829	621,831	367,830	242,324	207,805	177,613
Average daily trading volume (in millions of pesos)	4,822.6	2,581.0	1,526.3	1,005.5	848.2	722.0

The following table sets forth, for the five most recent full financial years and for the current financial year, the high and low closing prices in Argentine pesos of our Class D shares on the BASE:

	<i>High</i>	<i>Low</i>
2012	188.50	66.50
2013	294.00	101.30
2014	558.00	250.00
2015	375.50	207.00
2016	303.00	179.00
2017 <sup>(1)</sup>	370.50	270.00

(1) Through March 27, 2017

The following table sets forth, for each quarter of the most recent two financial years and for each quarter of the current financial year, the high and low closing prices in Argentine pesos of our Class D shares on the BASE.

	<i>High</i>	<i>Low</i>
<b>2015:</b>		
First Quarter	355.50	277.00
Second Quarter	375.50	321.00
Third Quarter	361.00	209.00
Fourth Quarter	305.00	207.00
<b>2016:</b>		
First Quarter	295.00	179.00
Second Quarter	303.00	238.50
Third Quarter	296.25	255.90
Fourth Quarter	295.50	233.00
<b>2017:</b>		
First Quarter <sup>(1)</sup>	370.50	270.00

(1) Through March 27, 2017

The following table sets forth, for each of the most recent six months and for the current month, the high and low closing prices in Argentine pesos of our Class D shares on the BASE.



	<i>High</i>	<i>Low</i>
<b>2016:</b>		
September	278.00	255.90
October	295.50	268.35
November	269.00	240.50
December	264.20	233.00
<b>2017:</b>		
January	259.55	270.00
February	350.00	325.00
March <sup>(1)</sup>	370.50	321.50

(1) Through March 27, 2017

As of March 10, 2017, there were approximately 31,835 holders of Class D shares in the BASE.

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**Table of Contents*****Stock Exchange Automated Quotations System International***

The ADSs are also quoted on the Stock Exchange Automated Quotations System International.

**Argentine Securities Market**

The securities market in Argentina was originally composed of 5 stock exchanges, which are located in the City of Buenos Aires (the BASE), Córdoba, Mendoza, Rosario and Santa Fe, with affiliated stock markets and, accordingly, authorized to quote publicly offered securities. However this system was affected by the enactment of Law No. 26,831, Decree No 1,203/2013 issued by the National Executive Office and the new regulations issued by the CNV, mainly contained in Resolution No. 622/2013, as amended, which stated that securities can only be listed and exchanged in stock markets authorized to function as such by the CNV.

The BASE, which began operating in 1854, was the principal and longest-established stock exchange in Argentina. The exchange functions of the BASE have now been absorbed by the MERVAL, which is a stock market authorized by the CNV to function as such, under Law No. 26,831. The MERVAL and the BASE have entered into an agreement which has been approved by the CNV, whereby the MERVAL has delegated to the BASE certain functions, such as: (i) the authority to grant listing authorization for securities; (ii) the authority to constitute arbitration courts; and (iii) the issuance of a public information bulletin.

On December 29, 2016, the Board of Directors of the CNV approved the creation of Bolsas y Mercados Argentinos (ByMA) as a new market. The shareholders of ByMA are the MERVAL and BASE, with each holding 60% and 40% of the capital stock of ByMA, respectively.

The Argentine securities market is regulated and overseen by the CNV, pursuant to Law No. 26,831 (the Capital Markets Law) which governs the regulation of security exchanges, as well as stockbroker transactions, market operations, the public offering of securities, corporate governance matters relating to public companies and the trading of futures and options. Argentine institutional investors and insurance companies are regulated by separate government agencies, whereas financial institutions are regulated primarily by the Argentine Central Bank.

In Argentina, debt and equity securities traded on an exchange or the over-the-counter market must, unless otherwise instructed by their shareholders, be deposited with Stock Exchange Incorporated (Caja de Valores S.A.), a corporation owned by the MERVAL and the BASE. Stock Exchange Incorporated is the central securities depository of Argentina and provides central depository facilities, as well as acting as a clearinghouse for securities trading and as a transfer and paying agent for securities transactions. Additionally, it handles the settlement of securities transactions carried out by the MERVAL and operates SINAC.

Among the key provisions of the Capital Markets Law are the following: the definition of a security, that governs the treatment of negotiable securities; the corporate governance requirements, including the obligations for publicly listed companies to form audit committees composed of three or more members of the Board of Directors (the majority of whom must be independent under CNV regulations); regulations for market stabilization transactions under certain circumstances, regulations that governs insider trading, market manipulation and securities fraud and regulates going-private transactions and acquisitions of voting shares, including controlling stakes in public companies. In addition, the Capital Markets Law included very relevant changes for the modernization and future design of the capital market, like the demutualization of the stock exchanges; new regulatory powers and resources for the CNV; a mandatory tender offer system and other provisions, like the new requirements for brokers/dealers and other market participants. These provisions were regulated by the CNV pursuant to Resolution No. 622/2013 and its amendments. Before offering securities to the public in Argentina, an issuer must fulfill certain requirements established by the

CNV in regard to the issuer's assets, operating history and management. Only securities approved for a public offering by the CNV may be listed on a stock exchange. However, CNV approval does not imply any kind of certification as to the quality of the securities or the solvency of the issuer, even though issuers of listed securities are required to file unaudited quarterly financial statements and audited annual financial statements in accordance with IFRS and various other periodic reports with the CNV and the stock exchange on which their securities are listed, as well as to report to the CNV and the relevant stock exchange any event related to the issuer and its shareholders that may affect materially the value of the securities traded.

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**Table of Contents*****Money laundering regulations***

Recent modifications to Argentine money laundering regulations have resulted in their application to increasing numbers and types of securities transactions.

The notion of money laundering is generally used to refer to transactions aimed at introducing funds derived from unlawful activities into the institutionalized system and therefore, transforming profits obtained from unlawful activities into assets having a presumed lawful origin.

Law No. 25,246 (as subsequently amended by Law No. 26,087, Law No. 26,119, Law No. 26,268 and Law No. 26,683) provides for an administrative criminal system and replaces several sections of the Argentine Criminal Code, incorporating, among other matters, the definition of money laundering as a type of crime committed whenever a person converts, transfers, manages, sells, charges, conceals or otherwise markets any asset derived from a criminal offense, with the possible consequence that the original assets or substitutes thereof appear to come from a lawful source, provided that the total value of the asset exceeds Ps. 300,000 regardless of whether such amount results from one act or a series of related acts. Law No. 26,683 considers money laundering to be an autonomous crime against the economic and financial order, separate from the crime of concealment, which is an offense against the public administration, which allows for sanctions for the autonomous crime of money laundering regardless of participation in the crime that originated the funds subject to such money laundering. With the enactment of Law No. 27,260 and Decree No. 895/2016, the Financial Information Unit (*Unidad de Información Financiera* or UIF) was moved under the jurisdiction of the Ministry of Finance and Public Finance. Subsequently, in accordance with Decree No. 2/2017, the UIF acts under the jurisdiction of the Ministry of Finance.

According to Article 303 of the Argentine Criminal Code, money laundering (as defined above) shall be punished with three to ten years of imprisonment and a fine of two to ten times the amount of the transactions made. The penalty prescribed above shall be increased by one third of the maximum and one half of the minimum if: (a) the wrongdoer carries out the act on a regular basis or as a member of an association or gang organized with the purpose of continuously committing acts of a similar nature; or (b) if the primary wrongdoer is a public officer who committed the infringement in the exercise of his/her duties (in such a case, the wrongdoer shall also be punished by special disqualification for three to ten years, and the same penalty shall apply to a wrongdoer who commits the offense in the service of a profession or trade requiring special qualification). The individual who receives money or other assets derived from a criminal offense with the purpose of applying them to a money laundering transaction shall be punished with imprisonment from six months to three years. If the value of the assets is not over Ps.300,000, the wrongdoer will be punished with imprisonment from six months to three years. The provisions in this section shall apply even when the criminal offense is committed outside the geographical jurisdiction of the Argentine Criminal Code, so long as the crime is also penalized in the jurisdiction where it was committed.

Article 277 of the Argentine Criminal Code sets forth that an imprisonment of between six months and three years shall be applied (with varying minimum terms attaching depending on the particular circumstances) to any person who helps a perpetrator avoid or be removed from prosecution, obscures or destroys evidence of a crime, acquires, receives, hides or alters money or other proceeds from a crime, does not report the commission of the crime or does not identify the perpetrator or participant in a crime with knowledge that such person would have been obliged to assist in the criminal prosecution of such crime and/or aids or abets the perpetrator or participant in making safe the proceeds of the crime. The minimum and maximum terms of punishment shall be doubled when: (a) the offense implies a particularly serious crime (for which minimum penalty is higher than three years of imprisonment); (b) the abettor acts for profit; (c) the abettor habitually commits concealment acts; or (d) the abettor is a public official.

At the end of 2011, with the enactment of Laws No. 26,733 and 26,734, new crimes were introduced into the Penal Code to protect financial and stock market activities and to prevent the financing of terrorism. On the one hand, Law No. 26,733 established penalties of imprisonment, fines and special disqualification for anyone who: uses or supplies inside information to conduct securities transactions (Article 307); manipulates stock markets by offering or conducting securities transactions through false information, feigned negotiations or meeting of the main shareholders in order to negotiate at a certain price (Article 308); and carry out financial and stock market activities without corresponding authorization (Article 309). On the other hand, Law No. 26,734 incorporated into the Penal Code Article 306, which punishes with imprisonment and fines those who directly or indirectly collect assets or

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**Table of Contents**

money to be used to finance a crime or an individual or organization that threatens the population, or to force national or foreign authorities or an international organization to perform or refrain from performing a particular act. The penalties will apply regardless of whether the crime was committed or the financing was used. Additionally, the penalties will apply if the crime, individual or organization that is intended to be financed is carried out or located outside of Argentina. Likewise, the UIF was empowered to freeze assets linked to the financing of terrorism through a reasoned decision and immediate communication to a competent judge.

Law No. 25,246 contemplates that the legal entity whose management collected or provided assets or money, whatever their value, knowing that such assets were to be used by a terrorist organization, may be subject to a fine between five to 20 times the value of such assets. Furthermore, whenever the management of the legal entity infringes the duty to treat the information submitted to the UIF as confidential, the legal entity shall be subject to a fine between Ps. 50,000 to Ps. 500,000. Additionally such regulation created the UIF as an autonomous and financially self-sufficient entity within the jurisdiction of the Argentine Ministry of Justice and Human Rights, in charge of analyzing, treating and transmitting information in order to preclude and prevent money laundering. Pursuant to this legislation, the UIF is empowered to receive and request reports, documents, background and any other information deemed useful to fulfill its duties from any public entity, whether federal, provincial or municipal, and from individuals or public or private entities, all of which entities must furnish such information in accordance with Law No. 25,246. Whenever the information furnished or analyses performed by the UIF show the existence of sufficient evidence to suspect that a money laundering or terrorist financing crime has been committed, the UIF shall transmit such evidence to the Government Attorney's Office so that it may start the relevant criminal action, and the UIF may appear as an accusing party to such proceedings. Moreover, Law No. 26,087 mandates that banking secrecy or professional privilege, or legal or contractual commitments, cannot be considered exceptions to the compliance with the obligation to submit information to the UIF in the context of an investigation of suspicious activity. The main goal of Law No. 25,246 is to prevent money laundering and the financing of terrorism. In line with internationally accepted practices, the duty to control such illegal transactions is not concentrated solely in Argentine federal governmental entities but also distributed among several private sector entities such as banks, brokers, brokerage firms and insurance companies. One of the mechanisms of the regime of preventing and combating these crimes consists of the obligation to inform the UIF imposed by Article 20 of the Prevention of Money Laundering Law to those parties listed that, due to their profession, activity or industry, hold a key position in the detection of suspicious money-laundering operations and/or terrorist financing transactions. Such duties mainly consist of data collection functions, such as: (i) gathering from clients, applicants or contributors any documentation sufficient to prove their identity, legal capacity, domicile and further data as necessary on a case by case basis; (ii) reporting any suspicious fact or transaction irrespective of its amount; and (iii) abstaining from disclosing to the client or third parties any procedures being followed pursuant to law. According to Law No. 25,246, a suspicious transaction shall mean any transaction that, in accordance with standard business practices and in the experience of the entities and individuals subject to reporting obligations, is regarded as unusual, unjustified from an economic or legal standpoint, or unnecessarily complex, whether it is a one-time transaction or a series of transactions.

In February 2016, the National Executive Office issued Decree No. 360/2016, through which it creates, under the jurisdiction of the Ministry of Justice and Human Rights, and directly dependent on its leadership, the National Coordination Program in the Fight against Money Laundering and Terrorist Financing, with the mission of reorganizing, coordinating and strengthening the national anti-money laundering system and against the financing of terrorism, attending to the specific risks that could impact national terrorism and effective global exigencies in compliance with international obligations and recommendations established by the United Nations Conventions and the standards of the Financial Action Task Force ( FATF ). By virtue of Article 6 of Decree No. 360/2016, the UIF will act as the coordinator in the material operation of the national, provincial and municipal order in the strict compliance of its duties as an financial information organization.

Resolution No. 121/2011 issued by the UIF ( Resolution 121 ), as amended by Resolutions No. 1/2012, 2/2012, 140/2012, 68/2013 and 03/2014, 195/2015, 196/2015, 94/2016, 104/2016, 141/2016 and 4/2017, is applicable to financial entities subject to Law No. 21,526, to entities subject to the Law No. 18,924, as amended, and to natural and legal entities authorized by the Argentine Central Bank ( Central Bank or BCRA ) to intervene in the purchase and sale of foreign currency through cash or checks issued in foreign currency or through the use of credit or payment cards, or in the transfer of funds within or outside the national territory (the Obligated Parties to Resolution 121 ), and Resolution No. 229/2011 of the UIF ( Resolution 229 ), as amended by Resolutions No. 140/2012, 03/2014, 195/2015, 196/2015, 94/2016, 104/2016, 141/2016 and 4/2017, is applicable to brokers and

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**Table of Contents**

brokerage firms, companies managing common investment funds, agents of the over-the-counter market, intermediaries in the purchase or leasing of securities affiliated with stock exchange entities with or without associated markets, and intermediary agents registered on forwards or option markets regardless of the object (the Obligated Parties to Resolution 229 ). Resolution 121 and Resolution 229 regulate, among other matters, the obligation to collect documentation from clients and the terms, obligations and restrictions for compliance with the reporting duty regarding suspicious money laundering and terrorism financing operations.

Resolution 121 and Resolution 229 set forth general guidelines in connection with the client's identification (including the distinction between occasional and regular clients), the information to be requested, the documentation to be archived and the procedures to detect and report suspicious transactions. Moreover, the main duties established by such resolutions are the following: a) creating a manual establishing the mechanisms and procedures to be used to prevent money laundering and terrorism financing that will need to observe the specifics of the activity; b) designation of a compliance officer in accordance with Article 20 *bis* of Law No. 25,246 and its amendments and Article 20 of Decree No. 290/07 and its amendments; c) the implementation of periodic audits; d) personnel training; e) elaboration of analysis records and risk management of detected unusual operations and of those which have been reported because they were considered suspicious; f) implementation of technological tools which allow for the establishment of efficient control systems and prevention of money laundering and terrorism financing; and g) implementation of measures which allow subjects obliged under Resolution 121 and subjects obliged under Resolution 229, respectively, to electronically consolidate the operations carried out with clients, and electronic tools which allow the analysis and control of different variables in order to identify certain behaviors and observe possible suspicious transactions. Entities covered by Resolution 121 and Resolution 229 must report any suspected money laundering to the UIF within 30 calendar days of its occurrence (or attempt) and any terrorism financing suspicious activity before a 48-hour period has elapsed.

According to Resolution 229 and Resolution 121, unusual transactions are those attempted or consummated transactions, on a one-time or regular basis, without economic or legal justification, inconsistent with the economic and financial profile of the client, and which deviate from standard market practices, based on their frequency, regularity, amount, complexity, nature or other particular characteristics. On the other hand, suspicious transactions are those attempted or consummated transactions that, having been previously identified as those attempted or consummated transactions which give rise to suspicion of money-laundering or terrorist financing, or which having been previously identified as unusual transactions, are inconsistent with legal activities stated by the client, or, although related to legal activities, give rise to suspicion that they are related to or used for terrorist financing, after the analysis and evaluation carried out by the obligated party, there exist doubts with respect to the authenticity, veracity or coherence of the documentation presented by the client, in relation with its activity.

Likewise, Resolution 229 provides a list of factors which shall be specially taken into account in order to determine whether a transaction should be reported to the UIF. Recently, UIF Resolution No. 94/2016 established that the obligated parties under Resolution 121 can apply simplified measures of due diligence of client identification when a savings account is opened (that is, presenting the national identification document, the politically exposed person declaration and verification of the owner in the list of terrorists and/or terrorist organizations) in cases in which the owner complies with certain requirements indicated in such resolution. The resolution clarifies that simplified measures of identification do not excuse the obligated party of its obligation to monitor the operations of its client. Additionally, in case one of the conditions of the resolution is not verified, the obligated parties should apply the identification measures established in Resolution 121. Additionally, Resolution No. 92/2016 of the UIF imposed on the obligated parties the obligation to implement a risk management system in accordance with the Voluntary and exceptional declaration of having national or foreign cash or other goods in the country and abroad established under Law No. 27,260, in order to report suspicious operations carried out by clients until March 31, 2017, derived from the applicable tax regimen.



In addition, the CNV rules, under Title XI of Prevention of Money Laundering and Terrorist Financing, establish that brokers and brokerage firms, and companies managing common investment funds, agents of the over-the-counter market, intermediaries in the purchase or lease of securities affiliated with stock exchange entities with or without associated markets and intermediary agents registered on forwards or option markets, and individuals or legal entities acting as trustees, for any type of trust fund, and individuals or legal entities, owners of or related to, directly or indirectly, with trust accounts, trustees and grantors in the context of a trust agreement, shall comply with Law No. 25,246, the UIF's rulings and the CNV's regulations. Additionally, companies managing common

**Table of Contents**

investment funds, any person acting as placement agent or performing activities relating to the trading of common investment funds, any person acting as placement agent in any primary issuance of marketable securities, and any issuer with respect to capital contributions, irrevocable capital contributions for future issuances of stock or significant loans, must also comply with such regulations.

Such resolutions also contain certain requirements for the reception and delivery of checks and payments made between the individuals and entities listed above, as well as the prohibition of transactions relating to the public offering of securities, when they are consummated or ordered by individuals or companies domiciled or residing in domains, jurisdictions, territories or associated states not included in the list of Decree No. 589/2013 (Regulatory Law of Income Tax No. 20,628 and its amendments), among other provisions, which mainly includes jurisdictions considered cooperating for the purpose of tax transparency. Brokers and dealers must duly know their clients and apply policies and maintain adequate structures and systems in line with a policy against money laundering and terrorist financing. Also, interested investors undertake the obligation to submit any information and documents that may be required in order to comply with criminal regulations and other laws and regulation in connection with money laundering, including capital market regulations preventing money laundering issued by the UIF and similar regulations issued by the CNV.

In accordance with the regulations governing the prevention of money laundering, terrorist financing and other illicit activities issued by the Central Bank, financial entities should take certain measures with respect to its clients, including, without limitation:

observe the norms governing the collection of proceeds, the legislation applicable to these matters (laws and regulatory decrees) and the norms of the UIF. This includes the decrees of the National Executive Office with reference to the decisions adopted by the United Nations Security Council in combatting terrorism and comply with the resolutions (and their respective annexes) issued by the Ministry of Foreign Relations and Culture;

if there is a lack of documentation or there exist doubts and/or the detection of irregularities with respect to the truth, accuracy, coherence or integrity of the collected documents, or because situations have been detected that do not fit the profile of the client, determined in accordance with existing regulations, require more information and/or documentation, indicating to the client the obligation to comply with the same;

under no circumstance will relationships with new clients be established until there is compliance with applicable regulations with respect to identification, know-your-customer and risk management procedures;

with respect to existing clients where it has not been possible to comply with the identification and know your customer procedures in accordance with existing regulation, it will be necessary to carry out a risk analysis in order to evaluation whether to continue the client relationship;

send to the principal management of compliance of the UIF of the Central Bank of Argentina a certified copy of the designation of the main compliance officer and a substitute, if applicable, in accordance with the conditions and within the terms established by the regulations issued by the UIF; and

maintain in a database information corresponding to clients that carry out transactions, individually considered, of equal or greater than Ps. 240,000 (or its equivalent in other currencies) for the concept foreseen in the regulations. The retention and maintenance of information will also include cases in which the client, in the discretion of the intermediary, carries out related-party transactions that, even when individually considered, do not reach the minimum value, but reach or exceed such value in the aggregate. For such purpose, it will be necessary that the transactions carried out are combined on a daily basis, storing the data of the persons that perform such transactions, regardless of their individual value, that in aggregate reach a value equal to or greater than Ps. 30,000 (or its equivalent in other currencies), without considering transactions lower than this amount.

In September 2016, BCRA Communication A 6060 entered into force and established that when existing clients cannot comply with identification and know-your-customer procedures in accordance with applicable regulations, it will be necessary to carry out a risk analysis in order to evaluate whether to continue the relationship with the client. The criteria and procedures to be applied to this process must be described by the financial entities in their internal risk management manuals governing prevention of money laundering and terrorist financing. If it is necessary to begin the process of discontinuing a transaction, it will be necessary to observe the procedures and existing terms of the rules of the Central Bank applicable to the product(s) contracted by the client(s). The obligated parties must save, for a period of 10 years, the written procedures applied in each case regarding the discontinuation of the client transaction.

## **Table of Contents**

Non-compliance with the requirements established by the BCRA to access the domestic exchange market for transactions of purchase and sale of values of all types constitute an infraction subject to the criminal foreign exchange regime.

Additionally, in November 2016, BCRA Communication A 6094 established that the regulations of the prevention of money laundering, terrorist financing and other illicit activities issued by the Central Bank must also be complied with by the foreign representatives of the financial entities that are not authorized to operate in Argentina.

Lastly, through Law No. 27,260 and Decree No. 895/2016, the UIF was granted the ability to communicate information to other public entities with intelligence or investigative capabilities, making it clear that it could only do so with a prior reasoned decision of the president of the UIF and only with precise and serious indications consistent with the commission of any of the crimes contemplated in the Prevention of Money Laundering Law. The communications of the UIF will include the transfer of the confidentiality obligation established in Article 22 of the Prevention of Money Laundering Law, holding the officials of the entities receiving the confidential information who disclose such confidential information liable for the penalties established therein. It is made clear that the UIF does not exercise the ability referenced in cases related to voluntary and exception declarations made under Law No. 27,260.

For a more exhaustive analysis of the anti-money laundering regimen existing as of the date of this annual report, it is suggested that investors consult with their legal advisers and read Title XVIII, Book Two of the Argentine Criminal Code, and the regulations issued by the UIF, the CNV and the Central Bank, which can be found on the website of the Ministry of Justice and Human Rights of Argentina, under the section Legislative Information ([www.infoleg.gov.ar](http://www.infoleg.gov.ar)), and/or on the UIF's website ([www.uif.gov.ar](http://www.uif.gov.ar)) and/or on the CNV's website ([www.cnv.gob.ar](http://www.cnv.gob.ar)) and/or the Central Bank's website ([www.bcra.gov.ar](http://www.bcra.gov.ar)).

## **ITEM 10. Additional Information**

### **Capital Stock**

Our capital stock consists of Ps.3,933,127,930, divided into 3,764 Class A shares, 7,624 Class B shares, 40,422 Class C shares and 393,260,983 Class D shares, each fully subscribed and paid, with a par value of ten pesos each and the right to one vote per share. Our total capital stock has not changed since December 31, 2004.

In November 1992, the Privatization Law became effective. Pursuant to the Privatization Law, in July 1993, we completed a worldwide offering of 160 million Class D shares, representing approximately 45% of our outstanding capital stock, which had been owned by the Argentine government. Concurrently with the completion of such offering, the Argentine government transferred approximately 40 million Class B shares to the Argentine provinces, which represented approximately 11% of our outstanding capital stock, and made an offer to holders of pension bonds and certain other claims to exchange such bonds and other claims for approximately 46.1 million Class B shares, representing approximately 13% of our outstanding capital stock. As a result of these transactions, the Argentine government's ownership percentage of our capital stock was reduced from 100% to approximately 30%, including shares that had been set aside to be offered to our employees upon establishment of the terms and conditions by the Argentine government in accordance with Argentine law. The shares set aside to be offered to employees represented 10% of our outstanding capital stock.

In July 1997, the Class C shares set aside for the benefit of our employees in conjunction with the privatization, excluding approximately 1.5 million Class C shares set aside as a reserve against potential claims, were sold through a global public offering, increasing the percentage of our outstanding shares of capital stock held by the public to 75%.

Proceeds from the transactions were used to cancel debt related to the employee plan, with the remainder distributed to participants in the plan. Additionally, Resolution No. 1,023/06 of the Ministry of Economy, dated December 21, 2006, effected the transfer to the employees covered by the employee share ownership plan, or PPP, of 1,117,717 Class C shares, corresponding to the Class C shares set aside as a reserve against potential claims, and reserving 357,987 Class C shares until a decision was reached in a pending lawsuit. Subsequently, with a final

**Table of Contents**

decision having been reached in the lawsuit, and consistent with the mechanism of conversion of Class C shares into Class D shares established by Decree 628/1997 and its accompanying rules, as of December 31, 2009, 1,447,983 Class C shares had been converted into Class D shares. In 2010, a former employee of the Company who was allegedly excluded from the Argentine government's YPF PPP filed a claim against YPF seeking recognition of his status as a shareholder of YPF. In addition, the Federation of Former Employees of YPF joined the proceeding as a supporting third-party claimant, purportedly acting on behalf of other former employees who were also allegedly excluded from the PPP. Under the jurisprudence of the CSJN upholding numerous decisions of the relevant Argentine Courts of Appeals, YPF believes it will not be held liable for claims of this nature related to the PPP. Through Law No. 25,471, the Argentine government assumed sole responsibility for any compensation to be received by YPF's former employees who were excluded from the PPP.

The Class A shares held by the Argentine government became eligible for sale in April 1995 upon the effectiveness of legislation which permitted the Argentine government to sell such shares. In January 1999, Repsol YPF acquired 52,914,700 Class A shares in block (14.99% of our shares) which were converted to Class D shares. Additionally, on April 30, 1999, Repsol YPF announced a tender offer to purchase all outstanding Class A, B, C and D shares at a price of U.S.\$44.78 per share (the Offer). Pursuant to the Offer, in June 1999, Repsol YPF acquired an additional 82.47% of our outstanding capital stock. On November 4, 1999, Repsol YPF acquired an additional 0.35%. On June 7, 2000, Repsol YPF announced a tender offer to exchange newly issued Repsol YPF's shares for 2.16% of our Class B, C and D shares held by minority shareholders. Pursuant to the tender offer, and after the merger with Astra Compañía Argentina de Petróleo, S.A. (Astra) and Repsol Argentina, S.A., Repsol YPF owned 330,551,981 Class D shares and therefore controlled us through a 99.04% ownership interest until 2008. Following the different transactions that started in 2008, Repsol YPF ended up with a total ownership of 57.43% in April 2012.

The Expropriation Law has significantly changed our shareholding structure. The Class D shares subject to expropriation from Repsol YPF or its controlling or controlled entities, which represent 51% of our share capital and were declared of public interest and are currently held by the Republic of Argentina, will be assigned as follows: 51% to the Argentine Republic and 49% to the governments of the provinces that compose the National Organization of Hydrocarbon Producing States. In addition, the Argentine Republic and certain provincial governments already own our Class A and Class B shares. See Item 3. Key Information Risk Factors Risks Relating to Argentina The Argentine Republic owns 51% of the shares of the Company.

As of the date of this annual report, the transfer of the shares subject to expropriation between the National Executive Office and the provinces that compose the National Organization of Hydrocarbon Producing States was still pending. According to Article 8 of the Expropriation Law, the distribution of the shares among the provinces that accept their transfer must be conducted in an equitable manner, considering their respective levels of hydrocarbon production and proved reserves. To ensure compliance with its objectives, the Expropriation Law provides that the National Executive Office, by itself or through an appointed public entity, shall exercise all the political rights associated with the shares subject to expropriation until the transfer of political and economic rights to the provinces that compose the National Organization of Hydrocarbon Producing States is completed. In addition, in accordance with Article 9 of the Expropriation Law, each of the Argentine provinces to which shares subject to expropriation are allocated must enter into a shareholder's agreement with the federal government that will provide for the unified exercise of its rights as a shareholder. See additionally Note 25 to the Audited Consolidated Financial Statements, Item 4. Information on the Company History and Development of YPF, Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government The Expropriation Law, Item 4. Information on the Company Legal and Regulatory Framework and Relationship with the Argentine Government Decree No. 272/2015 and Item 7. Major Shareholders and Related Party Transactions.

**Memorandum and Articles of Association**

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YPF's by-laws were approved by National Executive Decree No. 1,106, dated May 31, 1993, and notarized by public deed No. 175, dated June 15, 1993 at the National Notary Public Office, sheet 801 of the National Registry, and registered at the Inspection Board of Legal Entities of the Argentine Republic on the same date, June 15, 1993 under number 5,109 of the book of Corporations number 113, volume A.

## **Table of Contents**

A shareholders meeting on April 29, 2016, YPF's shareholders approved an amendment to YPF's by-laws. Copies of the by-laws, which have been filed as described in Item 19. Exhibits in this annual report, are also available at the offices of YPF.

For a detailed description of YPF's object and purpose, see Item 4. Information on the Company. YPF's object is set forth in Section 4 of its by-laws.

Pursuant to Argentine Corporations Law, the Board of Directors or the Supervisory Committee shall call either annual general or extraordinary shareholders meetings in the cases provided by law and whenever they consider appropriate. Shareholders representing not less than 5% of YPF's capital stock may also request that a shareholders meeting be called.

A shareholders meeting shall be called at least twenty days prior to the meeting date by notice published in the legal publications journal for a period of five days. The notice shall include the nature, date, time and place of the meeting, the agenda to be discussed and the specific requirements shareholders must meet to attend the meeting.

## **Shareholders Meetings**

Pursuant to the Argentine Corporations Law, the Board of Directors or the Supervisory Committee shall call either annual ordinary or extraordinary shareholders meetings in the cases provided by law and whenever they consider appropriate. Shareholders representing not less than 5% of our capital stock may also request that a shareholders meeting be called, in which case the meeting must take place within 40 days of such shareholders request. If the Board of Directors or the Supervisory Committee fails to call a meeting following such a request, a meeting may be ordered by the CNV or by the courts.

Shareholders meetings may be ordinary meetings or extraordinary meetings. We are required to convene and hold an ordinary meeting of shareholders within four months of the closing of each fiscal year to consider the matters specified in the first two paragraphs of Section 234 of the Argentine Corporations Law, such as the approval of our financial statements, allocation of net income for such fiscal year, approval of the reports of the Board of Directors and the Audit Committee and the election, performance and remuneration of directors and members of the Supervisory Committee. In addition, pursuant to the Stock Market Law, at ordinary shareholders meetings, shareholders must consider (i) the disposition of, or creation of any lien over, assets as long as such decision has not been performed in the ordinary course of business and (ii) the execution of administration or management agreements and whether to approve any agreement by virtue of which the assets or services provided to us are paid partial or totally with a percentage of our income, results or earnings, if the payment is material when measured against the volume of the ordinary course of business and our shareholders equity. Other matters which may be considered at an ordinary shareholders meeting convened and held at any time include the responsibility of directors and members of the Supervisory Committee, capital increases and the issuance of certain notes. Extraordinary shareholders meetings may be called at any time to consider matters beyond the authority of an ordinary meeting including, without limitation, the amendment of our by-laws, issuance of debentures, early dissolution, merger, spin-off, reduction of capital stock and redemption of shares, transformation from one type of entity to another and limitation or suspension of shareholders preemptive rights.

## ***Notices of meetings***

Notice of shareholders meetings must be published for five days in the Official Gazette, in an Argentina newspaper of wide circulation and in the bulletin of the BASE, at least 20 but not more than 45 days prior to the date on which the meeting is to be held. Such notice must include information regarding the type of meeting to be held, the date, time



and place of such meeting and the agenda. If a quorum is not available at such meeting, a notice for a meeting on second call, which must be held within 30 days of the date on which the first meeting was called, must be published for three days at least eight days before the date of the meeting on second call. The above-described notices of shareholders' meetings may be effected simultaneously for the meeting on second call to be held on the same day as the first meeting, only in the case of ordinary meetings. Shareholders' meetings may be validly held without notice if all the shares of our outstanding share capital are present and resolutions are adopted by unanimous vote of shares entitled to vote.

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**Table of Contents*****Quorum and voting requirements***

Except as described below, the quorum for ordinary meetings of shareholders on first call is a majority of the shares entitled to vote, and action may be taken by the affirmative vote of an absolute majority of the shares present that are entitled to vote on such action. If a quorum is not available at the first meeting, a meeting on second call may be held at which action may be taken by the holders of an absolute majority of the shares present, regardless of the number of such shares. The quorum for an extraordinary shareholders' meeting on first call is 60% of the shares entitled to vote, and if such quorum is not available, a meeting or second call may be held, at which action may be taken by the holders of an absolute majority of the shares present, regardless of the number of such shares.

Our by-laws establish that in order to approve (i) the transfer of our domicile outside Argentina, (ii) a fundamental change of the corporate purpose set forth in our by-laws, (iii) delisting of our shares from the BASE or NYSE, and (iv) a spin-off by us, when as a result of such spin-off more than 25% of our assets are transferred to the resulting corporations, a majority of the shares representing 75% or more of our voting shares is required, both in first and second call. Our by-laws also establish that in order to approve (i) certain amendments to our by-laws concerning tender offers of shares (as described below), (ii) the granting of certain guarantees in favor of our shareholders, (iii) full stop of refining, commercialization and distribution activities and (iv) rules regarding appointment, election and number of members of our Board of Directors, a majority of the shares representing 66% or more of our voting shares is required, both in first and second call, as is the affirmative vote of the Class A shares, voting at a special meeting of the holders of such shares.

In order to attend the meeting, shareholders must deposit their shares, or a certificate representing book-entry shares issued by a bank, clearing house or depository trust company, with us. This certificate will allow each shareholder to be registered in the attendance book which closes three business days before the date on which the meeting will be held. We will issue to each shareholder a deposit certificate required for admission into the meeting. Shares certified and registered in the attendance book may not be disposed of before the meeting is held unless the corresponding deposit is cancelled.

Under the Argentine Corporations Law, foreign companies that own shares in an Argentine corporation are required to register with the IGJ in order to exercise certain shareholder rights, including voting rights. Such registration requires the filing of certain corporate and accounting documents. Accordingly, if a shareholder owns Class D shares directly (rather than in the form of ADSs) and it is a non-Argentine company, and such shareholder fails to register with the IGJ, the ability to exercise its rights as a holder of Class D shares may be limited.

Directors, members of the Supervisory Committee and senior managers are both entitled and required to attend all shareholders' meetings. These persons may only exercise voting power to the extent they have been previously registered as shareholders, in accordance with the provisions described in the above paragraph. Nevertheless, these persons are not allowed to vote on any proposal regarding the approval of their management duties or their removal for cause.

Shareholders who have a conflict of interest with us and who do not abstain from voting may be liable for damages to us, but only if the transaction would not have been approved without such shareholders' votes. Furthermore, shareholders who willfully or negligently vote in favor of a resolution that is subsequently declared void by a court as contrary to the law or our by-laws may be held jointly and severally liable for damages to us or to other third parties, including shareholders.

**Directors**

*Election of Directors*

Our business and affairs are managed by the Board of Directors in accordance with our by-laws and the Argentine Corporations Law. Our by-laws provide for a Board of Directors of eleven to 21 members, and up to an equal number of alternates. Alternates are those elected by the shareholders to replace directors who are absent from meetings or who are unable to exercise their duties, when and for whatever period appointed to do so by the Board of Directors. Alternates have the responsibilities, duties and powers of directors only if and to the extent they are called upon to attend board meetings or for such longer period as they may act as replacements.

## **Table of Contents**

Directors hold office from one to three years, as determined by the shareholders' meetings. As of the General Ordinary and Extraordinary Shareholders' meeting and the Board of Directors' meeting, both held on April 29, 2016, our Board of Directors is composed of 15 directors and 11 alternates.

In accordance with our by-laws, the Argentine government, as sole holder of Class A shares, is entitled to elect one director and one alternate.

Under the Argentine Corporations Law, a majority of our directors must be residents of Argentina. All directors must establish a legal domicile in Argentina for service of notices in connection with their duties.

Our by-laws require the Board of Directors to meet at least once every quarter in person or by video conference, and a majority of directors is required in order to constitute a quorum. If a quorum is not met one hour after the start time set for the meeting, the President or his substitute may invite alternates of the same class as that of the absent directors to join the meeting, or call a meeting for another day. Resolutions must be adopted by a majority of the directors present, and the President or his substitute is entitled to cast the deciding vote in the event of a tie.

### *Duties and liabilities of Directors*

In accordance with the Argentine Corporations Law, directors have an obligation to perform their duties with loyalty and with the diligence of a prudent business person. Directors are jointly and severally liable to us, our shareholders and to third parties for the improper performance of their duties, for violating the law or our by-laws or regulations, and for any damage caused by fraud, abuse of authority or gross negligence. Specific duties may be assigned to a director by the by-laws, company regulations, or by resolution of the shareholders' meeting. In such cases, a director's liability will be determined by reference to the performance of such duties.

Only shareholders, through a shareholders' meeting may authorize directors to engage in activities in competition with us. Transactions or contracts between directors and us in connection with our activities are permitted to the extent they are performed under fair market conditions. Transactions that do not comply with the Argentine Corporations Law require prior approval of the Board of Directors or the Supervisory Committee. In addition, these transactions must be subsequently approved by the shareholders at a general meeting. If our shareholders do not approve the relevant transaction, the directors and members of the Supervisory Committee who approved such transactions are jointly and severally liable for any damages caused to us.

Any director whose personal interests are adverse to ours shall notify the Board of Directors and the Supervisory Committee and abstain from voting on such matters. Otherwise, such director may be held liable to us.

A director will not be liable if, notwithstanding his presence at the meeting at which a resolution was adopted or his knowledge of such resolution, a written record exists of his opposition to such resolution and he reports his opposition to the Supervisory Committee before any complaint against him is brought before the Board of Directors, the Supervisory Committee, the shareholders' meeting, the appropriate governmental agency or the courts. Any liability of a director to us terminates upon approval of the director's actions by the shareholders at a general meeting, provided that shareholders representing at least 5% of our capital stock do not object and provided further that such liability does not result from a violation of the law, our by-laws or other regulations.

### **Foreign Investment Legislation**

Under the Argentine Foreign Investment Law, as amended, and its implementing regulations (together, referred to as the Foreign Investment Legislation), the purchase of shares of an Argentine corporation by an individual or legal

entity domiciled abroad or by an Argentine company of foreign capital (as defined in the Foreign Investment Legislation) constitutes foreign investment. Currently, foreign investment in industries other than broadcasting, purchase land located in frontier and other security areas by foreigners and limits on the

**Table of Contents**

ownership of rural land by foreign individuals or legal entities according to Law 26,737, is not restricted, and no prior approval is required to make foreign investments. No prior approval is required in order to purchase Class D shares or ADSs or to exercise financial or corporate rights thereunder.

**Dividends**

Under our by-laws, all Class A, Class B, Class C and Class D shares rank equally with respect to the payment of dividends. All shares outstanding as of a particular record date share equally in the dividend being paid, except that shares issued during the period to which a dividend relates may be entitled only to a partial dividend with respect to such period if the shareholders' meeting that approved the issuance so resolved. No provision of our by-laws or of the Argentine Corporations Law gives rise to future special dividends only to certain shareholders.

The amount and payment of dividends are determined by majority vote of our shareholders voting as a single class, generally, but not necessarily, on the recommendation of the Board of Directors. In addition, under the Argentine Corporations Law, our Board of Directors has the right to declare dividends subject to further approval of shareholders at the next shareholders' meeting.

After the passage of the Expropriation Law, at our shareholders' meeting held on July 17, 2012 a dividend of Ps. 303 million (Ps. 0.77 per share or ADS) was authorized for payment during 2012. Our strategy provides for an increased level of investments that will require a significant reinvestment of earnings and therefore considers a potential dividend distribution consistent with such strategy. At our shareholders' meeting held on April 30, 2013 and its continuation on May 30, 2013, a dividend of Ps. 326 million (Ps. 0.83 per share or ADS) was authorized for payment during August 2013. Furthermore, at the shareholders' ordinary and extraordinary general meeting held on April 30, 2014 and its continuation on May 21, 2014 a dividend of Ps. 464 million (Ps. 1.18 per share or ADS) was authorized for payment during July 2014. At the shareholders' ordinary and extraordinary general meeting held on April 30, 2015, a dividend of Ps. 503 million (Ps. 1.28 per share or ADS) was authorized for distribution by December 31, 2015, which was paid in July 2015. At the shareholders' ordinary and extraordinary general meeting held on April 29, 2016, a dividend of Ps. 889 million (Ps. 2.26 per share or ADS) was authorized for distribution by December 31, 2016, which was paid in July 2016. On March 9, 2017, the Board decided to propose the following to the General Ordinary Shareholders' Meeting: (a) to completely eliminate the special reserve for initial adjustment for implementation of IFRS in accordance with provisions of Article No. 10, Chapter III, Title IV of the Argentina National Securities Commission (*Comisión Nacional de Valores* or *CNV*) Rules, the reserve for future dividends, the reserve for purchasing YPF shares and the reserve for investments; (b) to fully absorb accumulated losses in Unallocated Results of up to Ps. 28,231 million against amounts corresponding to discontinued reserves for up to that amount; and (c) to allocate the remainder of the discontinued reserves as follows: (i) Ps. 100 million to establish a reserve for purchasing YPF shares, in order to make it possible for the Board of Directors to authorize the acquisition of YPF shares when it considers it opportune for the Company, and to fulfill commitments under the bonus and incentive plans, both currently existing and those that may arise in the future; and (ii) Ps. 716 million to a reserve for the payment of dividends, authorizing the Board of Directors to determine when to distribute such dividends prior to the end of 2017. The following table sets forth for the periods and dates indicated, the quarterly dividend payments made by us, expressed in pesos.

<i>Year Ended December 31,</i>	<i>Pesos Per Share/ADS</i>				
	<i>1Q</i>	<i>2Q</i>	<i>3Q</i>	<i>4Q</i>	<i>Total</i>
2005		8.00		4.40	12.40
2006		6.00			6.00

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2007	6.00			6.00
2008	10.76	6.50	6.35	23.61
2009		6.30	6.15	12.45
2010		5.50	5.80	11.30
2011		7.00	7.15	14.15
2012			0.77	0.77
2013			0.83	0.83
2014			1.18	1.18
2015			1.28	1.28
2016			2.26	2.26

## Table of Contents

### **Amount Available for Distribution**

Under Argentine law, dividends may be lawfully paid only out of our retained earnings reflected in the annual audited financial statements prepared in accordance with accounting rules prevailing in Argentina and CNV regulations and approved by a shareholders' meeting. The Board of Directors of a listed Argentine company that makes public offering of its shares may declare interim dividends, in which case the members of the Board and of the Supervisory Committee is jointly and severally liable for the repayment of such dividend if retained earnings at the close of the fiscal year in which the interim dividend was paid would not have been sufficient to permit the payment of such dividend.

According to the Argentine Corporations Law and our by-laws, we are required to maintain a legal reserve of at least 5% of the fiscal year's income until such reserve equals 20% of our then-outstanding capital stock. The legal reserve is not available for distribution to shareholders.

Under our by-laws, our net income is applied as follows:

first, at least 5% of net income, plus (less) prior year adjustments, is segregated to build the legal reserve until such reserve is equal to 20% of our subscribed capital;

second, an amount is segregated to pay the accrued fees of the members of the Board of Directors and of the Supervisory Committee. See Item 6. Directors, Senior Management and Employees' Compensation of members of our Board of Directors and Supervisory Committee ;

third, an amount is segregated to pay dividends on preferred stock, if any; and

fourth, the remainder of net income in whole or in part may be distributed as dividends to common shareholders or allocated for voluntary or contingent reserves as determined by the shareholders' meeting.

Our Board of Directors submits our financial statements for the preceding fiscal year, together with reports thereon by the Supervisory Committee and the auditors, at the annual ordinary shareholders' meeting for approval. Within four months of the end of each fiscal year, an ordinary shareholders' meeting must be held to consider our yearly financial statements and determine the allocation of our net income for such year.

Under applicable CNV regulations, cash dividends must be paid to shareholders within 30 days of the shareholders' meeting approving such dividends or, in the case in which the shareholders' meeting delegates the authority to distribute dividends to the Board of Directors, within 30 days of the Board of Directors' meeting approving such dividends. In the case of payment of stock dividends, or payment of both stock and cash dividends, both shares and cash are required to be available within three months of the receipt of notice of the authorization of the CNV for the public offering of the shares arising from such dividends. In accordance with the Argentine Civil and Commercial Code, the statute of limitations to the right of any shareholder to receive dividends declared by the shareholders' meeting is five years from the date on which it has been made available to the shareholder. However, according to Article 2537 of the Argentine Civil and Commercial Code, the statute of limitations on the right of any shareholder to receive dividends declared before August 1, 2015 is three years.



Owners of ADSs are entitled to receive any dividends payable with respect to the underlying Class D shares. Cash dividends are paid to the Depositary in pesos, directly or through BoNY, as depositary, although we may choose to pay cash dividends outside Argentina in a currency other than pesos, including U.S. dollars. The deposit agreement provides that the Depositary shall convert cash dividends received by the Depositary in pesos to dollars, to the extent that, in the judgment of the Depositary, such conversion may be made on a reasonable basis, and, after deduction or upon payment of the fees and expenses of the Depositary, shall make payment to the holders of ADSs in U.S. dollars.

### **Preemptive and Accretion Rights**

Except as described below, in the event of a capital increase, a holder of existing shares of a given class has a preferential right to subscribe a number of shares of the same class sufficient to maintain the holder's existing proportionate holdings of shares of that class. Preemptive rights also apply to issuances of convertible securities, but

## **Table of Contents**

do not apply upon conversion of such securities. Pursuant to the Argentine Corporations Law, in exceptional cases and on a case-by-case basis when required for our best interest, the shareholders at an extraordinary meeting with a special majority may decide to limit or suspend shareholders' preemptive rights, provided that such limitation or suspension of the shareholders' preemptive rights is included in the agenda of the meeting and the shares to be issued are paid in kind or are issued to cancel preexisting obligations.

Under our by-laws, we may only issue securities convertible into Class D shares, and the issuance of any such convertible securities must be approved by a special meeting of the holders of Class D shares.

Holders of ADSs may be restricted in their ability to exercise preemptive rights if a registration statement under the Stock Market Law relating thereto has not been filed or is not effective. Preemptive rights are exercisable during the 30 days following the last publication of notice informing shareholders of their right to exercise such preemptive rights in the Official Gazette and in an Argentine newspaper of wide circulation. Pursuant to the Argentine Corporations Law, if authorized by an extraordinary shareholders' meeting, companies authorized to make public offering of their securities, such as us, may shorten the period during which preemptive rights may be exercised from 30 to ten days following the publication of notice of the offering to the shareholders to exercise preemptive rights in the Official Gazette and a newspaper of wide circulation in Argentina. Pursuant to our by-laws, the terms and conditions on which preemptive rights may be exercised with respect to Class C shares may be more favorable than those applicable to Class A, Class B and Class D shares.

Shareholders who have exercised their preemptive rights have the right to exercise accretion rights, in proportion to their respective ownership, with respect to any unpreempted shares, in accordance with the following procedure:

Any unpreempted Class A shares will be converted into Class D shares and offered to holders of Class D shares that exercised preemptive rights and indicated their intention to exercise additional preemptive rights with respect to any such Class A shares.

Any unpreempted Class B shares will be assigned to those provinces that exercised preemptive rights and indicated their intention to exercise accretion rights with respect to such shares; any excess will be converted into Class D shares and offered to holders of Class D shares that exercised preemptive rights and indicated their intention to exercise accretion rights with respect to any such Class D shares.

Any unpreempted Class C shares will be assigned to any PPP participants who exercised preemptive rights and indicated their intention to exercise accretion rights with respect to such shares; any excess will be converted into Class D shares and offered to holders of Class D shares that exercised preemptive rights and indicated their intention to exercise accretion rights with respect to any such Class C shares.

Any unpreempted rights will be assigned to holders of Class D shares that exercised their preemptive rights and indicated their intention to exercise accretion rights; any remaining Class D shares will be assigned pro rata to any holder of shares of another class that indicated his or her intention to exercise accretion rights.

The term for exercise of additional preemptive rights is the same as that fixed for exercising preemptive rights.

## **Voting of the Underlying Class D Shares**

Under the by-laws, each Class A, Class B, Class C and Class D share entitles the holder thereof to one vote at any meeting of the shareholders of YPF, except that a specified number of Directors is elected by majority vote of each class (except as provided below). See Directors Election of Directors above for information regarding the number of directors that holders of each class of shares are entitled to elect and certain other provisions governing nomination and election of directors. The Depositary has agreed that, as soon as practicable after receipt of a notice of any meeting of shareholders of YPF, it will mail a notice to the holders of ADRs, evidencing ADSs, registered on the books of the Depositary which will contain the following:

## **Table of Contents**

a summary in English of the information contained in the notice of such meeting;

a statement that the holders of ADRs at the close of business on a specified record date will be entitled, subject to any applicable provisions of Argentine law, the by-laws of YPF and the Class D shares, to instruct the Depositary to exercise the voting rights, if any, pertaining to the Class D shares evidenced by their respective ADSs; and

a statement as to the manner in which such instructions may be given to the Depositary.

The Depositary shall endeavor, to the extent practicable, to vote or cause to be voted the amount of Class D shares represented by the ADSs in accordance with the written instructions of the holders thereof. The Depositary will vote Class D shares, as to which no instructions are received, in accordance with the recommendations of the Board of Directors of YPF. The Depositary will not vote Class D shares, as to which no instructions have been received, in accordance with the recommendations of the Board of Directors, however, unless YPF has provided to the Depositary an opinion of Argentine counsel stating that the action recommended by the Board of Directors is not illegal under Argentine law or contrary to the by-laws or Board regulations of YPF. In addition, the Depositary will, if requested by the Board of Directors and unless prohibited by any applicable provision of Argentine law, deposit all Class D shares represented by ADSs for purposes of establishing a quorum at meetings of shareholders, whether or not voting instructions with respect to such shares have been received.

## **Voting**

Under our by-laws, each Class A, Class B, Class C and Class D share entitles the holder thereof to one vote at any meeting of our shareholders, except that the Class A shares (i) vote separately with respect to the election of our Board of Directors and are entitled to appoint one director and one alternate director and, (ii) have certain veto rights, as described below.

### **Class A Veto Rights**

Under the by-laws, so long as any Class A shares remain outstanding, the affirmative vote of such shares is required in order to: (i) decide upon the merger of the company; (ii) approve any acquisition of shares by a third party representing more than 50% of the company's capital; (iii) transfer to third parties all the exploitation rights granted to YPF pursuant to the Hydrocarbons Law, applicable regulations thereunder or the Privatization Law, if such transfer would result in the total suspension of the company's exploration and production activities; (iv) voluntarily dissolve the company; and (v) transfer our legal or fiscal domicile outside Argentina. The actions described in clauses (iii) and (iv) above also require prior approval of the Argentine congress through enactment of a law.

### **Reporting Requirements**

Pursuant to our by-laws, any person who, directly or indirectly, through or together with its affiliates and persons acting in concert with it, acquires Class D shares or securities convertible into Class D shares, so that such person controls more than 3% of the Class D shares, is required to notify us of such acquisition within five days of such acquisition, in addition to complying with any requirements imposed by any other authority in Argentina or elsewhere where our Class D shares are traded. Such notice must include the name or names of the person and persons, if any, acting in concert with it, the date of the acquisition, the number of shares acquired, the price at which the acquisition was made, and a statement as to whether it is the purpose of the person or persons to acquire a greater shareholding in, or control of, us. Each subsequent acquisition by such person or persons requires a similar notice.



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**Table of Contents**

**Certain Provisions Relating to Acquisitions of Shares**

Pursuant to our by-laws:

each acquisition of shares or convertible securities, as a result of which the acquirer, directly or indirectly through or together with its affiliates and persons acting in concert with it (collectively, an Offeror ), would own or control shares that, combined with such Offeror's prior holdings, if any, of shares of such class, would represent:

15% or more of the outstanding capital stock, or

20% or more of the outstanding Class D shares; and

each subsequent acquisition by an Offeror (other than subsequent acquisitions by an Offeror owning or controlling more than 50% of our capital prior to such acquisition) (collectively, Control Acquisitions ), must be carried out in accordance with the procedure described under Restrictions on Control Acquisitions below.

In addition, any merger, consolidation or other combination with substantially the same effect involving an Offeror that has previously carried out a Control Acquisition, or by any other person or persons, if such transaction would have for such person or persons substantially the same effect as a Control Acquisition ( Related Party Share Acquisition ), must be carried out in accordance with the provisions described under Restrictions on Related Party Share Acquisitions below. The voting, dividend and other distribution rights of any shares acquired in a Control Acquisition or a Related Party Share Acquisition carried out other than in accordance with such provisions will be suspended, and such shares will not be counted for purposes of determining the existence of a quorum at shareholders meetings.

The Expropriation Law has not triggered these obligations.

*Restrictions on Control Acquisitions*

Prior to consummating any Control Acquisition, an Offeror must obtain the approval of the Class A shares, if any are outstanding, and make a public tender offer for all of our outstanding shares and convertible securities. The Offeror will be required to provide us with notice of, and certain specified information with respect to, any such tender offer at least fifteen business days prior to the commencement of the offer, as well as the terms and conditions of any agreement with any shareholder proposed for the Control Acquisition (a Prior Agreement ). We will send each shareholder and holder of convertible securities a copy of such notice at the Offeror's expense. The Offeror is also required to publish a notice containing substantially the same information in a newspaper of general circulation in Argentina, New York and each other city in which our securities are traded on an exchange or other securities market, at least once per week, beginning on the date notice is provided to us, until the offer expires.

Our Board of Directors shall call a special meeting of the holders of Class A shares to be held ten business days following the receipt of such notice for the purpose of considering the tender offer. If the special meeting is not held, or if the shareholders do not approve the tender offer at such meeting, neither the tender offer nor the proposed Control Acquisition may be completed.

The tender offer must be carried out in accordance with a procedure specified in our by-laws and in accordance with any additional or stricter requirements of jurisdictions, exchanges or markets in which the offer is made or in which our securities are traded. Under the by-laws, the tender offer must provide for the same price for all shares tendered, which price may not be less than the highest of the following (the Minimum Price ):

- (i) the highest price paid by, or on behalf of, the Offeror for Class D shares or convertible securities during the two years prior to the notice provided to us, subject to certain antidilution adjustments with respect to Class D shares;
- (ii) the highest closing price for the Class D shares on the BASE during the thirty-day period immediately preceding the notice provided to us, subject to certain antidilution adjustments;
- (iii) the price resulting from clause (ii) above multiplied by a fraction, the numerator of which shall be the highest price paid by or on behalf of the Offeror for Class D shares during the two years immediately preceding the date of the notice provided to us and the denominator of which shall be

**Table of Contents**

the closing price for the Class D shares on the BASE on the date immediately preceding the first day in such two-year period on which the Offeror acquired any interest in or right to any Class D shares, in each case subject to certain antidilution adjustments; and

- (iv) the net earnings per Class D share during the four most recent full fiscal quarters immediately preceding the date of the notice provided to us, multiplied by the higher of (A) the price/earnings ratio during such period for Class D shares (if any) and (B) the highest price/earnings ratio for us in the two-year period immediately preceding the date of the notice provided to us, in each case determined in accordance with standard practices in the financial community.

Any such offer must remain open for a minimum of 20 days and a maximum of 30 days following the provision of notice to the shareholders or publication of the offer, plus an additional period of a minimum of five days and a maximum of ten days required by CNV regulations, and shareholders must have the right to withdraw tendered shares at any time up until the close of the offer. Following the close of such tender offer, the Offeror will be obligated to acquire all tendered shares or convertible securities, unless the number of shares tendered is less than the minimum, if any, upon which such tender offer was conditioned, in which case the Offeror may withdraw the tender offer. Following the close of the tender offer, the Offeror may consummate any Prior Agreement within thirty days following the close of the tender offer; provided, however, that if such tender offer was conditioned on the acquisition of a minimum number of shares, the Prior Agreement may be consummated only if such minimum was reached. If no Prior Agreement existed, the Offeror may acquire the number of shares indicated in the notice provided to us on the terms indicated in such notice, to the extent such number of shares were not acquired in the tender offer, provided that any condition relating to a minimum number of shares tendered has been met.

The Expropriation Law has not triggered these obligations.

*Restrictions on Related Party Share Acquisitions*

The price per share to be received by each shareholder in any Related Party Share Acquisition must be the same as, and must not be less, than the highest of the following:

- (i) the highest price paid by or on behalf of the party seeking to carry out the Related Party Share Acquisition (an Interested Shareholder ) for (A) shares of the class to be transferred in the Related Party Share Acquisition (the Class ) within the two-year period immediately preceding the first public announcement of the Related Party Share Acquisition or (B) shares of the Class acquired in any Control Acquisition, in each case as adjusted for any stock split, reverse stock split, stock dividend or other reclassification affecting the Class;
- (ii) the highest closing sale price of shares of the Class on the BASE during the thirty days immediately preceding the announcement of the Related Party Share Acquisition or the date of any Control Acquisition by the Interested Shareholder, adjusted as described above;
- (iii) the price resulting from clause (ii) multiplied by a fraction, the numerator of which shall be the highest price paid by or on behalf of the Interested Shareholder for any share of the Class during the two years immediately preceding the announcement of the Related Party Transaction and the denominator of which



shall be the closing sale price for shares of the Class on the date immediately preceding the first day in the two-year period referred to above on which the Interested Shareholder acquired any interest or right in shares of the Class, in each case as adjusted as described above; and

- (iv) the net earnings per share of the shares of the Class during the four most recent full fiscal quarters preceding the announcement of the Related Party Transaction multiplied by the higher of the (A) the price/earnings ratio during such period for the shares of the Class and (B) the highest price/earnings ratio for us in the two-year period preceding the announcement of the Related Party Transaction, in each case determined in accordance with standard practices in the financial community.

## **Table of Contents**

In addition, any transaction that would result in the acquisition by any Offeror of ownership or control of more than 50% of our capital stock, or that constitutes a merger or consolidation of us, must be approved in advance by the Class A shares while any such shares remain outstanding.

## **Material Contracts**

None.

## **Exchange Regulations**

See Item 3. Key Information Exchange Regulations for information on the monetary and currency exchange control restrictions in effect in Argentina.

## **Taxation**

### **Argentine Tax Considerations**

The following discussion is a summary of the material Argentine tax considerations relating to the purchase, ownership and disposition of our Class D shares or ADSs.

#### ***Dividends tax***

Dividends paid on our Class D shares or ADSs, whether in cash, property or other equity securities, are not subject to income tax withholding, except for dividends paid in excess of our taxable accumulated income for the previous fiscal period, which are subject to withholding at a rate of 35% in respect of such excess. This is a final tax, and it is not applicable if dividends are paid in shares (*acciones liberadas*) rather than in cash.

#### ***Personal assets tax***

Argentine individuals and undivided estates, foreign individuals and undivided estates, and foreign entities are subject to personal assets tax of 0.25% of the value of any shares or ADSs issued by Argentine entities, held at December 31 of each year. The tax is levied on the Argentine issuers of such shares or ADSs, such as the Company, which must pay this tax in substitution of the relevant shareholders, and is based on the equity value (*valor patrimonial proporcional*), of the shares derived from the latest financial statements at December 31 of each year. Pursuant to the Personal Assets Tax Law, we are entitled and expect to seek reimbursement of such paid tax from the applicable shareholders, including by foreclosing on the shares, or by withholding dividends.

#### ***Tax on debits and credits in bank accounts***

Tax on debits and credits in bank accounts is levied, with certain exceptions, for debits and credits on checking accounts maintained at financial institutions located in Argentina and other transactions that are used as a substitute for the use of checking accounts. The general tax rate is 0.6% for each debit and credit, although in certain cases a decreased rate may apply. The account holder may use up to 34% of the tax paid in respect of credits as a credit against other federal taxes.

#### ***Value added tax***

The sale, exchange or other disposition of our Class D shares or ADSs and the distribution of dividends are exempt from the value added tax.

*Stamp taxes*

Stamp taxes may apply in certain Argentine provinces if transfer of our Class D shares or ADSs is performed or executed in such jurisdictions by means of written agreements. Transfer of our Class D shares or ADSs is exempt from stamp tax in the City of Buenos Aires.

## **Table of Contents**

### ***Estate and gift tax***

The province of Buenos Aires has imposed a tax on the reception of assets through inheritance or gift, effective January 1, 2011. The tax rates vary from 4% to 21.925%, depending on the value of the transferred assets and the relationship between the transferor and the transferee. The transfer of Class D shares or ADSs among residents of the province of Buenos Aires shall be subject to this tax if other applicable conditions are met.

### ***Other taxes***

Subject to the discussion above regarding estate and gift taxes in the province of Buenos Aires, there are no Argentine inheritance or succession taxes applicable to the ownership, transfer or disposition of our Class D shares or ADSs. In addition, neither the minimum presumed income tax nor any local gross turnover tax in the City of Buenos Aires is applicable to the ownership, transfer or disposition of our Class D shares or ADSs.

In the case of litigation regarding the Class D shares or ADSs before a court of the City of Buenos Aires, a 3% court fee would be charged, calculated on the basis of the claim.

### ***Tax treaties***

Argentina has tax treaties for the avoidance of double taxation currently in force with Australia, Belgium, Bolivia, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Russia, Spain, Sweden, Switzerland, the United Kingdom and Uruguay. The tax treaties between Argentina and the United Arab Emirates and Argentina and Mexico have been signed, but the treaties have not yet been ratified by their respective governments. The new tax treaty between Argentina and Switzerland was ratified by their governments and went into effect as of January 1, 2015. There is currently no tax treaty or convention in effect between Argentina and the United States. It is not clear when, if ever, a treaty will be ratified or entered into effect. As a result, the Argentine tax consequences described in this section will apply, without modification, to a holder of our Class D shares or ADSs that is a U.S. resident. Foreign shareholders located in certain jurisdictions with a tax treaty in force with Argentina may be (i) exempted from the payment of the personal assets tax and (ii) entitled to apply for reduced withholding tax rates on payments to be made by Argentine parties.

### **Modifications to the Income Tax Law**

On September 23, 2013, Law No. 26,893 introducing modifications to the Income Tax was published in the Official Gazette. The above-mentioned modifications are mainly related to the taxability of the income originating from the purchase and sale of shares. The scope of the law was clarified by means of the Regulatory Decree 2334. Below is a description of the main modifications introduced by Law No. 26,893:

#### Income originating from the purchase and sale of shares

As from its entry into force, any income originated from the disposal of shares, quotas, equity interests, certificates, bonds and other securities shall be taxable regardless of the subject that holds them.

However, the income originating from the transfer of those securities listed in the stock exchange or securities market authorized by Comision Nacional de Valores, and obtained by undivided state and individuals residing in the country is exempted.

The income obtained by overseas beneficiaries originating from the disposal of shares, quotas, equity interests, certificates, bonds and other securities, is also subject to the tax.

When ownership corresponds to a subject abroad and the acquirer is also an individual or legal entity abroad, the tax will be borne by the purchaser of the shares, quotas, equity interests or other security.

The tax rate is 15%. Furthermore, it was established that when income was obtained by a subject abroad, the calculation of the tax, at the option of the taxpayer, shall be performed by using any of the methods detailed below:

Applying the 15% tax rate on 90% of the sums paid.

**Table of Contents**

Applying the 15% tax rate, on the sum resulting from the deduction of the gross profit paid or credited, the expenses incurred in the country necessary for its obtaining, maintenance and conservation, as well as the deductions admitted by the Income Tax Law.

**United States Federal Income Tax Considerations**

The following are the material U.S. federal income tax consequences of owning and disposing of our Class D shares or ADSs. This discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to hold such securities.

This discussion applies only if you are a U.S. Holder (as defined below) and you hold our Class D shares or ADSs as capital assets for U.S. federal income tax purposes, and it does not describe all of the tax consequences that may be relevant to holders subject to special rules, such as:

certain financial institutions;

insurance companies;

dealers and traders in securities or financial instruments, who use a mark-to-market method of tax accounting;

persons holding Class D shares or ADSs as part of a hedge, straddle, wash sale, conversion transaction, integrated transaction or similar transaction or persons entering into a constructive sale with respect to the Class D shares or ADSs;

persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;

entities classified as partnerships for U.S. federal income tax purposes;

persons liable for the alternative minimum tax;

persons who acquired our Class D shares or ADSs pursuant to the exercise of an employee stock option or otherwise as compensation;

persons holding Class D shares or ADSs in connection with a trade or business conducted outside of the United States;

tax-exempt entities, including individual retirement accounts or Roth IRAs; or

persons holding Class D shares or ADSs that own or are deemed to own ten percent or more of our voting stock.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Class D shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partnerships holding Class D shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the Class D shares or ADSs.

This discussion is based on the Internal Revenue Code of 1986, as amended (the Code ), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the Depository and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. Holder if you are a beneficial owner of Class D shares or ADSs and are, for U.S. federal income tax purposes:

a citizen or individual resident of the United States for U.S. federal income tax purposes;

**Table of Contents**

a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or

an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source. In general, if you own ADSs, you will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depositary shares are released before the underlying shares are delivered to the depositary, or intermediaries in the chain of ownership between U.S. Holders and the issuer of the shares underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of American depositary shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the analysis of the creditability of Argentine taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by such parties or intermediaries.

Please consult your own tax adviser concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of Class D shares or ADSs in your particular circumstances.

This discussion assumes that YPF is not, and will not become, a passive foreign investment company, as described below.

***Taxation of distributions***

Distributions paid on Class D shares or ADSs, other than certain *pro rata* distributions of ordinary shares, will be treated as dividends to the extent paid out of current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of earnings and profits under U.S. federal income tax principles, it is expected that distributions will generally be reported to U.S. Holders as dividends. Subject to applicable limitations (including a minimum holding period requirement), the discussion above regarding concerns expressed by the U.S. Treasury and the discussion below regarding passive foreign investment company rules, certain non-corporate U.S. dividends paid by qualified foreign corporations to certain non-corporate U.S. Holders are taxable at a maximum rate of 20%. Some non-corporate U.S. Holders may also be subject to a 3.8% net investment surtax. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on an established securities market in the United States, such as the NYSE, where our ADSs are listed. You should consult your own tax adviser to determine whether the favorable rate may apply to dividends you receive in respect of our Class D shares or ADSs and whether you are subject to any special rules that limit your ability to be taxed at this favorable rate. The amount of a dividend will include any amounts withheld by us in respect of Argentine income taxes. The dividends will be treated as foreign-source dividend income and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code.

Any dividends paid in Argentine pesos will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your, or in the case of ADSs, the Depositary's, receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you generally would not recognize foreign currency gain or loss in respect of the dividend income. You may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt. Foreign currency gain or loss that you recognize will generally be treated as U.S.-source ordinary



income.

Subject to applicable limitations (including a minimum holding period requirement) that may vary depending upon your circumstances and, in the case of ADSs, subject to the discussion above regarding concerns expressed by the U.S. Treasury, Argentine income taxes, if any, withheld from dividends on Class D shares or ADSs will be creditable against your U.S. federal income tax liability. Amounts paid on account of the Argentine personal

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**Table of Contents**

assets tax will not be eligible for credit against your U.S. federal income tax liability. You should consult your tax adviser to determine the tax consequences applicable to you as a result of the payment of the Argentine personal assets tax or the withholding of the amount of such tax from distributions, including whether such amounts are includible in income or are deductible for U.S. federal income tax purposes. The rules governing the foreign tax credit are complex. You are urged to consult your tax adviser regarding the availability of the foreign tax credit under your particular circumstances.

***Sale or other disposition of Class D shares or ADSs***

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of Class D shares or ADSs will, subject to the discussion below regarding passive foreign investment company rules, be capital gain or loss and will be long-term capital gain or loss if you held the Class D shares or ADSs for more than one year. The amount of your gain or loss will be equal to the difference between the amount realized on the disposition and your tax basis in the relevant Class D shares or ADSs, each as determined in U.S. dollars. The deductibility of capital losses is subject to limitations.

If Argentine income tax is withheld on the sale or other taxable disposition of a Class D share or ADS, the amount realized by a U.S. Holder will include the gross amount of the proceeds of the sale or other taxable disposition before deduction of such tax. Capital gain or loss, if any, realized by a U.S. Holder on the sale or other taxable disposition of the Class D share or ADS generally will be treated as U.S.-source gain or loss for U.S. foreign tax credit purposes. Consequently, in the case of a gain from the disposition of a Class D share or ADS that is subject to Argentine income tax, the U.S. Holder may not be able to benefit from the U.S. foreign tax credit for the tax unless the U.S. Holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. Alternatively, the U.S. Holder may take a deduction for the Argentine income tax if it does not elect to claim a foreign tax credit for any non-U.S. income taxes paid during the taxable year.

***Passive foreign investment company rules***

YPF believes that it was not a passive foreign investment company ( PFIC ) for U.S. federal income tax purposes for the taxable year of 2015 and does not expect to be a PFIC in the foreseeable future. However, since PFIC status depends upon the composition of a company's income and assets and the market value of its assets (including, among other things, less than 25 percent owned equity investments) from time to time, there can be no assurance that YPF will not be considered a PFIC for any taxable year. If YPF were treated as a PFIC for any taxable year during which you held a Class D share or ADS, you generally would be subject to additional filing requirements, imputed interest charges and other disadvantageous tax treatment (including the denial of taxation at the lower rates applicable to long-term capital gains with respect to any gain from the sale or exchange of Class D shares or ADSs). Certain elections might be available that would result in alternative treatments (such as mark-to-market treatment). U.S. Holders should consult their tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

In addition, if YPF were to be treated as a PFIC in a taxable year in which it paid a dividend or the prior taxable year, the 20% dividend rate discussed above with respect to dividends paid by qualified foreign corporations to certain non-corporate holders would not apply.

***Information reporting and backup withholding***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and may be subject to backup withholding

unless (i) you are an exempt recipient or (ii) in the case of backup withholding, you provide a correct taxpayer identification number and certify that you are not subject to backup withholding.

The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

**Table of Contents**

Certain U.S. Holders may be required, generally on IRS Form 8938, to report information relating to their ownership of securities of a non-U.S. person, subject to certain exceptions (including an exception for stock held in certain accounts maintained by a U.S. financial institution, such as our ADSs). A U.S. Holder who fails to timely furnish the required information may be subject to a penalty. U.S. Holders are urged to consult their tax advisers regarding the effect, if any, of these rules on their ownership and disposition of Class D shares or ADSs.

**Documents on Display**

YPF is subject to the information requirements of the U.S. Securities Exchange Act (the Exchange Act), except that as a foreign issuer, YPF is not subject to the proxy rules or the short-swing profit disclosure rules of the Exchange Act. In accordance with these statutory requirements, YPF files or furnishes reports and other information with the SEC. Reports and other information filed or furnished by YPF with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N. E., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the Public Reference Section by calling the SEC at +1-800-732-0330. All of the SEC filings made electronically by YPF are available to the public on the SEC's website at <http://www.sec.gov>.

**ITEM 11. Quantitative and Qualitative Disclosures about Market Risk**

The following quantitative and qualitative information is provided about financial instruments to which we are a party as of December 31, 2016, and from which we may derive gains or incur losses from changes in market, interest rates, foreign exchange rates or commodity prices. We do not enter into derivative or other financial instruments for trading purposes.

This discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors including those set forth in Item 3. Key Information Risk Factors.

***Foreign currency exposure***

The value of financial assets and liabilities denominated in a currency different from the Company's functional currency is subject to variations resulting from fluctuations in exchange rates. Since YPF's functional currency is the U.S. dollar, the currency that generates the greatest exposure is the Argentine peso, the Argentine legal currency. See Note 2.b.1 to the Audited Consolidated Financial Statements.

In addition, our costs and receipts denominated in currencies other than the Argentine peso, including the U.S. dollar, often do not match. We generally follow a policy of not hedging our debt obligations in U.S. dollars. See Item 3. Key Information Risk Factors Risks Relating to Argentina We may be exposed to fluctuations in foreign exchange rates.

Additionally, YPF is enabled to operate as settlement agent in the Rosario Futures Market ( ROFEX ).

The annual rate of devaluation of the Argentine peso was approximately 21.9% considering the period-end exchange rates for U.S. dollars as of December 31, 2016 and 2015. See Item 5. Operating and Financial Review and Prospects Factors Affecting Our Operations Macroeconomic conditions for additional information. The main effects of a devaluation of the Argentine Peso on our net income are those related to the accounting of deferred income tax related mainly to fixed assets, which we expect would have a negative effect; current income tax which we expect would have a positive effect; increased depreciation and amortization resulting from the remeasurement in pesos of

our fixed and intangible assets; and exchange rate differences as a result of our exposure to the peso, which we expect would have a positive effect due to the fact that our functional currency is the U.S. dollar. See Item 3. Key Information Risk Factors Risks Relating to Argentina We may be exposed to fluctuations in foreign exchange rates.

As mentioned in Note 2.b to Audited Consolidated Financial Statements, the Company has determined that the U.S. dollar is its functional currency. Therefore, the effect of changes in the dollar exchange rate on dollar currency positions have no impact on the exchange difference recorded in the consolidated statements of

**Table of Contents**

comprehensive income included in the Audited Consolidated Financial Statements, but affect the amount of our assets and liabilities remeasured in pesos as a consequence of devaluation and considering our reporting currency (pesos). For additional information about our assets and liabilities denominated in currencies other than pesos (principally U.S. dollars) see Annex iii to our Audited Consolidated Financial Statements.

**Interest rate exposure**

The table below provides information about our assets and liabilities as of December 31, 2016 that may be sensitive to changes in interest rates. See Item 3. Key Information Risk Factors Risks Relating to Argentina Variations in interest rates and exchange rate on our current and/or future financing arrangements may result in significant increases in our borrowing costs.

	<i>Expected Maturity Date</i>							<i>Total</i>	<i>Fair Value</i>
	<i>Less than 1 year</i>	<i>1 2 years</i>	<i>2 3 years</i>	<i>3 4 years</i>	<i>4 5 years</i>	<i>More than 5 years</i>			
	<i>(in millions of pesos)</i>								
<b>Assets</b>									
<i>Fixed rate</i>									
<i>Other</i>									
Receivables	27							27	27
Interest rate	0.2%								
<i>Variable rate</i>									
<i>Other</i>									
Receivables	17							17	17
Interest rate	CER <sup>(1)</sup> +8%								
<b>Liabilities</b>									
<i>Fixed rate</i>									
<i>YPF s</i>									
<i>Negotiable</i>									
Obligations	2,203	16,283	4,864	918	15,840	47,791	87,900	92,477	
Interest rate	1.29%-25.75%	3.50%	3.5%	3.5%	8.5%	8.5%-10%			
Other debt	14,312	729	1,027	346	277	969	17,659	17,660	
Interest rate	2%-27.25%	2%-26%	2%-26%	3.5%-26%	3.5%-26%	8.55%-15.23%			
<i>Variable rate</i>									
<i>YPF s</i>									
<i>Negotiable</i>									
Obligations	2,874	4,578	3,519	17,499	2,183	1,834	32,487	32,487	
Interest rate	BADLAR <sup>(2)</sup> +0%- 4.75% / LIBOR +7.5%	BADLAR <sup>(2)</sup> +0 + 4.75% / LIBOR +7.5%	BADLAR <sup>(2)</sup> +0%-4.75%	BADLAR <sup>(2)</sup> + 0%- +4.75%	BADLAR <sup>(2)</sup> 0%-+0.1%	BADLAR <sup>(2)</sup> 0%-0.1%			
Other debt	3,088	6,524	1,499	719	170		12,000	12,000	
Interest rate	Libor +4%-	Libor +	Libor +	Libor +	Libor +				

6.2%/	6.2%/	6.2%/	6.2%/	6.2%/
BADLAR <sup>(2)</sup>	BADLAR <sup>(2)</sup>	BADLAR	BADLAR	BADLAR
+3-+3.5%%	+3%-+3.5%	+3%-+3.5%	+3%	+3%

(1) Coeficiente de Estabilización de Referencia (CER) is a reference stabilization index established by the Public Emergency Law and published by the Argentine Central Bank.

(2) Refers to the average interest rate that banks pay for deposits of more than Ps. 1 million.

***Crude oil and other hydrocarbon product price exposure***

Our results of operations are also exposed to volatility mainly in the prices of certain oil products, especially in connection with imports. Although we have occasionally contracted financial derivatives in the past with the aim of decreasing exposure to these commodities price risks, as of the date of this annual report YPF was not a party to any commodity hedging instruments in connection with crude oil and other hydrocarbon product prices. For information on our hydrocarbons delivery commitments as of December 31, 2016, see Item 4. Information on the Company Exploration and Production Delivery commitments.

**ITEM 12. Description of Securities Other than Equity Securities**

***American Depositary Shares***

Our ADSs are listed on the NYSE under the symbol YPF. The Bank of New York Mellon is the Depositary. Each ADS represents the right to receive one share.

**Table of Contents**

The Depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

The table below sets forth the fees payable, either directly or indirectly, by a holder of ADSs as of the date of this annual report.

<p>Persons depositing or withdrawing shares must pay: U.S.\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)</p>	<p>For: Issuance of ADRs (including, without limitation, issuance pursuant to a stock dividend or stock split declared by YPF, an exchange of stock or a distribution of rights) and surrender of ADRs</p>
<p>Cancellation of ADSs for the purpose of withdrawal</p> <p>A fee equivalent to the fee that would be payable if securities distributed to a holder had been shares and the shares had been deposited for issuance of ADSs</p>	<p>Sale, on behalf of the holder, of rights to subscribe for additional shares or any right of any nature distributed by YPF</p>
<p>Transfer fees, as may from time to time be in effect</p>	<p>Transfer and registration of shares on YPF share register to or from the name of the depositary or its agent when a holder deposits or withdraws shares</p>
<p>Expenses of the depositary</p>	<p>Cable, telex and facsimile transmission expenses, as provided in the deposit agreement</p> <p>Expenses incurred by the depositary in the conversion of foreign currency<sup>(1)</sup></p>
<p>Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes</p>	<p>As necessary</p>

(1) Pursuant to our deposit agreement, whenever the depositary shall receive foreign currency, as a cash dividend or other distribution which, in the judgment of the depositary, can be converted on a reasonable basis into U.S. dollars and transferred to the United States, it will convert such foreign currency into U.S. dollars and transfer the resulting U.S. dollars (after deduction of its customary charges and expenses in effecting such conversion) to the United States.

In 2016, the Depositary made no direct or indirect payments to YPF.

**PART II**



**ITEM 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

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**Table of Contents**

**ITEM 15. Controls and Procedures**

*Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures*

As of December 31, 2016, YPF, under the supervision and with the participation of YPF's management, including our current Principal Executive Officer and Principal Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act). There are, as described below, inherent limitations to the effectiveness of any control system, including disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives.

Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that there was reasonable assurance that the design and operation of these disclosure controls and procedures were effective as of December 31, 2016, in ensuring that information required to be disclosed in reports that the company files under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*Management's Report on Internal Control Over Financial Reporting*

Management of YPF is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). YPF's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of YPF;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of YPF's management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, any system of internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements, due to the possibility that a control can be circumvented or overridden or that misstatements due to error or fraud may occur that are not detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of YPF's management, including our current Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Based on this assessment, our management concluded that, as of December 31, 2016, our internal control over financial reporting was effective

based on those criteria.

Our internal control over financial reporting as of December 31, 2016 has been audited by Deloitte & Co. S.A., an independent registered public accounting firm, as stated in their report included in the F-pages of this annual report.

**Table of Contents**

*Changes in Internal Control Over Financial Reporting*

There has not been any change in YPF's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the period covered by this annual report on Form 20-F that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

**ITEM 16.**

**ITEM 16A. Audit Committee Financial Expert**

Our Board of Directors determined that Carlos Alberto Felices is the Audit Committee Financial Expert at the meetings held on December, 22, 2015 and on April 29, 2016. YPF believes that Mr. Felices possesses the attributes of an Audit Committee Financial Expert set forth in the instructions to Item 16A of Form 20-F. Mr. Felices is an independent director.

**ITEM 16B. Code of Ethics**

YPF has adopted a Code of Ethics and Conduct ( Code of Ethics ) applicable to the Board of Directors, all YPF employees, contractors, sub-contractors, vendors, suppliers and business partners conducting business with YPF, which was most recently amended effective August 22, 2014. Since January 1, 2015, we have not waived compliance with the Code of Ethics. YPF undertakes to provide to any person without charge, upon request, a copy of such Code of Ethics.

The Code of Ethics establishes the implementation of an ethics hotline to receive complaints regarding the lack of fulfilment of the Code of Ethics, an Ethics Committee that will consider complaints received, the appointment of an Ethics Officer who will conduct pertinent investigations, the incorporation of a policy on prohibited periods for trading YPF securities to be followed by officers and those others to whom the Code of Ethics is applicable when conducting stock transactions, among other requirements.

A copy of the Code of Ethics can be found at the Company's web page, [www.ypf.com](http://www.ypf.com), or it can be requested in writing by telephone or facsimile from us at the following address:

YPF S.A.

Office of Shareholders Relations

Macacha Güemes 515

C1106BKK Buenos Aires, Argentina

Tel. (011-54-11) 5441-1276

Fax (011-54-11) 5441-3726

**ITEM 16C. Principal Accountant Fees and Services**

The following table provides information on the aggregate fees billed by our principal accountants, Deloitte & Co. S.A. and affiliates by type of service rendered for the periods indicated.

<i>Services Rendered</i>	<i>2016</i>		<i>2015</i>		<i>2014</i>	
	<i>Fees</i>	<i>Expenses</i>	<i>Fees</i>	<i>Expenses</i>	<i>Fees</i>	<i>Expenses</i>
	<i>(in thousands of pesos)</i>					
Audit Fees	53,855	857	41,561	931	30,156	651
Audit-Related Fees <sup>(1)</sup>	1,801		2,384		3,646	
Tax Fees	638		895		666	
All Other Fees	2,434		2,824		170	
	58,728	857	47,664	931	34,637	651

(1) Includes the fees for the issuance of agreed upon procedures reports.

The annual shareholders' meeting of YPF appoints the external auditor of YPF, along with the Audit Committee's non-binding opinion, which is submitted for consideration to the annual shareholders' meeting.

**Table of Contents**

The Audit Committee of YPF has a pre-approval policy regarding the contracting of YPF's external auditor, or any affiliate of the external auditor, for professional services. The professional services covered by such policy include audit and non-audit services provided to YPF or any of its subsidiaries.

The pre-approval policy is as follows:

1. The Audit Committee must pre-approve all audit and non-audit services to be provided to YPF or any of its subsidiaries by the external auditor (or any of its affiliates) of YPF.
2. The Chairman of the Audit Committee has been delegated the authority to approve the hiring of YPF's external auditor (or any of its affiliates) without first obtaining the approval of the Audit Committee for any of the services which require pre-approval as described in (1) above.

Services approved by the Chairman of the Audit Committee as set forth above must be ratified at the next plenary meeting of the Audit Committee.

All of the services described in the table above were approved by the Audit Committee of YPF. For 2016, Tax Fees mainly corresponds to services related to tax compliance and advice for certain subsidiaries and All Other Fees mainly corresponds to fees billed for services related to quality assurance for a system implementation in a subsidiary and services related to methodology assistance on sustainability reports for YPF.

**ITEM 16D. Exemptions from the Listing Standards for Audit Committees**

None

**ITEM 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Period	Total Number of Shares Purchased	Average Prices Paid per Share (Ps. per share)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Ps. Value of Shares that May Yet Be Purchased Under the Plans or Programs (a)
<b>January 2016</b>				
<b>February 2016</b>				
<b>March 2016</b>				
<b>April 2016</b>				
<b>May 2016</b>				50,000,000
<b>May 2016</b> (from 12/05/2016)	171,330	291.83	171,330	

to 30/05/2016)

**June 2016**

**July 2016**

**August 2016**

**September 2016**

**October 2016**

**November 2016**

**December 2016**

- (a) The Board of Directors, at its meeting held on May 10, 2016, approved a Stock Compensation Plan for employees, which allows YPF to repurchase its shares on the BASE and NYSE for an aggregate amount of up to Ps. 50 million.

See Note 2.b.10.iii to the Audited Consolidated Financial Statements.

**ITEM 16F. Change in Registrant's Certifying Accountant**

During the years ended December 31, 2016, 2015 and 2014 and through the date of this annual report, the principal independent accountant engaged to audit our financial statements, Deloitte & Co S.A., has not resigned, indicated that it has declined to stand for re-election after the completion of its current audit or been dismissed.

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**Table of Contents**

**ITEM 16G. Corporate Governance**

See Item 6. Directors, Senior Management and Employees Compliance with New York Stock Exchange Listing Standards on Corporate Governance.

**PART III**

**ITEM 17. Financial Statements**

The registrant has responded to Item 18 in lieu of responding to this Item.

**ITEM 18. Financial Statements**

The following financial statements are filed as part of this annual report:

**Reports of Independent Registered Public Accounting Firm**

Consolidated Statement of Financial Position of YPF S.A. as of December 31, 2016, 2015 and 2014 F-3

Consolidated Statements of Comprehensive Income of YPF S.A. for the years ended December 31, 2016, 2015 and 2014 F-4

Consolidated Statements of Changes in Shareholders' Equity of YPF S.A. for the years ended December 31, 2016, 2015 and 2014 F-5

Consolidated Statements of Cash Flow of YPF S.A. for the years ended December 31, 2016, 2015 and 2014 F-8

Notes to the Audited Consolidated Financial Statements of YPF S.A. for the years ended December 31, 2016, 2015 and 2014 F-9

**ITEM 19. Exhibits**

- 1.1 By-laws (Estatutos) of YPF S.A. as amended (Spanish Version)
- 1.2 By-laws (Estatutos) of YPF S.A. as amended (English Version)
- 11.1 Code of Ethics\*
- 12.1 Section 302 Certification by Chief Executive Officer
- 12.2 Section 302 Certification by Chief Financial Officer
- 13.1 Section 906 Certification
- 23.1 Consent of Gaffney, Cline & Associates
- 99.1 Reserves Audit Report of Gaffney, Cline & Associates for YPF S.A. as of December 31, 2016, dated March 9, 2017.

\* Incorporated by reference to YPF's 2014 annual report on Form 20-F filed on March 30, 2015.





**Table of Contents**

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

YPF SOCIEDAD ANÓNIMA

By: /s/ Daniel Gonzalez

Name: Daniel Gonzalez

Title: Chief Financial Officer

Dated: April 7, 2017

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

Consolidated Financial Statements

as of December 31, 2016, 2015 and  
2014

Independent Auditors Report

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of YPF SOCIEDAD ANONIMA:

We have audited the accompanying consolidated statements of financial position of YPF SOCIEDAD ANONIMA (an Argentine Corporation) and its controlled companies (the Company ) as of December 31, 2016, 2015 and 2014, and the related consolidated statements of comprehensive income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of YPF SOCIEDAD ANONIMA and its subsidiaries companies as of December 31, 2016, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with International Financial Reporting Standards ( IFRS ) as issued by International Accounting Standards Board ( IASB ).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 7, 2017, expressed an unqualified opinion on the Company's internal control over financial reporting.

Buenos Aires City, Argentina

April 7, 2017

Deloitte & Co. S.A.

/s/ Fernando G. del Pozo

Partner

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of YPF SOCIEDAD ANONIMA:

We have audited the internal control over financial reporting of YPF SOCIEDAD ANONIMA (an Argentine Corporation) and its controlled companies (the Company) as of December 31, 2016, based on the criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control over Financial Reporting (Item 15)*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the consolidated financial statements of YPF SOCIEDAD ANONIMA and its controlled companies as of and for the year ended December 31, 2016 and our report dated April 7, 2017 expressed an unqualified opinion on those consolidated financial statements.

Buenos Aires City, Argentina

April 7, 2017

Deloitte & Co. S.A.

/s/ Fernando G. del Pozo

Partner

**Table of Contents****YPF SOCIEDAD ANONIMA****CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016, 2015 AND 2014****CONTENT**

<b>Note</b>	<b>Description</b>	<b>Page</b>
	<u>Glossary of terms</u>	F-1
	<u>Legal Information</u>	F-2
	<u>Consolidated statements of financial position</u>	F-3
	<u>Consolidated statements of comprehensive income</u>	F-4
	<u>Consolidated statements of changes in shareholders' equity</u>	F-5
	<u>Consolidated statements of cash flow</u>	F-8
	<u>Notes to the consolidated financial statements:</u>	F-9
1	<u>General information, structure and organization of the business of the Group</u>	F-9
2	<u>Basis of preparation of the consolidated financial statements</u>	F-10
3	<u>Acquisitions and dispositions</u>	F-39
4	<u>Financial risk management</u>	F-42
5	<u>Segment information</u>	F-47
6	<u>Financial instruments by category</u>	F-49
7	<u>Intangible assets</u>	F-52
8	<u>Property, plant and equipment</u>	F-53
9	<u>Investments in associates and joint ventures</u>	F-55
10	<u>Inventories</u>	F-59
11	<u>Other receivables</u>	F-59
12	<u>Trade receivables</u>	F-59
13	<u>Cash and cash equivalents</u>	F-59
14	<u>Provisions</u>	F-60
15	<u>Income Tax</u>	F-69
16	<u>Loans</u>	F-70
17	<u>Other liabilities</u>	F-72
18	<u>Accounts payable</u>	F-72

19	<u>Revenues</u>	F-72
20	<u>Costs</u>	F-72
21	<u>Expenses by nature</u>	F-73
22	<u>Other operating results, net</u>	F-74
23	<u>Financial results, net</u>	F-74
24	<u>Investments in joint operations</u>	F-75
25	<u>Shareholders equity</u>	F-76
26	<u>Earnings per share</u>	F-76
27	<u>Deconsolidation of Maxus Entities</u>	F-77
28	<u>Contingent assets and contingent liabilities</u>	F-90
29	<u>Contractual commitments</u>	F-95
30	<u>Main regulations and other</u>	F-105
31	<u>Balances and transactions with related parties</u>	F-125
32	<u>Employee benefit plans and share-based payments</u>	F-128
33	<u>Assets and liabilities in currencies other than the Argentine peso</u>	F-130
34	<u>Subsequent events</u>	F-131
35	<u>Supplemental information on Oil and Gas producing activities (unaudited)</u>	F-132



**Table of Contents****YPF SOCIEDAD ANONIMA****CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016, 2015 AND 2014****GLOSSARY OF TERMS**

<b>Term</b>	<b>Definition</b>
AESA	Subsidiary A-Evangelista S.A.
Associate	Company over which YPF has significant influence as provided for in IAS 28
CDS	Associate Central Dock Sud S.A.
CGU	Cash-Generating Units
CIMSA	Subsidiary Compañía de Inversiones Mineras S.A.
CNV	Argentine Securities Commission
Eleran	Subsidiary Eleran Inversiones 2011 S.A.U.
FACPCE	Argentine Federation of Professional Councils in Economic Sciences
Group	YPF and its subsidiaries
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
IDS	Associate Inversora Dock Sud S.A.
Joint venture	Company jointly owned by YPF as provided for in IAS 28
JO	Joint operation
LGS	Argentine General Corporations Law No. 19,550 (T.O. 1984), as amended
MEGA	Joint venture Compañía Mega S.A.
Metroenergía	Subsidiary Metroenergía S.A.
Metrogas	Subsidiary Metrogas S.A.
MMBtu	Million British thermal units
Oldelval	Associate Oleoductos del Valle S.A.
OPESSA	Subsidiary Operadora de Estaciones de Servicios S.A.
OTA	Associate Oleoducto Trasandino (Argentina) S.A.
OTC	Associate Oleoducto Trasandino (Chile) S.A.
Profertil	Joint Venture Profertil S.A.

Refinor	Joint Venture Refinería del Norte S.A.
SEC	U.S. Securities and Exchange Commission
Subsidiary	Company controlled by YPF in accordance with the provisions of IFRS 10.
Termap	Associate Terminales Marítimas Patagónicas S.A.
US\$	U.S. dollar
US\$/Bbl	U.S. dollar per barrel
Y-GEN I	Joint venture Y-GEN Eléctrica S.R.L.
Y-GEN II	Joint venture Y-GEN Eléctrica II S.R.L.
YPF Brasil	Subsidiary YPF Brasil Comercio Derivado de Petróleo Ltda.
YPF Chile	Subsidiary YPF Chile S.A.
YPF EE	Subsidiary YPF Energía Eléctrica S.A.
YPF Gas	Associate YPF Gas S.A.
YPF Holdings	Subsidiary YPF Holdings, Inc.
YPF International	Subsidiary YPF International S.A.
YPF or the Company	YPF Sociedad Anónima
YPF SP	Subsidiary YPF Servicios Petroleros S.A.
YSUR Group	Group formed by the subsidiaries YSUR Participaciones S.A.U., YSUR Inversiones Petroleras S.A.U., YSUR Inversora S.A.U., YSUR Petrolera Argentina S.A., Petrolera TDF Company S.R.L., YSUR Energía Argentina S.R.L., Petrolera LF Company S.R.L. and YSUR Recursos Naturales S.R.L.
YTEC	Subsidiary YPF Tecnología S.A.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016, 2015 AND 2014**

**LEGAL INFORMATION**

**Legal domicile**

Macacha Güemes 515 Autonomous City of Buenos Aires, Argentina

**Fiscal year number 40**

Beginning on January 1, 2016

**Principal business of the Company:**

Exploration, development and production of oil, natural gas and other minerals and refining, transportation, marketing and distribution of oil and petroleum products and petroleum derivatives, including petrochemicals, chemicals and non-fossil fuels, biofuels and their components; production of electric power from hydrocarbons; rendering telecommunications services, as well as the production, industrialization, processing, marketing, preparation services, transportation and storage of grains and its derivatives.

**Filing with the Public Registry:**

Bylaws filed on February 5, 1991 under No. 404, Book 108, Volume A, Corporations, with the Public Registry of Buenos Aires City, in charge of the Argentine Registrar of Companies (*Inspección General de Justicia*); and Bylaws in substitution of previous Bylaws, filed on June 15, 1993, under No. 5109, Book 113, Volume A, Corporations, with the above mentioned Registry.

**Duration of the Company:**

Through June 15, 2093.

**Last amendment to the bylaws:**

April 29, 2016 registered with the Argentine Registrar of Companies (*Inspección General de Justicia*) on December 21, 2016 under No. 25,244, Book 82 of Corporations.

**Optional Statutory Regime related to Compulsory Tender Offer provided by Decree No. 677/2001 art. 24:**

Not incorporated (modified by Law No. 26,831).

**Capital structure**

393,312,793 shares of common stock, Argentine pesos 10 par value and 1 vote per share.

Subscribed, paid-in and authorized for stock exchange listing

3,933,127,930

F-2

**Table of Contents****YPF SOCIEDAD ANONIMA****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****AS OF DECEMBER 31, 2016, 2015 AND 2014**

(Amounts expressed in millions of Argentine Pesos)

	Notes	2016	2015	2014
<b>ASSETS</b>				
<b>Noncurrent Assets</b>				
Intangible assets	7	8,114	7,279	4,393
Property, plant and equipment	8	308,014	270,905	156,930
Investments in associates and joint ventures	9	5,488	4,372	3,177
Deferred income tax assets, net	15	564	954	244
Other receivables	11	3,909	2,501	1,691
Trade receivables	12	87	469	19
Investment in financial assets	6	7,737		
<b>Total noncurrent assets</b>		333,913	286,480	166,454
<b>Current Assets</b>				
Inventories	10	21,820	19,258	13,001
Other receivables	11	13,456	19,413	7,170
Trade receivables	12	33,645	22,111	12,171
Investment in financial assets	6	7,548	804	
Cash and cash equivalents	13	10,757	15,387	9,758
<b>Total current assets</b>		87,226	76,973	42,100
<b>TOTAL ASSETS</b>		421,139	363,453	208,554
<b>SHAREHOLDERS EQUITY</b>				
Shareholders contributions		10,403	10,349	10,400
Reserves, other comprehensive income and retained earnings		108,352	110,064	62,230
<b>Shareholders equity attributable to shareholders of the parent company</b>		118,755	120,413	72,630
<b>Non-controlling interest</b>		(94)	48	151
<b>TOTAL SHAREHOLDERS EQUITY</b>		118,661	120,461	72,781
<b>LIABILITIES</b>				

**Noncurrent Liabilities**

Provisions	14	47,358	39,623	26,564
Deferred income tax liabilities, net	15	42,465	44,812	18,948
Taxes payable		98	207	299
Loans	16	127,568	77,934	36,030
Other liabilities	17	336	340	332
Accounts payable	18	2,187	285	234
<b>Total noncurrent liabilities</b>		<b>220,012</b>	<b>163,201</b>	<b>82,407</b>

**Current Liabilities**

Provisions	14	1,994	2,009	2,399
Income tax liability		176	1,487	3,972
Taxes payable		4,440	6,047	1,411
Salaries and social security		3,094	2,452	1,903
Loans	16	26,777	27,817	13,275
Other liabilities	17	4,390	413	886
Accounts payable	18	41,595	39,566	29,520
<b>Total current liabilities</b>		<b>82,466</b>	<b>79,791</b>	<b>53,366</b>

<b>TOTAL LIABILITIES</b>		<b>302,478</b>	<b>242,992</b>	<b>135,773</b>
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<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>		<b>421,139</b>	<b>363,453</b>	<b>208,554</b>
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Accompanying notes are an integral part of consolidated financial statements.

**Table of Contents****YPF SOCIEDAD ANONIMA****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

(Amounts expressed in millions of Argentine Pesos)

	Notes	2016	2015	2014
Revenues	19	210,100	156,136	141,942
Cost	20	(177,304)	(119,537)	(104,492)
<b>Gross profit</b>		<b>32,796</b>	<b>36,599</b>	<b>37,450</b>
Selling expenses	21	(15,212)	(11,099)	(10,114)
Administrative expenses	21	(7,126)	(5,586)	(4,530)
Exploration expenses	21	(3,155)	(2,473)	(2,034)
Impairment of property, plant and equipment and intangible assets	2.c and 8	(34,943)	(2,535)	
Other operating results, net	22	3,394	1,682	(1,030)
<b>Operating profit (loss)</b>		<b>(24,246)</b>	<b>16,588</b>	<b>19,742</b>
Income from equity interests in associates and joint ventures	9	588	318	558
Financial income	23	16,759	27,263	11,301
Financial loss	23	(24,944)	(16,016)	(9,826)
Other financial results	23	2,039	910	297
Financial results, net	23	(6,146)	12,157	1,772
<b>Net profit (loss) before income tax</b>		<b>(29,804)</b>	<b>29,063</b>	<b>22,072</b>
Income tax	15	1,425	(24,637)	(13,223)
<b>Net profit (loss) for the year</b>		<b>(28,379)</b>	<b>4,426</b>	<b>8,849</b>
<b>Net profit (loss) for the year attributable to:</b>				
Shareholders of the parent company		(28,237)	4,579	9,002
Non-controlling interest		(142)	(153)	(153)
<b>Profit (loss) per share attributable to shareholders of the parent company basic and diluted</b>	26	<b>(72.13)</b>	<b>11.68</b>	<b>22.95</b>
<b>Other comprehensive income</b>				
Actuarial results Pension plans <sup>(4)</sup>			6	25
Exchange differences from investments in subsidiaries <sup>(2)</sup>			(189)	
		(938)	(1,466)	(677)

Translation differences from investments in associates and joint ventures <sup>(3)</sup>			
Translation differences from YPF <sup>(4)</sup>	28,352	45,407	16,928
<b>Total other comprehensive income for the year<sup>(5)</sup></b>	<b>27,414</b>	<b>43,758</b>	<b>16,276</b>
<b>Total comprehensive income (loss) for the year</b>	<b>(965)</b>	<b>48,184</b>	<b>25,125</b>

- (1) Immediately reclassified to retained earnings.
- (2) Exchange differences as recognized by the indirect subsidiary Gas Argentino S.A. in its statement of comprehensive income, which was reclassified by YPF as other comprehensive income upon the acquisition of negotiable obligations of the said subsidiary.
- (3) Will be reversed to net income at the moment of the sale of the investment or full or partial reimbursement of the capital.
- (4) Will not be reversed to net income.
- (5) Entirely assigned to the parent company's shareholders.

Accompanying notes are an integral part of consolidated financial statements.



Table of Contents

## YPF SOCIEDAD ANONIMA

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

## FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts expressed in millions of Argentine Pesos)

	2016								
	Shareholders contributions		Share- Acquisition		based cost of		Share trading Issuance		Total
	Adjustment	Adjustment	based	based	cost of	Share trading	Issuance		
	Subscribed to	Treasury	treasury	benefit	treasury	premium	premiums		
	capital	shares	shares	plans	shares				
<b>Balances at the beginning of the fiscal year</b>	3,922	6,083	11	18	67	(277)	(115)	640	10,349
Accrual of share-based benefit plans <sup>(4)</sup>					153				153
Repurchase of treasury shares	(2)	(3)	2	3		(50)			(50)
Settlement of share-based benefit plans <sup>(2)</sup>	3	5	(3)	(5)	(159)	175	(65)		(49)
As decided by Ordinary and Extraordinary Shareholders meeting of April 29, 2016 <sup>(3)</sup>									
As decided by the Board of Directors of June 9, 2016 <sup>(3)</sup>									
Other comprehensive income									
Net loss									
<b>Balances at the end of the fiscal year</b>	3,923	6,085	10	16	61	(152)	(180)	640	10,403

	2016									
	Reserves					Equity attributable to Shareholders				
	Legal	Future	Investments	Purchase	Initial	Other	Retained	of the	Non-	Total
dividends	dividends	in	of treasury	IFRS	comprehensive	earnings	parent	controlling	shareholders	
			shares	adjustment	income		company	interest	equity	
<b>Balances at the beginning of the fiscal year</b>	2,007	5	21,264	440	3,648	78,115	4,585	120,413	48	120,461
Accrual of share-based benefit plans <sup>(4)</sup>								153		153
Repurchase of treasury shares								(50)		(50)
Settlement of share-based benefit plans <sup>(2)</sup>								(49)		(49)
As decided by Ordinary and Extraordinary Shareholders meeting of April 29, 2016 <sup>(3)</sup>		889	3,640	50			(4,579)			
As decided by the Board of Directors of June 9, 2016 <sup>(3)</sup>		(889)						(889)		(889)
Other comprehensive income						27,414		27,414		27,414
Net loss							(28,237)	(28,237)	(142)	(28,379)
<b>Balances at the end of the fiscal year</b>	2,007	5	24,904	490	3,648	105,529 <sup>(1)</sup>	(28,231)	118,755	(94)	118,661

(1) Includes 109,334 corresponding to the effect of the translation of the financial statements of YPF S.A. and (3,805) corresponding to the effect of the translation of the financial statements of investments in subsidiaries, associates and joint ventures with functional currencies other than the U.S. dollar, as detailed in Note 2.b.1.

(2) Net of employees' income tax withholding related to the share-based benefit plans.

(3) See Note 25.

(4) See Note 32.



Table of Contents

## YPF SOCIEDAD ANONIMA

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014 (Cont.)

(Amounts expressed in millions of Argentine Pesos)

	2015								
	Shareholders contributions		Adjustment to based cost of			Share trading Issuance		Total	
	Subscribed to capital contributions	Treasury shares	treasury shares	benefit plans	treasury shares	cost of	premium	premiums	Total
Balances at the beginning of the fiscal year	3,922	6,083	11	18	51	(310)	(15)	640	10,400
Accrual of share-based benefit plans <sup>(4)</sup>					124				124
Repurchase of treasury shares	(4)	(6)	4	6		(120)			(120)
Settlement of share-based benefit plans <sup>(3)</sup>	4	6	(4)	(6)	(108)	153	(100)		(55)
Contributions of non-controlling interest									
As decided by Ordinary and Extraordinary Shareholders meeting of April 30, 2015									
As decided by the Board of Directors of June 8, 2015									
Actuarial gains reclassification Pension Plan <sup>(2)</sup>									

Other comprehensive income										
Net income										
<b>Balances at the end of the fiscal year</b>	3,922	6,083	11	18	67	(277)	(115)	640	10,349	
<b>2015</b>										
		<b>Reserves</b>	<b>Purchase of treasury shares</b>	<b>Initial EIS adjustments</b>	<b>Other comprehensive income</b>	<b>Retained earnings</b>	<b>Equity attributable to Shareholders of the parent company</b>	<b>Non-controlling interest</b>	<b>Total shareholders equity</b>	
	<b>Legal dividends</b>	<b>Future investments</b>								
<b>Balances at the beginning of the fiscal year</b>	2,007	5	12,854	320	3,648	34,363	9,033	72,630	151	72,781
Accrual of share-based benefit plans <sup>(4)</sup>							124			124
Repurchase of treasury shares							(120)			(120)
Settlement of share-based benefit plans <sup>(3)</sup>							(55)			(55)
Contributions of non-controlling interest								50		50
As decided by Ordinary and Extraordinary Shareholders meeting of April 30, 2015		503	8,410	120			(9,033)			
As decided by the Board of Directors of June 8, 2015		(503)						(503)		(503)
Other comprehensive income					43,758			43,758		43,758
Actuarial gains reclassification Pension Plan <sup>(2)</sup>					(6)		6			
Net income						4,579	4,579	(153)		4,426

<b>Balances at the end of the fiscal year</b>	2,007	5	21,264	440	3,648	78,115 <sup>(1)</sup>	4,585	120,413	48	120,461
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- (1) Includes 80,982 corresponding to the effect of the translation of the financial statements of YPF and (2,867) corresponding to the effect of the translation of the financial statements of investments in subsidiaries, associates and joint ventures with functional currencies other than the U.S. dollar, as detailed in Note 2.b.1.
- (2) Pension plans of investments in subsidiaries.
- (3) Net of employees' income tax withholdings related to the share-based benefit plans.
- (4) See Note 32.

F-6

**Table of Contents****YPF SOCIEDAD ANONIMA****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014 (Cont.)**

(Amounts expressed in millions of Argentine Pesos)

	2014								
	Adjustment Subscribed to capital	Adjustment to Treasury contributions	Share- based treasury shares	Share- based benefit plans	Share- Acquisition cost of treasury shares	Share trading premium	Share Issuance premiums	Total	
<b>Balances at the beginning of the fiscal year</b>	3,924	6,087	9	14	40	(110)	(4)	640	10,600
Accrual of share-based benefit plans <sup>(4)</sup>					80				80
Repurchase of treasury shares	(6)	(10)	6	10		(200)			(200)
Settlement of share-based benefit plans <sup>(3)</sup>	4	6	(4)	(6)	(69)		(11)		(80)
Contributions of non-controlling interest									
As decided by Ordinary and Extraordinary Shareholders meeting of April 30, 2014									
As decided by the Board of Directors of June 11, 2014									
Other comprehensive income									
Actuarial gains reclassification Pension Plan <sup>(2)</sup>									

Net income

<b>Balances at the end of the fiscal year</b>	3,922	6,083	11	18	51	(310)	(15)	640	10,400	
<b>2014</b>										
		<b>Reserves</b>						<b>Equity attributable to Shareholders of the parent company</b>		
	<b>Future Legal dividends</b>		<b>Investments</b>	<b>Purchase of treasury shares</b>	<b>Initial IFRS adjustment</b>	<b>Other Comprehensive income</b>	<b>Retained earnings</b>	<b>Non-controlling interest</b>	<b>Minority interest</b>	<b>Total Shareholders equity</b>
<b>Balances at the beginning of the fiscal year</b>	2,007	4	8,394	120	3,648	18,112	5,131	48,016	224	48,240
Accrual of share-based benefit plans <sup>(4)</sup>								80		80
Repurchase of treasury shares								(200)		(200)
Accrual of share-based benefit plans <sup>(3)</sup>								(80)		(80)
Contributions of non-controlling interest									80	80
As decided by Ordinary and Extraordinary Shareholders meeting of April 30, 2014		465	4,460	200			(5,125)			
As decided by the Board of Directors of June 11, 2014		(464)						(464)		(464)
Other comprehensive income						16,276		16,276		16,276
Actuarial gains reclassification Pension Plan <sup>(2)</sup>						(25)	25			
Net income							9,002	9,002	(153)	8,849
<b>Balances at the end of the fiscal year</b>	2,007	5	12,854	320	3,648	34,363 <sup>(1)</sup>	9,033	72,630	151	72,781



- (1) Includes 35,764 corresponding to the effect of the translation of the financial statements of YPF and (1,401) corresponding to the effect of the translation of the financial statements of investments in subsidiaries, associates and joint ventures with functional currencies other than the U.S. dollar, as detailed in Note 2.b.1.
- (2) Pension plans of investments in subsidiaries.
- (3) Net of employees income tax withholdings related to the share-based benefit plans.
- (4) See Note 32.

Accompanying notes are an integral part of consolidated financial statements.

**Table of Contents****YPF SOCIEDAD ANONIMA****CONSOLIDATED STATEMENTS OF CASH FLOW****FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

(Amounts expressed in millions of Argentine Pesos)

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>			
Net income	(28,379)	4,426	8,849
Adjustments to reconcile net income to cash flows provided by operating activities:			
Result on investments in associates and joint ventures	(588)	(318)	(558)
Depreciation of property, plant and equipment	44,752	26,685	19,936
Amortization of intangible assets	717	323	469
Consumption of materials and retirement of property, plant and equipment and intangible assets	5,791	3,773	4,041
Charge on income tax	(1,425)	24,637	13,223
Impairment of plant and equipment and intangible assets	34,943	2,535	
Net increase in provisions	6,040	3,598	5,561
Exchange differences, interest and other <sup>(1)</sup>	3,298	(13,449)	(2,116)
Share-based benefit plan	153	124	80
Accrued insurance		(1,688)	(2,041)
Income on deconsolidation of subsidiaries	(1,528)		
Changes in assets and liabilities:			
Trade receivables	(16,079)	(8,031)	(3,824)
Other receivables	5,406	(6,143)	248
Inventories	1,469	101	(244)
Accounts payable	(1,133)	6,676	5,287
Taxes payables	(1,776)	4,544	218
Salaries and social security	784	549	727
Other liabilities	190	(465)	(220)
Decrease in provisions due to payment/use	(1,753)	(1,758)	(1,974)
Dividends received	420	180	299
Proceeds from collection of lost profit insurance	607	2,036	1,689
Income tax payments	(2,726)	(6,931)	(3,496)
<b>Net cash flows provided by operating activities</b>	<b>49,183</b>	<b>41,404</b>	<b>46,154</b>
<b>Investing activities:</b> <sup>(2)</sup>			
Acquisition of property, plant and equipment and intangible assets	(64,160)	(63,774)	(50,213)
Contributions and acquisitions of interests in associates and joint ventures	(448)	(163)	(106)
Proceeds from sales of financial assets	1,072		

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Acquisition of financial assets	(3,476)	(324)	
Proceeds from collection of damaged property's insurance	355	212	1,818
Interests received from financial assets	483		
Contributions and acquisitions in JO			(861)
Proceeds from sale of property, plant and equipment and intangible assets			2,060
Acquisition of subsidiaries net of acquired cash and cash equivalents			(6,103)
<b>Net cash flows used in investing activities</b>	<b>(66,174)</b>	<b>(64,049)</b>	<b>(53,405)</b>
<b>Financing activities:<sup>(2)</sup></b>			
Payments of loans	(73,286)	(24,090)	(13,320)
Payments of interest	(16,330)	(6,780)	(5,059)
Proceeds from loans	101,322	55,158	23,949
Repurchase of treasury shares	(50)	(120)	(200)
Contributions of non-controlling interests	50		80
Dividends paid	(889)	(503)	(464)
<b>Net cash flows provided by financing activities</b>	<b>10,817</b>	<b>23,665</b>	<b>4,986</b>
<b>Translation differences provided by cash and cash equivalents</b>	<b>1,692</b>	<b>4,609</b>	<b>1,310</b>
<b>Deconsolidation of subsidiaries</b>	<b>(148)</b>		
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(4,630)</b>	<b>5,629</b>	<b>(955)</b>
Cash and cash equivalents at the beginning of year	15,387	9,758	10,713
Cash and cash equivalents at the end of year	10,757	15,387	9,758
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(4,630)</b>	<b>5,629</b>	<b>(955)</b>

(1) Does not include exchange differences generated by cash and cash equivalents, which is exposed separately in the statement.

(2) The main investing and financing transactions that have not affected cash and cash equivalents correspond to:

	2016	2015	2014
Acquisition of property, plant and equipment and concession extension easements not paid	6,559	6,799	7,567
Net increases (decreases) related to hydrocarbon wells abandonment obligation costs	2,243	(1,281)	(268)
Dividends receivable	100	100	
Increase in investments in financial assets through a decrease in trade receivables and other receivables	9,918		
Decrease of loans for El Orejano agreement		2,373	
Contributions of non-controlling interests		50	
Capital contributions in kind from investments in associates and joint ventures			342

Accompanying notes are an integral part of consolidated financial statements.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**1. GENERAL INFORMATION, STRUCTURE AND ORGANIZATION OF THE BUSINESS OF THE GROUP**

**General information**

YPF Sociedad Anónima is a *sociedad anónima* (stock corporation) incorporated under the laws in force in the Argentine Republic, with a registered office at Macacha Güemes 515, in the City of Buenos Aires.

YPF and its subsidiaries form the leading energy group in Argentina, which operates a fully integrated oil and gas chain with leading market positions across the domestic Upstream and Downstream segments.

**Structure and organization of the economic group**

The following table shows the organizational structure, including the main companies of the Group, as of December 31, 2016:

(1) Held directly and indirectly.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**1. GENERAL INFORMATION, STRUCTURE AND ORGANIZATION OF THE BUSINESS OF THE GROUP (Cont.)**

**Organization of the business**

As of December 31, 2016, the Group carries out its transactions and operations in accordance with the following structure:

Upstream;

Gas and Power;

Downstream;

Central administration and others, which covers the remaining activities not included in the previous categories.

Activities covered by each business segment are detailed in Note 5.

Almost all operations, properties and clients are located in Argentina. However, the Group holds equity interests in one exploratory area in Chile. The Group also sells lubricants and derivatives in Brazil and Chile and performs certain construction activities related to the oil and gas industry in Uruguay, Bolivia, Brazil and Peru, through AESA and its subsidiaries.

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.a) Basis of preparation**

**Application of IFRS**

The consolidated financial statements of the Group for the year ended December 31, 2016 are presented in accordance with IFRS, as issued by IASB. The adoption of these standards was determined by the Technical Resolution No. 26 (ordered text) issued by FACPCE and CNV.

Also, some additional issues required by the LGS and/or CNV's regulations have been included. This information is contained in the Notes to these consolidated financial statements, only for purposes of fulfillment of these regulatory requirements.

The amounts and other information corresponding to the years ended on December 31, 2015 and 2014 are an integral part of the consolidated financial statements mentioned above and are intended to be read only in relation to these financial statements.

These consolidated financial statements were approved by the Board of Directors' meeting and authorized to be issued on March 9, 2017.

#### Current and non-current classification

The presentation in the statement of financial position makes a distinction between current and non-current assets and liabilities, according to the activities operating cycle. Current assets and liabilities include assets and liabilities which are realized or settled within the 12-month period from the end of the fiscal year.

All other assets and liabilities are classified as non-current. Current and deferred tax assets and liabilities are presented separately from each other and from other assets and liabilities, as current and non-current, respectively.

#### Fiscal year-end

The Company's fiscal year begins on January 1 and ends on December 31, each year.

#### Use of estimates

The preparation of financial statements at a certain date requires the Management to make estimates and assessments affecting the amount of assets and liabilities recorded, contingent assets and liabilities disclosed at such date, as well as income and expenses recorded during the period. Actual future results might differ from the estimates and assessments made at the date of preparation of these consolidated financial statements.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

The description of any significant estimates and accounting judgments made by Management in applying the accounting policies, as well as the main estimates and areas with greater degree of complexity and which require more critical judgments, are disclosed in Note 2.c).

**Consolidation policies**

For purpose of presenting the consolidated financial statements, the full consolidation method was used with respect to all subsidiaries, which are those companies in which the Group holds control. The Group controls an entity when it is exposed, or is entitled to the variable results arising from its equity interest in the entity and has the ability to affect those results through its power over the entity. This capacity is, in general but not exclusively, obtained by the ownership, directly or indirectly of more than 50% of the voting shares of a company.

Interest in JO and other agreements which gives the Group a percentage contractually established over the rights of the assets and obligations that emerge from the contract, have been consolidated line by line on the basis of the mentioned participation over the assets, liabilities, income and expenses related to each contract. Assets, liabilities, income and expenses of JO are presented in the consolidated financial position and in the consolidated statement of comprehensive income, in accordance with their respective nature.

Note 9 details the fully consolidated controlled subsidiaries. Note 24 details the main JO, on a pro rata consolidation basis.

In the consolidation process, balances, transactions and profits between consolidated companies and JO have been eliminated.

The Company's consolidated financial statements are based on the most recent available financial statements of the companies in which YPF holds control, taking into consideration, where necessary, significant subsequent events and transactions, information available to the Company's management and transactions between YPF and such subsidiaries, which could have produced changes to their shareholders' equity. The date of the financial statements of such subsidiaries used in the consolidation process may differ from the date of YPF's financial statements due to administrative reasons. The accounting principles and procedures used by subsidiaries have been homogenized, where appropriate, with those used by YPF in order to present the consolidated financial statements based on uniform accounting and presentation policies. The financial statements of subsidiaries whose functional currency is different from the presentation currency are translated using the procedure set out in Note 2.b.1.

The Group holds 100% of capital of the consolidated companies, with the exception of the holdings in Metrogas and YTEC. The Group takes into account quantitative and qualitative aspects to determine which subsidiaries are

considered to have significant non-controlling interests. In accordance with the previously mentioned, there are no material non-controlling interests to be disclosed, as required by IFRS 12 Disclosure of Interests in Other Entities .

Financial information of subsidiaries, associates and joint ventures in hyperinflationary economies

IAS 29 Financial reporting in hyperinflationary economies requires the financial statements of an entity whose functional currency is that of a hyperinflationary economy to be expressed in terms of the current measurement unit as of the closing date of the reporting fiscal year. For such purpose, in general terms, inflation that has occurred from the date of acquisition or from the revaluation date, as appropriate, is to be computed in non-monetary items. Such standard describes in detail a number of quantitative and qualitative factors to be taken into account in order to determine whether or not an economy is hyperinflationary.

Taking into account the declining inflation trend, the lack of qualitative indicators that may lead to a final conclusion and the inconsistency of the last inflation data published by the Argentine Institute of Statistics and Censuses ( INDEC ), the Management of the Company has concluded that there is insufficient evidence for Argentina to be considered a country with a hyperinflationary economy as of December 2016, under guidelines established in IAS 29. Therefore, the criteria for restatement of information established under that standard in the current year have not been applied.



**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

However, in recent years, certain macroeconomic variables affecting the business of these companies, such as wages, prices of main raw materials and inputs and services, have undergone variations of some importance. If the restatement of the financial statements into a homogeneous currency becomes applicable, the adjustment should be resumed based on the last date on which these companies adjusted their financial statements to reflect the effects of inflation, as established by applicable legislation. Both circumstances should be taken into account by the users of these consolidated financial statements.

**2.b) Significant Accounting Policies**

**2.b.1) Functional and reporting currency and tax effect on Other comprehensive income**

**Functional currency**

YPF, based on parameters set out in IAS 21 "The effects of change in foreign exchange rates", has defined the U.S. dollar as its functional currency. Consequently, non-monetary cost-based measured assets and liabilities, as well as income or expenses, are remeasured into functional currency by applying the exchange rate prevailing at the date of the transaction.

Transactions in currencies other than the functional currency of the Company are deemed to be foreign currency transactions and are remeasured into functional currency by applying the exchange rate prevailing at the date of the transaction (or, for practical reasons and when exchange rates do not fluctuate significantly, the average exchange rate for each month). At the end of each year or at the time of cancellation, the balances of monetary assets and liabilities in currencies other than the functional currency are measured at the exchange prevailing at such date and the exchange differences arising from such measurement are recognized as Financial results, net in the consolidated statement of comprehensive income for the year in which they arise.

Assets, liabilities and results of subsidiaries, associates and joint ventures are shown in their respective functional currencies. The effects of the conversion into U.S. dollars of the financial information of those companies whose functional currency is other than U.S. dollar are recorded as Other comprehensive income in the Consolidated Statement of Comprehensive Income.

**Presentation currency**

According to CNV Resolution No. 562, the Company must present its financial statements in pesos. Therefore, the financial statements prepared in the Company's functional currency are translated into the presentation currency, as per the following procedures:

Assets and liabilities of each of the balance sheets presented are translated using the exchange rate at the balance sheet closing date;

Items of the consolidated statement of comprehensive income are translated using the exchange rate at the time the transactions were generated (or, for practical reasons, and provided the exchange rate has not changed significantly, using each month's average exchange rate);

All translation differences resulting from the foregoing are recognized under Other Comprehensive Income in the statement of comprehensive income.

Tax effect on Other comprehensive income

Results included in Other Comprehensive Income in connection with translation differences generated by investments in subsidiaries, associates and joint ventures whose functional currency is other than U.S. dollar as well as conversion differences arising from the translation of YPF's financial statements into its presentation currency (pesos), have no effect on the income tax or in the deferred tax since at the time they were generated, the relevant transactions did not make any impact on net income or taxable income.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

**2.b.2) Financial Assets**

**Classification**

In accordance with IFRS 9 Financial instruments , the Group classifies its financial assets into two categories:

**Financial assets at amortized cost**

Financial assets are measured at amortized cost if both of the following criteria are met: (i) the objective of the Group s business model is to hold the assets to collect the contractual cash flow, and (ii) the contractual terms only require specific dates for payment of capital and interest.

In addition, and for assets that meet the above conditions, IFRS 9 contemplates the option of designating, at the time of the initial recognition, an asset as measured at its fair value, if doing so would eliminate or significantly reduce the valuation or recognition inconsistency that could arise in the event that the valuation of the assets and liabilities or the recognition of profit or losses resulting therefrom be carried out on different bases. The Group has not designated a financial asset at fair value by using this option.

As of the closing date of these consolidated financial statements, the Group s financial assets at amortized cost include certain elements of cash and cash equivalents, trade receivables and other receivables.

**Financial assets at fair value through profit or loss**

If either of the two criteria above is not met, the financial asset is classified as an asset measured at fair value through profit or loss .

As of the closing date of these consolidated financial statements, the Group s financial assets at fair value through profit or loss include mutual funds and public securities.

**Recognition and measurement**

Purchases and sales of financial assets are recognized on the date on which the Group commits to purchase or sell the assets. Financial assets are derecognized when the rights to receive cash flows from the investments and the risks and rewards of ownership have expired or have been transferred.

Financial assets at amortized cost are initially recognized at fair value plus transaction costs. These assets accrue interest based on the effective interest rate method.

Financial assets at their fair value through profit or loss are initially recognized at fair value and transaction costs are recognized as an expense in the statement of comprehensive income. They are subsequently valued at fair value. Changes in fair values and results from sales of financial assets at fair value through profit or loss are recorded in Financial results, net in the statement of comprehensive income.

In general, the Group uses the transaction price to ascertain the fair value of a financial instrument on initial recognition. In other cases, the Group records a gain or loss on initial recognition only if the fair value of the financial instrument can be supported by other comparable and observable market transactions for the same type of instrument or if it is based in a technical valuation that only inputs observable market information. Unrecognized gains or losses on initial recognition of a financial asset are recognized later on, only to the extent they arise from a change in the factors (including time) that market participants would consider upon setting the price.

Gains/losses on debt instruments measured at amortized cost and not included for hedging purposes are charged to income when the financial assets are derecognized or an impairment loss is recognized and during the amortization process using the effective interest rate method. The Group reclassifies all investments on debt instruments only when its business model for managing those assets changes.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. Impairment losses are recognized only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets and such impairment may be reliably measured.

Evidence of impairment may include indications that debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankrupt or other financial reorganization, and when observable information indicates that there is a measurable decrease in the estimated future cash flows.

The impairment amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount or the loss is recognized in the statement of comprehensive income. For practical purposes, the Group may measure impairment on the basis of an instrument's fair value, using an observable market price. If, in a subsequent period, the amount the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the statements of comprehensive income.

**Offsetting financial instruments**

Financial assets and liabilities are offset 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.

**2.b.3) Inventories**

Inventories are valued at the lower of their cost and their net realizable value. Cost includes acquisition costs (less trade discount, rebates and other similar items), transformation and other costs which have been incurred when bringing the inventory to its present location and condition. The net realizable value is the estimated selling price in the ordinary course of business less selling expenses.

In the case of refined products, costs are allocated in proportion to the selling price of the related products (isomargen method) due to the difficulty for distributing the production costs to each product. Raw materials, packaging and other inventory are valued at their acquisition cost.

The Group assesses the net realizable value of the inventories at the end of each year and recognizes in profit or loss in the consolidated statement of comprehensive income the appropriate valuation adjustment if the inventories are overstated. When the circumstances that previously caused impairment no longer exist or when there is clear evidence of an increase in the inventories net realizable value because of changes in economic circumstances, the amount of a write-down is reversed.

#### **2.b.4) Intangible assets**

The Group initially recognizes intangible assets at their acquisition or development cost. This cost is amortized on a straight-line basis over the useful lives of these assets. At the end of each year, such assets are measured at their acquisition or development cost, considering the criteria adopted by the Group in the transition to IFRS, less any accumulated amortization and any accumulated impairment losses.

The main intangible assets of the Group are as follows:

i. Service concessions arrangements

Includes transportation and storage concessions. These assets are valued at their acquisition cost, considering the criteria adopted by the Group in the transition to IFRS, net of accumulated amortization. They are depreciated using the straight-line method during the course of the concession period.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

The Argentine Hydrocarbons Law allows 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. The term of a transportation concession may be extended for an additional ten-year term. Pursuant to Law No. 26,197, provincial governments have the same powers. Holders of production concessions are entitled to receive a transportation concession for the oil, gas and petroleum products that they produce. The holder of a transportation concession has the right to:

transport oil, gas and petroleum products;

build 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.

In addition, a transportation concession holder is under an obligation to transport hydrocarbons to third parties, without discrimination, in exchange for a tariff. This obligation, however, is applicable to oil or gas producers only to the extent the concession holder has available additional capacity, and is expressly subject to the transportation requirements of the concession holder. Transportation tariffs are subject to approval by the Federal Energy Secretariat for oil and petroleum derivatives pipelines, and by ENARGAS, for gas pipelines. Upon expiration of a transportation concession, oil pipelines and related facilities revert to the Argentine Government, without any payment to the concession holder.

In connection with the foregoing, the Privatization Law granted the Company 35-year transportation concessions for the transportation facilities operated by Yacimientos Petrolíferos Fiscales as of such date. The main pipelines related to said transportation concessions are the following:

La Plata / Dock Sud

Puerto Rosales / La Plata

Monte Cristo / San Lorenzo

Puesto Hernández / Luján de Cuyo

Luján de Cuyo / Villa Mercedes

Thus, assets meeting certain requirements set forth by the IFRIC 12, which at Management of the Company's judgment are met in the facilities mentioned in the preceding paragraphs, are recognized as intangible assets.

ii. Exploration rights

The Group recognizes exploration rights as intangible assets, which are valued at their cost, considering the criteria adopted by the Group in the transition to IFRS, net of the related impairment, if applicable.

Investments related to unproved reserves or fields under evaluation are not depreciated. These investments are reviewed for impairment at least once a year or whenever there are indicators that the assets may have become impaired. Any impairment loss or reversal is recognized in profit or loss in the consolidated statement of comprehensive income. Exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of unproved reserves and other expenditures relating to exploration activities), excluding exploratory well drilling costs, are charged to expense in the consolidated statement of comprehensive income as incurred.

iii. Other intangible assets

Mainly includes costs relating to computer software development expenditures, as well as assets that represent the rights to use technology and knowledge ( know how ) for the manufacture and commercial exploitation of equipment related to oil extraction. These items are valued at their acquisition cost, considering the criteria adopted by the Group in the transition to IFRS, net of the related depreciation and impairment, if applicable.

These assets are amortized on a straight-line basis over their useful lives, which range between 3 and 14 years. The Group reviews annually the mentioned estimated useful life.

The Group has no intangible assets with indefinite useful lives as of December 31, 2016, 2015 and 2014.



**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

**2.b.5) Investments in associates and joint ventures**

Investments in associates and joint ventures are valued using the equity method.

According to this method, the investment is initially recognized at cost under Investments in associates and joint ventures in the statement of financial position, and the book value increases or decreases to recognize the investor's interest in the income of the associate or joint venture after the acquisition date, which is reflected in the statement of comprehensive income under Result from participation in associates and joint ventures. The investment includes, if applicable, the goodwill identified in the acquisition.

Associates are considered those in which the Group has significant influence, understood as the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies. Significant influence is presumed in companies in which a company has an interest of 20% or more and less than 50%.

Joint arrangements are contractual agreements through which the Group and the other party or parties have joint control. Under the provisions of IFRS 11, Joint arrangements, and IAS 28 (2011), Investments in Associates and Joint Ventures, investments in which two or more parties have joint control (defined as a joint arrangement) shall be classified as either a joint operation (when the parties that have joint control have rights to the assets and obligations for the liabilities relating to the joint arrangement) or a joint venture (when the parties that have joint control have rights to the net assets of the joint arrangement). Considering such classification, joint operations shall be proportionally consolidated and joint ventures shall be accounted for under the equity method.

Associates and joint ventures have been valued based upon the latest available financial statements of these companies as of the end of each year, taking into consideration, if applicable, significant subsequent events and transactions, available management information and transactions between the Group and the related company which have produced changes on the latter's shareholders' equity. The dates of the financial statements of such related companies used in the consolidation process may differ from the date of the Company's financial statements due to administrative reasons. The accounting principles and procedures used by associates and joint ventures have been homogenized, where appropriate, with those used by the Group in order to present the consolidated financial statements based on uniform accounting and presentation policies. The financial statements of associates and joint ventures whose functional currency is different from the presentation currency are translated using the procedure set out in Note 2.b.1).

Investments in associates and joint ventures in which the Group has no significant influence or joint control, have been valued at cost.

Investments in companies with negative shareholders' equity are disclosed in the "Other Liabilities" account.

On each closing date or upon the existence of signs of impairment, it is determined whether there is any objective evidence of impairment in the value of the investment in associates and joint ventures. If this is the case, the Group calculates the amount of the impairment as the difference between the recoverable value of associates and joint ventures and their book value, and recognizes the difference under "Result from participation in associates and joint ventures" in the statement of comprehensive income. The recorded value of investments in associates and joint ventures does not exceed their recoverable value.

Note 9 details the investments in associates and joint ventures.

As from the effective date of Law No. 25,063, dividends, either in cash or in kind, that the Group receives from investments in other companies and which are in excess of the accumulated income that these companies carry upon distribution shall be subject to a 35% income tax withholding as a sole and final payment. The Group has not recorded any charge for this tax since it has estimated that dividends from earnings recorded by the equity method will not be subject to such tax.

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)****2.b.6) Property, plant and equipment****General criteria**

Property, plant and equipment are valued at their acquisition cost, plus all the costs directly related to the location of such assets for their intended use, considering the deemed cost criteria adopted by the Group in the transition to IFRS.

Borrowing costs of assets that require a substantial period of time to be ready for their intended use are capitalized as part of the cost of these assets.

Major inspections, necessary to restore the service capacity of the related asset are capitalized and depreciated on a straight-line basis over the period until the next overhaul is scheduled.

The costs of renewals, betterments and enhancements that extend the useful life of properties and/or improve their service capacity are capitalized. As property, plant and equipment are retired, the related cost and accumulated depreciation are derecognized.

Repair, conservation and ordinary maintenance expenses are recognized in the statement of comprehensive income as incurred.

These assets are reviewed for impairment at least once a year or whenever there are indicators that the assets may have become impaired, as detailed in Note 2.b.8.

**Depreciation**

Property, plant and equipment, other than those related to oil and gas exploration and production activities, are depreciated using the straight-line method, over the years of estimated useful life of the assets, as follows:

	<b>Years of Estimated Useful Life</b>
Buildings and other constructions	50
Refinery equipment and petrochemical plants	20-25
Infrastructure of natural gas distribution	20-50
Transportation equipment	5-25

Furniture, fixtures and installations	10
Selling equipment	10
Electric power generation facilities	15-20
Other property	10

Land is classified separately from the buildings or facilities that may be located on it and is deemed to have an indefinite useful life. Therefore, it is not depreciated.

The Group reviews annually the estimated useful life of each class of assets.

Oil and gas exploration and production activities

The Group recognizes oil and gas exploration and production transactions using the successful-efforts method. The costs incurred in the acquisition of new interests in areas with proved and unproved reserves are capitalized as incurred under Mineral properties, wells and related equipment. Costs related to exploration permits are classified as intangible assets.

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**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

Exploration costs, excluding the costs associated to exploratory wells, are charged to expense as incurred. Costs of drilling exploratory wells, including stratigraphic test wells, are capitalized pending determination as to whether the wells have found proved reserves that justify commercial development. If such reserves are not found, the mentioned costs are charged to expense. Occasionally, an exploratory well may be determined to have found oil and gas reserves, but classification of those reserves as proved cannot be made. In those cases, the cost of drilling the exploratory well shall continue to be capitalized if the well has found a sufficient quantity of reserves to justify its completion as a producing well, and the Group is making sufficient progress assessing the reserves as well as the economic and operating viability of the project. If any of the mentioned conditions are not met, the cost of drilling exploratory wells is charged to expense. In addition, the exploratory activity involves, in many cases, the drilling of multiple wells through several years in order to completely evaluate a project. As a consequence, some exploratory wells may be kept in evaluation for long periods, pending the completion of additional wells and exploratory activities needed to evaluate and quantify the reserves related to each project. The detail of the exploratory well costs in evaluation stage is described in Note 8).

Intangible drilling costs applicable to productive wells and to developmental dry holes, as well as tangible equipment costs related to the development of oil and gas reserves, have been capitalized.

The capitalized costs described above are depreciated as follows:

- a) The capitalized costs related to productive activities have been depreciated by field on a unit-of-production basis by applying the ratio of produced oil and gas to estimated proved and developed oil and gas reserves.
- b) The capitalized costs related to the acquisition of property and the extension of concessions with proved reserves have been depreciated by field on a unit-of-production basis by applying the ratio of produced oil and gas to the estimated proved oil and gas reserves.

Revisions in estimates of crude oil and gas proved reserves are considered prospectively in the calculation of depreciation. Revisions in estimates of reserves are performed at least once a year. Additionally, estimates of reserves are audited by external independent petroleum engineers on a three-year rotation plan.

**Costs related to hydrocarbon wells abandonment obligations**

Costs related to hydrocarbon wells abandonment obligations are capitalized at their discounted value along with the related assets, and are depreciated using the unit-of-production method. As compensation, a liability is recognized for this concept at the estimated value of the discounted payable amounts. Revisions of the payable amounts are performed upon consideration of the current costs incurred in abandonment obligations on a field-by-field basis or other external available information if abandonment obligations were not performed. Due to the number of wells in operation and/or not abandoned and likewise the complexity with respect to different geographic areas where the wells are located, current costs incurred in plugging activities are used for estimating the plugging activities costs of the wells pending abandonment. Current costs incurred are the best source of information in order to make the best estimate of asset retirement obligations. Future changes in the costs above mentioned, the useful life of the wells and their estimate of abandonment, as well as changes in regulations related to abandonment, which are not possible to be predicted at the date of issuance of these consolidated financial statements, could affect the value of the abandonment obligations and, consequently, the related asset, affecting the results of future operations.

#### Environmental property, plant and equipment

The Group capitalizes the costs incurred in limiting, neutralizing or preventing environmental pollution only in those cases in which at least one of the following conditions is met: (a) the expenditure improves the safety or efficiency of an operating plant (or other productive assets); (b) the expenditure prevents or limits environmental pollution at operating facilities; or (c) the expenditure is incurred to prepare assets for sale and does not raise the assets carrying value above their estimated recoverable value.

The environmental related property, plant and equipment and the corresponding accumulated depreciation are disclosed in the consolidated financial statements together with the other elements that are part of the corresponding property, plant and equipment which are classified according to their accounting nature.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

**2.b.7) Provisions and contingent liabilities**

The Group makes a distinction between:

i. Provisions

Represent legal or assumed obligations arising from past events, the settlement of which is expected to give rise to an outflow of resources and which amount and timing are uncertain. Provisions are recognized when the liability or obligation giving rise to an indemnity or payment arises, to the extent that its amount can be reliably estimated and that the obligation to settle is probable or certain. Provisions include both obligations whose occurrence does not depend on future events (such as provisions for environmental liabilities and provision for hydrocarbon wells abandonment obligations), as well as those obligations that are probable and can be reasonably estimated whose realization depends on the occurrence of a future events that are out of the control of the Group (such as provisions for contingencies). The amount recorded as provision corresponds to the best estimate of expenditures required to settle the obligation, taking into consideration the relevant risks and uncertainties. See Note 14.

ii. Contingent liabilities

Represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group, or present obligations arising from past events, the amount of which cannot be estimated reliably or whose settlement is not likely to give rise to an outflow of resources embodying future economic benefits. Contingent liabilities are not recognized in the consolidated financial statements, but rather are disclosed to the extent they are significant, as required by IAS 37, Provisions, contingent liabilities and contingent assets . See Note 28.

Provisions are measured at their current value of cash flows estimated to satisfy the obligation, applying a pre-tax rate that reflects the market valuations of the time value of money and the specific risks of the obligation. The increase in the provision due to the passage of time is recognized in the statement of comprehensive income.

When a contract qualifies as onerous, the related unavoidable liabilities are recognized in the consolidated financial statements as provisions, net of the expected benefits.

Except for provisions for hydrocarbon wells abandonment obligations, where the timing of settlement is estimated on the basis of the work plan of the Group, and considering the estimated production of each field (and therefore its abandonment) and provisions for pension plans, in relation to other noncurrent provisions, it is not possible to reasonably estimate a specific schedule of settlement of the provisions considering the characteristics of the concepts

included.

In relation to certain provisions and contingent liabilities, the Group, in accordance with the established exemption contemplated in IAS 37, has decided not to set forth certain critical information that could seriously impair it in the claims made by third parties.

## **2.b.8) Impairment of property, plant and equipment and intangible assets**

For the purpose of evaluating the impairment of property, plant and equipment and intangible assets, the Group compares their carrying value with their recoverable amount at the end of each year, or more frequently, if there are indicators that the carrying value of an asset may not be recoverable.

In order to assess impairment, assets are grouped into CGU, whereas the assets do not generate cash flows that are independent of those generated by other assets or CGU, considering regulatory, economic, operational and commercial conditions. Considering the above mentioned, the Group's assets were grouped into eleven CGU.

### **i. Upstream Segment**

The assets included in this segment have been grouped into six CGU. One CGU groups the assets of YPF fields with basically crude oil reserves, and five CGU group the assets of YPF and YSUR fields with basically natural gas reserves, according to Argentina's basins.



**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

CGU Oil YPF;

CGU Gas Neuquina Basin YPF;

CGU Gas Noroeste Basin YPF;

CGU Gas Austral Basin YPF;

CGU Gas Neuquina Basin YSUR;

CGU Gas Austral Basin YSUR.

CGU Oil YPF Holdings existing as of December 31, 2015 and 2014 was deconsolidated in fiscal year 2016.

ii. Gas and Power Segment

The assets of this segment have been grouped into three CGU: CGU Gas and Power YPF, which mainly includes the commercialization and regasification of natural gas; CGU Metrogas, which includes assets related to natural gas distribution activities; and CGU YPF EE, which includes the assets related to the generation and commercialization of electric energy.

iii. Downstream Segment

The assets of this segment have been grouped in the CGU Downstream YPF, which mainly comprises the assets involved in crude oil refining (or supplementing that activity), the petrochemical industry and the marketing of such products.

iv. Central Administration and Others

It includes the AESA CGU, which basically comprises the assets used for construction purposes related to the activities of the subsidiary.

This aggregation is the best reflection of how the Group currently makes its management decisions for the generation of separate cash flows of the assets.

The recoverable amount is the higher of the fair value less costs of disposal and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a rate that reflects the weighted average capital cost employed for the Group.

If the recoverable amount of a CGU is estimated to be less than its carrying amount, the carrying amount of the CGU is reduced to its recoverable amount, and an impairment loss is recognized in the consolidated statement of comprehensive income.

Any impairment loss is allocated to the assets comprising the CGU on a pro-rata basis based on their carrying amount. Consequently, the basis for future depreciation or amortization will take into account the reduction in the value of the asset as a result of any accumulated impairment losses.

Upon the occurrence of new events or changes in existing circumstances which prove that an impairment loss previously recognized could have disappeared or decreased, a new estimate of the recoverable amount of the corresponding asset is calculated to determine whether a reversal of the impairment losses recognized in previous periods needs to be made.

In the event of a reversal, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined in case no impairment loss had been recognized for the asset (or the CGU) in the past.

#### **2.b.9) Methodology used in the estimation of recoverable amounts**

The methodology used to estimate the recoverable amount of property, plant and equipment and intangible assets consists of using the higher of: i) the calculation of the use value, based on expected future cash flows from the use of such assets, discounted at a rate that reflects the weighted average cost of the allocated principal amount, and if available, ii) the price that would be received in a regular transaction between market participants to sell the asset as of the date of these consolidated financial statements, less the disposal costs of such assets.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

In the assessment of the value in use, cash flow forecasts based on the best estimate of income and expense available for each CGU using sector inputs, past results and future expectations of business evolution and market development are utilized. The most sensitive aspects included in the cash flows used in all the CGU are the purchase and sale prices of hydrocarbons (including applicable gas distribution fees), outstanding regulations, estimates of cost increases, personnel costs and investments.

The cash flows from Upstream assets are generally projected for a period that covers the economically productive useful lives of the oil and gas fields and is limited by the contractual expiration of the concession permits, agreements or exploitation contracts. The estimated cash flows are based on production levels, commodity prices and estimates of the future investments that will be necessary in relation to undeveloped oil and gas reserves, production costs, field decline rates, market supply and demand, contractual conditions and other factors. The unproved reserves are weighted with risk factors, on the basis of the type of each one of the Upstream assets.

Downstream and Gas and Power cash flows are estimated on the basis of projected sales trends, contribution margins by unit, fixed costs and investment flows, in line with the expectations regarding the specific strategic plans of each business. However, cash inflows and outflows relating to planned restructurings or productivity enhancements are not considered. The projections' evaluation horizon is 10 years, considering annual rent for the last period, based on the long useful life of these CGU assets.

The reference prices considered are based on a combination of market prices available in those markets where the Group operates, also taking into consideration specific circumstances that could affect different products the Group commercializes and management's estimations and judgments.

**2.b.10) Employee benefit plans and share-based payments**

i. Retirement plan

Effective March 1, 1995, the Group has established a defined contribution retirement plan that provides benefits for each employee who elects to join the plan. Each plan member will pay an amount between 3% and 10% of his monthly compensation, and the Group will pay an amount equal to that contributed by each member.

The plan members will receive from the Group the contributed funds before retirement only in the case of voluntary termination under certain circumstances or dismissal without cause and, additionally, in case of death or incapacity. The Group has the right to discontinue this plan at any time, without incurring termination costs.

ii. Performance Bonus Programs

These programs cover certain of the Group's personnel. These bonuses are based on compliance with corporate business unit objectives and performance. They are calculated considering the annual compensation of each employee, certain key factors related to the fulfillment of these objectives and the performance of each employee, and are paid in cash.

iii. Share-based benefit plan

From the year 2013, YPF has decided to implement a share-based benefit plan. This plan, organized in annual programs, covers certain executive and management positions and key personnel or personnel with critical technical knowledge. The above mentioned plan is aimed at aligning the performance of these personnel with the objectives of the strategic plan of the Company.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

This plan consists in giving participation, through shares of the Company, to each selected employee with the condition of remaining in it for the previously defined period (up to three years from the grant date, hereinafter "service period"), being this the only condition necessary to access the agreed final retribution.

For accounting purposes, YPF recognizes the effects of the plans in accordance with the guidelines of IFRS 2, "Share-based Payment". In this order, the total cost of the plans granted is measured at the grant date, using the fair value or market price of the Company's share in the United States market. The above mentioned cost is accrued in the Company's net income for the year, over the vesting period, with the corresponding increase in Shareholders' equity in the "Share-based Benefit Plans" account.

**2.b.11) Revenue recognition**

**General criteria**

Revenue is recognized on sales of crude oil, refined products and natural gas, in each case, when title and risks are transferred to the customer following the conditions described below:

The Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

The Group does not retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

The amount of revenue can be measured reliably.

It is probable that the economic benefits associated with the transaction will flow to the Group.

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Revenue recognition related to Government incentive programs**

Incentives for the additional injection of natural gas and for the production of crude oil granted by the Planning and Strategic Coordination Commission of the National Plan of Hydrocarbons Investment by Resolutions No. 1/2013 and No. 14/2015, respectively (see Note 30), fall within the scope of the IAS 20 Accounting for Government grants and disclosure of government assistance, as they constitute economic compensation for the companies committed to increasing their respective production. Incentives have been included in Revenues in the consolidated statement of comprehensive income.

Likewise, these regulations also apply to the temporary economic assistance by Metrogas (see Note 30), as enacted by the Argentine Ministry of Energy and Mining (*Ministerio de Energía y Minería (MINEM)*) under Resolution No. 312-E/1016 and by the former Argentine Energy Secretariat under Resolution No. 263/2015, as its purpose is to fund the expenses and investments related to the normal operation of the natural gas distribution service through networks, while preserving the chain of payment to natural gas producers until the Tariff Review is concluded. The incentives have been included in the item Other operating results, net in the consolidated statement of comprehensive income.

In addition, Argentine tax authorities provide a tax incentive for investment in capital goods, computers and telecommunications for domestic manufacturers through a fiscal bond, provided that manufacturers have industrial establishments located in Argentina, a requirement that is satisfied by the controlled company AESA. The Group recognizes such incentive when the formal requirements established by Decrees No. 379/2001, 1551/2001, its amendments and regulations are satisfied, to the extent that there is reasonable certainty that the grants will be received. The bond received may be computed as a tax credit for the payment of national taxes (i.e., income tax, tax on minimum presumed income, value added tax and domestic taxes) and may also be transferred to third parties. The incentives have been included in the item Other operating results, net in the consolidated statement of comprehensive income.

Recognition of this income is made at its fair value when there is a reasonable certainty that incentives will be received and that regulatory requirements related therewith have been fulfilled.

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)****Recognition of revenues and costs associated with construction contracts method**

Revenues and costs related to construction activities performed by AESA are accounted for in the consolidated statement of comprehensive income for the year using the percentage of completion method, considering the final contribution margin estimated for each project at the date of issuance of the financial statements, which arises from technical studies on sales and total estimated costs for each of them, as well as their physical progress.

The adjustments in contract values, changes in estimated costs and anticipated losses on contracts in progress are reflected in earnings in the year when they become evident.

The table below details information related to the construction contracts as of December 31, 2016, 2015 and 2014:

	<b>Revenues for the year</b>	<b>Costs incurred plus accumulated recognized profits</b>	<b>Contracts in progress</b>	
			<b>Advances received</b>	<b>Retentions</b>
2016	778	1,236		
2015	455	577		
2014	419	418		

**2.b.12) Leases**

The Group's leases are classified as operating or financial leases, taking into account the economic substance of the contracts.

The Group as a lessee:

**- Operating leases**

A lease is classified as an operating lease when the lessor does not transfer substantially to the lessee the entire risks and rewards incidental to ownership of the asset.

Costs related to operating leases are recognized on a straight-line basis in Rental of real estate and equipment and Operation services and other service contracts of the consolidated statement of comprehensive income for the year in which they arise.

- Financial Leases

Leases are classified as financial when the lessor transfers to the lessee substantially all the risks and benefits inherent in the leased property.

The Group has no financial leases as they are defined by IFRS.

The Group has not entered into any significant leases with third parties.

**2.b.13) Net income per share**

Net income per share is calculated by dividing the net income for the year attributable to YPF's shareholders by the weighted average of shares of YPF outstanding during the year net of repurchased shares as mentioned in Note 25.

Diluted net income per share is calculated by dividing the net income for the fiscal year by the weighted average of shares outstanding, and when dilutive, adjusted for the effect of all potentially dilutive shares, including share options, on an as if they had been converted.

In computing diluted net income per share, income available to ordinary shareholders, used in the basic earnings per share calculation, is adjusted by those results that would result of the potential conversion into ordinary stock. The weighted average number of ordinary shares outstanding is adjusted to include the number of additional ordinary shares that would have been outstanding if the dilutive potential ordinary shares had been issued. Diluted net income per share is based on the most advantageous conversion rate or exercise price over the entire term of the instrument from the standpoint of the security holder. The calculation of diluted net income per share excludes potential ordinary shares if their effect is anti-dilutive.



**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

As of the date of the issuance of these consolidated financial statements, there are no YPF instruments outstanding that imply the existence of potential ordinary shares (also taking into account the Company's intent to cancel the share-based benefit plans through their repurchase in the market). Thus the basic net income per share matches the diluted net income per share. See Note 26.

**2.b.14) Financial liabilities**

Financial liabilities are initially recognized at their fair value less the transaction costs incurred. Since the Group does not have financial liabilities whose characteristics require the recognition at their fair value, according to IFRS, after their initial recognition, financial liabilities are measured at amortized cost. Any difference between the financing received (net of transaction costs) and the repayment value is recognized in the consolidated statement of comprehensive income over the life of the related debt instrument, using the effective interest rate method.

The Group derecognizes financial liabilities when the related obligations are settled or expire.

At the closing of these consolidated financial statements, the Group's financial liabilities at amortized cost include accounts payable, other liabilities and loans.

**2.b.15) Taxes, withholdings and royalties**

**Income tax and tax on minimum presumed income**

The Group recognizes income tax applying the liability method, which considers the effect of temporary differences between the financial and tax bases of assets and liabilities and the tax loss carry forwards and other tax credits, which may be used to offset future taxable income, at the current statutory rate of 35%.

Additionally, upon the determination of taxable profit, the Group calculates tax on minimum presumed income applying the current 1% tax rate to taxable assets as of the end of each year. This tax complements income tax. The Group's tax liability will coincide with the higher of the determination of tax on minimum presumed income and the Group's tax liability related to income tax, calculated applying the current 35% income tax rate to taxable income for the year. However, if the tax on minimum presumed income exceeds income tax during one tax year, such excess may be computed as prepayment of any income tax excess over the tax on minimum presumed income that may be generated in the next ten years.

Under Law No. 25,063, dividends distributed, either in cash or in kind, in excess of accumulated taxable income as of the end of the year immediately preceding the dividend payment or distribution date, shall be subject to a 35% income

tax withholding as a sole and final payment, except for those distributed to shareholders resident in countries benefited from treaties for the avoidance of double taxation, which will be subject to a minor tax rate.

Additionally, on September 20, 2013, Law No. 26,893 was enacted, establishing changes to the Income Tax Law, and determining, among other things, an obligation respecting such tax as a single and final payment of 10% on dividends paid in cash or in kind (except in shares) to foreign beneficiaries and individuals residing in Argentina, in addition to the 35% retention mentioned above. The dispositions of this Law came in force on September 23, 2013, the date of its publication in the Official Gazette. On July 22, 2016, Law No. 27,260 was enacted and, among other things, removed the aforementioned requirement.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

**Personal assets tax – Substitute responsible**

Individuals and foreign entities, as well as their undistributed estates, regardless of whether they are domiciled or located in Argentina or abroad, are subject to personal assets tax of 0.25% of the value of any shares or ADSs issued by Argentine entities, held at December 31 of each year. The tax is levied on the Argentine issuers of such shares or ADSs, such as YPF, which must pay this tax in substitution of the relevant shareholders, and is based on the equity value (following the equity method), or the book value of the shares derived from the latest financial statements at December 31 of each year. Pursuant to the Personal Assets Tax Law, the Group is entitled to seek reimbursement of such paid tax from the applicable shareholders, using the method the Group considers appropriate.

**Royalties and withholding systems for hydrocarbon exports**

A 12% (or 15%, if applicable) royalty is payable on the value at the wellhead of crude oil production and the commercialized natural gas volumes. In addition, and pursuant to the extension of the original terms of exploitation concessions, the Group has agreed to pay an extraordinary production royalty and in some cases a royalty of 10% is payable over the production of unconventional hydrocarbons (see Note 30).

Royalty expense and extraordinary production royalties are accounted for as a production cost.

**2.b.16) Shareholders' equity accounts**

Shareholders' equity accounts have been valued in accordance with accounting principles in effect as of the transition date. The accounting transactions that affect shareholders' equity accounts were accounted for in accordance with the decisions taken by the Shareholders' meetings, and legal standards or regulations.

**Subscribed capital stock and adjustments to contributions**

Consists of the shareholders' contributions represented by shares and includes the outstanding shares at face value net of treasury shares mentioned in the following paragraph – Treasury shares and adjustment to treasury shares . The subscribed capital account has remained at its historical value and the adjustment required previous Argentine GAAP to state this account in constant Argentine pesos is disclosed in the Adjustments to contributions' account.

The adjustment to contributions cannot be distributed in cash or in kind, but is allowed its capitalization by issuing shares. Also, this item may be used to compensate for accumulated losses.

**Treasury shares and adjustments to treasury shares**

Corresponds to the reclassification of the nominal value and the corresponding adjustment in constant peso (Adjustment to Contributions) of shares issued and repurchased by YPF in market transactions, as is required by the CNVs regulations in force.

Share-based benefit plans

Corresponds to the balance related to the share-based benefit plans as mentioned in Note 2.b.10.iii).

Acquisition cost of repurchased shares

Corresponds to the cost incurred in the acquisition of the shares that YPF holds as treasury shares. Additionally, see Note 25.

Considering CNV regulations RG 562, the distribution of retained earnings is restricted by the balance of this account.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

**Share trading premium**

Corresponds to the difference between accrued amount in relation to the share-based benefit plans and acquisition cost of the shares settled during the year in relation with the mentioned plans.

Considering the debit balance of the premium, distribution of retained earnings is restricted by the balance of this premium.

**Issuance premiums**

Corresponds to the difference between the amount of subscription of the capital increase and the corresponding face value of the shares issued.

**Legal reserve**

In accordance with the provisions of LGS, YPF has to appropriate to the legal reserve no less than 5% of the algebraic sum of net income, prior year adjustments, transfers from other comprehensive income to retained earnings and accumulated losses from previous years, until such reserve reaches 20% of the subscribed capital plus adjustment to contributions. As of December 31, 2016, the legal reserve has been fully integrated, amounting to 2,007.

**Reserve for future dividends**

Corresponds to the allocation made by the YPF's Shareholders' meeting, whereby a specific amount is transferred to the reserve for future dividends.

**Reserve for investments and reserve for purchase of treasury shares**

Corresponds to the allocation made by the YPF's Shareholders' meeting, whereby a specific amount is being assigned to be used in future investments and in the purchase of YPF's shares to meet the obligations arising from share-based benefit plan described in Note 2.b.10.iii).

**Initial IFRS adjustment reserve**

Corresponds to the initial adjustment in the transition to IFRS application, which was approved by the Shareholders' meeting of April 30, 2013, in accordance with the General Resolution No. 609 of the CNV.

Such reserve cannot be used in distributions in cash or in kind to the shareholders or owners of YPF and may only be reversed for capitalization or absorption of an eventual negative balance on the Retained earnings account according the aforementioned Resolution.

Other comprehensive income

Includes income and expenses recognized directly in equity accounts and the transfer of such items from equity accounts to the income statement of the year or to retained earnings, as defined by IFRS.

Retained earnings

Includes accumulated gains or losses without a specific appropriation that being positive can be distributed upon the decision of the Shareholders meeting, while not subject to legal restrictions. Additionally, it includes the net income of previous years that was not distributed, the amounts transferred from other comprehensive income and adjustments to income of previous years produced by the application of new accounting standards.

Additionally, pursuant to the regulations of the CNV, when the net balance of other comprehensive income account is positive, it shall not be distributed or capitalized nor used to compensate accumulated losses, and when the net balance of these results at the end of a year is negative, a restriction on the distribution of retained earnings for the same amount will be imposed.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

**Non-controlling interest**

Corresponds to the interest in the net assets acquired and net income of Metrogas (30%) and YTEC (49%), representing the rights on shares that are not owned by YPF.

**2.b.17) Derivative financial instruments and hedge transactions**

Derivative financial instruments are recognized at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge instrument, and, if so, the nature of the item being hedged.

The Group manages exposures to several risks using different financial instruments. The Group does not use derivative financial instruments for speculative purposes. During this fiscal year, the Group has used U.S. dollar future exchange rate agreements, which were fully settled as of the closing date hereof.

The Group's policy is to apply hedge accounting to hedging relationships where it is both permissible and practical under IFRS 9, and its application reduces volatility. Transactions that may be effective hedges in economic terms may not always qualify for hedge accounting under IFRS 9. During the years ended December 31, 2016, 2015 and 2014, the Group has not applied hedge accounting to its derivative financial instruments. Gains or losses from these derivative financial instruments are classified as Financial results, net, in the statement of comprehensive income.

Fair values of derivative financial instruments that are traded in active markets are computed by reference to market prices. The fair value of derivative financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each fiscal year. During the fiscal years ended December 31, 2016, 2015 and 2014, the Group only used derivative instruments traded on active markets.

**2.b.18) Trade receivables and other receivables**

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

A provision for bad debt is created where there is objective evidence that the Group may not be able to collect all receivables within the original payment terms. Indicators of bad debts include significant financial distress of the debtor, the debtor potentially filing a petition for reorganization or bankrupt, or any event of default or past due account.

In the case of larger non-homogenous receivables, the impairment provision is calculated on an individual basis. When assessed individually, the Group records a provision for impairment which amounts to the difference between the value of the discounted expected future cash flows of the receivable and its carrying amount, taking into account existing collateral, if any. This provision takes into consideration the financial condition of the debtor, the resources, payment track-record and, if applicable, the value of collateral.

The Group does not hold significant homogeneous credits.

The carrying amount of the assets is reduced through the use of the provision account, and the amount of the loss is recognized in the statement of comprehensive income within *Selling expenses* . Subsequent recoveries of amounts previously written off are also credited against *Selling expenses* in the statement of comprehensive income.

#### **2.b.19) Cash and cash equivalents**

In the statement of cash flow, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquidity investments with original maturities of three months or less. They do not include bank overdrafts.

#### **2.b.20) Dividends distribution**

Dividends payable by the Group are recognized as liabilities in the period in which they are approved.



**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

**2.b.21) Business combinations**

Business combinations are accounted for by applying the acquisition method when YPF takes effective control over the acquired company.

The Group recognizes in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest and goodwill, if any, in accordance with IFRS 3.

The acquisition cost is measured as the sum of the consideration transferred, measured at fair value at its acquisition date and the amount of any non-controlling interest in the acquired entity. The Group will measure the non-controlling interest in the acquired entity at fair value or at the non-controlling interest's proportionate share of the acquired entity's identifiable net assets.

If the business combination is achieved in stages, the Group shall remeasure its previously held equity interest in the acquired entity at its acquisition date fair value and recognize a gain or loss in the statement of comprehensive income.

The goodwill cost is measured as the excess of the consideration transferred over the identifiable assets acquired and liabilities assumed net by the Group. If this consideration is lower than the fair value of the assets identifiable and liabilities assumed, the difference is recognized in the statement of comprehensive income.

**2.b.22) Total or partial disposal of foreign operation whose functional currency is other than the U.S. Dollar**

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the translation differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss of that fiscal year.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated translation differences are reclassified to non-controlling interest and are not recognized in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Translation differences arising are recognized in other comprehensive income.

### **2.b.23) Segment Information**

Operating segments are reported in a manner consistent with the internal reporting provided to the top authority decision-maker, who is the person responsible for allocating resources and assessing the performance of the operating segments. Operating segments are described in Note 5.

### **2.b.24) New standards issued**

As required by IAS 8 Accounting policies, changes in accounting estimates and errors , we detail below a brief summary of the standards or interpretations issued by the IASB, whose application is mandatory as of the closing date of these consolidated financial statements, as well as of those whose application has not been mandatory as of the closing date of these consolidated financial statements and have, therefore, not been adopted by the Group.

Standards or interpretations issued by the IASB, which application is mandatory as of the closing date of these consolidated financial statements, therefore have been adopted by the Group, if applicable.

#### **IFRS 11 Accounting for acquisitions of equity interests in joint operations**

In May 2014, the IASB amended IFRS 11 Joint Arrangements , which is applicable to those fiscal years beginning on or after January 1, 2016, and authorized their implementation in advance.

The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint venture in which the activities constitute a business, as defined in IFRS 3 Business Combinations .

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

A joint operator is also required to disclose the information of interest requested by IFRS 3 and other standards for business combinations.

Entities must prospectively apply the changes to acquisitions of interests in joint operations that occur from the commencement of the annual periods beginning on or after January 1, 2016.

**IFRS 14 Deferral accounts of regulated activities**

In January 2014, the IASB approved IFRS 14, which is applicable to fiscal years beginning on or after January 1, 2016, and authorized its early enforcement. The scope of this Standard is limited to first-time entities adopting the IFRS, which recognized the balances of the deferred income accounts regulated in their financial statements in accordance with their previous accounting standards. The first financial statements submitted by the Group under IFRS were dated as of December 31, 2012 and the standard was issued in January 2014; therefore the Group did not apply this standard to its financial statements.

**IAS 16 and 38 Depreciation and amortization methods**

Modifications to IAS 16 Property, plant and equipment forbid entities from using an income-based depreciation method for property, plant and equipment items, while the amendments to IAS 38 Intangible Assets introduce the legal presumptions that income is not an adequate principle for the amortization of an intangible asset.

The amendments are prospectively applied to annual periods beginning on or after January 1, 2016, and may be implemented in advance.

**IAS 27 Separate financial statements**

The amendments are focused on the individual financial statements and allow the use of the equity method in these financial statements.

The amendments are retrospectively applied to annual periods beginning on or after January 1, 2016 and may also be implemented in advance.

**IAS 1 Presentation of Financial Statements Disclosure Initiative**

Amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2016 and may also be implemented in advance. Implementation of the amendments does not need to be disclosed.

Some highlights in the amendments are as follows:

An entity should not reduce the comprehensibility of its financial statements by hiding material information with irrelevant information or by aggregating material elements that have a different nature or function.

The entity does not need not disclose any specific information required by IFRS if the resulting information is not material.

In the section of other comprehensive income statements and other comprehensive income, the amendments require separate disclosures for the following elements:

- the proportion of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified after the statement of income; and
- The proportion of other comprehensive income of associates and joint ventures accounted for using the equity method that is reclassified after the statement of income.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

Likewise, amendments to IAS 1 are related to the following issues:

Materiality

Disaggregation and subtotals

Notes

Disclosure of accounting policies

Other comprehensive income derived from investments accounted for using the equity method

**IFRS 10, IFRS 12 and IAS 28 Exception to consolidation of investment entities**

In December 2014, the IASB amended IFRS 10, IFRS 12 and IAS 28, and such amendments are applicable to the fiscal years beginning on or after January 1, 2016, and may also be implemented in advance.

The amendments clarify, among others, that the exception to the preparation of consolidated financial statements is available to a controlling entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Amendments to IAS 28 clarify that the exception to apply the equity method is applicable to an investor in an associate or joint venture if that investor is controlled by an investment entity that measures all its subsidiaries at fair value.

The amendments also explain that the requirement of an investment entity to consolidate a controlled company that provides services related to previous investment activities applies only to controlled entities that are not investment entities.

**Annual Improvements to IFRS 2012 2014 Cycle**

In September 2014, the IASB issued annual improvements 2012–2014 that are applicable to fiscal years beginning on or after January 1, 2016, and may be implemented in advance.

Below is a summary of the main amended rules and the relevant amended subject:

Standard	Amended Subject	Detail
IFRS 5 Non-current assets held for sale and discontinued operations	Changes in methods of disposal of the assets.	The amendment introduces a specific direction when the entity reclassifies an asset (or group of assets) held for sale or held for distribution to the owners. The amendment clarifies that such a change is considered a continuation of the original plan of the provision and that, therefore, an entity must not apply paragraphs 27 to 29 of IFRS 5 in relation to changes in a sales plan in such circumstances.
IFRS 7 Financial Instruments: Disclosures (with amendments resulting from amendments to	Service Contracts.  Applicability of amendments to IFRS 7 to disclosures of offsets in condensed interim financial statements.	The amendment provides additional direction to clarify whether a service contract corresponds to continued participation in the transfer of an asset for the purpose of the disclosure of the asset. In addition, the amendment clarifies that disclosures of offsets are not specifically required for all interim periods. However, disclosures to meet the requirements of IAS 34 Interim Financial Information may be included in condensed interim financial statements.
IFRS 1)		
IAS 19 Employee benefits	Discount rate: regional market issues.	The amendment clarifies that the rate used to discount post-employment benefit obligations should be determined by reference to market yields on high-quality corporate bonds at the end of the reporting period. The basis for the conclusions to the amendment also clarifies that the depth of the market of high-quality corporate bonds should be assessed at the currency level consistent with the currency in which the benefits are to be paid. For currencies for which there is no deep market of such high-quality securities, market returns (at the end of the reporting period) of government bonds denominated in that currency are to be used.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

The adoption of the foregoing standards and interpretations or modifications did not have a significant impact on the consolidated financial statements of the Group.

Standards or interpretations issued by the IASB, which application is not mandatory as of the date of closing of these consolidated financial statements, therefore have not been adopted by the Group.

**IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture**

In September 2014, the IASB amended IFRS 10 and IAS 28 to clarify that in transactions involving a controlled company, the extent of the gain or loss to be recognized in the financial statements depends on whether the sold or contributed controlled company is considered a business in accordance with IFRS 3.

On August 10, 2015, the IASB issued a proposal to postpone the effective date of these changes indefinitely depending on the outcome of its research project on accounting by the equity method, which was approved on December 17, 2015.

**IFRS 9 Financial Instruments**

In July 2014, the IASB introduced a change in lieu of IAS 39. The standard includes the classification and measurement, impairment and hedge accounting requirements of financial instruments. It is applicable to those annual periods beginning on or after January 1, 2018, and may be implemented in advance.

**IFRS 15 Income from ordinary activities arising from contracts entered into with customers**

IFRS 15 is in effect for periods to be reported as from January 1, 2018, or afterwards, and may also be implemented in advance. Entities may decide whether to retrospectively apply the model or to use a modified transitional approach, to which the standard will be retrospectively applied only with regard to those contracts that are not completed by the initial date of application (e.g., January 1, 2018 for an entity with a fiscal year ended December 31).

IFRS 15 establishes an extensive and detailed model to be used by entities at the time of accounting for income from contracts entered into with their customers. It will replace the following Income Standards and Interpretations after the effective date:

- IAS 18 Revenue;
- IAS 11 Construction contracts;
- IFRIC 13 Customer loyalty programs;
- IFRIC 15 Agreements for the construction of real estate;
- IFRIC 18 Transfers of assets from customers; and
- SIC 31: Revenue Barter transactions involving advertising services.

As stated in the heading of the new income standard, IFRS 15 will only cover income from contracts entered into with clients. Under IFRS 15, a customer of an entity is a party that has executed a contract with such entity for the provision of goods and services that are the product of ordinary business activities in exchange for consideration. Unlike the scope of the IAS 18, the recognition and measurement of income from interest and dividends on the debt and investments in shareholders' equity are not contemplated under the scope of IFRS 15. Conversely, they are contemplated under the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if such IFRS is adopted in advance).

As mentioned above, the new income standard relies upon a detailed model to explain income from contracts entered into with customers. Its fundamental principle is that an entity should recognize income to represent the transfer of goods or services promised to customers, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services.



**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

The new income recognition standard adds a five-step approach to income recognition and measurement:

1. Identify the contract entered into with the customer.
2. Identify the separable obligations of the contract.
3. Determine the transaction price.
4. Allocate the transaction price between the obligations of the contract.
5. Recognize the income when the entity meets the obligations.

The new revenue standard has introduced many more prescriptive indications:

- If the contract (or combination of contracts) contains or does not contain more than one of the promised goods or services and, if so, when and how the goods or services should be delivered or provided.
- If the transaction price distributed to each performance obligation should be recognized as income over time or at a specific time. Under IFRS 15, an entity recognizes income when the obligation is satisfied, that is, when the control of the goods and services underlying a particular obligation is transferred to the customer. Unlike IAS 18, the new model does not include separate guidelines for the sale of goods and the provision of services ; instead, it requires entities to assess whether income should be recognized over time or at a specific time, regardless of whether such income includes the sale of goods or the provision of services .
- When the transaction price includes an element of estimation of variable payments, the way in which it will affect the amount and the time for the recognition of the income. The concept of variable payment estimation is broad. A transaction price is considered as a variable for discounts, refunds, credits, price concessions, incentives, performance bonds, penalties and contingency agreements. The new model introduces a material condition for variable consideration to be recognized as income: only until it is very unlikely that a significant change in the amount of accumulated income will occur when the uncertainties inherent in the variable payment estimate have been resolved.

- When the execution costs of an agreement and the performance costs thereof may be recognized as an asset.

The Group is still in the process of evaluating the full impact of the IFRS 15 application on its financial statements, although no significant changes are expected in the income recognition criteria described in Note 2.b.11). It is not yet possible to provide a reasonable financial estimate of the effects of the entry into force of this standard until such analyses are completed.

The Group does not intend either to apply the standard in advance or to use the retroactive approach after the adoption thereof.

### **IFRS 16 Leases**

IFRS 16 is in effect for reporting periods beginning on January 1, 2019 and its implementation in advance is permitted for entities that use IFRS 15 Revenue from ordinary activities from contracts entered into with customers prior to the date of initial application of IFRS 16.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

IFRS 16 sets out the principles required for the recognition, measurement, presentation and disclosure of leases. The purpose thereof is to ensure that lessees and lessors provide relevant information in a way that faithfully represents those transactions. The changes incorporated by such standard mainly impact the accounting of tenants. It will replace the following Standards and Interpretations after the effective date thereof:

- IAS 17 Leases ;
- IFRIC 4 Determination whether an agreement contains a lease ;
- SIC 15 Operating leases-incentives ; and
- SIC 27 Evaluating the substance of transactions involving the legal form of a lease .

This standard applies to all leases, including leases of rights-of-use assets in a sublease, with the exception of specific leases covered by other standards:

- Leases to explore or use minerals, oil, natural gas and similar non-renewable resources;
- Leases of biological assets within the scope of IAS 41 Agriculture kept by a lessee;
- Contracts included in the scope of application of IFRIC 12 Service Concession Agreements ;
- Intellectual property licenses granted by a lessor within the scope of IFRS 15 Revenue from contracts with customers ; and
- Rights enjoyed by a lessee under license agreements that are within the scope of IAS 38 Intangible assets for items such as movies, videos, games, manuscripts, patents and copyrights.

The new leasing rule has introduced many other prescriptive indications:

- Measurement of the asset by right of use

The cost of the right to use the assets includes the following items:

- (a) the amount of the initial measurement of the lease liability (as described below);
- (b) any rent paid to the lessor prior to the commencement date or on the same date, after discounting any incentive received for the lease;
- (c) the initial direct costs incurred by the lessee; and
- (d) an estimate of the costs to be incurred by the lessee in dismantling and eliminating the underlying asset, restoring the place where the underlying asset is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless such costs are incurred at the time of making of the inventories. The lessee could incur certain obligations as a result of such costs either on the date of commencement of the term of the lease, or as a consequence of having used the underlying asset during a specified period.

Subsequently, the valuation of the right to use the assets will be based on the cost model or the revaluation model under IAS 16 Property, Plant and Equipment (recognizing therefore the amortization and impairment in the profit and loss account and, if applicable the revaluation model, revaluations in equity). However, the IFRS 16 requires that the right to use a leased property investment be valued at its fair value under the provisions set forth in IAS 40 Investment properties for the investment property it holds.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

**- Lease liability**

A lessee shall measure the lease liability at the present value of the lease payments that have not been paid on that date. Lease payments will be discounted using the interest rate implied in the lease, if that rate could be easily determined. If that rate cannot be easily determined, the lessee will use the incremental rate for the lessee's loans.

Lease liabilities must include the following items:

- (a) fixed payments (including essentially fixed payments), less any lease incentive receivable;
- (b) variable payments, which depend on an index or a rate, initially measured by using the index or rate (e.g., payments related to the consumer price index, prices related to a benchmark interest rate such as LIBOR, or payments that vary to reflect changes in market rental prices) on the effective date of the contract;
- (c) amounts that the lessee expects to pay as residual value guarantees;
- (d) the exercise price of a call option if the lessee is reasonably certain to exercise that option; and
- (e) payment of penalties for terminating the lease, if the lease period reflects that the lessee will exercise an option to terminate it (i.e., because there is a reasonable certainty thereon).

Subsequently, the lessee will be increasing the liability for the lease to reflect the accrued interest (and recognized in the profit and loss account), deduct the installments that are being paid from such liability and recalculate the book value to reflect any review, amendment to the lease or review of the so-called in-substance installments.

**- Revision of the lease liability**

The lessee must review the lease liability in the following cases:

- (a) when there is a change in the amount expected to be paid under a residual value guarantee;
- (b) when there is a change in future rental payments to reflect the variation of an index or an interest rate used to determine such rental payments (including, for example, a market rent review);
- (c) when there is a change in the term of duration of the lease as a result of a change in the non-cancellable period of the lease (for example, if the lessee does not exercise an option previously included in the determination of the lease period); or
- (d) when there is a change in the evaluation of the call option of the underlying asset.

- Lessor's accounting

IFRS 16 requires the lessor to classify the lease as operational or financial. A finance lease is a lease in which substantially all the risks and benefits derived from ownership of the asset are transferred. A lease will be classified as operating if it does not transfer substantially all the risks and benefits derived from the ownership of an underlying asset.

The classification of the lease is made on the effective date of the agreement and is evaluated again only if there is an amendment to the lease. Changes in estimates (e.g., changes in the economic life or in the residual value of the underlying asset) or changes in circumstances (e.g., non-compliance by the lessee) will not result in a new classification of the lease for accounting purposes.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

**- Sale and Leaseback Transactions**

This type of transaction is dealt with from the point of view of the lessee-seller as lessor-buyer. The fundamental aspect of dealing with such transactions depends on whether the transfer of the relevant asset meets the criteria of IFRS 15 Revenue from contracts with customers , to be recognized as a sale.

The Group is still in the process of assessing the full impact of the IFRS 16 application on its financial statements and does not intend to apply such standard in advance.

**Amendments to IAS 7 Information disclosure initiative**

In January 2016, the IASB amended IAS 7 and such amendments are to be applied to fiscal years beginning on or after January 1, 2017, which may be implemented in advance.

The Disclosure Initiative was amended for the purpose of disclosing information that allows users of financial statements to evaluate the changes in liabilities (and certain assets) that have occurred during a period, derived from financing activities.

The explanation for the changes must differentiate those changes from cash flows deriving from financing from those changes other than cash .

Also, when explaining changes other than cash, the following sources of changes should be differentiated, to the extent necessary to meet the purpose: (i) changes resulting from the acquisition or loss of control of subsidiaries and other businesses; (ii) the effect of foreign exchange rate changes; (iii) changes in fair value; and (iv) other changes (by separately identifying any variance deemed relevant).

The IASB defines liabilities arising from financing activities as liabilities for which cash flows were or will be classified in the statement of cash flows as cash flows deriving from financing activities . It also emphasizes that new disclosure requirements also relate to changes in financial assets (for example, assets covering liabilities arising from financing activities) if they meet the same definition.

One way to meet the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments set forth that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The Group does not anticipate that the application of the amendments to the standard will have a significant effect on its financial statements.

**Amendments to IAS 12 Recognition of deferred tax assets for unrealized losses**

In January 2016, the IASB amended IAS 12 and such amendments are to be applied to fiscal years beginning on or after January 1, 2017, and may be implemented in advance.

The amendment to IAS 12 provides that when an entity assesses whether the taxable profit against which a deductible temporary difference may be available, it will consider whether the tax legislation restricts the sources of taxable income against which it may make deductions at the time of the reversal of that temporary deductible difference. If the tax law does not impose those restrictions, an entity will evaluate a deductible temporary difference in combination with all others. However, if the tax law restricts the use of losses to be deducted against income of a specific type, a deductible temporary difference will be evaluated in combination only with the appropriate rate.

The Group does not anticipate that the application of the amendments to the standard will have a significant effect on its financial statements.



**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

**Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions**

In June 2016, the IASB amended IFRS 2, and such amendments are to be applied for fiscal years beginning on or after January 1, 2018, and may be implemented in advance.

IFRS 2 has been amended to reflect the following:

- For share-based payment transactions that are settled in cash, the goods or services purchased and the liability which they incur will be measured at the fair value of the liability, subject to the requirements of this standard. Until the liability is settled, the fair value of the liability is remeasured at the end of each reporting period, as well as on the settlement date, recognizing any change in fair value in the results for the period.
- The conditions for the irrevocability of concession and conditions other than the irrevocability of the concession, other than market conditions, will not be taken into account when estimating the fair value of the share-based payment that is settled in cash on the date of measurement. Instead, they will be taken into account by adjusting the number of incentives included in the measurement of liabilities arising from the transaction. Accordingly, an amount will be recognized for the goods or services received during the period up to the irrevocability of the concession. This amount will be based on the best available estimate of the number of incentives that are expected to be irrevocable.
- If the terms and conditions of a share-based payment transaction to be settled in cash are modified to become a share-based payment transaction that is settled by equity securities, such transaction will be accounted for as of the date of the modification. Specifically, (a) a share-based payment transaction that is settled by equity securities is measured by reference to the fair value of the equity securities granted on the date of the modification. The share-based payment transaction settled by equity securities is recognized in equity on the date of the change, in proportion to the goods or services that have been received; (b) the liability for the share-based payment transaction settled in cash on the date of the amendment will be written off in the accounts on the same date; and (c) any difference between

the carrying amount of the written off liability and the amount of equity recognized on the date of the change will be recognized immediately in the income statement for such period.

The Group does not anticipate that the application of the amendments to the standard will have a significant effect on its financial statements

#### **IFRIC 22 Transactions in Foreign Currency and Advance Payments**

In December 2016, the IASB approved the interpretation of IFRIC 22 Transactions in foreign currency and advance payments , which is applicable for the fiscal years beginning on or after January 1, 2018, and may be implemented in advance. The scope of this interpretation applies to a foreign currency transaction (or any part thereof) where an entity recognizes a non-financial asset or non-financial liability arising from the payment or collection of an early consideration before the entity recognizes the asset, expense or related income (or any part thereof that may be appropriate). This interpretation does not apply when an entity measures the related asset, expense or income at the time of the initial recognition: (a) at fair value; or (b) the fair value of the consideration paid or received as of a date other than that of the initial recognition of the non-monetary asset, or non-monetary liability, arising from the anticipated consideration (e.g., measurement of the goodwill by applying the IFRS 3 Business Combinations ).

The Group does not anticipate that the application of the interpretation of the standard will have a significant effect on its financial statements.

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)****Annual improvements to IFRS 2014 2016 Cycle**

In December 2016, the IASB issued the annual improvements 2014 2016, which are applicable to fiscal years beginning on or after January 1, 2018, which may be implemented in advance.

<b>Standard</b>	<b>Amended Subject</b>	<b>Detail</b>
IFRS 1 First-time Adoption of International Financial Reporting Standards	Elimination of short-term exemptions for first-time adopters of IFRS.	The amendment introduces the deletion of paragraphs that consider the limited exemption of comparative disclosure from IFRS 7 for first-time adopters of IFRS, disclosures of transfers of financial assets and paragraph 39AA considered the annual best improvements to IFRS 2014-2016 Cycle.
IFRS 12 Disclosure of Interests in Other Entities	Clarification of the scope of the Standard.	The amendment introduces a change in the scope of the standard, considering that the requirements of the standard apply to the equity interests of an entity listed in paragraph 5 that are classified (or included in a group for disposal that is classified) as held for sale or discontinued operations in accordance with IFRS 5 Non-current assets held for sale and discontinued operations .
IAS 28 Investments in associates and joint ventures	Measurement at fair value of an associate or joint venture.	The amendment introduces changes in relation to the exemption and the procedures to be applied to the equity method, clarifies that an entity will apply this exemption or the method separately to each associate or joint venture, in the case of exemption in the initial recognition of the associate or joint venture, and with respect to the method on a date that is the later of: a) when the associate or joint venture that is an investment entity is initially recognized; b) when the associate or joint venture becomes an investment entity; or c) when the associate or joint venture that is an investment entity becomes a parent company.

The Group does not anticipate that the application of the amendments to the standard will have a significant effect on its financial statements.

## **2.c) Accounting Estimates and Judgments**

The items in the financial statements and areas which require the highest degree of judgment and estimates in the preparation of these financial statements are:

### Crude oil and natural gas reserves

Estimating crude oil and gas reserves is an integral part of the Group's decision-making process. The volume of crude oil and gas reserves is used to calculate depreciation using the unit of production ratio and to assess the impairment of the capitalized costs related to the Upstream assets (see Notes 2.b.8 and 2.b.9 and the last paragraph of this Note).

The Group prepares its estimates of crude oil and gas reserves in accordance with the rules and regulations established for the crude oil and natural gas industry by Rule 4-10 (a) of Regulation S-X of the SEC.

### Provision for litigation and other contingencies

The final costs arising from litigation and other contingencies, and the perspective given to each issue by the Management of the Company may vary from their estimates due to different interpretations of laws, contracts, opinions and final assessments of the amount of the claims. Changes in the facts or circumstances related to these types of contingencies can have, as a consequence, a significant effect on the amount of the provisions for litigation and other contingencies recorded or the perspective given by the Management of the Company.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

**Provision for environmental costs and obligations for the abandonment of hydrocarbon wells**

Given the nature of its operations, the Group is subject to various laws and regulations relating to the protection of the environment. These laws and regulations may, among other things, impose liability on companies for the cost of pollution clean-up and environmental damages resulting from operations. YPF management believes that the Group's operations are in substantial compliance with laws and regulations of Argentina and the countries where the Group operates, relating to the protection of the environment as such laws have historically been interpreted and enforced.

The Group periodically conducts new studies to increase its knowledge of the environmental situation in certain geographic areas where it operates in order to establish the status, cause and remedy of a given environmental issue and, depending on its years of existence, analyze the Argentine Government's possible responsibility for any environmental liabilities existing prior to December 31, 1990. The Group cannot estimate what additional costs, if any, will be required until such studies are completed and evaluated; however, provisional remedial or other measures may be required.

In addition to the hydrocarbon wells abandonment legal obligation, the Group has accrued environmental remediation which evaluations and/or remediation works are probable and can be reasonably estimated, based on the Group's existing remediation program. Legislative changes, on individual costs and/or technologies may cause a re-evaluation of the estimates. The Group cannot predict what environmental legislation or regulation will be enacted in the future or how future laws or regulations will be administered. In the long-term, these potential changes and ongoing studies could materially affect the Group's future results of operations.

The main guidelines on the provision for the obligations for the abandonment of hydrocarbon wells are set forth in detail in Note 2.b.6).

**Income tax and deferred income tax**

The proper assessment of income tax expenses depends on several factors, including interpretations related to tax treatment for transactions and/or events that are not expressly provided for by current tax law, as well as estimates of the timing and realization of deferred income taxes. The actual collection and payment of income tax expenses may differ from these estimates due to, among others, changes in applicable tax regulations and/or their interpretations, as well as unanticipated future transactions impacting the Group's tax balances.

**Provision for impairment of property, plant and equipment and intangible assets**

The method used to estimate the recoverable amount of property, plant and equipment and intangible assets is described in detail in Notes 2.b.8 and 2.b.9.

The impairment analysis is performed on the year-end date or whenever there is evidence of impairment of the recoverable value. As a result of negotiations between Argentine producers and refiners in the second half of 2016, there has been a gradual 6% reduction in the prices of sales of Medanito and Escalante crude oil on the local market (2% monthly as of August 2016). Moreover, in January 2017, the producers and refiners reached a new agreement for the transition to international prices, in which a path of prices was established for the sale of oil in the domestic market, for the purpose of achieving parity with the international market during 2017. This readjustment of prices in the domestic market and other signs that would point to a convergence with international prices in the near future, coupled with a decline in the prices expected in the medium term compared to the estimates as of December 31, 2015, have been considered evidence of impairment of the value of the assets of the CGU Oil YPF.

Accordingly, the following local market price assumptions have been taken into account for different varieties of crude oil in order to set such expectations: (i) for 2017, it derives from the prices agreed upon between producers and refiners mentioned above which result in prices of US\$/bbl 57.5 for Medanito crude oil and US\$/bbl 49.1 for Escalante crude oil; (ii) for 2018, 2019 and 2020, the local market prices have been estimated based on the international price estimates based on available analyst consensus; and (iii) subsequently, estimated prices rise based on predicted inflation in the United States.

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**

For fiscal year 2016, the discount rate used has been 8.67% after taxes (the discount rate used for fiscal year 2015 was 10.33% after taxes).

Based on the aforementioned methodology, the CGU Oil YPF recorded an impairment charge for property, plant and equipment in the Upstream segment of 34,943 and 2,361 as of December 31, 2016 and 2015, respectively, mainly due to the expected decrease in the oil price, together with the evolution of cost behavior in terms of macroeconomic variables and the operational behavior of the Company's assets. Originally as of September 30, 2016, an impairment charge of 36,188 had been recorded for this concept and in the fourth quarter of 2016 there was a recovery of 1,245 generated, among others, by a reduction of operational costs estimated in a timely manner and a slight improvement in the projection of international prices, all of which is partially offset by the effect of the variation of reserves with respect to the end of the previous quarter.

The recoverable value of the CGU Oil YPF, after taxes, amounts to 71,495 and 76,829 as of December 31, 2016 and 2015, respectively.

In addition, as of December 31, 2015, the Group had recorded a charge for impairment of property, plant and equipment, with respect to the CGU-Oil YPF Holdings, which grouped the assets of the crude oil production fields in the United States which amounted to 94, due to a reduction in international crude oil prices. The fair value of the CGU Oil YPF Holdings amounted to 179. The Group also recorded an impairment charge of intangible assets of 80 related to rights in exploratory areas whose recoverable value was zero. During the current year, this CGU was deconsolidated.

It is difficult to predict with reasonable certainty the expected value of charges or recoveries in the provision for impairment of property, plant and equipment given the numerous factors affecting the asset and cash flows base used in the recoverability analysis. These factors include, but are not limited to, future prices, operating costs and traded savings, exchange rates, investments and traded savings, production and its impact on depletion and base cost, revisions or additions of reserves, and taxation. Consequently, the use value of the assets, calculated on the basis of expected future cash flows, may be significantly affected by other factors insofar as they change.

**2.d) Comparative Information**

Balance items as of December 31, 2015 and 2014 presented in these financial statements for comparison purposes arise from the consolidated financial statements then ended.

### 3. ACQUISITIONS AND DISPOSITIONS

Fiscal year ended December 31, 2016

As part of the acquisition by Pampa Energía S.A. ( PEPASA ) of the total shares of Petrobras Participaciones S.L., which holds 67.2% of the capital and voting rights of Petrobras Energía S.A. ( PESA ), YPF and PEPASA entered into an agreement subject to certain conditions precedent under which, once the acquisition by PEPASA of shareholding control of PESA has been completed, PESA will transfer to YPF shares in the operating concessions of two areas located in the Neuquén basin with production and high potential for gas development (of the tight and shale type), to be operated by YPF, in the percentages detailed below: (i) 33.33% participation in the Río Neuquén area, located in the Province of Neuquén and in the Province of Río Negro; and (ii) 80% participation in the Aguada de la Arena area, located in the Province of Neuquén. In order to implement this agreement, PEPASA and YPF signed a Framework Agreement for the Financing and Acquisition of Units and a Loan Agreement under which YPF, on July 25, 2016, granted PEPASA a guaranteed loan for the Indirect acquisition of the aforementioned areas in the amount of US\$ 140 million, equivalent to the acquisition price of the aforementioned units, which does not differ from the fair value of the participation in said areas. Once PESA's board of directors has approved the assignment, the loan may be applied during the year 2018 to the payment of the acquisition of YPF's shares in concession titles and UT with: (i) PESA and an affiliate of Petróleo Brasileiro S.A. for the Río Neuquén area, and (ii) Petrouuguay S.A. for the Aguada de la Arena area.

F-39



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**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**3. ACQUISITIONS AND DISPOSITIONS (Cont.)**

On October 14, 2016, the assignment of the equity interests in the operating concessions between YPF and PEPASA was consummated, as follows: (i) an equity interest of 33.33% in the Río Neuquén area for the sum of US\$ 72 million; and (ii) an equity interest of 80% in the Aguada de la Arena area, for the sum of US\$ 68 million.

Additionally, see Note 34.

**Fiscal year ended on December 31, 2015**

On May 7 2015, Repsol Butano S.A. transferred to YPF shares representing 33.997 % of YPF Gas s capital stock and Repsol Trading S.A. transferred to YPF 17.79% of OTC s capital stock. The amount of the transaction was 161.

**Fiscal year ended on December 31, 2014**

On February 12, 2014, YPF and its subsidiary YPF Europe BV (incorporated in January 2014) accepted an offer made by Apache Overseas Inc. and Apache International Finance II S.à r.I. (collectively, Apache Group ) for the acquisition of 100% of Apache s interest in controlled companies which are the owners of assets located in the Argentine Republic, and the acquisition of certain intercompany loans owed by the acquired companies to the Apache Group companies. The price agreed upon by the parties was US\$ 786 million, which was canceled through by an initial deposit of US\$ 50 million held on February 12, 2014, and the remaining balance was paid on March 13, 2014, the date from which YPF has taken control of the mentioned companies (the acquisition date ).

As a result of the previously described transaction, YPF acquired the following corporate shares: (i) 100% of the capital stock of Apache Canada Argentina Investment S.à r.I. and 100% of the capital stock of Apache Canada Argentina Holdings S.à r.I.; (ii) 100% of the capital stock of Apache Argentina Corporation, through which it will control 65.28% of Apache Petrolera Argentina S.A., and (iii) 34.72% of Apache Petrolera Argentina S.A. Since YPF has acquired 100% of the interest, there is no non-controlling interest recorded.

The fair value of the main identified assets and liabilities of the companies acquired (100% interest values and after consolidation adjustments), which have been incorporated in the Company s balance sheet as of the date of acquisition is disclosed below:

	<b>Fair value at acquisition date</b>
Cash and cash equivalents	95
Assets held for sale	1,538
Inventories	55
Trade receivables	520
Other receivables and other assets	213
Intangible assets Exploration rights	1,246
Property, plant and equipment	5,469
Provisions	781
Deferred income tax liabilities	1,241
Loans	110
Accounts payables	639
Social security and other taxes payables	134
Income tax liability	24

Below is detailed the information related with revenues, costs and expenses of the acquired companies required by IFRS:

	<b>Since the acquisition date up to December 31, 2014</b>	<b>Since the beginning of the year up to December 31, 2014</b>
Revenues	3,370	4,099
Cost	(2,960)	(3,601)
Gross profit	410	498
Other operating expenses	(232)	(282)
Operating income	178	216
Financial result, net	(78)	(95)
Income tax	560	681
Net income	660	802

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**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****3. ACQUISITIONS AND DISPOSITIONS (Cont.)**

Additionally, YPF and Apache Energía Argentina S.R.L. has entered into a transfer of assets agreement with Pluspetrol S.A. whereby it will transfer, in exchange for US\$ 217 million, an interest that belongs to Apache Energía Argentina S.R.L. (a subsidiary of Apache Canada Argentina Holdings S.à.r.l.), in three concessions and four JO agreements, as well as an interest of YPF in a JO agreement. The aforementioned interests correspond to assets located in the Province of Neuquén, with the objective of jointly exploring and developing the Vaca Muerta formation. The mentioned transaction has been approved by the regulatory authority during November 2014.

During October, 2014, the registered names of certain companies have changed as follows: Apache Energía Argentina S.R.L. to YSUR Energía Argentina S.R.L.; Apache Natural Resources Petrolera Argentina S.R.L. to YSUR Recursos Naturales S.R.L.; Apache Petrolera Argentina S.A. to YSUR Petrolera Argentina S.A.; Apache Argentina Corporation to YSUR Argentina Corporation; Apache Canada Argentina Investment S.à.r.l. to YSUR Argentina Investment S.à.r.l.; and Apache Canada Argentina Holdings S.à.r.l. to YSUR Argentina Holdings S.à.r.l.

In addition, the companies YSUR Argentina Holdings S.à.r.l., YSUR Argentina Investment S.à.r.l. and YSUR Argentina Corporation were domiciled in Argentina and registered with the Argentine Registrar of Companies (*Inspección General de Justicia*) on September 26, 2016, under the names of YSUR Participaciones S.A.U., YSUR Inversora S.A.U., and YSUR Inversiones Petroleras S.A.U., respectively.

Finally, as of the date of these consolidated financial statements, the companies of the YSUR Group are in the process of merging with YPF. See Note 32 to the individual financial statements.

On January 31, 2014, YPF acquired Petrobras Argentina S.A.'s 38.45% interest in the JO agreement Puesto Hernández signed between both companies for the exploitation of the Puesto Hernández area (the Area). The Area is an exploitation concession located in the Provinces of Neuquén and Mendoza. YPF is the holder of the concession until 2027, which is operated under the aforementioned JO agreement which expired on June 30, 2016 and will be terminated early. Now YPF owns a 100% interest in the Area, and has become the operator. Puesto Hernández currently produces approximately 10,000 barrels per day of light crude oil (Medanita quality). The transaction was completed for the amount of US\$ 40.7 million. By becoming the operator of the Area, YPF will be able to accelerate its investment plans to optimize the Area's production potential until 2027. The amount paid was mainly classified as property, plant and equipment.

On February 7, 2014, YPF acquired Potasio Rio Colorado S.A.'s 50% interest in the JO agreement, Segment 5 Loma La Lata Sierra Barrosa (known as the Lajas formation) signed by YPF and Potasio Rio Colorado S.A. for

the exploitation of the Lajas formation concession area (the Area ). The Area is an exploitation concession, located in the Province of Neuquén. YPF is the holder of the concession which expires in 2027. Exploitation of the Area was conducted under the aforementioned JO agreement. The terms of the JO agreement provided that it would expire upon the earlier of the expiration of the concession or the early termination of any agreement or contract that granted the right to continue exploiting the Area. As a result of the termination of the JO agreement YPF will own a 100% interest in the Area. The consideration for the transaction was US\$ 25 million. The amount paid was mainly classified as property, plant and equipment.

YPF and Sinopec Argentina Exploration and Production, Inc., Sucursal Argentina ( SINOPEC ), are part in a Joint Operating Agreement in the La Ventana area, located in the Cuyo basin in the Province of Mendoza, whose original expiration date was December 31, 2016. YPF is the exclusive owner of such exploitation concession whose expiration date was November 14, 2017, and through executive order of the Province of Mendoza No. 1,465/2011 the original expiration date was extended for 10 years, to November 14, 2027, the new concession expiration date. On September 1, 2014 ( effective date ) YPF and SINOPEC extended the JOA s expiration date in relation with the Concession for the Exploitation of Hydrocarbons in the La Ventana area, until December 31, 2026. The extension of the Concession and the JOA involve the continuity of the participation of the parties in the rights and commitments that emerge from the Concession and that, as of the effective date, YPF s percentage of participation increased by an additional 10%, reaching 70%. The consideration for the transaction was US\$ 44 million, an amount that SINOPEC will pay to YPF for the extension of the Concession. Additionally, the transaction generated an income of 369, which has been charged to Other operating results, net , in the statement of comprehensive income.

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**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**3. ACQUISITIONS AND DISPOSITIONS (Cont.)**

On December 5, 2014, an agreement has been signed between the Province of Neuquén, Gas y Petróleo del Neuquén S.A., YPF and YSUR Energía Argentina S.R.L. in which the restructuring of the Joint Operating Agreement has been arranged related to La Amarga Chica and Bajada de Añelo non-conventional hydrocarbons exploitation concession in which YPF and YSUR Energía Argentina S.R.L. will hold the following interests:

(i) La Amarga Chica, YPF 100% (ii) Bajada de Añelo: YPF 85% and YSUR Energía Argentina S.R.L. 15%. As compensation for the aforementioned restructuring (a), YPF has made a US\$ 41 million payment to the Neuquén Province, US\$ 12 million for and on behalf of YSUR Energía Argentina S.R.L. and (b) YPF and YSUR Energía Argentina S.R.L. granted in favor of the Province of Neuquén, who thereby contributed to Gas y Petróleo de Neuquén S.A, the totality of YPF and YSUR Energía Argentina S.R.L. s interests in the following areas: (i) Puesto Cortadera; (ii) Loma Negra NI; (iii) Cutral Co Sur; (iv) Neuquén del Medio; (v) Collon Cura Bloque I; and (vi) Bajo Baguales. These transfers became effective on January 1, 2015.

**4. FINANCIAL RISK MANAGEMENT**

The Group s activities involve various types of financial risks: market risk (including exchange rate risk, interest rate risk and price risk, credit risk and liquidity risk). The Group maintains an organizational structure and systems that allow the identification, measurement and control of the risks to which it is exposed.

**Market Risk**

The market risk to which the Group is exposed is the possibility that the valuation of the Group s financial assets or financial liabilities as well as certain expected cash flows may be adversely affected by changes in interest rates, exchange rates or certain other price variables.

The following is a description of these risks as well as a detail of the extent to which the Group is exposed and a sensitivity analysis of possible changes in each of the relevant market variables.

**Exchange Rate Risk**

The value of financial assets and liabilities denominated in a currency different from the Company s functional currency is subject to variations resulting from fluctuations in exchange rates. Since YPF s functional currency is the U.S. dollar, the currency that generates the greatest exposure is the Argentine peso (the Argentine legal currency).

The Group does not use derivatives as a hedge against exchange rate fluctuations. While during fiscal year 2015 the Group started to operate with U.S. dollars future exchange rate agreements (until their complete termination in fiscal year 2016), for IFRS 7 Financial instruments: disclosures no exchange rate risk arises from financial instruments denominated in the Company s functional currency.

Otherwise, according to the Company's functional currency, and considering the currency exchange process, the fluctuations in the exchange rate related to the financial assets and liabilities' value in pesos does not have any effect in the Other comprehensive income in Shareholders' equity.

The following table provides a breakdown of the effect a variation of 10% in the prevailing exchange rates on the Group's net income, taking into consideration the exposure of financial assets and liabilities denominated in pesos as of December 31, 2016:

	<b>Appreciation (+) / depreciation (-) of exchange rate of peso against U.S. dollar</b>	<b>Income(loss) for fiscal year ended December 31, 2016</b>
Impact on net income before income tax corresponding to financial assets and liabilities	+10%	3,021
	-10%	(3,021)

F-42

Table of Contents**YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****4. FINANCIAL RISK MANAGEMENT (Cont.)**Interest Rate Risk

The Group is exposed to risks related to interest rates to different extents, according to the different types of maturities and currencies in which a loan was borrowed or cash was invested.

The Group's short-term financial loans as of December 31, 2016 include negotiable obligations, pre-financing of exports and imports financing arrangements, local bank credit lines and financial loans with local and international financial institutions. Long-term financial loans include negotiable obligations and financial loans with local and international financial institutions. Approximately 70% (107,976) of the total of the financial loans of the Group is denominated in U.S. dollars, 3% (4,718) is in Swiss francs and the remainder is mainly in Argentine pesos, as of December 31, 2016. These loans are generally used for working capital and investments.

Financial assets mainly include, in addition to trade receivable which have low exposure to interest rate risk, bank deposits, fixed-interest deposits and investments in mutual funds such as money market or short-term fixed interest rate instruments.

Historically, the strategy for hedging interest rates is based on the fragmentation of financial counterparts, the diversification of the types of loans taken and, essentially, the maturities of such loans, taking into consideration the different levels of interest along the yield curve in pesos or U.S. dollars, and the amount of the loans based on future expectations and the timing of the future investment outlays to be financed.

The Group does not usually use derivative financial instruments to hedge the risks associated with interest rates.

Changes in interest rates may affect the interest income or expenses derived from financial assets and liabilities tied to a variable interest rate. Additionally, the fair value of financial assets and liabilities that accrue interests based on fixed interest rates may also be affected.

The table below provides information about the financial assets and liabilities as of December 31, 2016 that accrues interest considering the applicable rate:

	<b>Financial Assets<sup>(1)</sup></b>	<b>Financial Liabilities<sup>(2)</sup></b>
Fixed interest rate	27	107,656
Variable interest rate		46,689

Total	27	154,345
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- (1) It only includes temporary investments. Does not include trade receivables which mostly do not accrue interest.  
(2) Includes only financial loans. Does not include accounts payable which mostly do not accrue interest.  
The portion of loans which accrues variable interest rate is mainly exposed to the fluctuations in LIBOR and BADLAR. Approximately 34,774 accrues variable interest of BADLAR plus a maximum spread of 6% and 9,711 accrues variable interest of LIBOR plus a spread between 2.6% and 7.5%.

The table below shows the estimated impact on consolidated comprehensive income that an increase or decrease of 100 basis points in the interest rate would have.

	<b>Increase (+) / decrease (-) in the Income(loss) for fiscal year interest rates (basis points)</b>	<b>ended December 31, 2016</b>
Impact on net income after income tax	+100	(245)
	-100	245

F-43



Table of Contents**YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****4. FINANCIAL RISK MANAGEMENT (Cont.)**Other Price Risks

The Group was not significantly exposed to commodity price risks, as a result, among other reasons, of the existing regulatory, economic and government policies, in force determined that local prices charged for gasoline, diesel and other fuels were not affected in the short-term by fluctuations in the price of such products in international and regional markets. Additionally, the Group was impacted by certain regulations that affected the determination of export prices received by the Group, such as those mentioned in Note 30, which consequently limits the effects of short-term price volatility in the international market.

However, during the course of fiscal year 2016 and in January 2017, the producers and refiners entered into an agreement in which a range of prices was established for the sale of oil on the domestic market, with a minimum Medanita oil reference price of US\$55/Bbl and Escalante oil reference price of US\$47/Bbl, for the purpose of achieving parity with international markets during fiscal year 2017, subject to compliance with certain variables.

Given this transition process and also in that export duties on external prices were not extended in January 2017, it is possible that the price risk exposure will vary in the future. Should the change in market conditions become relevant, the Group will analyze its management strategy to handle this risk.

In addition, the Group is exposed to the own price risk for investments in financial instruments (public securities, mutual funds and exchange rate agreements used in this fiscal year), which were classified in the statement of financial position as at fair value through profit or loss. The Group continuously monitors the change in these investments for significant movements.

During the third quarter of 2016, the Group acquired Argentine National Bonds in U.S. dollars subject to an annual interest rate of 6.875%, maturing in 2021 for a nominal value of US\$ 195 million.

As of December 31, 2016, the aggregate value of financial assets at fair value through profit or loss amounts to 18,093.

The following table shows the effect that a 10% variation in the prices of investments in financial instruments would have on the Group's results as of December 31, 2016:

<b>Increase (+) / decrease (-) in the prices of</b>	<b>Profit (loss) for the year ended</b>
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	<b>investments in financial</b>	<b>December 31, 2016</b>
Impact on net result before income tax	+10%	1,809
	-10%	(1,809)

**Liquidity Risk**

Liquidity risk is associated with the possibility of a mismatch between the need of funds to meet short, medium or long term obligations.

As mentioned in previous paragraphs, the Group intends to align the maturity profile of its financial debt to be related to its ability to generate enough cash flows for its payment, as well as to finance the projected expenditures for each year. As of December 31, 2016 the availability of liquidity reached 18,557, considering cash of 7,922, other liquid financial assets of 2,835 and available credit lines with banks of 7,800. Additionally, YPF has the ability to issue debt under the negotiable obligations global program originally approved by the Shareholders meeting in 2008 expanded in September 2012, in April 2013, in February 2015 and in April 2016 (see Note 16).

After the process which concluded with the change of shareholders mentioned in Note 25, the Group is still focused on structuring more efficiently the maturity of its debt, in order to facilitate daily operations and to allow the proper financing of planned investments.

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****4. FINANCIAL RISK MANAGEMENT (Cont.)**

To this end, the Group operates derivative financial instruments (U.S. dollars future exchange rate agreements) as a way of managing liquidity risk, which were fully settled as of December 31, 2016.

The following table sets forth the maturity dates of the Group's financial liabilities as of December 2016:

	<b>December 31, 2016</b>						<b>Total</b>
	<b>Maturity date</b>						
	<b>0 - 1</b>	<b>1 - 2</b>	<b>2 - 3</b>	<b>3 - 4</b>	<b>4 - 5</b>	<b>More than 5</b>	
	<b>year</b>	<b>year</b>	<b>year</b>	<b>year</b>	<b>year</b>	<b>years</b>	
<b>Financial liabilities</b>							
Loans	26,777	28,103	10,919	19,481	18,470	50,595	154,345
Other liabilities	4,390	336					4,726
Accounts payable <sup>(1)</sup>	41,113	1,989				185	43,287
	<b>72,280</b>	<b>30,428</b>	<b>10,919</b>	<b>19,481</b>	<b>18,470</b>	<b>50,780</b>	<b>202,358</b>

(1) The amounts disclosed are the contractual, undiscounted cash flows associated to the financial liabilities given that they do not differ significantly from their face values

Most of the Group's loans contain usual covenants for contracts of this nature. Additionally, approximately 63% of the outstanding loans as of December 31, 2016 are subject to financial covenants related to the leverage ratio and debt service coverage ratio.

A portion of the loans provides that certain changes in control with respect to the Company may constitute an event of default. In addition, part of the loans also contains cross default or cross acceleration provisions (the Acceleration Clauses) which may result in their advanced enforceability if the debt containing provisions related to change of control becomes in default.

**Credit Risk**

Credit risk is defined as the possibility of a third party not complying with its contractual obligations, thus negatively affecting results of operations of the Group.

Credit risk in the Group is measured and controlled on an individual customer basis. The Group has its own systems to conduct a permanent evaluation of credit performance of all of its debtors, and the determination of risk limits with respect to third parties, in line with best practices using for such end internal customer records and external data sources.

Financial instruments that potentially expose the Group to a concentration of credit risk consist primarily of cash and cash equivalents, trade receivables and other receivables. The Group invests excess cash primarily in high liquid investments with financial institutions with a strong credit rating both in Argentina and abroad. In the normal course of business and based on ongoing credit evaluations to its customers, the Group provides credit to its customers and certain related parties. Likewise, the Group accounts for doubtful trade losses in the Statement of Comprehensive Income, based on specific information regarding its clients.

The provisions for doubtful accounts are measured by the following criteria:

The aging of the receivable;

The analysis of the customer's capacity to return the credit granted, also taking into consideration special situations such as the existence of a voluntary reorganization petition, bankruptcy and arrears, and guarantees, among others.

Table of Contents

## YPF SOCIEDAD ANONIMA

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016, 2015 AND 2014

## 4. FINANCIAL RISK MANAGEMENT (Cont.)

The maximum exposure to credit risk of the Group as of December 31, 2016 based on the type of its financial instruments and without excluding the amounts covered by guarantees and other arrangements mentioned below, is set forth below:

	<b>Maximum exposure as of December 31, 2016</b>
Cash and cash equivalents	10,757
Other financial assets	58,378

Considering the maximum exposure to the risk of the Other financial assets based on the concentration variable of the counterparties, credit with the National Government and direct agencies accounts for approximately 32% (13,601), while the Group's remaining debtors are diversified.

Following is the breakdown of the financial assets past due as of December 31, 2016.

	<b>Current trade receivable</b>	<b>Other current receivables</b>
Less than three months past due	28	907
Between three and six months past due	444	697
More than six months past due	3,129	262
	3,601	1,866

At such date, the provision for doubtful trade receivables amounted to 1,084 and the provisions for other doubtful receivables amounted to 35. These provisions are the Group's best estimate of the losses incurred in relation with accounts receivables.

Guarantee Policy

As collateral of the credit limits granted to customers, the Group has several types of guarantees received from them. In the service stations and distributors market, where generally long-term relationships with customers are established, mortgages prevail. For foreign customers, joint and several bonds from their parent companies prevail. In the industrial and transport market, bank guarantees prevail. With a lower presence, the Group has also obtained other

guarantees such as credit insurances, surety bonds, guarantee customer supplier, and car pledges, among others.

The Group has effective guarantees granted by third parties for a total amount of 9,300, 6,277 and 3,676 as of December 31, 2016, 2015 and 2014, respectively.

During the year ended December 31, 2016, the Group executed guarantees received for an amount of 1. As of December 31, 2015 and 2014, the Group executed guarantees received for an amount of 2 and 1, respectively.

F-46

**Table of Contents**

**YPF SOCIEDAD ANONIMA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2016, 2015 AND 2014**

**5. SEGMENT INFORMATION**

The different segments in which the Group is organized have in consideration the different activities from which the Group obtains income and incurs expenses. The mentioned organizational structure is based on the way in which the highest authority in the decision-making process analyzes the main financial and operating magnitudes while making decisions about resource allocation and performance assessment also considering the Group's business strategy.

**Upstream**

The Upstream segment carries out all activities related to the oil and natural gas exploration, development and production.

It obtains its revenues from (i) the sale of produced oil to the Downstream segment and, marginally, from its sale to third parties; (ii) the sale of produced gas to the Gas and Power segment; and (iii) the receipt of incentives from the Stimulus Plan for the Excessive Injection of Natural Gas.

**Gas and Power**

On March 15, 2016, the Gas and Power Executive Vice-presidency was created, and during the current fiscal year, the complete scope of management of this new business unit was determined.

The Gas and Power segment obtains its income from the development of activities related to: (i) the natural gas commercialization to third parties and the Downstream segment, (ii) the commercial and technical operation of LNG regasification terminals in Bahía Blanca and Escobar, by hiring two regasification vessels, (iii) the natural gas distribution, and (iv) the generation of conventional and renewable electricity,

In addition to the proceeds derived from the sale of natural gas to third parties and the intersegment, which is then recognized as a purchase to the Upstream segment, Gas and Power accrues a fee in its favor with the Upstream segment to carry out such commercialization.

**Downstream**

The Downstream segment develops activities related to: (i) oil refining and petrochemical production, (ii) commercialization of refined and petrochemical products obtained from such processes, (iii) logistics related to the transportation of oil and gas to refineries and the transportation and distribution of refined and petrochemical products to be marketed in the different sales channels.

It obtains its income from the marketing mentioned in item (ii) above, which is developed through the Retail, Industry, Agro, LPG, Chemicals and Lubricants and Specialties businesses.

It incurs in all expenses related to the aforementioned activities, including the oil purchase from the Upstream segment and third parties and the natural gas to be consumed in the refinery and petrochemical industrial complexes from the Gas and Power segment.

Central Administration and Others

It covers other activities, not falling into the aforementioned categories, mainly including corporate administrative expenses and assets and construction activities.

Sales between business segments were made at internal transfer prices established by the Group, which generally seek to approximate market prices.

Operating income and assets for each segment have been determined after consolidation adjustments.

As required by IFRS 8, comparative information has been given retroactive effect by the creation of the new segment.



**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****5. SEGMENT INFORMATION (Cont.)**

	Upstream Gas and Power	Downstream	Central Administration and Others	Consolidation Adjustments <sup>(1)</sup>	Total	
<b>For the year ended December 31, 2016</b>						
Revenues from sales	18,745	26,514	162,538	2,303	210,100	
Revenues from intersegment sales	95,398	3,212	925	7,447	(106,982)	
Revenues	114,143	29,726	163,463	9,750	(106,982)	210,100
Operating income (loss)	(26,845)	2,008	3,093	(1,615)	(887)	(24,246)
Income (loss) from equity interests in associates and joint ventures	(1)	302	287			588
Depreciation of property, plant and equipment	38,125	290	5,507	830		44,752
Impairment of property, plant and equipment and intangible assets <sup>(3)</sup>	34,943					34,943
Acquisition of property, plant and equipment	51,396	2,134	9,839	1,679		65,048
Assets	236,173	25,866	125,536	34,739	(1,175)	421,139
<b>For the year ended December 31, 2015</b>						
Revenues from sales	16,044	14,003	124,959	1,130		156,136
Revenues from intersegment sales	64,243	2,184	807	6,182	(73,416)	
Revenues	80,287	16,187	125,766	7,312	(73,416)	156,136
Operating income (loss)	7,535	1,498	6,948	(2,331)	2,938	16,588

Income (loss) from equity interests in associates and joint ventures		267	51			318
Depreciation of property, plant and equipment	23,075	255	2,913	442		26,685
Impairment of property, plant and equipment and intangible assets <sup>(3)</sup>	2,535					2,535
Acquisition of property, plant and equipment	48,598	469	8,874	1,939		59,880
Assets	223,035	13,659	100,146	26,708	(95)	363,453
<b>For the year ended December 31, 2014</b>						
Revenues from sales	8,853	12,810	119,444	835		141,942
Revenues from intersegment sales	61,844	1,859	817	5,212	(69,732)	
Revenues	70,697	14,669	120,261	6,047	(69,732)	141,942
Operating income (loss)	12,353	310	10,668	(3,343)	(246)	19,742
Income (loss) from equity interests in associates and joint ventures	(10)	387	181			558
Depreciation of property, plant and equipment	17,180	243	2,202	311		19,936
Acquisition of property, plant and equipment <sup>(2)</sup>	41,371	308	8,084	1,408		51,171
Assets	126,228	9,610	58,899	16,356	(2,539)	208,554

(1) Corresponds to the elimination of income among segments of the YPF Group.

(2) Investments in property, plant and equipment net of increases corresponding to YSUR Group at acquisition date, JO Puesto Hernández, Las Lajas and Bajada Añelo Amarga Chica, and La Ventana agreement at acquisition date of the additional interest. See Note 3.

(3) See Notes 2.c) and 8.

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****5. SEGMENT INFORMATION (Cont.)**

The distribution of revenues by geographic area, according to the markets for which they are intended, for the years ended on December 31, 2016, 2015 and 2014, and property, plant and equipment by geographic area as of December 31, 2016, 2015 and 2014 are as follows:

	Revenues			Property, plant and equipment		
	2016	2015	2014	2016	2015	2014
Argentina	193,707	143,851	126,539	307,350	269,914	156,415
Mercosur and associated countries	7,964	6,302	8,298	664	553	38
Rest of the world	6,142	4,175	4,753		438	477
Europe	2,287	1,808	2,352			
<b>Total</b>	<b>210,100</b>	<b>156,136</b>	<b>141,942</b>	<b>308,014</b>	<b>270,905</b>	<b>156,930</b>

Intangible assets are mainly geographically located in Argentina.

As of December 31, 2016, no foreign client represents 10% or more of the Group's revenue from its ordinary activities.

**6. FINANCIAL INSTRUMENTS BY CATEGORY**

The following tables show the financial assets and liabilities by category of financial instrument and a reconciliation to the corresponding line item in the statements of financial position, as appropriate. Since the line items Trade receivables, Other receivables, Accounts payable and Other liabilities contain both financial instruments and non-financial assets and liabilities (such as tax receivables, and receivables and payables in kind, among other) reconciliation is presented in the columns headed Non-financial assets and Non-financial Liabilities.

Financial Assets	Financial Assets at fair value through profit or loss		2016		Total
	Financial Assets at amortized cost	Financial Assets at fair value through profit or loss	Subtotal Financial Assets	Non-financial Assets	

Other receivables <sup>(1)</sup>	8,277		8,277	9,145	17,422
Trade receivables <sup>(2)</sup>	34,816		34,816		34,816
Investment in financial assets		15,285	15,285		15,285
Cash and cash equivalents	7,949	2,808	10,757		10,757
	51,042	18,093	69,135	9,145	78,280

	<b>2015</b>				
	<b>Financial Assets at amortized cost</b>	<b>Financial Assets at fair value through profit or loss</b>	<b>Subtotal Financial Assets</b>	<b>Non-financial Assets</b>	<b>Total</b>
<b>Financial Assets</b>					
Other receivables <sup>(1)</sup>	6,392		6,392	15,574	21,966
Trade receivables <sup>(2)</sup>	23,428		23,428		23,428
Investment in financial assets		804	804		804
Cash and cash equivalents	14,613	774	15,387		15,387
	44,433	1,578	46,011	15,574	61,585

	<b>2014</b>				
	<b>Financial Assets at amortized cost</b>	<b>Financial Assets at fair value through profit or loss</b>	<b>Subtotal Financial Assets</b>	<b>Non-financial Assets</b>	<b>Total</b>
<b>Financial Assets</b>					
Other receivables <sup>(1)</sup>	3,096		3,096	5,875	8,971
Trade receivables <sup>(2)</sup>	13,063		13,063		13,063
Cash and cash equivalents	8,223	1,535	9,758		9,758
	24,382	1,535	25,917	5,875	31,792

(1) Does not include the provision for other doubtful receivables.

(2) Does not include the provision for doubtful trade receivables.

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AS OF DECEMBER 31, 2016, 2015 AND 2014

**6. FINANCIAL INSTRUMENTS BY CATEGORY (Cont.)**

<b>Financial Liabilities</b>	<b>2016</b>		<b>Subtotal financial liabilities</b>	<b>Non-financial liabilities</b>	<b>Total</b>
	<b>Financial Liabilities at amortized cost</b>	<b>Financial liabilities at fair value through profit or loss</b>			
Loans	154,345		154,345		154,345
Other liabilities	4,726		4,726		4,726
Accounts payable	43,287		43,287	495	43,782
	202,358		202,358	495	202,853
<b>Financial Liabilities</b>	<b>2015</b>		<b>Subtotal financial liabilities</b>	<b>Non-financial liabilities</b>	<b>Total</b>
	<b>Financial Liabilities at amortized cost</b>	<b>Financial liabilities at fair value through profit or loss</b>			
Loans	105,751		105,751		105,751
Other liabilities	752		752	1	753
Accounts payable	39,376		39,376	475	39,851
	145,879		145,879	476	146,355
<b>Financial Liabilities</b>	<b>Financial Liabilities</b>	<b>Financial liabilities</b>	<b>2014 Subtotal financial</b>	<b>Non-financial liabilities</b>	<b>Total</b>

	<b>at amortized cost</b>	<b>at fair value through profit or loss</b>	<b>liabilities</b>	
Provisions	718	718	28,245	28,963
Loans	49,305	49,305		49,305
Other liabilities	1,216	1,216	2	1,218
Accounts payable	29,336	29,336	418	29,754
	<b>80,575</b>	<b>80,575</b>	<b>28,665</b>	<b>109,240</b>

Gains and losses on financial instruments are allocated to the following categories:

	<b>2016</b>		
	<b>Financial and non- financial Assets / Liabilities at amortized cost</b>	<b>Financial Assets / Liabilities at fair value through profit or loss</b>	<b>Total</b>
Interest income	1,472		1,472
Interest loss	(18,109)		(18,109)
Financial accretion	(3,159)		(3,159)
Exchange differences, net	11,611		11,611
Fair value gains on financial assets at fair value through profit or loss		1,826	1,826
Gains on derivative financial instruments		213	213
	<b>(8,185)</b>	<b>2,039</b>	<b>(6,146)</b>

	<b>2015</b>		
	<b>Financial and non- financial Assets / Liabilities at amortized cost</b>	<b>Financial Assets / Liabilities at fair value through profit or loss</b>	<b>Total</b>
Interest income	1,638		1,638
Interest loss	(8,618)		(8,618)
Financial accretion	(1,987)		(1,987)
Exchange differences, net	20,214		20,214
Fair value gains on financial assets at fair value through profit or loss		446	446
Gains on derivative financial instruments		464	464

11,247	910	12,157
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F-50

Table of Contents

## YPF SOCIEDAD ANONIMA

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016, 2015 AND 2014

## 6. FINANCIAL INSTRUMENTS BY CATEGORY (Cont.)

	2014		
	Financial and non- financial Assets / Liabilities at amortized cost	Financial Assets / Liabilities at fair value through profit or loss	Total
Interest income	1,029		1,029
Interest loss	(5,456)		(5,456)
Financial accretion	(1,880)		(1,880)
Exchange differences, net	7,782		7,782
Fair value gains on financial assets at fair value through profit or loss		297	297
	1,475	297	1,772

Fair value measurements

IFRS 9 defines the fair value of a financial instrument as the amount for which an asset could be exchanged, or a financial liability settled, between knowledgeable, independent parties in an arm's length transaction. All financial instruments recognized at fair value are allocated to one of the valuation hierarchy levels of IFRS 7. This valuation hierarchy provides for three levels.

In the case of Level 1, valuation is based on unadjusted quoted prices in active markets for identical financial assets or liabilities that the Group can refer to at the end of the period. A market is deemed active if transactions take place with sufficient frequency and in sufficient quantity for price information to be available on an ongoing basis. Since a quoted price in an active market is the most reliable indicator of fair value, this should always be used if available. Financial instruments assigned by the Group to this level comprise investments in listed mutual funds and public securities.

In the case of Level 2, fair value is determined by using valuation methods based on inputs directly or indirectly observable in the market. If the financial instrument concerned has a fixed contract period, the inputs used for valuation must be observable for the whole of this period. The Group has not valued financial instruments under this category.



In the case of Level 3, the Group uses valuation techniques not based on inputs observable in the market. This is only permissible insofar as no market data are available. The inputs used reflect the Group's assumptions regarding the factors which market players would consider in their pricing. The Group uses the best available information for this, including internal company data. The Group has not valued financial instruments under this category.

YPF's Finance Division has a team in place in charge of estimating valuation of financial instruments required to be reported in the financial statements, including the fair value of Level-3 instruments. The team directly reports to the Chief Financial Officer (CFO). The CFO and the valuation team discuss the valuation methods and results upon the acquisition of a financial instrument and, if necessary, on a quarterly basis, in line with the Group's quarterly reports.

The tables below show the Group's financial assets measured at fair value as of December 31, 2016, 2015 and 2014 and their allocation to their fair value levels.

Financial Assets	2016			Total
	Level 1	Level 2	Level 3	
<b>Investments in financial assets:</b>				
- Mutual funds	53			53
- Public securities	15,232 <sup>(1)</sup>			15,232
	15,285			15,285
<b>Cash and cash equivalents:</b>				
- Mutual funds	2,808			2,808
	2,808			2,808
	18,093			18,093

(1) As of December 31, 2016, 7,737 has been classified as noncurrent and 7,495 has been classified as current.

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****6. FINANCIAL INSTRUMENTS BY CATEGORY (Cont.)**

<b>Financial Assets</b>	<b>2015</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Investments in financial assets:</b>				
- Mutual funds	340			340
- Other financial assets	464			464
	804			804
<b>Cash and cash equivalents:</b>				
- Mutual funds	774			774
	774			774
	1,578			1,578
<b>Financial Assets</b>	<b>2014</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Cash and cash equivalents:</b>				
- Mutual funds	1,535			1,535
	1,535			1,535

The Group has no financial liabilities at fair value through profit or loss.

The Group's policy is to acknowledge transfers among the several categories of valuation hierarchies when occurred, or when there are changes in the prevailing circumstances requiring such transfer. During the years ended December 31, 2016, 2015 and 2014, there were no transfers between the different hierarchies used to determine the fair value of the Group's financial instruments.

**Fair value of financial assets and financial liabilities measured at amortized cost**

The estimated fair value of loans, considering unadjusted listed prices (Level 1) for Negotiable Obligations and interest rates offered to the Group (Level 3) for the other financial loans remaining, amounted to 157,133, 106,336 and 53,108 as of December 31, 2016, 2015 and 2014, respectively.

The fair value of the following financial assets and financial liabilities do not differ significantly from their book value:

Other receivables

Trade receivables

Cash and cash equivalents

Accounts payable

Other liabilities

**7. INTANGIBLE ASSETS**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net book value Intangible assets	8,114	7,359	4,393
Provision for impairment of intangible assets		(80)	
	8,114	7,279	4,393

F-52

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****7. INTANGIBLE ASSETS (Cont.)**

Changes in the Group's intangible assets for the years ended December 31, 2016, 2015 and 2014 were as follows:

	Service concession	Exploration rights	Other intangibles	Total
Cost	3,917	801	1,879	6,597
Accumulated amortization	2,551	8	1,592	4,151
Balances as of December 31, 2013	1,366	793	287	2,446
<u>Cost</u>				
Increases	572	3,033	129	3,734 <sup>(1)</sup>
Translation effect	1,212	399	594	2,205
Decreases and reclassifications	6	(2,258)	5	(2,247) <sup>(1)(2)</sup>
<u>Accumulated amortization</u>				
Increases	135	179	155	469
Translation effect	789	2	523	1,314
Decreases and reclassifications		(39)	1	(38)
Cost	5,707	1,975	2,607	10,289
Accumulated amortization	3,475	150	2,271	5,896
Balances as of December 31, 2014	2,232	1,825	336	4,393
<u>Cost</u>				
Increases	653	270	190	1,113
Translation effect	3,218	928	1,443	5,589
Decreases and reclassifications	(51)	(183)	20	(214)
<u>Accumulated amortization</u>				
Increases	180		143	323
Translation effect	1,904	5	1,296	3,205
Decreases and reclassifications	(6)			(6)
Cost	9,527	2,990	4,260	16,777
Accumulated amortization	5,553	155	3,710	9,418

Balances as of December 31, 2015	3,974	2,835	550	7,359
<b>Cost</b>				
Increases	642	75	171	888
Translation effect	2,127	612	936	3,675
Decreases and reclassifications	(547)	(584)	127	(1,004)
<b>Accumulated amortization</b>				
Increases	437		280	717
Translation effect	1,245		848	2,093
Decreases and reclassifications		(6)		(6)
Cost	11,749	3,093	5,494	20,336
Accumulated amortization	7,235	149	4,838	12,222
Balances as of December 31, 2016	4,514	2,944	656	8,114

- (1) Includes 2,784 of acquisitions corresponding to YSUR Group in Argentina at the time of the acquisition date and 1,538 of disposal of assets for the transfer of areas to Pluspetrol S.A, respectively. See Note 3.
- (2) Includes 682 reclassified to mineral property, wells and related equipment of property, plant and equipment.

#### 8. PROPERTY, PLANT AND EQUIPMENT

	2016	2015	2014
Net book value of property, plant and equipment	345,679	274,122	157,243
Provision for obsolescence of materials and equipment	(1,380)	(762)	(313)
Provision for impairment of property, plant and equipment	(36,285)	(2,455)	
	308,014	270,905	156,930

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****8. PROPERTY, PLANT AND EQUIPMENT (Cont.)**

Changes in Group's property, plant and equipment for the years ended December 31, 2016, 2015 and 2014 are as follows:

	Land and buildings	Mineral property, wells and related equipment	Refinery equipment and petrochemical plants	Transportation equipment	Materials and equipment warehouse	Drilling and work in progress	Exploratory drilling in progress	Furniture, fixtures and installations	Selling equipment	Infrastructure for natural gas distribution	Electric power generation facilities	Other property
	6,965	179,877	29,267	1,466	5,576	19,840	927	2,267	4,084	2,618	1,542	4,174
Depreciation	2,804	133,672	17,611	1,022				1,990	3,034	1,055	1,060	2,693
								277				
2013	4,161	46,205	11,656	444	5,576	19,840	927		1,050	1,563	482	1,481
	13	9,248	13	119	8,013	38,531	2,264	82			20	310
Depreciation	1,996	56,540	9,171	431	1,571	6,275	231	690	1,284			1,113
								275				
2014	110	19,711	3,630	144	(6,919)	(19,595)	(1,641)		152	104	5	(95)
Depreciation	161	17,057	1,751	152				235	239	67	110	164
	814	41,789	5,487	302				596	942		1	740
		(348)	(7)	(21)				(4)	.	(6)		(6)
2015	9,084	265,376	42,081	2,160	8,241	45,051	1,781	3,314	5,520	2,722	1,567	5,502
Depreciation	3,779	192,170	24,842	1,455				2,817	4,215	1,116	1,171	3,591
2016	5,305	73,206 <sup>(1)</sup>	17,239	705	8,241	45,051	1,781	497	1,305	1,606	396	1,911
	23	(1,140)	7	5	7,823	50,139	2,767	36	1			219
Depreciation	4,630	155,844	23,707	1,155	4,432	24,005	992	1,865	3,640			2,633

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	212	37,986 <sup>(8)</sup>	3,634	330	(7,018)	(42,392)	(1,893)	388	1,617	209	6	(63)
<u>depreciation</u>	211	22,884	2,289	218				323	345	68	112	235
	1,934	110,301	14,019	773				1,559	2,361			1,796
	(4)	(433) <sup>(8)</sup>	(12)	(54)						(3)		(2)
	13,949	458,066	69,429	3,650	13,478	76,803	3,647	5,603	10,778	2,931	1,573	8,291
<u>depreciation</u>	5,920	324,922	41,138	2,392				4,699	6,921	1,181	1,283	5,620
5	8,029	133,144 <sup>(1)</sup>	28,291	1,258	13,478	76,803	3,647	904	3,857	1,750	290	2,671
	140	3,831	1	3	6,968	52,610	1,392	25			2	76
	2,975	104,086	16,601	802	2,494	14,602	626	1,260	2,430			1,658
	1,365	59,645	26,529	1,096	(8,701)	(91,342)	(3,687)	1,201	1,138	260	187	(60)
<u>depreciation</u>	360	40,729	4,312	414				668	642	75	111	318
	1,257	73,288	9,288	516				1,052	1,558			1,142
	(40)	(6,937)	(3)	(37)				(18)	(2)	45		(82)
	18,429	625,628	112,560	5,551	14,239	52,673	1,978	8,089	14,346	3,191	1,762	9,965
<u>depreciation</u>	7,497	432,002	54,735	3,285				6,401	9,119	1,301	1,394	6,998
6	10,932	193,626 <sup>(1)</sup>	57,825	2,266	14,239	52,673	1,978 <sup>(2)</sup>	1,688	5,227	1,890	368	2,967

(1) Includes 9,147, 8,435 and 6,343 of mineral property as of December 31, 2016, 2015 and 2014, respectively.

(2) As of December 31, 2016, there are 37 exploratory wells in progress. During year ended on such date, 29 wells were drilled, 36 wells were charged to exploratory expense and 14 were transferred to proved properties which are included in the account Mineral property, wells and related equipment.

(3) Includes 858, 210 and 866 of increases corresponding to Puesto Hernandez, Las Lajas, and Bajada Añelo Amarga Chica JO, respectively, and 39 corresponding to the La Ventana agreement, on the additional interest acquisition date.

(4) Includes 6 and 32 of net book value charged to property, plant and equipment provisions for the years ended December 31, 2015 and 2014, respectively.

(5) Includes 5,469 of increases corresponding to YSUR Group in Argentina on the acquisition date. See Note 3.

(6) Includes 2,243, (1,281) and (268) corresponding to hydrocarbon wells abandonment costs for the years ended December 31, 2016, 2015 and 2014, respectively.

(7) Includes (325) of derecognition of areas transferred by YPF and YSUR mentioned in Note 3.

(8) Includes (2,671) residual value for the El Orejano area; (226) corresponding to the decrease in participation in the Magallanes area; and (8) corresponding to the decrease in participation in the Puesto Cortadera area.

(9) Includes reductions for the deconsolidation of subsidiaries of 500, net.

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****8. PROPERTY, PLANT AND EQUIPMENT (Cont.)**

The Group capitalizes the financial cost as a part of the cost of the assets. For the year ended December 31, 2016, 2015 and 2014, the rate of capitalization has been 13.03%, 12.01% and 12.29%, respectively, and the amount capitalized amounted to 1,234, 1,003 and 574, respectively, for the years mentioned above.

Set forth below is the evolution of the provision for obsolescence of materials and equipment for the years ended December, 31 2016, 2015 and 2014:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Amount at beginning of year</b>	762	313	166
Increase charged to expenses	428	243	133
Decreases charged to income			(4)
Amounts incurred due to utilization	(2)	(6)	(32)
Translation differences	192	212	50
<b>Amount at end of year</b>	<b>1,380</b>	<b>762</b>	<b>313</b>

Set forth below is the evolution of the provision for impairment of property, plant and equipment for 2016, 2015 and 2014:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Amount at beginning of year</b>	2,455		
Increase charged to expenses	36,188 <sup>(1)</sup>	2,455	
Decrease charged to income	(1,245) <sup>(1)</sup>		
Depreciation	(2,877) <sup>(2)</sup>		
Translation differences	1,869		
Deconsolidation of subsidiaries	(105)		
<b>Amount at end of year</b>	<b>36,285</b>	<b>2,455</b>	

(1) See Note 2.c).



(2) Included in Depreciation of property, plant and equipment in Note 21.

Set forth below is the cost evolution for the exploratory wells in evaluation stage as of the years ended on December 31, 2016, 2015 and 2014:

	2016	2015	2014
<b>Amount at beginning of year</b>	1,777	993	710
Additions pending the determination of proved reserves	1,112	1,219	921
Decreases charged to exploration expenses	(700)	(479)	(336)
Decrease of assets assignment	(15)	(89)	(336)
Reclassifications to mineral property, wells and related equipment with proved reserves	(1,004)	(466)	(188)
Translation difference	305	599	222
<b>Amount at end of year</b>	1,475	1,777	993

The following table shows the capitalized cost for exploratory wells for a period greater than a year and the number of projects related as of December 31, 2016.

	Amount	Number of projects	Number of Wells
Between 1 and 5 years	551	4	4

## 9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group does not participate in subsidiaries with a significant non-controlling interest. Furthermore, no investments in associates or joint ventures are deemed individually material.

The following table shows the value of the investments in associates and joint ventures at an aggregate level, considering that none of the individual companies is material, as of December 31, 2016, 2015 and 2014:

	2016	2015	2014
Amount of investments in associates	1,478	1,248	757
Amount of investments in joint ventures	4,022	3,135	2,430
Provision for impairment of investments in associates and joint ventures	(12)	(12)	(12)
	5,488	4,371	3,175
Disclosed in investments in associates and joint ventures	5,488	4,372	3,177
Disclosed in Other liabilities		1	2

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Cont.)**

The main movements during the years ended December 31, 2016, 2015 and 2014, which affected the value of the aforementioned investments, correspond to:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Amount at the beginning of year</b>	4,371	3,175	1,998
Acquisitions and contributions	448	163	448
Income on investments in associates and joint ventures	588	318	558
Conversion differences	601	999	470
Distributed dividends	(520)	(280)	(299)
Other movements		(4)	
<b>Amount at the end of year</b>	<b>5,488</b>	<b>4,371</b>	<b>3,175</b>

The following table shows the principal amounts of the results of the investments in associates and joint ventures of the Group, calculated according to the equity value therein, for the years ended December 31, 2016, 2015 and 2014. The Group has adjusted, if applicable, the values reported by these companies to adapt them to the accounting criteria used by the Group for the calculation of the proportional equity value in the aforementioned dates:

	<b>Associates</b>			<b>Joint ventures</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net income (loss)	225	321	234	363	(3)	324
Other comprehensive income	35	50	18	566	949	452
<b>Comprehensive income for the year</b>	<b>260</b>	<b>371</b>	<b>252</b>	<b>929</b>	<b>946</b>	<b>776</b>

On May 13, 2016, the companies Y-GEN I and Y-GEN II were created, for the purpose of submitting a bid to the tender No. 21/2016 launched by the MINEM, for the new generation of energy and thermal power, which, if adjudicated, they would enter into with Compañía Administradora del Mercado Mayorista Eléctrico S.A. ( CAMMESA ) a contract of sale of offered energy for a term of between 5 and 10 years, as offered, and with a price denominated in U.S. dollars. The created companies submitted their bids for the construction of new

thermal power plants in Loma Campana (Añelo, Province of Neuquén) and in Central El Bracho (Province of Tucumán), which were finally awarded.

In both companies, 66.67% of the shareholding is owned by the subsidiary YPF EE ( Managing Shareholder ) and the remaining 33.33% is owned by Guayama PR Holdings ( Non-Managing Shareholder ) of the General Electric Group. According to the shareholders' agreement, the shareholders must contribute the necessary funds as capital contributions during the current financial year and the next two fiscal years (as of December 31, 2016, the shareholders have contributed 448). There is also a service agreement between both companies and YPF EE, under which YPF EE has the responsibility as Managing Shareholder to, among other things, perform certain administration tasks of the companies.

The Group has followed the guidelines set forth in IFRS 10 Consolidated financial statements and has concluded that it exercises joint control over Y-GEN I and Y-GEN II. As a result, it has applied IFRS 11 Joint Arrangements which defines these companies as joint ventures, and has measured them in accordance with the equity method in accordance with IAS 28 Investments in associates and joint ventures .

Some of the main assumptions under evaluation were as follows: (i) Contractually, both shareholders exercise joint control over each of the companies, so any decisions on their relevant activities are taken jointly, requiring their unanimous vote to do so and there is no power of one party (shareholder) over the other in relation to the investment, regardless of the different percentages of ownership thereof; (ii) there is no power as defined in IFRS 10 of one party to the detriment of another, either in relation to the voting rights in the nomination of directors or even personnel (whether key or not), in the management of the entity to benefit itself or to unilaterally modify the variable return on investment, or ultimately to unilaterally address any of the decisions associated with the relevant activities.

Finally, as of the date of issuance of these consolidated financial statements, the aforementioned companies had not performed any relevant transactions, other than the execution of the agreements that were the subject matter of their creation.

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Cont.)**

The following table shows information of the subsidiaries:

Description of the Securities	Information of the issuer		Last Financial Statements Available					
	Class	Face Value	Amount	Main Business	Registered Address	Date	Capital stock	Net profit (loss)
Common Bs.	100	66,897	Investment	Street La Plata 19, Santa Cruz de la Sierra, República de Bolivia	12-31-16	15		
Common US\$ 0.01		810,614	Investment and finance	10333 Richmond Avenue I, Suite 1050, TX, U.S.A.	12-31-16	10,529	658	(2,4)
Common \$	1	163,701,747	Commercial management of YPF's gas stations	Macacha Güemes 515, Buenos Aires, Argentina	12-31-16	164	420	6
Common \$	1	307,095,088	Engineering and construction services	Macacha Güemes 515, Buenos Aires, Argentina	12-31-16	307	335	1,1
Common \$	1	50,000	Wells perforation and/or reparation services	Macacha Güemes 515, Buenos Aires, Argentina	12-31-16	(8)	(96)	0
Common \$	1	398,419,700	Providing the public service of natural gas distribution	Gregorio Aráoz de Lamadrid 1360, Buenos Aires, Argentina.	12-31-16	569	(600)	(1,3)
Common \$	1	30,006,540	Exploration, development, industrialization and marketing of	Macacha Güemes 515, Buenos Aires, Argentina	12-31-16	30	580	1,7

7)	Common		50,968,649	hydrocarbons, and generation, transportation and marketing of electric power	Villarica 322; Módulo B1, Qilicura, Santiago	12-31-16	723	10	1,2
	Common \$	1	234,291,000	Lubricants and aviation fuels trading and hydrocarbons research and exploration	Macacha Güemes 515, Buenos Aires, Argentina	12-31-16	459	49	6
	Common US\$ 0.01		15,660,437,309	Investigation, development, production and marketing of technologies, knowledge, goods and services	Prins Bernardplein 200, 1097 JB, Amsterdam, Holanda	12-31-16	(8)	132	
	Common \$	1	2,656,573,000	Investment	Macacha Güemes 515, Buenos Aires, Argentina	12-31-16	2,657	(1)	5,3
	Common \$	1	230,281,000	Investment	Macacha Güemes 515, Buenos Aires, Argentina	12-31-16	230	(9)	3
7)	Common \$	1	634,284,566	Exploration, extraction, exploitation, storage, transportation, industrialization and marketing of hydrocarbons, as well as other operations related thereto	Macacha Güemes 515, Buenos Aires, Argentina	12-31-16	634	106	5
	Common \$	1	17,043,060	Exploration, exploitation, processing, management, storage and transport of all types of minerals; assembly, construction and operation of	Macacha Güemes 515, Buenos Aires, Argentina	12-31-16	17	(25)	0

facilities and  
structures and  
processing of  
products related  
to mining

F-57

**Table of Contents****YPF SOCIEDAD ANONIMA****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2016, 2015 AND 2014****9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Cont.)**

The following table shows the investments in associates and joint ventures:

Description of the Securities	Class	Face Value	Amount	Book value <sup>(3)</sup>	Cost <sup>(2)</sup>	Main Business	Registered Address	12-31-2016			
								Information of the issuer			
								Last Financial Statement Available	Net Capital profit stock	(loss)	Eq
Common \$	1	244,246,140	1,208			Separation, fractionation and transportation of natural gas liquids	San Martín 344, P. 10°, Buenos Aires, Argentina	09-30-16	643	735	1,
Common \$	1	391,291,320	1,897			Production and marketing of fertilizers	Alicia Moreau de Justo 740, P. 3, Buenos Aires, Argentina	12-31-16	783	600	1,
Common \$	1	45,803,655	468			Refining	Maipú 1, P. 2°, Buenos Aires, Argentina	09-30-16	92	25	
				3,573							
Common \$	10	4,072,749	174 <sup>(1)</sup>								
								12-31-16	110	125	

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					Oil transportation by pipeline	Florida 1, P. 10°, Buenos Aires, Argentina					
ónicas S.A.											
	Common \$	10	476,034	94		Oil storage and shipment	Av. Leandro N. Alem 1180, P. 11°, Buenos Aires, Argentina	09-30-16	14	36	
	Common \$	10	351,167	184		Hydrocarbon transportation and storage	Terminal Marítima Puerto Rosales Provincia de Buenos Aires, Argentina.	12-31-16	12	181	
entina) S.A.											
	Preferred \$	1	15,579,578	33		Gas transportation by pipeline	San Martín 323, P.13°, Buenos Aires, Argentina	12-31-15	156	54	
	Common \$	0.01	11,869,095,145	175	136	Electric power generation and bulk marketing	Pasaje Ingeniero Butty 220, P.16°, Buenos Aires, Argentina	09-30-16	1,231	177	1,
	Common \$	1	355,270,303	569	445	Investment and finance	Pasaje Ingeniero Butty 220, P.16°, Buenos Aires, Argentina	09-30-16	829	126	1,
entina) S.A.											
	Preferred \$	1	12,135,167	37		Oil transportation by pipeline	Macacha Güemes 515, P.3°, Buenos Aires, Argentina	09-30-16	34	20	
	Common \$	1	175,997,158	172		Gas fractionation, bottling, distribution and transport for industrial and/or residential use	Macacha Güemes 515, P.3°, Buenos Aires, Argentina	09-30-16	176		