COMPAÑÍA GENERAL DE COMBUSTIBLES S.A.

Annual Report and Financial Statements

at December 31, 2018

ANNUAL REPORT

2018

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BOARD OF DIRECTORS

Chairman	Eduardo Hugo Antranik Eurnekian
Vice-Chairman	Daniel Guillermo Simonutti
Full Director	Juan Pablo Freijo
Full Director	Daniel Kokogian
Full Director	Jorge Alberto Del Aguila
Full Director	Matías María Brea
Full Director	Ignacio Noel

SUPERVISORY COMMITTEE

Full Members	**Alternate Members**
Carlos Oscar Bianchi	Juan Pablo Bianchi
Carlos Fernando Bianchi	Héctor Oscar Romero
Mariano Miguel De Apellaniz	José María Aranguren

ANNUAL REPORT

To all shareholders:

In line with the applicable legal and statutory provisions, the Board of Directors submits for your consideration the Annual Report, Inventory, Informative Review, consolidated and separate Financial Statements which comprise the corresponding Statements of Financial Position, Statements of Comprehensive Income, Statements of Changes in Equity, Cash Flow Statements, and notes, and the additional information required by Article 12, Chapter III, Title IV of the rules of the National Securities Commission, for the 98th fiscal year ended December 31, 2018. This information should be read, analyzed and interpreted as a whole in order to have a full view of the relevant corporate matters for the fiscal year.

The financial statements have been prepared in accordance with the accountancy standards and provisions of the regulatory organisations, which are detailed in the accompanying material.

I. Macro-economic Context during Fiscal Year 2018

Company management is exposed to the evolution of the main variables of the country's macro-economic context since its activities are chiefly focused on the Argentine market.

As the year 2017 drew to a close, there was every reason to suppose that Argentina was poised on an economic growth path with a fall in inflation forecast for 2018. During the second half of 2017, market-friendly pension, labour and tax reform had all been approved

Yet this situation changed in late April, 2018 as the yields on 10-year US Treasury bonds rose to over 3%, thus badly shaking up emerging markets which for years had been attractive to investors seeking high yields.

Argentina was the first country in the region to feel the effects. Hit by the turbulence on emerging markets, investors lost confidence in the monetary policy of the Central Bank, which changed its inflation targets and reduced interest rates despite there being no signs of inflation fading.

As from May a sequence of events altered the course of the economy along with expectations. A virtual capital market shutdown against Argentina unleashed a crisis triggering a sharp devaluation of our currency while slowing down economic activity, accelerating inflation and reducing expectations of recovery.

The crisis in the balance of payments sent the exchange rate soaring with a 101,07% gain for the year in the price of the dollar. That had a full impact on general price levels but this was not accompanied by the same momentum with wage increases. This provoked a fall of almost 20 points in purchasing-power, which was reflected in shrinking consumption and investment.

Among the actions undertaken by the government to stabilise the economy and put it back on track, it is important to highlight the upgrade to Emerging Market status granted to our country by the MSCI, as well as the support of the International Monetary Fund with guarantees from the global financial community. The stand-by loan agreement reached with the IMF last June permitted the government to relaunch its economic programme.

The changes presented implied a recalibration of the main lines of economic policy. The main macro-economic objectives aim at stepping up the pace of fiscal gradualism, adjusting the inflation targets and broadening the autonomy of the monetary authorities. To contain the inflationary spiral, the Central Bank changed its monetary policy as from October, abandoning the system of inflation-targeting in favour of a mechanism of monetary aggregates. With interest rates high in real terms and less money in circulation, the Central Bank maintained dollar stability in the last months of the year, thus permitting prices to slow down.

In the same direction, the government continues advancing in its aim of reducing fiscal imbalance in line with achieving a primary balance in 2020.

According to INDEC data, the accumulated inflation of the year 2018 was 47.6%, the highest such figure since 1991 and a long way off the Mauricio Macri government's initial target of 15%.

The exchange rate had closed the year 2017 at 18.65 pesos per dollar, rising to 37.50 pesos per dollar by the end of December, 2018, or 101.07% superior to the close of 2017 and far above the level of price increases.

The 2019 Budget estimates that inflation will average 23% year on year, forecasts an average exchange rate of $ 40.1 per dollar and a 0.5% fall in the Gross Domestic Product (GDP). The trade balance is to pass from a deficit of 216,953 million pesos (5,478 million dollars) in 2018 to a surplus of 183,819 million pesos (4,641 million dollars) next year,

Yet the projections of the specialists do not agree with the data projected by the government for next year, which could be a determining factor in the economic course and political panorama of an election year. According to IMF projections, the Argentine economy will continue in recession during 2019 due to the more stringent policies aimed at reducing the imbalances, thus registering a fall of 1.7% of GDP to return to growth in 2020 at 2.7 percent, while 2019 inflation is estimated at around 30%.

In terms of the specific variables of oil activity at international level, Brent crude quoted at US$ 54.57 per barrel at the close of December, 2018 or 17,9% down on the US$ 66.49 quoted at the close of December, 2017 due to overproduction of crude and a decline in demand.

The volatility of the Argentine economy and the measures adopted by the Argentine government have had (and is hoped will continue to have) a significant impact on Company business. The current government has begun to implement a series of reforms which will hopefully improve the long-term fundamentals of the oil and gas sector via the recovery of the regulatory framework and in particular the measures taken to develop unconventional gas.

Gas production reached 47,021 million cubic metres in 2018, an increase of 5.3% as against 2017, while oil output totalled 28.39 million cubic metres, barely 2% more than the previous year when it had registered the lowest level since 1980. In gas, unconventional hydrocarbons already represent a third of local production, growing more than 250% in volume. That permitted Argentina to return to exporting gas after over a decade.

The main initiatives related to the upstream segment carried out by the government during the year 2018 include the following:

- Convergence of crude oil prices: The government continued its policy of converging local prices with international reference pricing.

- Price incentives for unconventional natural gas: The policy of incentives for the production of unconventional resources for 2019 was maintained with a minimum price of US$ 7 per million BTU falling 50 cents annually to reach US$ 6 per million BTU in 2021. However, due to the success of the Fortín de Piedra concession in doubling its production curve as originally estimated, the government's Energy Secretary announced a reinterpretation of the calculation methods of the incentives corresponding to the payment of the compensation stipulated by Resolution 46/2017, imposing a limit to the estimated volumes production in the original presentations, which will probably affect the activity. Due to that incentive policy, the production of natural gas increased in the Neuquén Basin by 8 Mm3/d (millions of cubic metres a day) and 3 Mm3/d in the Austral Basin.

- Labour reform: The agreement between trade unions and businessmen to lower costs and encourage investments in shale gas and oil was maintained in order to encourage investment in Vaca Muerta. Negotiations in this direction are underway in the province of Santa Cruz to incorporate certain changes in the labour conditions within collective bargaining agreements in order to achieve greater productivity and lower costs.

- Continuation of the gradual adjustment of natural gas pricing and billing, eliminating consumer subsidies to reduce the budget deficit but at a slower pace due to the macro-economic deterioration from the devaluation of the peso. On the basis of this new scenario the national government has decided to take measures to modify its policies for determining energy prices. The focus began to switch from the price paid on the demand side to the prices received on the supply side with an approach more linked to a shared effort towards reducing subsidies.

- Natural gas exports: In August, 2018 Resolution N° 104/2018 (subsequently amended by Resolution SGE N° 9/2018) from the Ministry of Energy and Mining was published in the Official Gazette, establishing a new Procedure for Authorising the Export of Natural Gas. After a decade, in September, 2018, the Argentine Republic once again exported gas to Chile. The inaugural shipments went to the region of Magallanes in the extreme south of Chile. CGC was the first company to be authorised by the Energy Department to resume shipments to Chile,

-Fiscal regulations:

- Taxation of bank credits and debits: last May in Decree 409/2018, the Executive Branch disposed that 33% of tax deductions can be computed on both credit and debit sides of the bank account.

• Export duties: On September 3, 2018 Executive Decree 793/2018 was issued establishing a general duty of 12% on the export of goods from Argentina, among them hydrocarbons, to take effect as from September 4, 2018 to December, 2020. This duty has a cap of four pesos on every dollar of exports FOB. This measure compounds the fall in domestic oil prices along with the sharp descent in international prices, which could affect company investment decisions for 2019.

II. Summary of the most Relevant Facts of the Fiscal Year

- ✓ **CGC consolidated its production of gas in the Austral basin**: annual gas production increased 52% during 2018 while the gas reserve replacement was 205%.

  This achievement is justified by the development and exploration campaign carried out in the Campo Indio Este-El Cerrito area.

  At the end of June, 2017 gas production was 2.4 Mm3/d but, boosted by the investments into unconventional gas, it passed to 5 Mm3/d by the end of 2018.

  In the Austral basin, 47 wells were drilled during the year 2018, 6 of them exploratory. Two drilling rigs were used during the fiscal year.

  Of the wells drilled, 38 (including 8 horizontal) corresponded to the Incentive Programme for Investments in Natural Gas Production Development from Unconventional Oilfields, to which CGC adhered in January, 2018.

- ✓ **Discovery of a new unconventional gas field**: CGC discovered a tight gas field in the province of Santa Cruz via the El Puma x-3 well located in the Campo Indio Este-El Cerrito concession in the Austral Basin. The discovery, the most western within the Austral Basin in the province of Santa Cruz, is located 15 kilometres to the west of the El Cerrito field. The zone was explored in 2006 via probes of the wells El Puma x-1 and El Puma x-2, drilled by the Petrobras Argentina company but were then considered barren and abandoned.

  As part of our policy of comprehensively reviewing the zone, we have identified a residual exploratory potential and decided to resume exploratory efforts after 12 years of inactivity in that zone.

  The exploratory campaign, along with the development of our unconventional gas project, represents a qualitative and quantitative leap in the knowledge and development of the Austral Basin, which has a potential similar to Neuquén but is completely underdeveloped and still underexplored.

- ✓ **CGC won the tender to explore and potentially exploit the "Paso Fuhr" area**: The Executive Branch of the Province of Santa Cruz issued Decree N°0199/2019 dated February 28 whereby, within the framework of the tender IESC N° 2/17, CGC was awarded, together with YPF, the permit to explore the Paso Fuhr area, located in the province of Santa Cruz on the western fringe of the Austral Basin.

  This is an exploratory area of 4,668 square kilometres.

  On the basis of this proposal, there will be advances in the exploration of both conventional and tight gas objectives in the Basin, currently explored and developed by CGC.

  Both companies decided to team up for this tender with the objective of maximising the experience which each has gathered in recent years.

Materialising this Project will constitute an exploratory milestone in both this basin and the country by starting shale evaluation in the Austral Basin where YPF will bring to this consortium its wide and successful experience in exploring and developing unconventional operations in Vaca Muerta.

CGC the first Company to resume gas exports to Chile since 2004: After over a decade, Argentina again exported gas to Chile. Executive Decree 962 permitted the unlimited export of gas with the sole requisite that domestic demand be adequately supplied.

CGC is one of the producers authorised to supply gas to the neighbouring country. The exports to Methanex began in September, 2018. These were the first exports without obliging the company to import the same volume it had placed abroad.

CGC has also been the first company to use this prerogative to export its surplus gas in summertime.

Last October there began a conditioned and interruptible export transaction to the client Colbun with the gas transported by the pipeline of GasAndes (where CGC has a stake).

GasAndes Argentina has signed various contracts for interruptible transportation with the country's main producers for potential exports in summer. In particular, exports were renewed on 31 October, 2018, levelling out in December at 3.2 Mm3/d.

CGC gas marketing: Resolution ENARGAS N° 104 dated 8 November, 2017, inscribes CGC in the ENARGAS Register of Marketing Firms and Contracts. In September, 2018 it commenced this new activity by buying gas from other producers in the Neuquén and Northwestern Basins for their subsequent sale to industrial clients, thermo-electric generators and export, thus managing to complement with these purchases the disposable production operated by CGC, as well as optimising prices and obtaining additional profits for CGC's core activity.

- ✓ **Agreement with Echo Energy Plc. ("Echo Energy"):** In October, 2017, the Company signed with Echo Energy Plc. ("Echo Energy") two joint investment agreements to explore four blocks in the Austral basin in the province of Santa Cruz (Fractions C and D of the Santa Cruz I area, the Laguna de los Capones area and Tapi Aike). During that quarter of the year 2018 the Joint Operating Agreements were formalised and a transitory union of the companies (UTE in its Spanish acronym) set up to go ahead with joint operations in the area

- ✓ **CGC places a new corporate bond issue:** Within the framework of the Programme of Corporate Bonds for a face value of up to US$250 million, approved by the National Securities Commission (CNV) on 10 December, 2014, the Company issued on January 12, 2018 Class "10" non-recourse Corporate Bonds for a value of US$ 100 million, maturing in 2021, with a fixed annual interest rate of 9.7%. The issue of these Corporate Bonds will improve CGC's debt maturity profile and liquidity and enable it to continue strengthening its financial position, which is one of the main objectives of the current management.

- ✓ **Merger with Unitec Energy S.A.:** On 8 March, 2018 the CGC Board of Directors approved a prior commitment to a merger between CGC, as the acquiring partner, and Unitec Energy S.A. whose stock it controls as the absorbed company under the terms of Article 82 of the Companies Law N° 19.550 and its amendments. This merger takes effect as from 1 January, 2018 and permits a more efficient allocation of resources, taking advantage of the superior business scale and experience of the acquiring partner. On 24 August, 2018, the National Securities Commission Directorate issued the resolution RESFC-2018-19701-APN-DIR#CNV approving the merger and acquisition of Unitec Energy S.A., referring the proceedings to the Inspection Board of Legal Entities (IGJ in its Spanish acronym). On 12 November, 2018 the IGJ inscribed the merger in the Public Register.

Through this merger with Unitec Energy, CGC mainly incorporates hydrocarbon exploration areas in the northern zone of the Austral basin of the province of Santa Cruz.

- ✓ **EBITDA**: The Company's adjusted EBITDA for fiscal year 2018 climbed to $9,576 million, an increase of $7,563 million or 375.6% compared with the previous year.

- ✓ **Reserves**: The Company's proven reserves at 31 December, 2018 reached 10.165 Mm3 of oil equivalent, up 19% with regard to 31 December, 2017. At 31 December, these reserves were 16% oil and liquid hydrocarbons fuels and 84% natural gas.

- ✓ **Investments in production and exploration activities**: Investments made during the fiscal year ending on 31 December, 2018 reached the sum of US$ 160.6 million, having risen 20.3% compared to the previous year and mainly concentrated in Development activities (87.4%) along with certain projects in Exploration activities (12.6%).

  The cumulative investment has reached US$ 294,1 million over the last 24 months, reflecting the company's firm growth vision.

- ✓ **Production:** In 2018 annual production of oil, natural gas, LPG and gasoline reached 1.882,9 Mm3 of oil equivalent, registering an increase of 37% with regard to the production of the previous year. Liquid hydrocarbons represented 17.4% and natural gas 82.6%.

III. Investments of CGC in other companies

CGC is a leading independent energy company which operates mainly in Argentina and is dedicated to oil, gas and (to a lesser extent) LPG (upstream) exploration, development and production. The Company has an attractive portfolio of oil & gas exploration and production areas in Argentina, and its activity is highly focused on hydrocarbon exploration and production in the Austral Basin, located in the southern province of Santa Cruz.

In addition to the upstream business, the Company has major interest in a network of gas pipelines in the northern and central regions of Argentina (midstream) through investments in the gas pipeline systems of Transportadora de Gas del Norte S.A. ("TGN"), Gasoducto GasAndes ("GasAndes") and Transportadora de Gas del Mercosur S.A. ("TGM").

The oil production areas and gas transportation companies in which CGC has an interest are listed below:

UPSTREAM

<table>
<tr><th>Country/ basin</th><th>Area</th><th>Shareholding %</th><th>Operator</th><th>Activity</th></tr>
<tr><td colspan="5">ARGENTINA</td></tr>
<tr><td>Austral</td><td>El Cerrito</td><td>100</td><td rowspan="11">CGC</td><td rowspan="9">Exploration and production</td></tr>
<tr><td></td><td>Dos Hermanos</td><td>100</td></tr>
<tr><td></td><td>Campo Boleadoras</td><td>100</td></tr>
<tr><td></td><td>Campo Indio Este / El Cerrito</td><td>100</td></tr>
<tr><td></td><td>María Inés</td><td>100</td></tr>
<tr><td></td><td>Cóndor</td><td>100</td></tr>
<tr><td></td><td>La Maggie</td><td>50</td></tr>
<tr><td></td><td>Glencross</td><td>87</td></tr>
<tr><td></td><td>Estancia Chiripa</td><td>87</td></tr>
<tr><td></td><td>Tapi Aike</td><td>50,</td><td>Exploration</td></tr>
<tr><td></td><td>Piedrabuena</td><td>100</td><td>Exploration</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Neuquén</td><td>Angostura</td><td>100</td><td>CGC</td><td>Exploration</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Northwestern</td><td>Aguaragüe</td><td>5</td><td>Tecpetrol S.A.</td><td>Exploration and production</td></tr>
<tr><td colspan="5"></td></tr>
<tr><td colspan="5">VENEZUELA</td></tr>
<tr><td>Oriental</td><td>Campo Onado</td><td>26.004</td><td>Petronado S.A.</td><td>Production</td></tr>
<tr><td colspan="5"></td></tr>
<tr><td>GUATEMALA</td><td>A-9-96</td><td>100</td><td>CGC</td><td>Exploration</td></tr>
</table>

MIDSTREAM

<table>
<tr><th>Countrys</th><th>Company</th><th>Direct and indirect investment %</th></tr>
<tr><td rowspan="3">Argentina</td><td>Transportadora de Gas del Norte S.A.</td><td>23.07 (*)</td></tr>
<tr><td>Gasoducto GasAndes Argentina S.A.</td><td>39.99</td></tr>
<tr><td>Transportadora de Gas del Mercosur S.A.</td><td>10.90</td></tr>
<tr><td colspan="3"></td></tr>
<tr><td>Chile</td><td>Gasoducto GasAndes S.A.</td><td>39.99</td></tr>
</table>

(*) 23.07% direct and indirect through its 40.86% share in Gasinvest S.A.

IV. Changes in CGC indicators

The table below presents the results of the Company by business segment. To this end, the results of those companies in which CGC does not have a controlling interest have been consolidated proportionately.

	UPSTREAM		NATURAL GAS TRANSPORTATION		TOTAL	
	2017	2018	2017	2018	2017	2018
Income from sales (MM $)	7,959.9	17,708.9	1,791.2	3,149.5	9,751.1	20,858.4
Gross Margin (MM $)	169.5	6,560.4	716	1,503.4	885.4	8,063.8
Operating result (MM $)	(708)	4,778.8	492	1,144.3	(216.1)	5,923.1
Oil production (m^3/day) (1) (3)	921	894			921	894
Gas production (Mm^3/day)	2,835	4,250			2,835	4,250
Oil reserves (Mm^3) (1) (2) (3)	1,673 (a)	1,591 (b)			1,673 (a)	1,591 (b)
Gas reserves (Mm^3) (2) (3)	6,902 (a)	8,574 (b)			6,902 (a)	8,574 (b)
Total reserves (Mm^3 P.E.) (1) (2) (3)	8,575 (a)	10,165 (b)			8,575 (a)	10,165 (b)
Ratio reserves/years	6.2	5.4			6.2	5.4
Gas Transportation (Mm^3/día)	---	---	12.4	12.5	12.4	12.5

Grouped by line of business based on CGC's interest in each one.
M = thousands; MM = Million; m^3 = cubic metre7
O.E.: Oil Equivalent

(1) Includes LPG (liquefied petroleum gas) and gasoline.
(2) Includes only proven reserves.
(3) Includes only information for Argentina.

(a) Corresponds to reserves audited by Gaffney, Cline & Associate at 12.31.17, with the exception of areas not operated which correspond to reserves estimated by the Company at 12.31.17.
(b) Corresponds to reserves audited by DeGolyer and MacNaughton at 12.31.18, with the exception of areas not operated which correspond to reserves estimated by the Company at 12.31.18.

V. Activities and Business of the Company

Upstream

Exploration and production areas of the Company

During 2018 the Company ranked as Argentina's sixth gas producer and the 13th of oil (including gasoline) in terms of wellhead production, according to information published by the IAPG (Argentine Institute of Oil & Gas).

The Company is the main operator of the Austral Basin, where approximately 95% of its production is concentrated, with 26 concessions, in most of which it owns 100% of the shares. Operations are concentrated in 25 productive fields. The Company further operates the Angostura concession in the Neuquén Basin with a 100% share while in the Northwestern Basin it is linked to the Aguaragüe concession with a 5% share. Beyond Argentina, the Company has a 26% share in the Onado area in Venezuela.

At the end of 2018 the production of areas operated by CGC was 5 Mm3/d of gas and 1,100 Mm3/d of oil. The sum total of proven and remaining reserves at 31/12/2018 was 10.5 million cubic metres of gas and 1.94 million cubic metres of oil (also including gasoline and LPG).

Both the production and the reserves of the Company mostly come from the areas located in the Austral Basin where its main activities are also concentrated. In this basin the cumulative gas production of the Company increased 52% between 2017 and 2018. The reserve replacement ratio for gas was 205% (new reserves incorporated measured against the reserves consumed during the year) while for oil the replacement was 86%. The achievement justifies the development and exploration campaigns carried out mainly in the Campo Indio, El Cerrito Oeste, El Puma and Estancia Agua Fresca fields.

New wells were incorporated throughout the year by two rigs, which drilled a total of 47 wells, including 8 horizontal wells and 6 exploratory. There is also operating in the basin a set of hydraulic fracturing to stimulate the wells and coiled tubing. New installations have been built on the surface which are needed to extract, compress and condition hydrocarbons for sale.

Exploration and development campaigns

As mentioned above, a total of 47 wells were drilled, 38 of them (including the 8 horizontal) under the Incentive Programme for Investments in Natural Gas Production Development from Unconventional Oilfields, to which CGC adhered in January, 2018. These investments corresponded to the wells drilled in the Campo Indio Este-El Cerrito concession, which includes the Campo Indio, El Cerrito, El Cerrito Este and El Puma fields.

<u>Campo Indio:</u>

This field was developed in the 1990s in the Springhill formation at a depth of some 3,000 metres from where oil was extracted. As from 2002 the development of gas in Magallanes Inferior formation began at a depth of 1,400 metres. The production from the first wells in the western zone of the field was termed "conventional". As from 2017 CGC has been intensively developing the eastern zone, which is classified as "unconventional" due to its low permeability. The characteristics of the reservoir in the eastern zone require techniques of stimulation and horizontal drilling which improve the productivity of the wells. Techniques such as deviation probes from the same spot on the surface and the monobore termination of wells are also used to optimise the costs of development. During 2018 21 vertical deviation wells were drilled and 8 horizontal. This succeeded in extending the developed area mainly in the northern zone of the field, thus incorporating significant reserves. The surface installations increased their capacity thanks to starting up Battery 2, which has a capacity for primary separation, dehydration and compression up to 1.7 Mm3/d.

<u>El Cerrito Oeste</u>:

This gas field was discovered in 2017 after drilling well EC.a-1010. The productive formation is Magallanes Inferior, classified as “unconventional” due to its low permeability. During 2018 4 wells were drilled which helped to delineate the area of the reservoir and incorporated new reserves for development with around 17 wells yet to be drilled. To transfer this production, the construction of 8” tubing 5.5 kilometres long which connect EC.a-1010 to the El Cerrito gas compression and treatment plant has begun. A TEG dehydration planta has additionally been installed with an extra capacity of 1,000 Mm3/d for El Cerrito.

El Puma:

In 2006 2 exploratory wells were drilled but they resulted barren. On the basis of a reappraisal of the zone it was decided in 2018 to drill a third exploratory well which resulted in the discovery of a new field. During the same year an advanced well was drilled along with a further exploratory well to investigate another seismic anomaly. This new field has proved the presence of gas in 3 levels of the Anita Formation (between 1,750 and 1,850 mbbp) and at one level of the Magallanes Inferior formation (1,450 mbbp). The Anita Formation has a variety of petrophysical properties while Magallanes has permeability within the ranks of “unconventional” reservoirs. Significant reserves have also been incorporated which will be developed with 6 extra wells. To transfer the production, the construction of an “8” pipeline 12.5 kilometres long from El Puma to El Cerrito has commenced.

Estancia Agua Fresca:

This field produces oil from the Anita Formation at a depth of 1,400 metres and was developed as from 2007. Duraing 2018 four wells were drilled which achieved moderate flows of oil with the exception of well EaAF-59 with an initial production superior to 200 m3/d of oil.

Other exploratory wells:

The 2018 exploration campaign in the Austral basin comprised of six exploratory wells, two of which were drilled in association with Echo Energy under the UTE contract.

Puma x-3 located in the "Campo Indio Este-El Cerrito" concession discovered a field of tight gas in commercial quantities at the Magallanes formation. The finding, located 15 kilometres to the west of the El Cerrito, field, is the furthest west within the Austral Basin in the province of Santa Cruz.

El Puma x-5, located in the "Campo Indio Este-El Cerrito" concession, had negative results in its exploration of the Magallanes formation but its secondary objective in the Anita formation (in a position ahead of the well EL Puma x-3) resulted positive with commercial flows.

Estancia La Leonor.x-1: this well investigated a structure to the north of the Dos Hermanos field in the Mata Amarilla concession. Its target was the Piedra Clavada formation. The well was not productive.

El Cerrito Este.x-1: this well’s objective was the Magallanes Inferior formation to the east of El Cerrito field. Although the presence of oil was proven, the test flows were insufficient to justify connection to the surface installations.

Estancia Los Alamos.x-1: this well’s objectives were the Springhill and Serie Tobífera formations in a structure to the south of the Laguna de los Capones field. The well was considered barren and not tested.

El Molino Sur.x-1001: this well’s objective was the Serie Tobífera formation in the Eastern zone of the basin but it was unproductive.

Neuquén Basin, Angostura:

During 2018 the well Alto las Hormigas-4 was intervened for hydraulic stimulation seeking to increase the productivity of the Quintuco formation without reaching a flow which would justify connecting the well to the surface installations. The well La Boa.x-1 was also tested without achieving a significant production of oil.

Well repairs:

Wells were repaired with different objectives. In Cañadón Salto gas layers were pierced at three wells and in one of them (CSO-85) the gas tests met expectations. Another, CSo-80, struck oil at a secondary objective and the third was unproductive. At the María Inés field, two wells were intervened to develop reserve layers which had still not been punctured. At Campo Boleadoras there was an unsuccessful intervention of the CBo-15 well to develop the Magallanes formation. The El Galpón Norte.x-1 well, located in the Piedrabuena concession, was intervened to start it up. Although it managed to produce oil, the rapid decline of its output and its distance from surface installations did not justify maintaining it in production.

The same equipment was used for 21 pulling jobs to fine-tune or repair the extraction systems of the oil wells.

Stimulations:

During 2018 the fracturing team carried out termination work on most of the wells drilled at Campo Indio, El Cerrito Oeste and El Puma. A total of 32 vertical and 8 horizontal wells were stimulated. The latter ended up as open wells with packer systems and shirt circulation casing activated by ball bearings. The coiled tubing equipment did the cleaning and induction at most of these wells.

Activity in areas not in operation

Aguaragüe:

The drilling of well CD-1016 was concluded and wells CD-1017 and ICUA.x-1001. These three wells form part of the commitment agreed between the UTE Aguaragüe and the Enviroment and Sustainable Ministry and the Energy Department of the province of Salta signed on 3 April, 2017 (Acta Acuerdo Modificatorio). CD-1016 y CD-1017 were development wells drilled in the Campo Duran structure within the Campo Duran-Madrejones area. Both produced gas and condensate from the Tupambi formation. Well ICUA.x-1001 was drilled in a structure to the northeast of Campo Durán. The main objective was to investigate the potential of the Tranquitas and San Telmo formations as hydrocarbon reservoirs. The well is now studying the potential found in the San Telmo Formation.

New areas

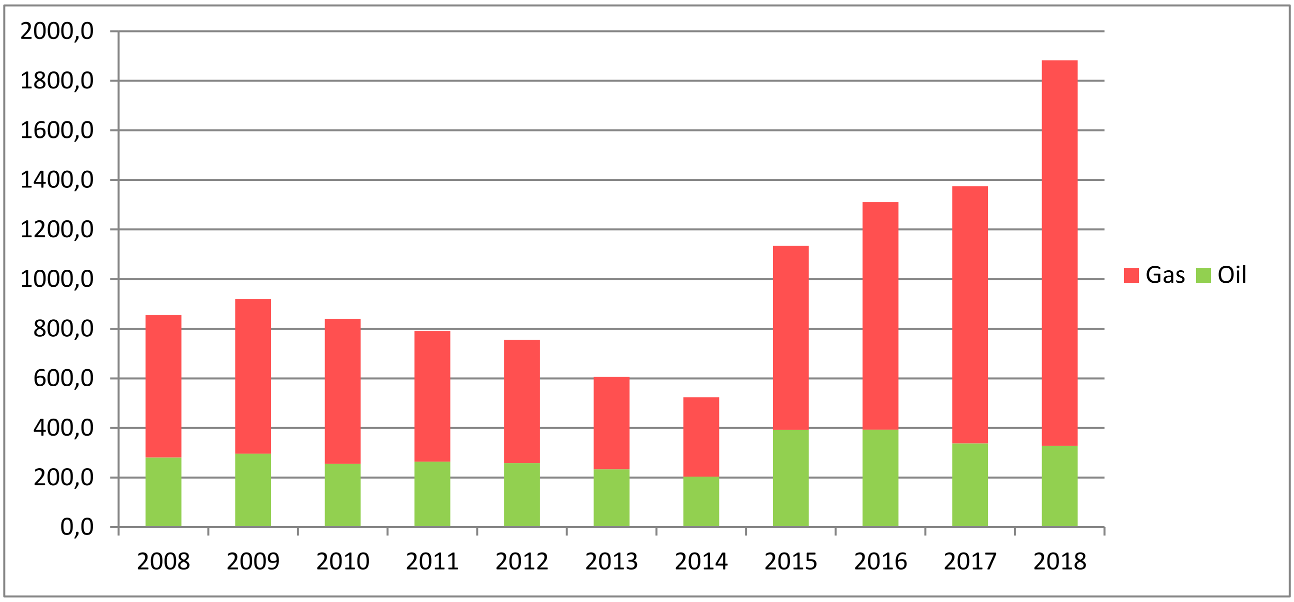
On February 28, 2019 the Company won the tender for the Paso Fuhr area in the Austral Basin after presenting a joint offer with YPF whereby CGC will be the operator. This is an exploratory area of 4,668 square kilometres between the El Cerrito Fraccion 2 and La Paz concessions, operated by CGC. Bearing in mind the geology of the neighbouring concessions, the exploratory work will centre on the Magallanes and Palermo Aike formations looking for “unconventional” energy.

Changes in Annual Production (Mm3oe/yearaño) (1)

In fiscal year 2018 total oil, natural gas, liquefied petroleum gas (LPG) and gasoline production reached 1,882.9 Mm3 of oil equivalent, reflecting a 37% increase with regard to the previous year's production. Liquid hydrocarbons represented 17.4% and natural gas 82.6% of this production.

Based on production for fiscal year 2018 and considering the Company's proven reserves at 31 December, 2018, the Company's estimated proven reserves represented an approximate average life of 4.9 years for oil and 5.5 years for gas, or an average life for the combined proven net reserves of approximately 5.4 years.

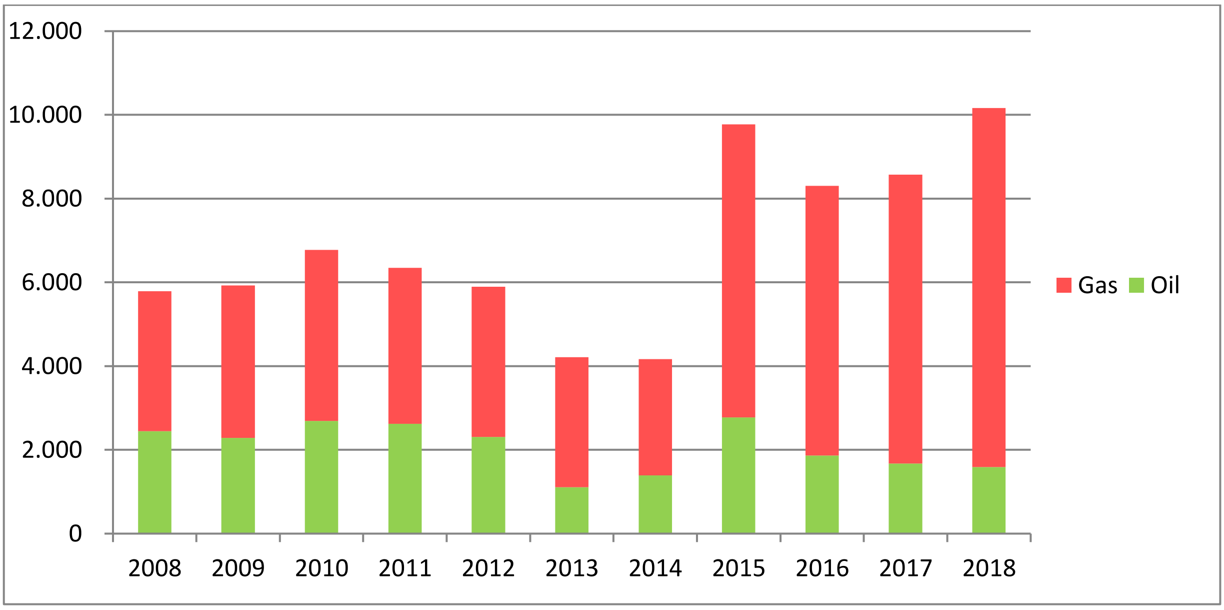
NOTA DEL TRADUCTOR: CAMBIAR "PETROLEO" EN AMBAS TABLAS POR "OIL"



(1) Years 2008 to 2012 include production of the Onado area in Venezuela.

The Company's proven reserves at 31 December, 2018 reached 10,165 Mm3 of oil equivalent. These reserves are made up by 16% oil and 84% natural gas.

Change in Reserves (Mm3oe) (1)



(1) (1) Years 2008 to 2012 include reserves of the Onado area in Venezuela.

NATURAL GAS TRANSPORTATION

Unlike other countries in the region, natural gas is the predominant energy for consumption in the Republic of and represents close to 50% of the energy matrix.

The Company indirectly owns 23.07% of Transportadora de Gas del Norte S.A. (TGN), 39.99% of GasAndes Argentina and GasAndes Chile, the operators of the GasAndes pipelines in Argentina and Chile respectively and 10.9% in Transportadora de Gas del Mercosur S.A. (TGM). The company's aim is to focus on upstream activities and it is furthermore evaluating strategic opportunities for its interests in gas transportation companies.

TGN - (23,07%)

CGC indirectly owns 23.07% of TGN through its investment in Gasinvest S.A., in which it has a direct share of 40.86%. The other shareholders in Gasinvest S.A. are Tecpetrol International S.L.U. (40.86%) and RPM Gas S.A. (18.28%). Gasinvest S.A. is the controlling shareholder in TGN with 56.35% of the share capital to date. Southern Cone Energy Holding Company Inc. is the second-largest shareholder with 23.53%. A 20% shareholding in TGN is held by public investors and less than 1% is in five different hands.

TGN has a system of gas pipelines covering 6,806 kilometres and provides natural gas transportation over high-pressure pipelines in the centre and north of the Argentine Republic. Through its two trunk gas pipelines, the "North" and "Midwest," TGN supplies eight of the nine gas distributors and numerous power plants and industries located in 15 Argentine provinces. TGN's system connects up to the "GasAndes" and "Norandino" pipelines built for transporting gas to the central and northern regions of Chile respectively; to the "Entrerriano" pipeline which transports gas to the province of Entre Ríos and the Uruguayan littoral; to the pipeline of Transportadora de Gas del Mercosur S.A. and to the "Gasoducto del Noreste Argentino" supplying the northeast.

At the close of 2018 fiscal year, take-or-pay transportation contracts executed by the Company from the endpoints of the gas pipelines totalled 48.12 MMm3/d of which 23.19 MMm3/d corresponded to the North pipeline and 24.93 to the Midwest.

Among the most striking developments of this year the increased availability of gas verified in the Neuquén Basin stemming from the development of unconventional gas and the fall in imports from Bolivia in the second half of the year stand out.

As regards demand per consumer segment, while winter temperatures were around recent averages, residential consumption was less than in previous year, which permitted increased deliveries to industry and electrical power plants.

The volume of gas received by TGN reached 19,904 MMm3 or 54.53 MMm3/d, of which 24.82 MMm3/d corresponded to the Midwest pipeline, 20.56 MMm3/d to the Northern pipeline and 9.15 MMm3/d to Buenos Aires province. Maximum injection values at pipeline endpoints reached 30.17 MMm3/d at the Midwest pipeline and 25.12 MMm3/d at the Northern pipeline. In the latter case average injection from local producers reached 4.75 MMm3/d while the injection of gas imported from the Plurinational State of Bolivia averaged 15.76 MMm3/d with a further 87.1 MMm3 of LNG injected at the commune of Mejillones and transported via the Norandino pipeline between the months of July and September. In addition to national production, the Midwest pipeline received 104,6 MMm3 of LNG from Chile, transported to Argentina via the GasAndes pipeline between the months of July and August.

The injected gas received by Buenos Aires province averaged 5.6 MMm3/d of LNG in the district of Escobar and 3.7 MMm3/d from Transportadora de Gas del Sur S.A., in General Rodríguez.

Gas Andes exported 108 MMm3 to Chile via the Midwest pipeline at a daily rate of 1.5 MMm3/d between the months of November and December.

Within the framework of the mandatory investment plan, TGN carried out projects and works aimed at the maintenance of its transportation system.

The increased public service charges (including gas billing) between 2016 y 2018 have enabled TGN to finance its operating and maintenance expenses, carry out certain works and repay its financial liabilities. In order to defend the real value of public service charges in the long term and thus enable the gas pipeline companies to meet the requirements of operating and maintaining the system, the RTI (Integral Tariff Review) performed by ENARGAS introduces a non-automatic semi-annual gas transportation price adjustment mechanism between the RTI reviews every five years due to the price variations affecting service costs in order to keep the system economically and financially viable and maintain the quality of service.

TGN considers that the steps adopted between 2016 and 2018 by the government, the Ministry of Energy and Mining and ENARGAS represent significant progress towards normalising public service pricing and restoring the regulatory framework for the sector. In particular Article 38 of the Gas Law stipulates that public service charges must allow suppliers to cover their reasonable operating costs, taxes and depreciation, as well as permitting a reasonable profit.

Additionally, TGN is confident that the gas transportation charges will maintain constant values over time to enable it to face the expenses and investments required for the operation and maintenance of the gas pipelines.

During the fiscal year 2018 TGN distributed dividends of $ 495.4 million as decided at a Shareholder Assembly in April.

During the fiscal year ending on 31 December, 2018, TGN recorded a net profit of $3,721.9 million, which resulted in a profit of $858.6 million for CGC.

TGN ‘s assets rose to $46,269 million with an equity of $29,077 million.

GasAndes (Argentina) S.A. and GasAndes S.A. pipelines (39,99%)

The Company has a direct 39.9% interest in both GasAndes Argentina and GasAndes Chile. GasAndes Argentina operates the Argentine section of the GasAndes gas pipeline while GasAndes Chile operates the Chilean section. The main shareholder of GasAndes Argentina and GasAndes Chile is Aprovisionadora Global de Energía S.A. – formerly Metrogas (Chile) S.A.) – with 47.1% of the share capital in each entity. The remaining 13% of GasAndes Argentina and GasAndes Chile is held by AES Gener S.A.

The gas pipeline links the district of La Mora in the province of Mendoza, Argentina, with the Chilean capital of Santiago with an extension of approximately 533 kilometres, a diameter of 24 inches and a transportation capacity of 10.8 M MMm3/d. The operating concession for GasAndes Argentina expires in 2027 and may be extended for a further 10 years, subject to the review and approval of the National State. The operating concession for GasAndes Chile is for an unspecified period subject to the review and approval of the Chilean government.

The Company is operated by CGC on the basis of an operation and maintenance contract which remains valid.

As a consequence of the major deficit in gas supplies arising from Argentina’s energy crisis since the last decade, clients experienced a reduction in exports which led them to question the validity of the contracts. Gas suppliers took a different attitude, either renegotiating the terms of the contracts or questioning certain terms as not automatic or valid. The Company maintains long-term contracts for the transportation of natural gas with Gasvalpo S.A. and Metrogas S.A. (Chile), expiring in June, 2028 and April, 2027 respectively. The latter agreement represents around 73% of Company sales.

In 2018 the Company contracted with ENARSA the transportation of 116 million cubic metres of gas from Chile to Argentina, a shipment appreciably lower than in previous years due to the substantial increase in unconventional natural gas production in the Neuquén Basin, which tends to saturate transportation capacity, in particular the Midwest gas pipeline, which provides the Gas Andes connection in both directions. Although the Argentine natural gas market remains in deficit in wintertime due to the saturation of transport capacity from Neuquén, a two-way flow is not expected in the next few years.

During the fiscal year 2018 the gas supply deficit was being turned around and in consequence the Energy Ministry's Resolution 104/2018 (published on August 22 in the Official Gazette) established the procedures for authorising natural gas exports with the categories of authorisation defined in the resolution's appendix, especially applicable to summer exports and operational exchange. The information presented with the request for authorising export will be made public so that potential natural gas customers on the domestic market, those interested in investing in transportation and distribution and the competent authorities can be fully and accurately informed about all the relevant aspects.

Regarding the outlook for operational and commercial activity and in the light of the increased natural gas production in Neuquén and Resolution 104/2018, GasAndes Argentina has signed various contracts for interruptible transportation with the country's main producers for potential summer exports. On 31 October, 2018, exports were renewed, levelling out at a daily average of 3.2 million cubic metres in December.

With Decree 793/2018 (dated September 4) the government fixed a new export duty to last until 31 December, 2020, of 12% on all merchandise covered under the Mercosur common tariff (Nomenclatura Común del Mercosur or NCM) with a cap of four pesos per dollar for primary and 3 pesos for others, calculated according to taxable value or the official price FOB. The levy on the export of services will be established by law when it will be applied as from 1 January, 2019 whereas for merchandise the export duty takes effect as from the date of the decree, 4 September, 2018.

The objectives for the year 2019 will essentially be to keep the gas pipeline system operating safely and reliably and to continue complying with the ongoing contracts with our clients, adding new customers arising from the new context whereby natural gas is transported from Argentina to certain combined cycle power plants in the V Region of Chile.

At the fiscal closing date, the assets of GasAndes totalled $1,359 million and US$39.4 million and its equity amounted to $1,068.2 million and US$18 million in the Argentine and Chilean companies respectively. The net results of the year were profits of $ 85.8 million for the Argentine company and US$6.1 million for the Chilean company. During fiscal year 2018 the companies distributed cash dividends in line with the decisions of the Shareholders' Assemblies held in 2018, worth $61.6 million in the case of the Argentine company and US$3.3 million in the case of the Chilean.

TGM (10,90%)

The Company has a direct 10.9% interest in TGM. The other shareholders in TGM are Tecpetrol, Operating S.A., RPM Gas and Total Gas y Electricidad Argentina S.A. with 21.8%, 21.8%, 14.6% and 10.9% of TGMl capital respectively.

TGM operates the pipeline transporting natural gas from Aldea Brasilera, in the Argentine province of Entre Ríos, to Uruguaiana in the Brazilian state of Río Grande do Sul. The gas pipeline runs for approximately 437 kilometres with a diameter of 24 inches and a transportation capacity of 15 MMm3/d. TGM's operating concession expires in 2027 and may be extended for a further 10 years, subject to the review and approval of the National State.

As a consequence of the crisis in the energy due to the shortfalls in the supply of natural gas and electricity, the Argentine government implemented a series of measures to restrict gas exports and redirect transportation capacity until in mid-2008 gas exports to Brazil stopped altogether. This triggered litigation against YPF, suing it for breach of contract with reference to the "take or pay" contract to transport 2.8 MMm3/d of natural gas signed in September 1998 between YPF and TGM. This contract, which was rescinded by TGM in April, 2009 due to YPF's failure to comply, represented 99.9% of the company's income

After various lawsuits and appeals, TGM and YPF reached a Transactional Agreement in December, 2017 which established the obligation of the latter to compensate the former, paying the sum of US$ 107 million in January, 2018, plus US$ 7 million in seven annual and equal instalments between February 2018 and February 2024, as a complete and definitive payment of any legal claims or arbitration TGM might have against YPF which they now waived.

Additionally, TGM and YPF signed an interruptible export transportation agreement (STI).

Based on the measures implemented by the current government in the energy sector, a revival of the export gas transportation market should not be ruled out insofar as the effects of the energy sector crisis generated by the shortfalls in the supply of natural gas and electricity diminish or are mitigated.

In that direction the national government in January 2019 authorised the company Wintershall Energía Sociedad Anónima to export natural gas to Brazil, for the first time from Vaca Muerta. This authorisation is "interruptible," meaning that the Energy Secretary may at any time request a halt to the exports if local demand and supply needs rise.

The gas will come from the Neuquén Basin with Uruguaiana Emprendimientos Sociedad Anónima as its destination according to the commitments made when bidding for this transaction and will be transported by the TGM gas pipeline.

Following the aforementioned Transactional Agreement and the new STI contract, TGM has managed to rebuild its Net Equity and Legal Reserve, as well as cancel its operational debts. It is therefore reasonable to expect that TGM will be able to continue providing its services safely and face its operating costs without needing outside financing of any type.
In April, 2018 TGM paid out US$ 57.03 million in dividends, of which CGC collected 6.2 million.

In the fiscal year ending 31 December, 2018, TGM reported a net loss of $13.1 million, resulting in a loss of $1.4 million for CGC.

TGM's assets reached $518.3 million while its assets amounted to $384.6 million.

VI. Commercial Management

Oil and Gas Sales

The energy and regulatory policies governing the hydrocarbons market in Argentina have allowed CGC to maintain its active role on domestic and overseas markets in both crude oil and natural gas.

Sales of Crude Oil: In the fiscal year 2018, 41% of crude sales were destined to refineries in the local market while the remaining 59% was exported, mainly to Chile, the United States (Gulf coast) and Rotterdam following the low season for local refining. The crude oil sales on the local market were made via term and/or spot contracts for María Inés crude from the Austral basin, Medanito from the Neuquén basin and Condensado (condensate) from the Northwestern basin. The prices were agreed with the refineries following international levels.

Sales of Liquefied Petroleum Gas (LPG): In the fiscal year 2018, 46% of LPG sales went to export markets with Chile as the final destination. The pricing was based on a formula using the international quotes for propane and butane (Mont Belvieu). LLPG sales on the local market followed the "Redep Propane Agreement" at regulated and subsidised prices on spot markets, according to the export parity issued by the Energy Department.

Gas sales: The gas production owned and marketed by CGC comes from its interests in the fields in the Austral, Northwestern and Neuquén basins. The Company markets its natural gas via sales contracts negotiated on the basis of term, spot and MEGSA ("Mercado Electrónico de Gas S.A.") to distributors, industries, compressed natural gas (CNG) firms, thermo-electric power plants and other traders. Furthermore, export sales were resumed in 2018.

Natural gas sales by volume: Natural gas produced and sold by the Company during the year 2018 reached 1,541 MMm3, representing an increase of 524 MMm3 (or 51,5%) with regard to the volume sold the previous year. Most of the gas came from the development of the Campo Indio Este-El Cerrito area in the Austral Basin.

Distribution of income: During 2018, approximately 45% of CGC's earnings came from industrial users, 23% from power plants generating electricity, 3% from exports, 2% from CNG, 13% from exchange with ENARSA and 14% to service distribution licensees.

Gas for distributors: In November, 2017, CGC signed together with producers the agreement "BASES AND CONDITIONS FOR THE SUPPLY OF NATURAL GAS TO DISTRIBUTORS OF THE GAS NETWORK" (hereinafter to be referred to as "Bases"). The conditions contemplated, among other aspects, the minimum volume for that segment, guidelines for prices between the years 2018 and 2019 and a kind of promissory note corresponding to the day prior to the deadline for payment. In line with Bases, CGC established contracts with certain distribution licensees for the year 2018.

As a consequence of macro-economic variations derived from the devaluation of the peso, the credits for natural gas sales delivered by CGC to distributing companies under those contracts for deliveries between April and September 2018 were collected at a different exchange rate than the agreed, owing to the distributors using for payment the same exchange rate considered by ENARGAS (Ente Nacional Regulador del Gas) when approving its scales of public service charges, which turned out to be significantly less than that established in the contracts.

Furthermore, for the deliveries as from October, 2018, the prices transferred to gas billing by the distributors ended up as less than those originally provided in the price guidelines of Bases. In consequence, those prices were renegotiated. These were also paid by distributors under the same exchange rate contemplated for public service pricing instead of the contractual exchange rate.

Article 7 of Decree 1053/2018 (dated November 15) establishes that "the National State assumes, as an exception and within the scope laid out in this article, the payment of the daily differences accumulated monthly between the value of the gas bought by those providing the service of distributing natural gas within the networks and the value of the natural gas as included in the public service scales valid between 1 April, 2018 and 31 March, 2019, generated exclusively by variations in the exchange rate corresponding to volumes of natural gas delivered in that same period." Article 9 of the same decree empowers ENARGAS to instrument the corresponding regulations but these have not been published to date.

Exchange of Gas: Durante 2018, 12% of the volume marketed by CGC took the form of swaps with Energía Argentina S.A. (ENARSA) (hoy, "IEASA"). These volumes represented 13% of invoicing. This mechanism permitted the corresponding quantities to be marketed to distribution licensees in the Austral Basin within and beyond the transportation system, in the latter case only physically connected to CGC installations, in the Northwestern Basin, at better prices than the above licensees, assuring transfer of production and additionally positioning CGC in a basin where the demand for natural gas continues to grow and where the supply is highly restricted by declining local production with more beneficial commercial conditions in consequence.

Renewal of gas exports to Chile: in the months of September and October, 2018, the Energy Department of the national government granted CGC export permits 12/2018 y 57/2018 authorising the interruptible export of conventional gas to Chile to Methanex in the Austral Basin and Colbún in the Neuquén Basin, respectively.

The first of these exports began on 28 September to Methanex Chile (an industrial plant producing methanol, located in Punta Arenas). This contract provided for up to 750,000 m3/d, coming from CGC production in the Austral Basin. The volume exported to Methanex in 2018 was 39.5 MMm3, representing 3% of sales.

The second export commenced on 30 October to Colbún S.A. (a thermal generator). The export cap is 1.3 million m3/d of natural gas via the Gas Andes pipeline. The volumes to export will be able to come from the reservoirs of conventional gas produced by CGC in the Austral Basin and/or Neuquén Basin or else produced by third parties in the Neuquén Basin and marketed by CGC. The volume exported to Colbún in 2018 was 38.8 MMm3. In this case, the entire volume was acquired from third parties by CGC acting as a dealer.

Due to their interruptible nature, both contracts envisage exporting to Chile surplus natural gas not required on the local market.

Unconventional gas: Via Resolution 38/2018 (dated 27 January) the Secretariat for Hydrocarbon Resources within the Ministry for Energy and Mining approved CGC's adhesion to the "Incentive Programme for Investments in Natural Gas Production Development from Unconventional Oilfields" by virtue of its production concession in the "Campo Indio Este-El Cerrito" area located in the province of Santa Cruz. This Resolution enabled CGC to collect accrued compensation by virtue of joining this programme as from January, 2018.

CGC gas marketing: Resolution ENARGAS N° 104 dated 8 November, 2017, inscribed CGC in the ENARGAS Register of Marketing Firms and Contracts. In September, 2018 it commenced this new activity by buying gas from other producers in the Neuquén and Northwestern Basins for their subsequent sale to industrial clients, thermo-electric generators and export, thus managing to complement with these purchases the disposable production operated by CGC, as well as optimising prices and obtaining additional profits for CGC's core activity.

The volumes purchased reached 246.8 Mm3.

VII. Social Development and Environmental Management

Social Development

As part of integrating CGC with the different members of society in communities where the company operates, during the year 2018 two programmes with their epicentre in the city of Rio Gallegos and its catchment area were highlighted.

Comunidad CGC. This programme, which was born in the year 2017, arises out of the Company's need to leave a footprint in the community of Rio Gallegos which transcends business horizons. To that end there was a strategic agreement with Creer Hacer, a firm dedicated to creating bridges between the community and the private sector, to take advantage of the synergy between the Company, its projects and the organisations and institutions which form part of society, contributing to the sustainable development of the population and its institutions in the areas of education, health, sport, culture and social promotion.

During 2018, various activities were developed within Comunidad CGC, such as:

- **Barrio Abierto – June, 2018**. The first Barrio Abierto (open neighbourhood) meeting in Rio Gallegos, which aimed at inspiring those attending to take control of their own lives with their own plans. In this way it seeks to empower communities and promote personal development within the society to which they belong. A day-long meeting with testimony from its protagonists where social leaders share their stories and their aims in life with their neighbours. The event is co-organised by the Company, community organisations and neighbours.
- **Programme of Social Transformation**: Between the months of July and December, 2018. Seeks to empower and form leaders with a high social impact through leadership courses with 8 modules giving training in socio-emotional skills to people who seek to be agents of change. Every module is taught by professional specialists in leadership training. A total of 75 Rio Gallegos citizens from different social and trade union backgrounds have participated in and concluded this programme.
- **Barrios Unidos**: A bonding solidarity programme. These programmes of a social nature continue to actively pursue their objective of welcoming actions of solidarity between volunteers, the company and the community. This solidarity creates bonds and action networks with a special focus on the communities neighbouring our fields. CGC participated in the "Shared Christmas" solidarity event

whereby 160 low-income families from the city of Rio Gallegos could enjoy the festive season's three dinners: Christmas, New Year and Reyes (Epiphany).

For 2019, it is planned to organise the second Barrio Abierto in Rio Gallegos and continue with the Social Transformation programme, giving out Diplomas. Also other programmes such as "Hacedores" (doers) and a panel of entrepreneurial mentors.

Programma de Desarrollo de Proveedores (PDP): This programme to develop suppliers began in April, 2017 with the idea of boosting CGC's commitment to its local chain of value in the Austral Basin, reviving the productive fabric of pymes (small and medium-sized businesses) in the zone.

CGC believes in the need to develop its suppliers and support their growth in scale, quality and efficiency alike with the objective of making industry increasingly competitive. To that end it presents the opportunity to have a plan of integral development.

The PDP has a long-term vision, a local vision committed to the Austral Basin and a pro-active attitude in the planning, management and efficient use of resources.

During 2017 the first group of firms was selected in order to make their acquaintance and diagnose their skills as local suppliers, understanding their needs.

In 2018 the programme began with presentation of the project, continuing with networking meetings and training modules.

The main lines for the PDP, defined in conjunction with the suppliers, are:

- **Networking:** Boost the ties between the businessmen, CGC and others to build common agendas with workshops to align common problems, plans of activities and communication.
- **Training:** A plan of activities/Seminars in common issues: Costs, Processes, strategic planning, taking decisions, conflict resolution, negotiation, crisis management, safety, etc.
- **Consulting:** Proposals to improve management according to the needs of the participants.
- **Human Capital:** Activities with a focus on education, with the support of CGC and suppliers, to reinforce the local technical school and university. Build up knowledge networks.
- **Trade unions:** Work together to develop a common agenda and involvement in training activities.

CGC also continues to support various institutions in Rio Gallegos. During 2018 CGC continued reinforcing its links with the following interest groups, among others.

- Co-operate with strengthening the social fabric by supporting social initiatives and community organisations: The Provincial Council of Education (CPE) and the Santa Cruz Energy Institute (IESC) signed an agreement with CGC to give professional apprenticeships to five students with outstanding marks from industrial schools in southern Argentina. This agreement will allow them to participate in the "Introductory Practical and Professional Course for the Oil Industry" for two months, performing different tasks under the supervision of teachers and the company in the Barda Las Vegas field located 150 kilometres from Río Gallegos. Through this continuous training the students will acquire a general introductory knowledge of the hydrocarbon industry; personal safety and care of the environment; general basics of employee equipment and productive processes and cycles. Among those signing the agreement in Gregores Hall of provincial government house were Governor Alicia Kirchner, CPE president María Cecilia Velázquez and IESC president Matías Kalmus.

- Contributing with sporting and cultural proposals to the Popular Festival for 60 Years of Santa Cruz Unity" in Río Gallegos with the combined efforts of various ministries and provincial government organisations, the Federal Investment Council (CFI) and CGC with the latter two financing the event.

The Festival was held on July 8 and 9 in the Boxing Club with free admission, inviting the whole community to participate in this event forming part of the timetable of activities carried out throughout 2018 to mark the 60 years of the institutional life of the province.

- A collaboration agreement with the Co-operative Association Benigno Carro to buy items necessary for health services in the Regional Hospital of Río Gallegos.
- A collaboration agreement with the Santa Cruz Secretariat of State for Security with the objective of boosting safety equipment and training our employees through courses in on-the-job safety
- Contribute to Rio Gallegos with sporting and cultural proposals by backing the bid of the city's Asociación Club Deportivo Hispano Americano de Río Gallegos to participate in the National Basketball League and to encourage the growth of sports in Río Gallegos by giving Company employees tickets to club matches.

Environmental Management

Quality, Health, Safety and Environment (CSMS)

CGC aims to preserve the physical integrity of its staff, contractors and other interested parties, assuring suitable protection of the environment. This commitment is inevitably tied to responsible development and safe operations.

We comply with the prevailing legislation on Quality, Health, Security and the Environment in the jurisdictions where we carry out our activities, and with other transcendental industry practices adopted voluntarily. We are responsible in our use of natural resources, waste generation, energy consumption, in the emissions we generate and the impact we may have on populations, biodiversity and cultural assets.

We use a management programme based on measurable objectives and targets and a vision of progressive improvement. In all cases, we perform risk assessments of our projects, control audits and emergency response plans.

During 2018 we worked with different preventive methodologies (like risk assessment, audits, monitoring the quality of processes and control cards) to reduce the occurrence of incidents which might affect persons, installations and the environment.

We complied with all the prevailing norms under the competent jurisdictions, working on managing and updating our procedures, contingency planning, training programmes and emergency drills and monitoring via environmental impact studies with the aim of safely carrying out company activities in a process of continual improvement.

We continue working on actions including:

- Use of declared chemicals and recycled water in the extraction of unconventional hydrocarbons, the generation of drilling fluids and the treatment of the products obtained in order to avoid contaminating the soil and sources of fresh water.
- Characterisation and control of underground aquifers.
- Reduction of the environmental damage caused by the use of directional drilling and multiple location techniques.
- Reduction of tree-felling and studies to restore the removed flora.
- Suitable handling and treatment of hazardous was generated by the oil industry in line with the regulations in force and the best industrial practices.
- Continuous environmental management to ensure that any environmental liability still outstanding is remedied.
- Control and handling of labour risks, especially where related to driving vehicles.
- Controlling the health of the workers with check-ups and preventive treatment of pains and health conditions.
- Checking the integrity of the installations and the risks inherent to new projects.
- Availability of contingency facilities and equipment for emergency health care and operational disasters.

VIII. Financing

The financial strategy consists of keeping indebtedness at conservative levels and maturing according to the investment cycles in order to ensure the generation the funds necessary to develop and explore hydrocarbons, in line with the long-term strategy of the Company.

Corporate Bonds Class 10 non-recourse and with guarantee

Within the framework of the Programme of Corporate Bonds for a face value of up to US$250 million, approved by the National Securities Commission (CNV) on 10 December, 2014, the Company issued on January 12, 2018 Class "10" non-recourse Corporate Bonds with guarantee for a value of US$ 100 million, maturing in 2021, with a fixed annual interest rate of 9.7%.

The structure of these Corporate Bonds, the first of its kind issued in local capital markets, contemplates as the only source of payment the funds obtained as a result of:

i) The payment of dividends and/or other remittances under the Affected Shares – the Company's package in Gasinvest S.A., representing 40.86% of share capital, and the stake in Gasoducto GasAndes Argentina S.A. and Gasoducto GasAndes S.A. (Chile), representing 39.99% of share capital in both cases – and/or;
ii) The sale and or public auction of the Affected Shares.

The Company's obligation to repay the sums of capital and interest on the Corporate Bonds Class 10 will be exclusively limited to directing and/or causing the use of the funds mentioned in (i) and (ii) for such payments, not assuming any responsibility in the event that for any reason such funds be insufficient to cancel the totality of the debt.

Partial early redemption of Corporate Bonds Class 10 and Consent Solicitation

On 10 September, 2018, on the basis of the terms provided under the paragraph "Early bond redemption" in the section "Terms and Conditions" of the price supplement corresponding to Corporate Bonds Class 10, the Company made a partial early capital redemption for the sum of US$ 20,222,466.85 in order to restore its loan-to-value ratio to the level of 1.75, having remained below this threshold during 10 consecutive working days on 27 August, 2018, triggering the start of the corresponding period to make the necessary cancellation.

The loan-to-value ratio is defined as the quotient between:

i) The value of the CGC holding in Transportadora Gas del Norte S.A. (TGN), measured as the product between the value of the stock capitalisation of TGN and the indirect share ownership of CGC via Gasinvest S.A. y;
ii) The outstanding value, defined as the total sums owed under the Corporate Bonds Class 10 corresponding to capital, interest and any other item falling under that definition.

It should be stressed that the early redemption must be carried out with the funds available from the Affected Shares, without the Company having any obligation to respond without its equity to the activation of this clause, as mentioned in the first point. Nevertheless, considering the strategic value which these assets have for CGC, the Company opted to redeem the corresponding sum with its own funds.

Following the partial capital redemption mentioned above, the Company sent a Consent Solicitation on 14 September, 2018, to the holders of the Corporate Bonds Class 10 to modify the loan-to-value ratio from 1.75 to 1.4 for a term of 6 months, counted as from the date of a favourable vote.

The consent solicitation aimed at avoiding the negative impact for the Company and bondholders from any fresh early redemptions from the exogenous and cyclical reasons which implied the fluctuations in the value of TGN shares (a company controlled by Gasinvest S.A. and a referential value for calculating the loan-to-value ratio), the product of the volatility of the exchange rate and the value of Argentine shares during the past year.

Finally, on 5 October, 2018, the Company obtained the favourable vote required for the consent of the bondholders, representing 94.2% of the capital of the Corporate Bonds (with 51% the percentage necessary for approval). The Company pledged not to distribute dividends during the dispensation period for the loan-to-value ratio.

Bank debt cancellation and financing working capital

In addition, both before and after fiscal year 2018 the following financial aspects should be underlined:

- During fiscal year 2018 financial obligations were met with the use of the Company's own funds and short-term loans from local banking. Towards that end both the available overdrafts and export pre-financing totalling US$56.4 million were used, with an average financial cost of 6.1%.
- On February 20, 2019 the last instalment was paid on the capital of the syndicated loan organised by the Industrial and Commercial Bank of China (Argentina) S.A., with the involvement of the Arentine branch of Citibank N.A., Banco Hipotecario S.A. y BACS Banco de Crédito y Securitización S.A., for the total sum of US$72 million.

The Company's financial objectives for the fiscal year 2019 consists of optimising capital structures, reducing financial costs and seeking additional sources of financing with aim of ensuring suitable funding to cover its working capital needs, fulfil its projected investment plan and meet its financial commitments.

IX. Summary of Consolidated Financial Position and Results of the Company

These Financial Statements follow the criteria adopted by the National Securities Commission (CNV) with respect to the application of IFRS (International Financial Reporting Standards) norms.

At 31.12.2018 the Financial Statements had been adjusted for inflation since International Accounting Standard Nº 29 "Financial information in hyperinflationary economies" ("NIC 29") require that the financial statements of an entity whose working currency is that of an economy with high inflation be expressed in terms of that unit of currency on the date of the close of the fiscal year being reported, regardless of whether the report is based on the method of historic or current costs. The figures corresponding to fiscal year 2017 have been updated to 31 December, 2018 for comparative purposes.

Consolidated financial position
(in millions of pesos)

	2018	2017
Non-current assets	23,061.8	14,995.9
Current assets	9,771.6	4,809.1
Total Assets	**32,833.4**	**19,805.0**
Non-current liabilities	16,264.3	10,435.7
Current liabilities	6,716.3	3,777.5
Total Liabilities	**22,980.6**	**14,213.2**
Total Equity	**9,852.8**	**5,591.8**
Total Liabilities and Equity	**32,833.4**	**19,805.0**

Breakdown of Consolidated Results

	2018	2017
Net sales	17,708.9	7,959.9
Cost of sales	(11,148.5)	(7,790.4)
Gross profit	**6,560.4**	**169.5**
Marketing expenses	(361.8)	(170.5)
Administrative expenses	(794.4)	(496.1)
Exploration expenses	(348.3)	0.0
Other operating income and expenditure	(381.3)	(270.6)
Operating profit (loss)	**4,674.6**	**(767.7)**
Results from investments in business associates	1,011.2	785.0
Financial results, net	(5,175.9)	(472.5)
Results before taxation	**509.9**	**(455.2)**
Income tax	(34.9)	106.9
Profit/loss for the year	**475.0**	**(348.3)**
Result for the year attributable to:		
Company Sharholders	475.0	(48.3)

Consolidated changes in cash flow

	2018	2017
Cash and cash equivalent at start of year	342.5	3,451.4
Net cash generated by (applied to) operations	5,633.8	1,988.4
Net cash applied to investment activities	(5,754.2)	(3,555.0)
Net cash generated by (applied to) financing activities	330.0	(1,265.3)
Financial results generated by cash	481.4	(277.0)
Cash and cash equivalent at year end	**1,033.5**	**342.5**

X. Analysis of Results, Consolidated Statement of Financial Position and Cash Flow

Results

The adjusted fiscal year 2018 shows a final net profit of $475 million, compared with a final net loss of $348.3 million in 2017, which was mainly the consequence of improved gross profit margins from the greater volumes of gas sold and the higher prices from gas and crude oil sales. These effects were partially countered by a greater financial burden from being indebted in foreign currency

The EBITDA corresponding to fiscal year 2018 rose to $9,331.8 million, 391% superior to fiscal year 2017. This change was chiefly due to a significant increase in the volume of gas sold with sales prices also higher. In 2018 gas production rose to 1,555.6 Mm3, some 50% higher than the 1,037.5 Mm3 of the previous year. The greater volume came from developing unconventional reservoirs in the Campo Indio Este-El Cerrito in the Austral Basin.

Net sales for the year reached $17,708.9 million, representing a 122% percent increase with regard to the previous year. This increase mainly originated from (i) greater gas sales, increasing 276% from the previous year owing to greater quantities sold, rising 74% (52% from deliveries from the Company's own production and 22% from marketing) while prices went up 116% on average, (ii) more income from stimulating gas production, which expanded 84% compared to the previous fiscal year ($1.39 million) and (iii) greater crude sales 16% up from the previous year with a price increase of 55%, countered by a smaller quantity sold (25%).

The adjusted gross profit for the fiscal year 2018 reached $6,560.4 million, $6,390.9 million superior to 2017, with a sales margin of 37% in 2018, compared with 2% in the previous year.

The rise in gross profits is chiefly explained by the increased sales, as described in the previous paragraph. The cost of sales totalled $11,148.5 million in the year 2018, representing a 43% increase when compared with the $7,790.4 million reported in 2017. The higher operational costs are mainly explained by: i) greater amortisation costs chiefly driven by the higher levels of investment in production during the fiscal year to develop the fields in the Campo Indio Este-El Cerrito area ii) a greater burden of royalties linked to increased production and iii) higher relative prices due to utility billing and costs.

An increase in costs inferior to sales meant that the gross profit margin will rise 37% as against the previous year.

Administrative expenses in the fiscal year 2018 increased by $298.3 million or 60% more than the previous year. The highest increases were a i) Salaries and social security charges rose $184 million, both from hiring new staff and wage increases mostly to compensate for inflation, ii) Service fees and remuneration increased by $89 million.

Marketing expenses in the fiscal year 2018 rose by $191.3 million or 112% with regard to the previous year due to heavier taxation of a higher sales volume.

Exploration expenses in the year 2018 reached $348.3 million, mainly due to lower investment in unproductive exploratory drilling and seismic exploration in the Angostura and Mata Amarilla areas.

The item Other Operational Income and Expenses totalled losses of $381.3 million in the fiscal year 2018, stemming mainly from the deteriorating value of some production and development assets in the Austral basin (UGE Dos Hermanos y UGE La Maggie) and losses of $70.6 million compared to the previous year due to adjustments in the provisions for uncollectible credits and the deterioration of non-financial assets.

The item Results of investments valued under the equity method totalled gains of $1,011.2 million in the fiscal year 2018 compared with $785 million in the previous year. The variation of $226 million is mainly attributable to (i) the result from the interest in Gasinvest represented a gain of $885.3 million in 2018 as against $494.7 million in 2017, (ii) bigger gains from the gas pipeline Gasoducto GasAndes Chile earning $53.2 millones more than the previous fiscal year, chiefly due to a recovery in the deteriorating value of its fixed assets and (iii) the result from the equity interest in TGM represented a loss of $1.4 million whereas in 2017 there was a gain of $211.7 stemming from the transactional agreement with YPF, as described in “V Activities and Business of the Company”.

The net financial result for the year ending 31 December, 2018 showed a loss of $5,175.9 million or $4,703.4 million higher than reported in the fiscal year 2017, mostly the consequence of the impact of the exchange rate differences arising from indebtedness in a foreign currency.

Equity Position

		2018	2017
Liquidity	(a)	1.45	1.27
Solvency	(b)	0.43	0.39
Immobile capital	(c)	0.70	0.76
Profitability	(d)	0.06	(0.06)

Comparative indices

(a) Current assets to current liabilities
(b) Net equity/total liabilities
(c) Non-current assets to total assets
(d) Result/Average equity

At 31 December, 2018, the Company’s consolidated assets reached $32,833.4 million with liabilities of $22,980.6 million for an equity of $9,852.8 million.

Total assets increased by $13,028.4 million compared with the previous fiscal year. This variation was mainly caused by:

i) A $1,935 million increase in Fixed Assets (Property, Plant and Equipment), due to the net effect from asset appreciation ($5,611 million) from the Investment Plan’s input during the present fiscal year into the drilling campaign in Austral Basin as against depreciations of $3,676 million. This result is the consequence of the Company’s greater investments and increased levels of production.
ii) An increase of $3,899 million in the item trade accounts mostly collected from the greater volume of sales in the fiscal year 2018. The sales credits for CGC’s natural gas deliveries to distributor firms corresponding to the April-September period of 2018 are only being partially collected because while the invoicing is in dollars (in accordance with the contracts between CGC and the distributors), the latter are paying at a lower exchange rate (in line with the one approved for utility billing). At 31 December, 2018 the outstanding balance still to be collected reached $407 million at current values.
iii) An increase of $1,652 million in the item receivables mainly as a consequence of the rise in other credits for collection to $1,155 million under the incentive programme for production.
iv) An increase of $4,661 million in the item Investments in associated companies, generated by the profits ($1,011 million) accrued, mostly by the companies Gasinvest and GasAndes Chil, but mostly by the application in 2018 of a new model for revaluing assets midstream companies, The effect of the

revaluation of the associated companies Gasoducto Gasandes (Argentina) S.A., Gasinvest S.A. and Transportadora de Gas del Norte S.A added $3,406 million to the CGC shares, which was recognised in the “other integral results” account.

Total liabilities grew by $8,767 million. The main cause of this variation were:

i) A net increase of financial debts of $6,640 million, mostly due to placing a new corporate bond and to the effects of the exchange rate fluctuations between the dollar and the peso with the latter devaluing by 102% in the course of 2018.
ii) An increase of $1,715 million in trade accounts still outstanding at the close of the fiscal year, reflecting the higher level of activity and investment.

Cash flows

During the year 2018, cash generated by operating activities reached $5,633.8 million, a 183% increase with regard to the previous year. This increase of $3,645 million was produced by a higher EBITDA and a slight drop in working capital.

The net cash flow from investment activities during 2018 was $5,754.2 million, 62% higher than the previous year. The investments in fixed assets (property, plant and equipment) totalled $5,925 million in 2018, 48% higher than the previous year in line with the Company’s investment plan.

In 2018 the net cash flow from financing activities totalled $330 million while in 2017 the Company’s funding dropped by a net $1,265.3 million. This variation of $1,595.3 million stemmed from greater indebtedness ($1,949.3 million) and higher interest payments ($354.0 million).

At 31 December, 2018 the Company’s cash and cash equivalents position reached $1,033.5 million. The financial debt on that date was mostly dollar-denominated and valued at $16,918 million in pesos.

XI. Outlook

Under the hydrocarbon investment agreement signed with the province of Santa Cruz whereby CGC owns all the rights and obligations corresponding to the unconventional hydrocarbon concession in the “Campo Indio Este-El Cerrito” area, the first unconventional gas project awarded outside the Neuquén basin, attention now centres on the development of tight gas in that zone via the use of advanced technology.

In 2018 CGC consolidated its gas production in the Austral Basin. CGC increased gas production in the Austral basin by 48% with regard to the previous year and projects the continuity of investments. In late June, 2017 gas production was a daily 2.4 million cubic metres but with the contribution of the unconventional gas investments, it topped 5 million at the close of 2018. Not all the increase comes from the unconventional sector because while tight gas (compact sands of low permeability, unlike the shale which remains embedded in the reservoir rock without migrating) plays an important part, another considerable volume is extracted from conventional areas.

In 2018 there was a strong increase in investment with over 50 wells representing around US$ 159 million. The planned investment for 2019 is estimated at US$ 150-200 million, maintaining the pace of activity of the last two years. This will be distributed between new wells and, above all, installations which must be expanded to continue increasing production.

In general lines, CGC’s expectations are to continue growing in the province of Santa Cruz, consolidating its profile as a gas producer which has already meant opening the door to the international market with exports to Chile. The Company hopes to continue increasing its production of gas exported to Chile in 2019.

Thinking in the long term, work will continue towards new discoveries via continuous exploration. There is a great potential, the exploratory upside of the Austral Basin is immense as basin with a potential similar to Neuquén but completely underdeveloped and underexplored.

Meanwhile efforts remain focused on optimising financing structures, as well as seeking additional sources of financing mindful of our investment objectives.

XII. Distribution of Retained Earnings

The fiscal year 2018 yielded a profit of $475.0 million while the retained earnings at 31 December, 2018 arising from the Statement on Changes in Equity show a profit of $3,731.9 million, including the effects of the accountancy adjustment for the monetary devaluation during the fiscal year. Considering the above, the Board of Directors recommends to the Shareholders that the retained earnings should be assigned as follows: (i) the sum of $317.9 million to absorb the negative balance in “Other Credits”; (ii) the sum of $294.7 million to rebuild the Legal Reserve as established by Article 70 of the General Companies Law; and (iii) that the remainder of $3,119.3 million be allocated to increasing the discretionary reserve in order to maintain working capital and pay future dividends.

XIII. Fees of Directors and Supervisory Committee Members

At 31 December, 2018 the fees of the Board of Directors from the results will be the sum of $15.07 million while the fees of the Supervisory Committee will amount to $540,000 for the functions discharged during the fiscal year ending on 31 December, 2018.

Autonomous City of Buenos Aires, 11 March, 2019.

THE BOARD OF DIRECTORS

of

Eduardo Hugo Antranik Eurnekian
President