

COMPAÑIA GENERAL DE COMBUSTIBLES S.A.

Financial statements for the fiscal year ended December 31, 2017 (presented in comparative format)

COMPAÑIA GENERAL DE COMBUSTIBLES S.A.

**FINANCIAL STATEMENTS FOR THE FISCAL YEAR COMMENCED JANUARY 1, 2017
AND ENDED DECEMBER 31, 2017**

Contents

Annual Report

Consolidated financial statements (in thousands of pesos)

Consolidated statement of financial position
Consolidated statement of comprehensive income
Consolidated statement of changes in equity
Consolidated statement of cash flow
Notes to the consolidated financial statements

Summary of activity of the consolidated financial statements (in thousands of pesos)

NOMENCLATURE

\$	=	Peso
USD	=	United States dollar
m ³	=	Cubic meter
Mm ³	=	Thousands of cubic meters
MMm ³	=	Millions of cubic meters
tn	=	Ton
Mtn	=	Thousands of tons
V/N	=	Par value
WTI	=	West Texas Intermediate
bbl	=	Barrel
BTU	=	British thermal unit
MBTU	=	One million BTUs
UTE	=	Joint Venture

COMPAÑÍA GENERAL DE COMBUSTIBLES S.A.

Annual Report and Financial Statements

at December 31, 2017

ANNUAL REPORT

2017



CONTENTS

Board of Directors
Syndics' Committee
Management

ANNUAL REPORT

- I. Macroeconomic Context during Fiscal Year 2017
- II. Summary of the most Relevant Events of the Fiscal Year
- III. Investments of CGC in other companies
- IV. Changes in CGC Indicators
- V. Activities and Business of the the Company
 - UPSTREAM
 - Argentina
 - Venezuela
 - NATURAL GAS TRANSPORTATION
 - Transportadora de Gas del Norte S.A
 - Gasoducto GasAndes (Argentina) S.A. and Gasoducto GasAndes S.A.
 - Transportadora de Gas del Mercosur S.A.
- VI. Social Development and Environmental Management
- VII. Financing
- VIII. Summary of Consolidated Financial Position, Results and Cash Flow of the Company
- IX. Analysis of Results and of Consolidated Statement of Financial Position and Cash Flows
- X. Outlook
- XI. Distribution of Retained Earnings
- XII. Directors' and Syndics' Fees

Annex – Report on Code of Corporate Governance



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

SYNDICS' COMMITTEE

Full Syndics

Carlos Oscar Bianchi
Carlos Fernando Bianchi
Mariano Miguel De Apellaniz

Alternate Syndics

Juan Pablo Bianchi
Héctor Oscar Romero
José María Aranguren

ANNUAL REPORT

To the Shareholders,

In line with the applicable legal and regulatory 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 section 12, chapter III, title IV of the rules of the National Securities Commission, for the 98th. fiscal year ended December 31, 2017. 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.

I. Macroeconomic Context for Fiscal Year 2017

The Company's activity is exposed to the changes in the main variables of the country's macroeconomic context, since its activity is focused mainly on the Argentine market.

The presidential election at the end of 2015 brought a significant change in the Argentine economic policy. The new administration moved quickly to implement key reforms such as the unification of the exchange rate, the agreement with international investors, the modernization of the imports system, deceleration of inflation, and the reform of the national statistics system.

Argentine Legislative elections were held on October 22, 2017 to renew one third of the seats in the Chamber of Senators (for the term 2017-2023) and almost half the seats in the Chamber of Deputies (for the term 2017-2021). Cambiemos managed to win thirteen of the twenty-four districts, but fell short of a quorum for its party in both chambers.

Additionally, Argentina has resumed a very active agenda in international politics and will act as chair of the G-20 in 2018. The country has also expressed its intention to join the OECD, and participated for the first time in the Pacific Alliance as observer.

Following a 2.2% contraction in the GDP in 2016, according to the latest data informed by the National Statistics and Census institute (INDEC), the economy is on the rebound. In 2017 the GDP grew close to 2.8%, and a higher growth is expected for 2018 - in the range of 3.5%.

The cumulative primary fiscal deficit at December 2017 reached 3.9% of the GDP, exceeding the target of 4.2% of the GDP for the year by 0.3 percentage points, and reflecting a drop of close to half a point of the GDP compared with 2016. The target for 2018 is a primary deficit of 3.2% of the GDP. The Government seeks to gradually converge to a primary fiscal balance by the year 2021.

The Budget for 2018 presented by Economy Minister Nicolás Dujovne projects an annual growth of 3.5% of the GDP, and a 12% increase in investments.

The economic growth took place in a context of decelerated inflation. Although the targeted inflation of 17% set by the Argentine Central Bank (BCRA) was not achieved, inflation was lower than in 2016. According to INDEC, wholesale prices grew 18.9% (versus 34.6% in 2016), and the Consumer Price Index (CPI) increased 24.8% (versus 39.2% in 2016). In December, the government announced an updated inflation target of 15% for 2018, with a one-year deferral of the previously announced inflation target reduction of 5%, to the period 2019 - 2020.

The exchange rate for the Argentine peso to the US dollar had reached \$15.90 per USD at the end of 2016, and rose to \$18.65 per USD at the end of 2017, showing an inter-annual growth of 17.3%. Consequently, the Argentine peso depreciated 17% against the US currency, remaining below the inflation rate.

The 2018 Budget estimates an average inter-annual inflation of 15.7%, an exchange rate that will fluctuate between \$19 and \$20.5 per USD with an average of \$19.3, and projects a 6.5% growth in foreign trade (in both exports and imports). The trade deficit for 2017 reached USD 8.471 million.

Nevertheless, projections drawn up by specialists disagree with the Budget forecasts prepared for next year, and estimate an annual inflation of 18.5% for 2018, with the USD in the range of \$22.30 to \$22.80.

In terms of variables specific to the international oil & gas industry, the price of crude (Brent) reached US\$ 66.49 at the end of December 2017, up 17.7% from US\$ 56.49 at the end of December 2016.

The volatility of the Argentine economy and the measures adopted by the Argentine government have had –and are expected to continue having– a significant impact on the Company's

business activity. The present administration has begun to implement reforms that are expected to improve the long-term framework for the oil & gas sector, making it more demand-oriented and sustainable.

The main actions carried out by the government during 2017 related with the upstream segment include the following:

- Convergence of the domestic and international price of crude oil: The Government adopted a policy to seek a convergence of the local price of oil with the international reference price that concluded on December 31, 2017. Initially, this had a negative impact on investments in the oil & gas sector. In January 2018, oil & gas producers and refineries reached a new agreement for the transition of the Argentine oil & gas industry to international prices, establishing a price scheme to bring the price of the locally produced barrel of crude in line with international prices. This will become effective on January 1, 2018. As from this date, prices will be established freely by supply and demand on the local fuel market. This situation was achieved in fact in September 2017.

- Incentives for unconventional natural gas: With the aim of reducing imports of LNG and addressing the energy deficit that has afflicted Argentina in recent years, the Ministry of Energy and Mining (MINEM) established the creation of a new incentive plan for gas production, namely the "Incentive Program for Investments in Natural Gas Production Development from Unconventional Oilfields". The program guarantees a minimum remuneration for unconventional gas projects and will be in force until December 2021. Oil companies that adhere to the plan will receive a minimum price per million BTU of US\$ 7.5 in 2018, US\$ 7 in 2019, US\$ 6.5 in 2020, and US\$ 6 in 2021. The Government will compensate producers up to the value of the incentive price if they fail to receive that value for sales of gas on the domestic market.

- Labor Reform: an agreement was reached with labor unions and the business sector to reduce costs and encourage investments in shale gas and shale oil with the aim of attracting

investments in Vaca Muerta. A similar agreement was recently achieved for the production of shale in the Austral Basin as from January 2018.

- In the context of the process of the energy sector normalization, the MINEM summoned natural gas producers, ENARSA, and Distributors to establish the basic conditions that will serve as a framework for supply agreements executed between them as from January 1, 2018.

In view of the expiry of the extension period established through Law N° 27200 for the public emergency declared in 2002, Law N° 24076 resumed full effectiveness. This law establishes that the price in natural gas supply agreements will be freely determined by supply and demand.

On November 29, 2017, the MINEM called natural gas producers, ENARSA, and Distributors to subscribe the "Terms and Conditions for Natural Gas Supply to Gas Distributors by Networks". These terms and conditions establish the basic guidelines: (i) to guarantee a suitable supply of natural gas for distributors and, consequently, for the residential and commercial end consumers; (ii) to guarantee the continuity of the gradual and progressive process of subsidy reduction to normalize the natural gas market which expire on December 31, 2019; (iii) to recognize the right to transfer the cost of gas purchases to the tariff paid by users and consumers; (iv) for the prices of gas for each basin over the following two years in United States dollars; and establishes that (v) ENARSA assumes the responsibility of covering the demand in areas reached by subsidies for residential consumption; among other provisions.

- MINEM Resolution 474-E/2017, published in the Official Gazette on December 1, 2017, established the new Prices for natural gas at the POINT OF ENTRY TO THE TRANSPORT SYSTEM (PIST) to be applied to the residential user categories, and the new Prices of Propane Gas destined to the distribution of Undiluted Propane Gas over networks, for deliveries made as from December 1, 2017.

- Decree 962/2017, published in the Official Gazette of the Argentine Republic on November 27, 2017, authorizes exports of natural gas, among other important aspects.

This Decree establishes that export authorizations will be granted by the MINEM, and that any export agreement that involves the construction of new facilities and/or new connections to gas

pipelines, or the use of any of the existing systems, will be approved by the MINEM, with the prior intervention of the National Regulatory Entity for Gas (ENARGAS). The Decree also establishes that the authorizations issued by the Ministry may envisage the export of surplus gas on condition that such exports are subject to interruption in the event of a shortage in domestic supply.

Energy Minister, Juan José Aranguren, affirmed that Argentina may resume exports of gas to Chile "as from the summer of 2018-2019". According to his statements, the Argentine government seeks to generate a growth in demand in order to increase investments by oil companies and boost productivity in the unconventional oilfields of Vaca Muerta. In view of the country's restrictions during periods of peak consumption, Argentina purchased gas from regasification plants located at Chilean Pacific Ocean ports during the winters of 2016 and 2017, using the same gas pipelines it will use to resume its exports to that country in a year from now.

- As announced in 2016, the Integral Tariff Review (RTI for its Spanish acronym) was completed in 2017 for the regulated gas industry sector and the electricity industry sector. As a result, a gradual tariff adjustment program was established to normalize the two sectors. The resulting new tariff schedules for gas transportation and distribution were published in March and November 2017. The methodology includes a semi-annual adjustment for the variation in the Domestic Wholesale Price Index (IPIM for its Spanish acronym). The third and last tariff increase will be applied in April 2018 and subsequently, non-automatic adjustments will be applied in the months of October and April of each year in line with variations in the IPIM.

- Tax Reform: On December 29, 2017 the Argentine Congress enacted Tax Reform Law Nr. 27.430. The main modifications introduced include: a) Income Tax: i) the income tax rate for corporations will be 30% for fiscal years commenced on January 1, 2018 and ended December 31, 2019, and 25% for fiscal years commenced on January 1, 2020 onwards. Additionally, dividend distributions will be subject to a 7% and 13% tax rate, respectively, for the fiscal years referred to; ii) the application of the equalization tax will be eliminated for revenue generated in fiscal years commencing as from January 1, 2018, and will remain effective for prior fiscal years; iii) a cost adjustment mechanism is established for goods acquired or investments made in fiscal years commencing as from January 1, 2018; b) VAT: a tax refund system is established

for the VAT paid for investments in fixed assets, subject to the future generation of a tax liability under the tax, in order to reduce the financial cost generated by the accumulation of tax credit for new investments.

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

- **Granting of the incentive program for investments in unconventional reservoirs:** Resolution Nr. 38/2018, dated January 27, 2018, issued by the Secretariat for Oil & Gas Resources of the Ministry of Energy and Mining, approved the accession of CGC to the "Incentive Program for Investments in Natural Gas Production Developments from Unconventional Reservoirs" in its capacity as licensee of the operating concession over the area "Campo Indio Este-El Cerrito" located in the Province of Santa Cruz. The Resolution entitled CGC to collect compensation accrued by virtue of its accession to the program as from January 2018.

This is a significant achievement for the company since it constitutes the first unconventional gas project awarded outside of the Neuquén basin.

- **Award of exploration concession and eventual operation of the "Tapi Aike" area:** On September 7, 2017 the Executive Branch of the Santa Cruz Province published the Decree N° 775/2017 in which it awarded CGC the exploration and eventual operation of the "Tapi Aike" area. In addition, CGC signed with the Provincial authorities an agreement to regulate the performance conditions of the exploration activities. The Executive Branch of the Santa Cruz Province ratified the agreement under Decree 1154/2017.
- **Association between CGC and Echo Energy Plc. for the production of conventional oil & gas in the Austral Basin:** On October 31, 2017, CGC and the English company Echo Energy Plc. (Echo) executed two joint investment agreements for the production of four blocks in the Austral Basin in the Province of Santa Cruz.

1. Farm-out agreement for the production concessions over fractions C and D of the Santa Cruz I area and the Laguna de los Capones area

Echo will pay CGC up to USD 10 million in three installments, subject to the compliance with certain landmarks. The Assignment Agreement establishes the joint development of a work program (the "Work Program") consisting of several stages, with an investment of USD 70 million plus VAT, to be contributed 100% by Echo, including VAT.

The agreement establishes that CGC will remain as operating partner, with a 50% ownership, while, concurrently, Echo Energy will be responsible for preparing the technical proposals for the activities comprised under the work program committed under the agreement.

2. Farm-out agreement for the Tapi Aike area

By virtue of this agreement, CGC transferred to Echo 50% of the rights and obligations arising from the exploration permit over the Tapi Aike area. In exchange, Echo will contribute 30% of the costs and investments that correspond to CGC's share in the basic exploration plan for the area. The agreement establishes that CGC will be the operator of the area.

The exploration permit for Tapi Aike was granted to CGC through Decree Nr. 775, under the framework of call for tenders Nr. 01/2017 issued by the Energy Institute of Santa Cruz.

- **CGC drilled the first horizontal well in the Austral Basin for extraction of tight gas:** The company continues to make progress in conventional gas and tight gas production with the use of state-of-the-art technology in the province of Santa Cruz. This is a horizontal well with 10 fracturing stages completed using a system of ball-activated frac sleeves instead of Plug&Perf. The well achieved production peaks above 240,000 m³ of gas per day. This is a strategic step for CGC toward its objective of achieving commercial development of tight gas in the Patagonian province.
- **CGC executes new gas supply agreements with distributors:** Under the framework of the terms and conditions for the supply of Natural Gas to Distributors executed in November 2017 by producers, distributors, and ENARSA, CGC concluded new gas supply agreements with the distributors CGP, Metrogas, GasNatural Ban, and ENARSA, that will become effective in 2018, with an extension option for the year 2019.

Although the terms and conditions seek to guarantee supply for the priority demand, they do not impose a forced or automatic re-direction of supply. The use of regulatory guidelines issued by the country's new administration, allow producers to execute contracts with distributors for their available volumes. For more information, refer to the terms and conditions in Note 2 to the Financial Statements.

- **CGC places a new issue of corporate bonds:** Under the framework of the Corporate Bonds Program for up to a face value of US\$ 250 million, approved by the National Securities' Commission (CNV) on December 10, 2014, on January 12, 2018, the Company issued 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 the financial position, which is one of the main objectives of the current administration.

The following are the relevant financial aspects for fiscal year 2017:

1. On February 3, 2017, CGC settled the outstanding balance under the syndicated loan for US\$ 35 million from the Industrial and Commercial Bank of China (Argentina) S.A. (Argentina).
 2. On February 20, 2017, a syndicated loan agreement was executed for US\$ 72 million for a term of 24 months, organized by the Industrial and Commercial Bank of China (Argentina) S.A. and with the participation of the Argentine Branch of Citibank N.A., Banco Hipotecario S.A., and BACS Banco de Crédito y Securitización S.A. The funds obtained under this agreement were disbursed on February 21, and March 15, 2017, for US\$ 64 million and US\$ 8 million, respectively, and were applied to working capital and capital investments.
 3. On March 7, 2017 the Company made a total early redemption of its corporate bonds under Classes 2, 4, 6 and 7 for a total amount of US\$ 45.8 million, and of Class 8 for \$68.5 million.
- **Merger with Unitec Energy S.A.:** The Boards of Directors of CGC and Unitec Energy S.A. (a company whose stock representing 100% of the corporate capital and voting rights is currently held by CGC) have resolved to carry out a merger of the two companies effective as from January 1, 2018. The merger will be carried out based on the financial statements of each company at December 31, 2017, and will result in the absorption of Unitec Energy S.A. by CGC. The absorbed company will be dissolved without winding-up and will be consolidated into a single equity, and the activities that each company is in a position to carry out will be consolidated under a single operating unit, enabling the reduction of administrative costs and obtainment of economies of scale throughout their operations – an essential necessity considering the current economic scenario.
 - **EBITDA:** The Company's adjusted EBITDA for fiscal year 2017 reached \$1338,1 million, having dropped \$13.1 million or 0.97% compared with the previous year.
 - **Reserves:** The company's proven reserves at December 31, 2017 reached 8,575 Mm³ of oil equivalent, up 3% with regard to December 31, 2016. At December 31, 2017 these reserves were made up 20% by oil and 80% by natural gas.
 - **Investments in production and exploration activities:** Investments made during the fiscal year ended December 31, 2017 reached \$2893 million, having increased 96.1% compared with the previous year. These were focused mainly in Development activities

(94.6%) in the Campo Indio and El Cerrito oilfields in the Austral Basin, and additionally included certain projects in Exploration activities (4.6%).

The cumulative investments reached \$4368,9 million over the last 24 months and reflect the Company's sound compliance with its production and investment commitments.

- **Production:** In 2017, annual production of oil, natural gas, LPG and gasoline reached 1,374.8 Mm³ of oil equivalent, showing a 4.8% increase with regard to the production for the previous year. Liquid hydrocarbons represented 24.5% and natural gas 75.5%.

Investments of CGC in other companies

CGC is a leading independent energy company that 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 a major interest in a network of gas pipelines in the northern and central region 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.

ARGENTINA

Production Areas

Santa Cruz I (100%)¹ (*)

Santa Cruz I Oeste (100%)²(*)

Santa Cruz II (100%)³(*)

¹ SCI includes 14 operating concessions.

² SCIO includes 4 operating concessions.

Laguna de los Capones (100%) (*)

Palmar Largo (17.85%)

Aguaragüe (5%)

Exploration Areas (*)

Angostura (100%)

Estancia Chiripá (87%)

Glencross (87%)

Piedrabuena (100%)

Mata Amarilla (100%)

VENEZUELA

Production Areas

Onado (26.004%)⁴

OTHER COUNTRIES

Exploration Areas Operated by CGC

A-9-96 (100%) (*)⁵

(*) Areas operated by CGC

NATURAL GAS TRANSPORTATION

Transportadora de Gas del Norte S.A. (23.07% direct and indirect investment through its 40.86% share in Gasinvest S.A.)

Gasoducto GasAndes S.A. and Gasoducto (Argentina) GasAndes S.A. (39.99%)

Transportadora de Gas del Mercosur S.A. (10.90%)

³ SCII includes 6 operating concessions.

⁴ As shareholder of the Mixed Company Petronado S.A.

⁵ In December 2012 a request was filed before the Ministry of Energy and Mines of Guatemala to assign contract 4-98 to Quattro Exploration and Production LTD. The request is pending approval.

III. Changes in CGC Indicators

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

	Upstream			Natural Gas Transportation			Total		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Income from Sales (MM \$)	2,554.9	3,475.1	4,897.6	188.0	472.6	808.7	2,742.9	3,947.7	5,706.3
Gross Margin (MM \$)	519.9	843.5	584.0	(3.8)	208.9	425.1	516.1	1,052.4	1,009.1
Operating Result (MM \$)	782.2	436.4	197.5	(44.6)	126.7	324.8	737.6	563.1	522.3
Net Profit (Loss) (MM \$)	204.4	(252.4)	(787.2)	(145.5)	21.3	377.3	58.9	(231.1)	(409.9)

Oil Production (m ³ /day) (1) (3)	1,073	1,074	921				1,073	1,074	921
Gas Production (Mm ³ /day)	2,035	2,510	2,835				2,035	2,510	2,835
Oil Reserves (Mm ³) (1) (2) (3)	2,778 (a)	1,863 (b)	1,673 (c)				2,778 (a)	1,863 (b)	1,673 (c)
Gas Reserves (MMm ³) (2) (3)	6,998 (a)	6,441 (b)	6,902 (c)				6,998 (a)	6,441 (b)	6,902 (c)
Total Reserves (Mm ³ O.E.) (1) (2) (3)	9,776 (a)	8,304 (b)	8,575 (c)				9,776 (a)	8,304 (b)	8,575 (c)
Ratio Reserves/Years	8.6	6.3	6.2				8.6	6.3	6.2
Gas Transportation (MMm ³ /day)	---	---	---	6.4	12.1	12.4	6.4	12.1	12.4

Grouped by line of business based on CGC's interest in each one.

M = thousands; MM = Million; m³ = cubic meters

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 12.31.15, with the exception of areas not operated which correspond to reserves estimated by the Company at 12.31.15.

(b) Corresponds to reserves audited by DeGolyer and MacNaughton at 12.31.16, with the exception of areas not operated which correspond to reserves estimated by the Company at 12.31.16.

(c) Corresponds to reserves audited by DeGolyer and MacNaughton at 12.31.17, with the exception of areas not operated which correspond to reserves estimated by the Company at 12.31.17.

IV. Activities and Business of the Company

UPSTREAM

From August 2016 to July 2017 the Company was ranked as the ninth oil & gas producer in Argentina in terms of wellhead production, according to information published by the Argentine Institute of Oil & Gas (IAPG).

The Company has interests in approximately 40 oil and gas fields located in eight areas in the Austral Basin –where the substantial portion of the Company’s operations are located–, two areas in the Neuquén Basin, two areas in the Noroeste Basin, and one in the Golfo San Jorge Basin, in Argentina, and one area in the Oriente Basin in Venezuela. The Company’s production and development activities are managed in Argentina through 38 production concessions and 3 exploration permits awarded by the Argentine National State and by provincial governments; 29 of these are located in the Austral Basin. The Company operates areas by themselves or through joint ventures contracts (“JV”). The Company operates all its oil & gas oilfields in the Austral Basin, and the oil and gas fields in the Angostura area in the Neuquén Basin. Additionally, through its subsidiary UENE (currently under a merger process with CGC), the Company operates the Sarmiento area in the Golfo San Jorge Basin under an Operating and Service contract with YPF. The Company’s oil and gas fields in the Aguaragüe and Palmar Largo areas in the Noroeste Basin are operated by its partners under JV contracts.

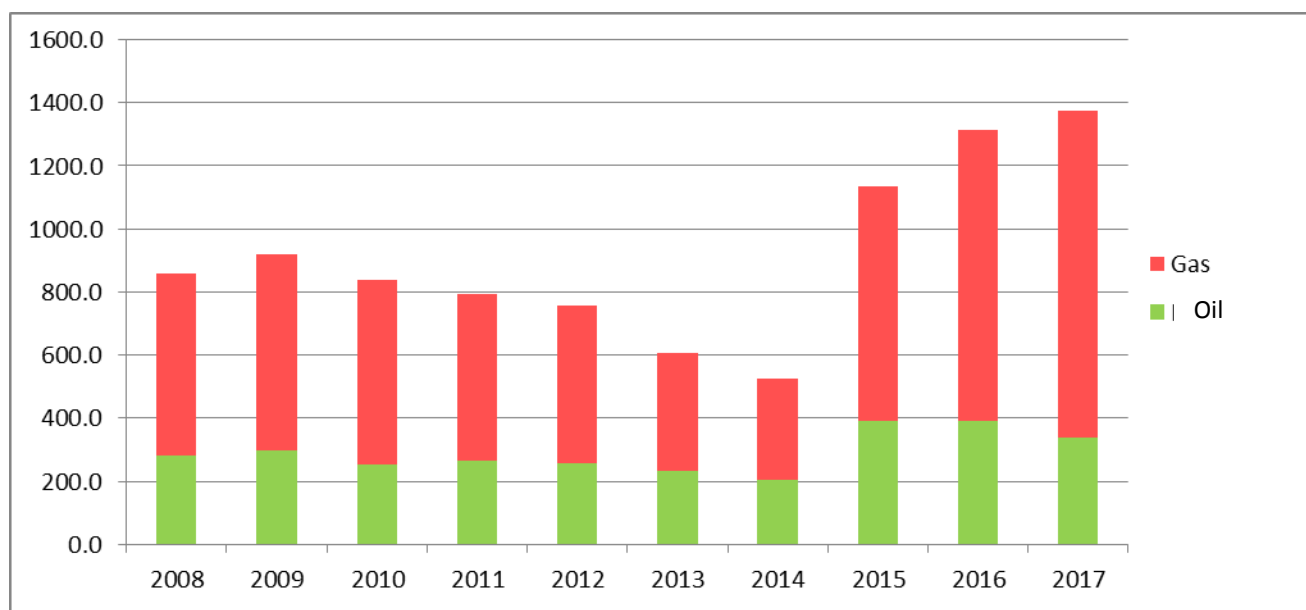
The Santa Cruz I and Santa Cruz I Oeste areas in the Austral Basin account for almost all of the Company’s production and reserves, and constitute the key areas in which it will continue to focus its activities. In the fiscal year ended December 31, 2017, the Austral Basin accounted for 96% of the Company’s net oil and gas production in Argentina.

Outside of Argentina, the Company has a share in the Onado field, in the Oriente Basin in Venezuela. Petronado S.A. (“**Petronado**”), is the Company’s affiliate with a 26% interest, that produces and performs development activities in Venezuela.

In fiscal year 2017, total oil, natural gas, liquefied petroleum gas (LPG), and gasoline production reached 1,374.8 Mm³ of oil equivalent, reflecting a 4.8% increase with regard to the previous year’s production. Liquid hydrocarbons accounted for 24.5% of this production, and natural gas represented 75.5%.

Based on production for FY 2017, and considering the Company’s proven reserves at December 31, 2017, the Company’s estimated proven reserves represented an approximate average life of 5 years for oil and 6.7 years for gas, or an average life for the combined proven net reserves of approximately 6.2 years.

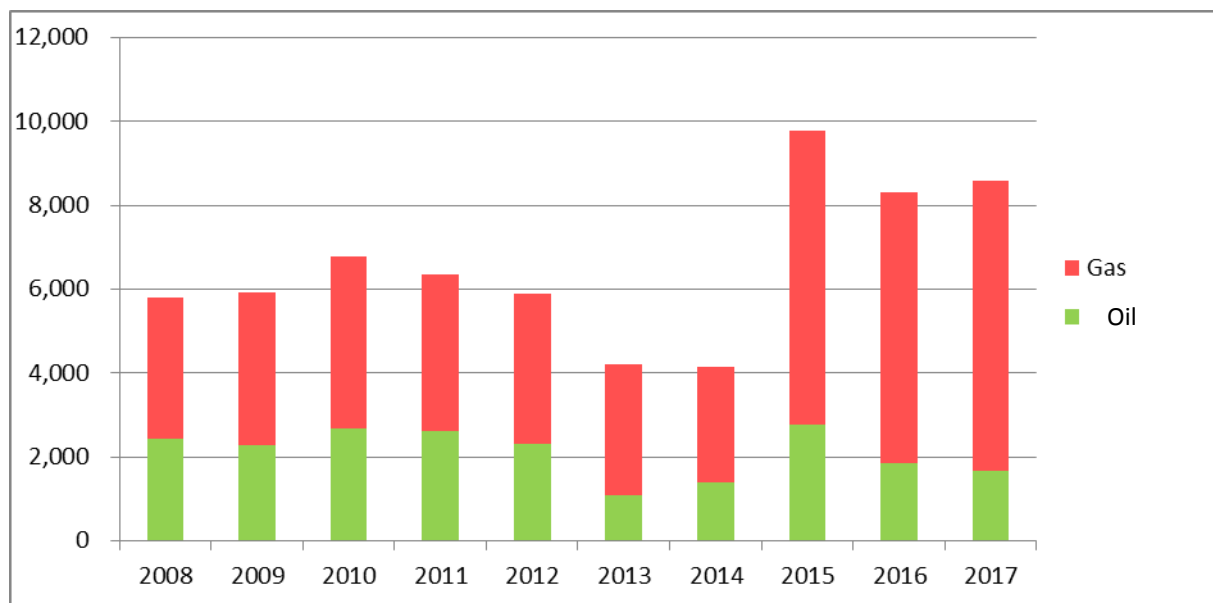
Changes in Annual Production (Mm³ OE/Year) ⁽¹⁾



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

The Company's proven reserves at December 31, 2017 reached 8,575 Mm³ of oil equivalent. These reserves are made up by 20% oil and 80% natural gas.

Change in Reserves (Mm³ OE) ⁽¹⁾



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

Argentina

Austral Basin

The Austral Basin is the Company's most significant area of production and reserves, which is located in the southernmost tip of South America and includes the Argentine provinces of Santa Cruz and Tierra del Fuego, the Strait of Magellan, and the southwestern region of Chile. The Austral basin has an approximate surface area of 230,000 km², of which 85% is located in Argentina.

Conventional natural gas production of the basin mainly comprises marine/deltaic and fluvial sands in the Springhill formation, pertaining to the early Cretaceous period, at 2,000/3,000 mbgl. Additionally, the basin features a conventional secondary marine reservoir in the Tertiary Magellan formation, at 1,800 mbgl. The total sedimentary input in the basin runs from 1 km to 1.8 km along the eastern coastline, up to a maximum of 7.8 km along the basin's axis.

The Santa Cruz I and Santa Cruz I Oeste areas are key to CGC's business.

In addition to Santa Cruz I and Santa Cruz I Oeste, the Company has interests in the Santa Cruz II, Laguna los Capones, Glencross, Estancia Chiripá, Mata Amarilla, Piedrabuena and Tapi Aike areas.

Glencross and Estancia Chiripá have minimum probable and possible reserves, but production has not commenced yet. In 2017 an exploratory well was drilled in Estancia Chiripá which was being studied at the date of this report. The company has exploration permits over Mata Amarilla, Piedrabuena and Tapi Aike fields.

Highlights

- In 2017 the Company drilled the first horizontal well in the Austral basin using state-of-the-art technology to extract tight gas (gas trapped in low-permeability, low-porosity compacted sands).

This was strategic step of CGC toward the production of conventional gas and tight gas in the Patagonian province. This horizontal well with 10 fracking stages was completed with a ball-activated frac sleeve instead of the classic Plug&Perf.

This system enhances efficiency by cutting frac cycle times (it does not require the lowering of a wireline equipment to fix plugs and punch holes), providing greater control and accuracy of the fluid and sand volume at the injection point to stimulate the formation. Another advantage of this technology is that, when the process is executed according to plan, it avoids the use of coil tubing to rotate fracking plugs.

Use of the well completion system with sleeves is widespread in Canada, although Plug&Perf technology remains the preferred option in the U.S. The well was completed by the company Packers Plus Energy Services Inc.

The well recorded peak production levels above 240,000 m³/day of gas.

- On December 1, 2017, CGC and the Province of Santa Cruz executed a hydrocarbon investment agreement under which CGC will be the holder of the full rights and obligations arising from the concession for the production of unconventional hydrocarbons in the "Campo Indio Este-El Cerrito" area. This production concession was awarded through Decree Nr. 0108/2018 of the Executive Branch of the Province of Santa Cruz, according to the terms of sections 27, 27bis and 35 of Law Nr. 17.319 (modified by Law Nr. 27.007), over a portion of the areas Campo Indio, Laguna del Oro, Estancia Agua Fresca, Campo Boleadoras, El Cerrito, El Cerrito Oeste, Cañadon deus and El Campamento, over which CGC had previously been granted concessions for the production of conventional hydrocarbons.

The minimum investment plan entails an investment commitment of US\$ 173 million, and according to section 35bis of Law Nr. 27.007, the unconventional hydrocarbons production concession was awarded for a term of 35 years.

Through Resolution Nr. 38/2018, dated January 27, 2018, the Secretariat for Hydrocarbon Resources of the Ministry of Energy and Mining approved the adherence by CGC to the "Incentive Program for Investments in Natural Gas Production Development from Unconventional Reservoirs", in its capacity as production licensee over the "Campo Indio Este-El Cerrito" area. This Resolution entitles CGC to receive compensation accrued by virtue of its adherence to the referred program as from January 2018.

SCI

Santa Cruz I has an approximate surface area of 7,327 km², and it is situated in the central and east sector of the Austral Basin, in the southern tip of Argentina.

The Company rights over the Santa Cruz I area are governed by 14 production concessions (excluding some concessions currently in process of reversion) that allow it to produce and explore the remaining potential in this area.

Each of the concessions may be extended for ten year periods at the request of the Company and with the approval of the province of Santa Cruz. The concessions have been extended until November 2027, through the approval of the Extension Agreement by Law Nr. 3500 of the

Santa Cruz Legislative Branch (published in the Official Gazette of that province on November 22, 2016).

Key Activities in 2017

The investment plan for 2017 included the workover of 5 wells and a major campaign involving well pulling and well drilling improvements. During fiscal year 2017, 26 development wells and 3 appraisal wells were drilled and completed.

Pulling improvements were carried out in more than 12 wells, including the installation or replacement of submersible electric pumps (SEP) and mechanical pumps (AIB), which resulted in an increase oil production.

During the year 2017, the Petreven H-102 equipment was used to carry out interventions in 5 wells, including shooting and fracking operations, and the Coiled Tubing equipment was used to complete well cleaning and induction tasks to leave them flowing. Two of these wells are currently in production.

In December 2016 the development campaign started in Campo Indio field, with the drilling of well CI-52. This campaign continued during 2017 with the drilling of 26 development wells and 3 appraisal wells, obtaining excellent results.

The Company has used leading efficient technologies to increase productivity and optimize costs.

During most of 2017 two skidding rig systems were used for drilling in pad locations (drilling multiple entry points into wells from a single surface location).

Pads CI-52, CI-62 and CI-63 were drilled using Slim hole technique, which seeks to drill wells with the smallest possible diameter, i.e. narrow and shallow wells.

Three horizontal wells were drilled, CI-48, CI-51 and CI-53 – the first of this type in the Austral Basin, and turned out to be gas producers.

The Company invests continually in exploration activities and reservoir studies to incorporate new reserves, seeking to reduce operating costs and to minimize the environmental impact of its operations. In 2017 it drilled well EachSO-X1, in the Estancia El Chiripa area, shooting the Anita and Magallanes layers. At the date of this report, the well was under study.

Several construction works and installations were carried out under the facility improvement plan. Among these it is worth noting the projects that involved laying 6" gas pipeline

connecting the Boleadoras Plant with the Boleadoras Oeste Battery. This work completes the gas treatment and compression capacity.

As part of the development of Campo Indio field, facilities were built for development wells, and electric power, lighting, instrumentation, automation and telemetry activities were carried out at battery 2 in Campo Indio. Installation of 103/4" low pressure catchment pipeline was carried out for tapping tight gas.

Oil production during fiscal year 2017 reached 199 Mm3, down 19% compared with the previous year.

Natural gas production for fiscal year 2017 grew 16% compared with the previous year, reaching 794.9 MMm3.

SCIO

Key Activities in 2017

Santa Cruz I Oeste spans an approximate surface area of 866 km², and is located in the Austral Basin, in the southern tip of Argentina. At the date of this report, the Company had obtained 3D seismic for 94% of the surface area of Santa Cruz I Oeste.

The Company's rights over the Santa Cruz I Oeste area are governed by four different concessions that allow it to produce and explore the remaining potential in the area (Estancia Agua Fresca, El Cerrito Oeste, Puesto Oliverio and El Campamento), and expire in 2034/7.

Activities were carried out at Estancia Agua Fresca concession with the purpose of increasing the oilfield's production. This included bringing offline wells into operation, stimulation with chemical foam in low pressure wells, rearrangement of wellhead compressors and centralized compressors.

The investment plan for 2017 included pulling improvements in 12 wells.

In the El Cerrito concession 2 wells were drilled, EC-1009 and EC-1010, and turned out to be gas producers.

The Puesto Oliverio oilfield was brought into production in 2016 with excellent results in terms of oil and gas production. In 2017 drilling of well PO-1002 was completed, and it is currently in production.

Oil production for fiscal year 2017 reached 78.5 Mm³, reflecting a 7% drop compared with the previous year.

Natural gas production grew 3% in fiscal year 2017, reaching 127.4 MMm³.

The Santa Cruz I and Santa Cruz I Oeste areas jointly account for approximately 88% of CGC's net oil production, and 89% of its net natural gas production in Argentina.

Santa Cruz II

This is a mature field in which the Company has placed special emphasis on improving operating efficiency with the aim of expanding production.

In 2016 production in the El Condor and Cerro Redondo fields was optimized with the use of chemical foam injection techniques and the use of low pressure compressors.

The facility investment plan included the conditioning of the Condor-Loyola oil pipeline. Crude is transported via the 70 km-long pipeline from the El Cóndor oilfield to the Punta Loyola Storage and Shipping Terminal (operated by CGC), where crude is received from the entire Austral Basin and shipped by sea tanker. In 2017, major overhaul was carried out on high and low pressure machinery at the El Condor Plant.

Laguna de los Capones

CGC operates the entire area of Laguna de los Capones (LLC) since the year 2007. This is a mature field with a surface area of 400 km², with proven reserves and stable production.

In June 2016, an extension of the concession –which originally expired on April 18, 2016- was agreed with the province for an additional 10-year term, therefore expiring on April 18, 2026.

CGC and the English firm Echo Energy Plc. (Echo) executed a farm-out agreement on October 31, 2017, for the production concessions covering fractions C and D of the Santa Cruz I and Laguna de los Capones areas.

The Farm Out Agreement, which becomes effective on January 1, 2018, envisages a joint work program, with CGC as the operator and with a 50% ownership, while Echo will concurrently be responsible for preparing technical proposals for the activities included in the work program agreed to.

Piedrabuena – Mata Amarilla

Through its subsidiary Unitec Energy S.A. (currently undergoing a merger process with CGC) the Company owns 100% of the exploration permits and potential hydrocarbon production concessions over the Piedrabuena and Mata Amarilla areas located in the Province of Santa Cruz.

These areas are in their exploration initial stage. The work plans agreed with the Energy Institute of Santa Cruz were approved through Provincial Decree nr. 2439, dated December 2, 2015. The committed exploration activities involve an investment of US\$ 2 million to start the second exploration period, and includes drilling an exploratory well in each of the areas and completing a 3D Seismic data covering of 100.9 km² in the Piedrabuena area.

Based on the completed studies , the location of an exploratory well has been defined in the Mata Amarilla area. At the date of this report, site and road improvement works had commenced for the drilling of well La Leonor x-1.

Tapí Aike

Under public tender Nr. 01/IESC/2017, the Executive Branch of the Province of Santa Cruz issued Decree Nr. 775/2017, published in the Official Gazette of the Province of Santa Cruz on September 7, 2017, awarding the Company an exploration permit over the Tapí Aike area. As a result, on September 25, 2017, the Company signed a contract with the Province of Santa Cruz that governs the terms under which the exploration activities will be carried out in the area.

According to the contract, and based on section 23 of the Hydrocarbons Law, the exploration tasks comprise two stages: (i) an initial exploration period of up to three years with a conventional objective, and up to four years for exploration with unconventional objective; and (ii) a second period of up to three years for exploration with conventional objective, and up to four years for exploration with unconventional objective. Additionally, an extension may be requested for up to five additional years.

The Company must pay the royalties established in sections 21 and 59 of the Hydrocarbons Law, which comprise a 15% royalty for hydrocarbons extracted during the exploration, and a monthly fee by way of royalty equivalent to 12% of the proceeds obtained from liquid hydrocarbons extracted at the well head. The latter percentage may be reduced by the National or Provincial Executive Branch up to 5% considering well productivity, conditions and location.

The contract additionally envisages works and investment commitments to be carried out by the Company which include: (i) an entry fee of \$ 12 million, corresponding to the amount offered by the Company to enter the area; and (ii) a basic exploration program that comprises the set of exploration activities to be carried out by the Company during the first period of the exploration permit, involving an investment of US\$ 76.4 million.

Neuquén Basin

Angostura

CGC has an exploration permit for the Angostura area that originally expired in October 2012. During 2017, negotiations continued with the Province of Río Negro to normalize the terms and investments committed for the area.

Finally, on November 13, an addenda was subscribed to the contract emerging from bidding process 01/2007 between the Province of Río Negro, represented by the Secretary for Energy, and the Company, which grants the latter an 18-month extension of the exploration term counted as from the approval of the addenda through a Decree of the Provincial Executive.

Pursuant to this addenda, CGC undertakes to execute 3,652 work units in the area, equivalent to 7 well workovers and the drilling of 7 exploratory wells.

During 2017, oil and gas wells were kept in production according to schedule to cover the operating costs generated.

Crude oil production for fiscal year 2017 reached 1.2 Mm³, and gas production reached 1.1 MMm³.

Noroeste Basin

CGC has an interest in the Noroeste Basin in northwestern Argentina through two JVs.

Aguaragüe

CGC has a 5% interest in the Aguaragüe JV (which includes a share in the production concession over the San Antonio Sur lot), the remaining companies in the JV are Tecpetrol S.A., with 23% (the operator); YPF S.A., with 53%; Pampa Energía S.A. with 15%; and Ledesma S.A.A.I. with 4%.

The production concession over the Aguaragüe area was extended for an additional term of 10 years as from its expiry in 2012 through Provincial decree Nr. 3.694/2012.

This area has a surface area of 285.6 Km², and total wells in actual production in December 2017 averaged 32. Average net production for 2017 was 107 m³ OE/day. The wells in this area are the deepest and most complex existing in Argentina, and can reach a depth of 5,200 meters. State-of-the-art technology such as drilling of lateral branches is used to optimize their production.

A drilling plan was commenced in Aguara Güe in August 2017 worth US\$ 30 million (taken at 100%), and comprises two deep wells and a third shallower exploratory well.

Crude oil production (according to CGC's share) in 2017 reached 5.3 Mm³, and gas production (taken at CGC's share) was 33.7 MMm³.

Palmar Largo

CGC has a 17.85% interest in the Palmar Largo area through a JV with YPF, High Luck Group Ltd. (the operator) and Madalena Energy Argentina S.R.L.

The area is located in the province of Formosa and has a surface area of 1,381 km².

During 2016, CGC completed 3 well workovers (WO) on wells PL-12 and PL-18 using Coiled Tubing to clean scaling and on PL-14 to clean scaling in production facilities and stimulate the formation.

Crude oil production in 2017 was 11% lower compared with production in 2016. The natural decline of the oilfield could not be offset with the well intervention campaign implemented.

The production concession for the area expired in 2017, and the Operator of the JV is currently negotiating a renewal of the production concession for the area with the province of Formosa.

Golfo San Jorge Basin

Through its subsidiary Unitec Energy S.A., the Company operates the Sarmiento area located in the province of Chubut since March 2011 through an Operating Service contract for the Extraction of Hydrocarbons envisaging Risk ("SOAR") executed in March 2011 with YPF S.A. (holder of the concession) for a term of 6 years (expiring in November 2017), with an option for extension until the year 2021 provided certain conditions are met.

The Company has decided not to execute the extension option and is currently completing all the necessary steps to return the area. The Company has agreed with YPF S.A. to perform well cleanup, environmental remediation and well abandonment activities prior to returning the operation of the area. At today's report date, the Company continues to operate the area. Final restitution of the area to YPF S.A. is expected to take place during the first months of 2018.

Venezuela

Onado

Campo Onado is a production area with an approximate surface area of 22 km², located 60 km southeast of the city of Maturín, in the province of Monagas, Venezuela.

The area is operated by the Mixed Company Petronado, in which CGC has a 26.004% share. The other shareholders in Petronado are Petróleos de Venezuela, Banco Popular de Ecuador S.A. and Korea National Oil Corporation, with holdings of 60%, 8% and 6%, respectively.

Crude oil production for fiscal year 2017 was 3.3% lower compared with 2016. Projects to increase production in 2017 have not materialized due to the current weakness of the segment that provides services to the oil industry, such as well cementation, slickline and wireline, coiled tubing, etc. Consequently, the production of the oilfield maintained its natural sustained decline, with lower execution of maintenance tasks.

CGC has not made investments in capital assets and does not plan to carry out exploration activities in this area, neither has it received any dividend payment from Petronado or been required to make contributions to the latter since 2008.

The current situation of the Company is described in Note 30 (5) to the consolidated Financial Statements of the Company at December 31, 2017.

NATURAL GAS TRANSPORTATION

Unlike other countries in the region, in the Republic of Argentina natural gas is the predominant energy for consumption, 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 gas pipeline in Argentina and Chile, respectively; and 10.90% of **Transportadora de Gas del Mercosur S.A.** (TGM). The Company's focus is on the upstream activities and is currently evaluating strategic opportunities for its interests in the gas transportation operating segment.

TGN - (23.07%)

CGC has an indirect 23.07% ownership in TGN through its investment in Gasinvest S.A., in which it has a direct ownership 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 at the date of this report. 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 held by five different investors.

TGN has a system of gas pipelines covering 6,806 km, and provides natural gas transportation over high pressure pipelines in the center and north of the Argentine Republic. Through its two trunk gas pipelines, the "North" and "Center West" pipelines, TGN supplies gas to eight of the nine gas distributors and a number of power plants and industries located in fifteen Argentine provinces. TGN's network connects up to the "GasAndes" and "Norandino" pipelines built for transporting gas to the center and north 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" (Argentine northeast gas pipeline).

At the 2017 fiscal closing date, take-or-pay transportation contracts executed by the Company from the gas pipeline endpoints totaled 48.19 MMm³/d, of which 23.23 MMm³/d corresponded to the North pipeline, and 24.96 MMm³/d to the Centre West pipeline.

As a result of higher-than average temperatures during the winter season, residential consumption was below historical levels during those months of the year. Consequently, gas deliveries to electric power plants and industry were above prior year levels.

The volume of gas received by TGN reached 19,663 MMm³, in other words, an average of 53.9 MMm³/d, of which 21.7 MMm³/d corresponded to the Centre West pipeline, 23.2 MMm³/d to the North pipeline, and 9 MMm³/d were received in the Province of Buenos Aires. Maximum injection values at pipeline endpoints reached 26.6 MMm³/d at the Centre West pipeline, and 26 MMm³/d at the North pipeline. In the case of the latter pipeline, average injection from local producers reached 6.36 MMm³/d, and injection of imported gas from the Plurinational State of Bolivia reached an average of 17.4 MMm³/d, with a daily peak of 20.1 MMm³/d. In addition to national production, the Center West pipeline received 276 MMm³ of LNG from Chile, carried over the GasAndes pipeline to Argentina from the months of June to August.

In terms of gas injected from the Province of Buenos Aires, the average values recorded reached 6.2 MMm³/d of LNG in the district of Escobar, Province of Buenos Aires, and 2.8 MMm³/d from Transportadora de Gas del Sur S.A., in the district of General Rodríguez, Province of Buenos Aires.

Under the framework of the mandatory investment plan, TGN executed works and projects focused on the maintenance of its transportation system.

On October 26, 2017, TGN executed a syndicated loan agreement with the Industrial and Commercial Bank of China Limited (Dubai Branch), Citibank N.A., and Itaú Unibanco S.A. (Nassau Branch) for US\$ 220 million. The company obtained this debt to redeem Corporate Bonds. Consequently, on November 13, 2017, the Company made an early redemption of all the Corporate Bonds outstanding at an Incremental Rate, and all its 5-year Corporate Bonds, for a total of US\$ 208.3 million (including principal and interest).

This reflects TGN's return to the debt market, the deferral of maturities, the elimination of certain covenants that prevented it from accompanying the potential growth of the business, and allowed it to significantly reduce its financing rate from 9% to 4.56%.

The tariff increases implemented as from 2016 and during 2017 have enabled TGN to finance its operating and maintenance expenses, execute certain works, and repay its financial liabilities. The Integral Tariff Review (RTI) performed by ENARGAS introduces a non-automatic semi-annual gas transportation tariff adjustment mechanisms between the five-yearly tariff reviews, in line with the variations in the price levels in the local economy relating to service costs to maintain the economic and financial sustainability and quality of the service provided.

TGN considers that the steps adopted during 2016 and 2017 by the National Executive Branch, the MINEM and ENARGAS represent a significant progress toward the normalization of its tariffs and the restoration of the regulatory framework for the sector. Particularly section 38 of the Gas Law establishes that the tariffs must allow providers to cover their reasonable operating costs, taxes and depreciation, and allow them to obtain a reasonable profit. Additionally, TGN is confident that the new tariffs that will become effective on April 1, 2018 will maintain constant values over time to enable it to face the expenses and investments necessary for the operation and maintenance of the gas pipelines.

During the fiscal year ended December 31, 2017, TGN recorded a net profit of \$ 841.8 million, which resulted in a profit of \$ 192.6 million for CGC.

TGN's assets amounted to \$ 25060 million, with an equity of \$ 15035 million.

Gasoducto GasAndes (Argentina) S.A. and Gasoducto GasAndes S.A. (39.99%)

The Company has a direct 39.99% 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 of the pipeline. The main shareholder of GasAndes Argentina and GasAndes Chile is Aprovechadora Global de Energía S.A., (formerly

Metrogas (Chile) S.A.), with 47.1% of the share capital of each entity. The remaining 13% of GasAndes Argentina and GasAndes Chile is held by AES Gener S.A.

The gas pipeline joins the district of La Mora, in the province of Mendoza, Argentina, with the city of Santiago de Chile, in Chile, with an extension of approximately 533 km, a diameter of 24", and a transportation capacity of 10.8 M MMm³/d. The operating concession for GasAndes Argentina expires in 2027 and may be extended for an additional 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.

Since the last decade, Argentina has experienced an energy crisis which has been evidenced most notably in a significant deficit in gas supply. This was largely attributed to an increase in domestic consumption driven by the low price of natural gas at the wellhead and low regulated tariffs for gas transportation and distribution. This forced the Argentine Government to implement a set of measures to restrict gas exports. Between 2010 and 2012, following contract renegotiation processes, the Company brought all the controversies with its clients to a close. In every case it reached transactional agreements that led to a reduction of the hired capacity, a reduction of the term of the contract, or the termination of contracts.

Despite the measures referred to, the Company continued to honor its contractual commitments.

Following the change in government in Argentina in December 2015, a new stage commenced in the energy integration between Chile and Argentina.

At the end of January 2016, the Governments of Chile and Argentina, through their respective Energy Ministers, agreed Natural gas deliveries to Argentina from the Quintero and Mejillones Regasification Terminals.

The Company developed a strategy to transport up to 4 MMm³/d during the winter of 2016. This required structural modifications at the compression plants located in Argentina.

Between June and August 2016, 274.1 MMm³ of LNG were received from Chile over the GasAndes pipeline.

Additionally, on the Chilean side of the GasAndes pipeline, transportation contracts on an interruptible basis were executed with Metrogas (Chile) S.A. and with two new clients: Enap and Endesa. On the Argentine section of the pipeline, an interruptible contract was executed with Enarsa.

During 2017, 276.9 MMm³ of gas were transported from June to August from Chile to Argentina under similar terms as those established in 2016.

In accordance with the technical assistance contracts executed between GasAndes Argentina and the Company in September 2014, and between GasAndes Chile and Andes Operaciones y Servicios S.A. in August 2014, the Company operates the Argentine section of the GasAndes pipeline, while the Chilean sector is operated by Andes Operaciones y Servicios S.A.

The possibility of two-way gas transportation on this pipeline opens up new commercial expectations and puts an end to the seemingly imminent disintegration of commercial relations between the natural gas markets of the two countries.

It is estimated that over the next two-year period, based on the increase in gas production in the Neuquén Basin in Argentina, gas will begin to be exported to Chile during the summer season. This represents an opportunity that GASANDES is in a position to meet. To this end, the good integrity results obtained for the pipeline using the internal inspection tool on the Argentine section, and the support operation for the programmed maintenance at GNL Quintero carried out at the end of October 2017, favor an increase in operative and commercial activities.

At the fiscal closing date, the assets of GasAndes reached \$416.8 million and US\$ 40.1 million, and its equity amounted to \$371.9 million and US\$15.2 million in the Argentine and Chilean companies, respectively. The net results for the year were a profit for the Argentine company of \$ 61.6 million, and a profit of US\$ 3.3 million for the Chilean company. During fiscal year 2017 the companies distributed cash dividends in line with the resolutions of the Shareholders' Meetings held in 2017 worth \$ 88.8 million, in the case of the Argentine company, and US\$ 6 million in the case of the Chilean company.

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 the capital of TGM, respectively.

TGM operates the gas pipeline that transports natural gas from Aldea Brasileira, in the province of Entre Ríos, in Argentina, to Uruguaiana, in the Brazilian State of Rio Grande do Sul. The gas pipeline has an extension of approximately 437 km, with a 24" diameter and a transportation capacity of 15 MMm³/d. TGM's operating concession expires in 2027 and may be extended for an additional 10 years, subject to the review and approval of the National State.

On September 28, 1998, YPF S.A. ("YPF") and Petróleo Brasileiro S.A. ("Petrobras") executed a contract for the purchase and sale of a daily volume of 2.8 MMm3 of natural gas destined to supply a steam power plant in the district of Uruguiana, in Brazil. To this end, YPF hired transportation services from TGN from the Province of Neuquén to the Province of Entre Ríos, and from TGM for gas transportation from the Province of Entre Ríos to the district of Paso de los Libres.

As a result of the crisis in the energy sector due to a shortfall in the supply of natural gas and electricity, the government implemented measures that restricted gas exports and redirected the gas transportation capacity, until gas exports to Brazil ceased completely in the middle of 2008. Consequently, AES U notified YPF of the suspension of the contractual obligations of AES U alleging breach of contract by YPF.

As from November 2008, YPF stopped paying the invoices issued by TGM for the transportation services provided under the take-or-pay contract, and the irrevocable contribution corresponding to September 2008 and subsequent months. Consequently, a lawsuit was filed in 2009 for the cancellation by YPF of the gas supply contracts to Brazil with TGM. The lawsuit involves the International Chamber of Commerce and the Argentine justice, and also includes AESU, a company belonging to the North American group AES.

In 2015, Hall IV of the Federal Court for Administrative Litigation ruled in favor of YPF, by declaring the arbitration award of the ICC null and void. In February 2016, TGM filed an extraordinary appeal against this ruling, which was rejected, forcing TGM to resort to filing a complaint before the National Supreme Court of Justice. In the meantime, on April 20, 2016 the Arbitration Court issued a final ruling instructing YPF to pay TGM US\$ 17.8 million in respect of unpaid bills, plus US\$ 301.3 million by way of damages arising from culpable rescission of the transportation contract, in both cases plus interest. YPF filed a second appeal for nullity of the arbitration award before Hall IV.

Finally, on December 20, 2017, the Extraordinary Shareholders' Meeting of TGM resolved by a majority vote to execute a transactional agreement with YPF (the "Transactional Agreement"), which put an end to the conflict between the parties.

Essentially, the Transactional Agreement, which was also approved by the Board of Directors of YPF, is currently in force and has begun to be implemented, establishes the obligation for YPF to pay TGM US\$ USD 114 million by way of indemnity, pursuant to which the two companies reciprocally waive the right to bring any claim they had or might have had, and drop every fact and right.

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 reactivation of the export gas transportation market may be expected insofar as the effects of the energy sector crisis generated by the natural gas and electricity supply deficit diminish or are mitigated.

Following the losses reported during the preceding eight consecutive fiscal years, TGM has managed to rebuild its Equity and its Legal Reserve, and cancel its operative debts, through the Transactional Agreement referred to and the new STI contract. Consequently, it is reasonable to expect that TGM will be able to continue providing the service in a safe manner and face its operating costs without resorting to any type of outside financing.

During the fiscal year ended December 31, 2017, TGM reported a net profit of \$ 1284,3 million, resulting in a profit of \$ 137.8 million for CGC.

TGM's assets amounted to \$ 2165,2 million and its equity reached \$ 1272,7 million.

V. Social Development and Environmental Management

Social Development

CGC collaborates actively with the communities in the areas where it operates, contributing to the sustainable development of the population and institutions in the fields of education, health, sports, culture and social development.

During 2017, CGC Argentina continued to strengthen its ties with interest groups in the spheres described below, among others:

- Cooperation with the strengthening of the social fabric, supporting social initiatives and community organizations: collaboration agreement with the Municipality of Río Gallegos to fund cultural activities.
- Collaboration with the Cooperative Association "Benigno Carro" in the purchase of the necessary implements to provide health services in the Regional Hospital of Río Gallegos.
- Collaboration agreement with the State Safety Secretariat of Santa Cruz to strengthen the safety equipment and offer labor safety courses and training for our employees.
- Contribution with the sporting and cultural proposals of Río Gallegos: through contributions to the "Asociación Club Deportivo Hispano Americano de Río Gallegos" toward its participation in the National Basketball League during the 2016/2017 season, encouraging the growth of the sport in Río Gallegos by giving Company employees tickets to club matches in Río Gallegos.

- Contribution in the medium and long term to the social structure through our alliance with "Creer Hacer", dedicated to building bridges between low income sectors and other social groups to improve the quality of life of the people in the community of Rio Gallegos, mainly encouraging an entrepreneurial attitude.

Environmental Management

Health, Safety and the Environment (HSE)

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

We comply with the prevailing legislation on Quality, Health, Safety and the Environment in the jurisdictions in which 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 program 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 2017 we continued with the optimization of our quality, health, safety and the environment audit processes throughout our facilities. Our operations and hydrocarbons production facilities are ISO 9001 certified for the company-owned laboratories in the Austral Basin, and we additionally observe standards and best practices applicable to the industry (ASTM, API, NFPA, IRAM, IAPG, etc.).

Health

During 2017, CGC did not report any significant occupational illness or serious accidents or fatalities.

The preventive measures adopted include the installation of first aid kits at the main work sites, synergies achieved with local medical services, the adoption of physical wellbeing and healthy eating programs (including work cafeterias), and alcohol consumption control.

Additionally, we have carried out campaigns for the collection of endemic poisonous arachnids in work areas in order to generate antidotes and protect our staff and the community.

Safety

During the current year we did not record any major accidents or fatalities among employees or contractors.

The measures implemented during the year include the following:

- Enforcement of a process safety audit plan based on the latest national and international recommendations on the topic.
- Compliance with the safety regulations applicable in all the jurisdictions in which we have activities.
- Induction programs for new staff.
- Seasonal safety plans associated with extreme climatic conditions and the large territorial expanses typical of the areas in which we have operations.
- Implementation of defensive driving, in the knowledge that road accidents account for the largest number of accidents in the industry.
- Audits of firefighting networks per local and NFPA regulations with a view to implementing future expansions and optimizations.
- New studies of classified areas for oil and gas plants, according to the national and international legislation currently in force.

Environmental Management

During 2017 we continued to strengthen preventive and early intervention measures in spills to avoid potential incidents involving hydrocarbons from causing irreversible environmental consequences.

All the prevailing regulations in force in the jurisdictions in which we have operations were complied with. Contingency plans were written and environmental impact studies were conducted in order to obtain all the necessary permits to carry out the activities of the company in an environmentally safe manner.

We continued work to reduce and correct environmental risks, with actions that included:

- Use of declared chemicals and recycled water in the extraction of unconventional hydrocarbons and the generation of drilling fluids, in order to avoid the contamination of soils and sources of fresh water.
- Characterization and remediation of underground aquifers.
- Expansion of the network of shallow groundwater monitoring wells, and increased sampling frequency in areas of interest.
- Reduction of the environmental footprint caused by the use of directional drilling and multiple location techniques.
- Composting facilities for treatment of urban waste that are used by a nursery to produce tree species.
- Reduction of tree felling, and studies to rebuild the extracted flora.

- Suitable handling and treatment of hazardous waste and waste from the oil industry in line with the local regulations in force and best industry practices.
- Detection, classification and treatment of environmental liabilities, particularly in oilfields and areas where the concession has or is due to expire.
- Involvement in emergency drills relating to liquid spills in environmentally sensitive basins.

VI. Financing

The Company's financial policy was focused on generating the necessary funds to sustain its investment plan for hydrocarbon development in line with its long term strategy.

- Under the framework of the Corporate Bonds Program for up to a face value of US\$ 250 million approved by the CNV on December 10, 2014, on January 12, 2018 the Company issued Class "10" Corporate Bonds for US\$ 100 million, maturing in 2021, at a fixed annual interest rate of 9.7%.

This issue will enable CGC to improve its debt maturity profile and liquidity, and to continue with the financial strengthening plan which is one of the main objectives of the current administration.

The following financial activities were carried out during the fiscal year:

1. On February 3, 2017, CGC settled the balance due under the loan with the Industrial and Commercial Bank of China (Argentina) S.A. under the syndicated loan contract for US\$35 million.
2. On February 20, 2017, a syndicated loan contract was executed for US\$72 million for a term of 24 months, organized with the Industrial and Commercial Bank of China (Argentina) S.A. and with the involvement of the Argentine Branch of Citibank N.A., Banco Hipotecario S.A., and BACS Banco de Crédito y Securitización S.A. On February 21, and March 15, 2017, the funds under this loan were disbursed, for a total of US\$64 million and US\$8 million, respectively. These funds were applied to working capital and capital investments.
3. On March 7, 2017, the Company made a total early redemption of Corporate Bonds Class 2, 4, 6 and 7, for a total amount of US\$ 45.8 million, and of Class 8 Corporate Bonds for \$68.5 million.

The Company's financial objectives for fiscal year 2018 will be centered on securing the suitable funds to cover its working capital needs, fulfill the projected investment plan, and meet its financial commitments.

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

(in millions of pesos)

Consolidated Financial Position

	2017	2016	2015
Non-current Assets	6,933.3	4,606.4	3,593.4
Current assets	3,203.5	4,254.7	1,746.7
Total Assets	10,136.8	8,861.1	5,340.1
Non-current Liabilities	6,811.8	5,712.4	3,000.2
Current liabilities	2,558.4	2,003.3	984.2
Total Liabilities	9,370.2	7,715.7	3,984.4
Non-controlling interest	0.0	6.3	7.5
Equity	766.6	1,139.1	1,348.2
Total Equity	766.6	1,145.4	1,355.7
Total Liabilities and Equity	10,136.8	8,861.1	5,340.1

Breakdown of Consolidated Results

	2017	2016	2015
Net sales	4,897.6	3,475.1	2,526.8
Cost of sales	(4,313.6)	(2,631.6)	(1,975.6)
Gross profit	584.0	843.5	551.2
Selling expenses	(104.4)	(70.7)	(59.8)
Administrative expenses	(294.2)	(236.2)	(200.3)
Exploration expenses	0.0	0.0	(55.9)
Other operating income and expenditure	12.2	(100.4)	411.6
Operating Profit	197.6	436.2	646.8
Gain (loss) on investments valued using the equity method	377.3	21.3	(145.6)
Financial gain (loss), net	(1,177.7)	(811.5)	(583.0)
Result from business combination	0.0	0.0	195.4
Result before tax	(602.8)	(354.0)	113.6
Income tax	190.7	121.8	(56.1)
Profit (loss) for the year	(412.1)	(232.2)	57.5
Result for the year attributable to:			
Company Shareholders	(409.9)	(231.1)	58.9
Non-controlling interest	(2.2)	(1.1)	(1.4)
	(412.1)	(232.2)	57.5

Consolidated changes in cash flow

	2017	2016	2015
Cash at the beginning of the year	1,873.2	199.5	20.4
Net cash generated by operations	1,195.1	586.9	(165.1)
Net cash applied to investment activities	(2,213.6)	(1,342.2)	(1,597.1)
Net cash generated by financing activities	(775.7)	2,251.9	1,885.7
Financial gain/(loss) generated by cash	152.9	177.1	55.6
Cash at year end	231.9	1,873.2	199.5

IX. Analysis of Results, Consolidated Statement of Financial Position, and Cash Flows

Results

The results for fiscal year 2017 show a final net loss of \$ 412.1 million, compared with a final net loss of \$ 232.2 million in 2016. This negative result was mainly attributed to the impact of exchange differences arising from the Company's foreign currency indebtedness and, to a lesser extent, to the drop in gross margin as a result of the rise in the cost of sales.

The EBITDA for fiscal year 2017 reached \$1338,1 million, down 0.97% compared with fiscal year 2016.

Net sales for the fiscal year reached \$4897,6 million, reflecting a 41% increase with regard to the previous year. This increase was mainly driven by: (i) higher sales of gas, which grew 94% compared with the previous year due to the rise in average prices in US dollars plus a 72% devaluation of the peso to the US dollar, and a 22% growth in volumes sold; (ii) higher income under the gas injection incentive ("Plan Gas II"), which was 35% higher compared with the previous fiscal year (\$270 million); and (iii) higher sales of crude, which increased 24% with regard to 2016, due to a 25% increase in volumes sold and partially offset by a 1% drop in prices. These increases were offset in part by lower income from related services, which fell 18% (\$42 million).

The gross profit for the year 2017 reached \$584 million, and was 31% lower compared with the previous fiscal year, with a sales margin of 12% in 2017 (compared with 24% in 2016).

The drop in gross profits is mainly explained by higher production costs, driven by: (i) higher activity levels – annual production of oil, natural gas, LPG and gasoline in 2017 reached 1,374.8 Mm³ of OE, reflecting a 4.8% increase with regard to the prior year production; (ii) an increase in relative prices due to tariff adjustments and labor costs; (iii) higher cost of amortizations mainly driven by the level of investments in production during the year, which was partly offset by the increase in sales referred to in the preceding paragraph.

The cost of sales in FY 2017 reached \$4313,6 million, and was 64% higher than in FY 2016. As indicated previously, this rise in costs was driven by higher levels of activity and the increase in fees for oil services.

The main captions affected by this rise in costs are:

- Third party services of \$332 million.
- Operating and maintenance fees of \$170 million.
- License fees, easements, and oil and gas royalties, \$163 million.

- Salaries, social security charges and other payroll expenses as a result of the incorporation of staff, increase in wages, and higher levels of activity, of \$46 million.
- Higher depreciation charges for wells, plant and equipment, of \$212 million.

This increase in costs in excess of sales generated a 12% drop in gross margin compared with the previous year.

Administrative expenses increased by \$58 million in FY 2017, or 24.6%, compared with the previous year. The highest increases took place in: i) Salaries and social security charges, up \$18 million, arising mainly from wage increases granted in line with the inflation and the incorporation of new staff; ii) Service fees and retributions, up \$17 million, as a result of the higher cost of outsourced services and tariff readjustments; iii) Systems maintenance, including hardware and software, of \$15 million.

The caption Other Operating Income and Expenses reflected a total gain of \$12.2 million in FY 2017, compared with a loss of \$ 100.4 million in 2016. This was mainly driven by adjustments in legal reserves, and by uncollectible accounts.

The Results from investments valued under the equity method showed a total gain of \$377.3 in fiscal year 2017, compared with a gain of \$21.3 million in the comparative period. This \$356 million variation is mainly attributed to: (i) the result from the interest in Gasinvest, which represented a gain of \$192.2 million in 2017, compared with a loss of \$54.2 million in 2016. In fiscal year 2017, Gasinvest recognized the gain from the equity interest in its controlled company TGN, arising from higher billings associated mainly with the rise in local gas transportation tariffs and a lower financial cost; (ii) the result from the equity interest in TGM for fiscal year 2017 was a gain of \$137.8 million, stemming from the transactional agreement with YPF described in point "IV. Activities and Business carried out by the Company"; and (iii) lower gains from the GasAndes gas pipeline (Argentina and Chile) compared with the previous fiscal year, of \$28.3 million, mainly due to higher maintenance costs of the pipeline.

The net financial result for the fiscal year ended December 31, 2017 presented a greater loss of \$ 366.2 million compared with fiscal year 2016, mainly generated by the impact of exchange differences arising from foreign currency indebtedness, which increased by \$384 million.

Equity Position

Comparative Ratios

		2017	2016	2015
Liquidity	(a)	1.25	2.12	1.77
Solvency	(b)	0.08	0.15	0.34
Locked-up capital	(c)	0.68	0.52	0.67

(a) Current assets to current liabilities

(b) Equity / total liabilities

(c) Non-current assets to total assets

At December 31, 2017, the Company's consolidated assets reached \$10,136.8 million, with a liability of \$9,370.2 million, reflecting an equity of \$766.6 million.

Total assets increased by \$1,275.7 million, compared with the previous fiscal year. This variation was mainly driven by:

- i) an increase of \$1,879 million under the caption Fixed Assets (PP&E), mainly due to the net effect of additions (\$2,384 million) under the Investment Plan carried out during the current year relating to the drilling campaign executed in the Austral Basin, capitalization of financial costs of \$307 million and well abandonment costs of \$202 million; deletions (\$9 million) and depreciations recorded during the current year for \$1,005 million as a result of higher investments and the increase in the Company's production levels.
- ii) an increase of \$1,100 million in receivables at the fiscal closing date mainly resulting from an increase under credits for collection, of \$451 million, under the Incentive Program for Additional Gas Injection, and greater tax credit balances (payments on account under the Income Tax, credit balances under the VAT and gross revenue tax) amounting to \$216 million.
- iii) an increase of \$325 million under the caption Investments in related companies generated mainly by the profits accrued during the year from the equity interest in the companies Gasinvest and TGM.
- iv) a drop of \$1,763 million under the captions Cash and Short Term Investments, resulting from the higher level of investments in PP&E.
- v) a drop in Inventories of \$253, basically due to lower stocks of crude at the fiscal closing date.

Total liabilities grew by \$1,665 million, driven mainly by variations in the following captions:

- i) Net increase in financial debt of \$850 million driven mainly by the effect of the exchange fluctuation of the peso to the US dollar.

- ii) An increase of \$602 million in trade accounts payable at the fiscal closing date mainly attributed to the higher level of activity and investments.
- iii) Increase in the asset retirement obligation and environmental remediation by \$215 million, measured in pesos.

Cash flows

During fiscal year 2017, cash generated by operating activities reached \$1,195.1 million, reflecting a 104% increase with regard to the previous year. This increase of \$608 million was generated by the higher working capital and a slight drop in the EBITDA.

Net cash flows generated by investment activities during 2017 reached \$2,213.6 million, up 65% compared with the previous fiscal year. Investments in PP&E totaled \$ 2,484 million in 2017, and were 138% higher than the previous fiscal year in line with the Company's investment plan.

In 2017, net cash flows generated by financing activities dropped by \$775.7 million, while in 2016 the Company reported a net increase in funds of \$2,251.9 million. This difference was attributed to a lower indebtedness level by \$ 2,991 million, and lower interest payments by \$36.6 million.

At December 31, 2017, the Company's cash and cash equivalents position reached \$ 232 million. The financial debt at the fiscal closing date was mostly US dollar denominated and reached US\$372 million.

X. Outlook

In view of the decision of the Argentine government to align the domestic price of crude with the international price as from January 1, 2018, the events that took place as from October 2017, and the plan to normalize the gas sector over a 4-year period, the outlook for the oil & gas sector is positive. The new natural gas production incentive program for unconventional gas projects will be effective until December 31, 2021. Oil companies that adhere to this plan will receive a minimum price per million BTU of US\$ 7.5 in 2018, US\$ 7 in 2019, US\$ 6.5 in 2020, and US\$ 6 in 2021. During the effectiveness of the program, the National State will compensate producers up to the value of the incentive price if this value is not obtained for gas sales on the domestic market. The transition during 2018 and 2019 is expected to bring the domestic sales price in line with international prices, which will generate increased production, reduce imports and resume exports.

Based on the hydrocarbon investment agreement executed with the Province of Santa Cruz, under which CGC is the holder of the full rights and obligations corresponding to the production concession for unconventional hydrocarbons over the Area "Campo Indio Este-El Cerrito", the first unconventional gas project to be awarded outside of the Neuquén Basin, the Company will focus on developing tight gas in the area using last generation technology, including horizontal wells, directional wells with monogor, without tubing, and great magnitude fracturing.

In line with the actions carried out in 2017, in which the Company achieved a supply of 3.5 million m³ of gas and was ranked among the country's top 5 producers according to statistics of the IAPG, it is committed to double its gas production over a 2 to 3-year period. The Company will continue to work toward the achievement of new discoveries through constant exploration, and the continued development of the areas where it operates. The Company will continue to give priority to short cycle production and exploration projects.

In terms of financing, the Company's efforts remain focused on the optimization of the structure of its funding, and on the search for additional sources of financing in line with its investment objectives.

XI. Distribution of Retained Earnings

The fiscal year commenced on January 1, 2017 and ended December 31, 2017 reported a loss of \$ 409.9 million.

The Board of Directors proposes to the Shareholders' Meeting to fully absorb this loss with the Voluntary Reserve set up to maintain the working capital and make future dividend distributions.

XII. Directors' and Syndics' Fees

The fees of the Board of Directors accrued at December 31, 2017, amounted to \$ 6.2 million, and fees of the Syndics' Committee for the same period amounted to \$ 0.3 million for the functions carried out during the fiscal year ended on December 31, 2017.

Considering the result for the year, the Board of Directors proposes to submit to the consideration of the Shareholders' Meeting the approval of the fees to be paid to the Directors and the members of the Syndics' Committee, under the terms of section 261 of Company Law Nr. 19,550.

Autonomous City of Buenos Aires, March 8, 2018.

THE BOARD OF DIRECTORS

Eduardo Hugo Antranik Eurnekian
Chairman

1. REPORT ON THE DEGREE OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

	Compliance		Non-compliance	Report or Explain
	Total	Partial		
PRINCIPLE I. MAKE CLEAR THE RELATIONSHIP BETWEEN THE ISSUER, THE ECONOMIC GROUP THAT THE ISSUER HEADS AND/OR FORMS PART OF AND ITS RELATED PARTIES				
Recommendation I.1: Ensuring the disclosure by the Governing Body of the policies applicable to the relationship between the Issuer and the Economic Group that the Issuer heads and/or forms part of and its related parties.	X			<p>Compañía General de Combustibles S.A. (“CGC”) performs transactions with related parties under normal market conditions. The Board publishes quarterly the balances and transactions with related parties in the interim financial statements, as prescribed by legal provisions and professional standards in force.</p> <p>CGC issued in the local and international market Class “A” Negotiable Obligations on November 7, 2016 (“Class A Negotiable Obligations”). Under the terms and conditions of Class A Negotiable Obligations, CGC undertook certain commitments to carry out transactions with affiliates as detailed in section <i>Certain Commitments - Limitation to Transactions with Affiliates</i> of the Pricing Supplement corresponding to Class A Negotiable Obligations published in the Financial Information Highway on October 18, 2016. These commitments are identical to the commitments undertaken by CGC under the syndicated loan executed on February 20, 2017 with Industrial and Commercial Bank of China (Argentina) S.A. -as arranger, lender and administrative agent-, the branch of Citibank N.A. set up in Argentina, Banco Hipotecario S.A. and BACS Banco de Crédito y Securitización S.A. -as lenders and arrangers, for up to seventy two million dollars (USD 72,000,000).</p> <p>Furthermore and following the closing of the fiscal year at December 31, 2017, CGC issued Class 10 Negotiable Obligations for USD 100,000,000 including additional commitments described in Note 32 - Subsequent events to the consolidated financial statements.</p>
Recommendation I.2: Ensuring the existence of mechanisms that prevent conflicts of interest.		X		<p>The By-laws of CGC do not have specific provisions binding directors to report whether they have a particular interest relating to the decisions they need to make. However, CGC understands that including any such mechanisms would not be necessary since sections 272 and 273 of Commercial Companies Law No. 19550 (the “<u>General Company Law</u>”) apply.</p>
Recommendation I.3: Preventing the improper use of proprietary information.		X		<p>CGC does not have statutory provisions establishing a specific procedure for the improper use of proprietary information. However, CGC understands that including or establishing any such provisions would not be necessary since there are laws and rules in force punishing the improper use of proprietary information, i.e. Law No. 26831 (the “<u>Capital Markets Law</u>”) and rules of the National Securities Commission (restated text 2013) (the “<u>CNV Rules</u>”).</p>
PRINCIPLE II. PROVIDE THE BASIS FOR A SOLID ADMINISTRATION AND SUPERVISION OF THE ISSUER				
Recommendation II. 1: Ensuring that the Governing Body assumes the administration and supervision of the Issuer and its strategic goals.				
II.1.1. Answer if the Governing Body approves:				
II.1.1.1 the strategic or business plan, as well as the management goals and annual budgets,	X			<p>In compliance with the provisions of the By-laws, the Board has broad administrative and disposition powers to fulfill the business purpose. The Board sets the strategic goals, guidelines and methodology required to prepare the business plan, objectives and strategic plan of CGC, which are approved in the annual budget and financial statements, both separate and consolidated, annual and interim.</p>

II.1.1.2 the investment policy (in financial assets and capital goods) and financing policy,		X		The Board establishes investment and financing policies and guidelines.
II.1.1.3 the corporate governance policy (compliance with the Code of Corporate Governance),		X		The corporate governance policy of CGC contains the provisions included in the By-laws as well as resolutions adopted in meetings of the Board of Directors. Corporate governance policies have been considered on an annual basis since 2014 and are disclosed in the Annual Report as an integral part of the financial statements.
II.1.1.4 the recruitment, evaluation and remuneration policy for senior managers,		X		The General Management and HR develops the recruitment, evaluation and remuneration policy for senior managers, which is then reported to the Company's Board.
II.1.1.5 the policy on the assignment of responsibilities to senior managers		X		The General Management and HR develops the policy on the assignment of responsibilities to senior managers, which is then reported to the Company's Board.
II.1.1.6 the supervision of the plans for the succession of senior managers		X		The Board and the General Management are responsible for the replacement of senior managers.
II.1.1.7 the policy on corporate social responsibility			X	The General Management defines the policy on corporate social responsibility, the relevant aspects of which is then reported to the Company's Board.
II.1.1.8 the policies on the integral risk management and internal control, and prevention of fraud		X		Although there are no written policies, ongoing monitoring by the Management and Board allows an integral risk management. Internal control and prevention of fraud.
II.1.1.9 the policy on ongoing training of the members of the Governing Body and senior management		X		Most of the members of the CGC Board have proven professional and academic track records and an important experience in the performance of managerial duties at renowned local and international companies in the energy sector. In view of the foregoing, the Board considers that it is not necessary to implement any training or development plan for its members. Training of senior managers is developed in the framework of the general training policy of CGC, designed by HR and supervised by the General Management.
II.1.2 If relevant, add other policies followed by the Governing Body which have not been mentioned and describe their important points.			X	Not applicable
II.1.3 The Issuer has a policy aimed at ensuring the availability of relevant information for the decision making process of the Governing Body and for direct consultation at management level, which is even for all members (executive, external and independent members) and well in advance, allowing for an appropriate analysis of its contents. Please specify.		X		Although CGC does not have a written policy on the matter, directors, managers and syndics are constantly informed of the relevant aspects of the business, which is crucial for the performance of their duties. The Company issues a management control report on a monthly basis, as well as reports to the Board upon publication of the financial statements.
II.1.4. Issues submitted for the consideration of the Governing Body are accompanied by an analysis of risks associated with the decisions that may be adopted, taking into consideration the corporate risk level defined as acceptable by the Issuer. Please specify.	X			When submitting the items of the agenda for the consideration of the Board of CGC, there is always sufficient information of the risks associated with the decisions that may be adopted.
Recommendation II.2: Ensuring an effective corporate Management Control. Answer if the Oversight Body verifies:				
II.2.1 compliance with annual budget and business plan	X			Meetings of the Board of Directors regularly monitor compliance with the annual budget and business plan.
II.2.2 the performance of senior managers and compliance with objectives set for them (the level of profit foreseen versus the profit made, financial rating, quality of accounting report, market share, etc.) Describe the main aspects of the Management Control policy of the Issuer by detailing the techniques used and frequency of monitoring by the Governing Body.	X			The General Management exerts the management control of the business on a regular basis taking into account the information provided by the different managers.

Recommendation II.3: Communicating the Governing Body's performance appraisal process and its impact.				
Answer whether:				
II.3.1 Each member of the Governing Body complies with the By-laws and, if applicable, with the Operation Regulations of the Governing Body. Detail the main provisions of the Regulations. State the degree of compliance with By-laws and Regulations.	X			Each member of the Governing Body complies with the By-laws. There are no Operation Regulations of the Governing Body since performance relies on the guidelines set out by the By-laws, the General Companies Law, Law No. 26831 of Capital Markets and CNV Rules (restated text 2013). The main guidelines of the By-laws are related to the Board of Directors, management and surveillance, number of members, term of office, meetings, quorum, majorities and representation of CGC.
II.3.2 The Governing Body discloses the results of its administration considering the objectives set at the beginning of the period, so that the shareholders may evaluate the degree of compliance with those objectives, containing both financial and non-financial aspects. In addition, the Governing Body assesses the degree of compliance with the policies mentioned in Recommendation II, items II.1.1 and II.1.2. Detail the main aspects of the assessment by the General Shareholders' Meeting of the degree of compliance by the Governing Body with the objectives set and the policies mentioned in Recommendation II, items II.1.1 and II.1.2, stating the date of the Meeting when the assessment was submitted.	X			The Shareholders' Meeting assesses performance of the Board in the Annual General Meeting where the approval of the annual financial statements and the performance of directors and their remuneration, among other issues, are submitted for its consideration. At closing of the interim financial statements, it communicates the evolution of the business to the Board and the Syndics' Committee. This situation and the approval of contents is shown in the minutes of the meetings of the different bodies.
Recommendation II.4: The number of external and independent members in the Governing Body of the Issuer should be significant.				
Answer whether:				
II.4.1 The proportion of executive, external and independent members of the Governing Body (as defined by the regulations of this Commission) bears relation to the capital structure of the Issuer. Please specify.			X	The By-laws establish that the Board of Directors will be responsible for the Company's management and administration, composed of the number of members set by the Annual General Meeting of Shareholders, ranging from five (5) to eleven (11) regular members, with a duration of two years, and may be reelected. The Shareholders' Meeting must appoint an equal number of deputy members whose term of office will be the same as regular members. The composition of the Governing Body is adequate and bears relation to the capital structure of CGC. Currently, the Board of Directors is composed of eight regular members and six deputy members.
II.4.2 In the current year, the shareholders have agreed at a General Meeting on a policy to maintain a proportion of independent members of at least 20% of the total number of members of the Governing Body. Describe the relevant aspects of such policy and any shareholders' agreement that clarifies the way members of the Governing Body are appointed and for how long. State whether the independence of the members of the Governing Body has been questioned during the year or if any abstentions for conflicts of interest have occurred.			X	The Governing Body of CGC has one (1) independent director. In the current fiscal year, there were no abstentions for conflicts of interest.
Recommendation II.5: Requiring the existence of regulations and procedures intended to select and propose members of the Governing Body and senior management of the Issuer.				
Answer whether:				
II.5.1. the Issuer has an Appointments Committee:			X	CGC does not have an Appointments Committee as it considers that the present procedures for the appointment of senior managers are sufficient and complete. However, the Company considers the possibility of establishing such committee in the future.
II.5.1.1 made up of at least three members of the Governing Body, most of them, independent,			X	Not applicable because CGC does not have an Appointments Committee.
II.5.1.2 chaired by an independent member of the Governing Body,			X	Not applicable because CGC does not have an Appointments Committee.

II.5.1.3 with members proficient and with experience in human capital issues,			X	Not applicable because CGC does not have an Appointments Committee.
II.5.1.4 holding meetings at least twice a year,			X	Not applicable because CGC does not have an Appointments Committee.
II.5.1.5 whose decisions are not necessarily mandatory for the General Shareholders' Meeting; rather, they are of an advisory nature in connection with the selection of the members of the Governing Body.			X	Not applicable because CGC does not have an Appointments Committee.
II.5.2 If there is an Appointments Committee, it must:			X	Not applicable because CGC does not have an Appointments Committee.
II.5.2.1. verify the annual review and evaluation of its regulations and proposes to the Governing Body modifications for its approval,			X	Not applicable because CGC does not have an Appointments Committee.
II.5.2.2 propose the development of criteria (qualifications, experience, professional reputation and ethics, among others) for the selection of new members of the Governing Body and senior managers,			X	Not applicable because CGC does not have an Appointments Committee.
II.5.2.3 identify the candidates for the Governing Body to be proposed to the General Shareholders' Meeting by the Committee,			X	Not applicable because CGC does not have an Appointments Committee.
II. 5.2.4 suggest the members of the Governing Body that will be part of the different Committees of the Governing Body, according to their professional background,			X	Not applicable because CGC does not have an Appointments Committee.
II. 5.2.5 recommend that the Chairman of the Board of Directors should not be the General Manager of the Issuer at the same time,			X	Not applicable because CGC does not have an Appointments Committee.
II. 5.2.6 ensure availability of the curriculum vitae of the members of the Governing Body and senior management on the Issuer's website, with their terms of office explicitly stated in the first case,			X	Not applicable because CGC does not have an Appointments Committee.
II.5.2.7 verify the existence of a succession plan for the Governing Body and the senior managers.			X	Not applicable because CGC does not have an Appointments Committee.
II.5.3 If considered relevant, include the policies applied by the Issuer's Appointments Committee that have not been mentioned in the preceding point.			X	Not applicable because CGC does not have an Appointments Committee.
Recommendation II.6: Evaluating the convenience that the members of the Governing Body and/or syndics and/or members of the surveillance committee perform functions at several Issuers.				
Answer whether: The Issuer sets a limit for the members of the Governing Body and/or syndics and/or members of the surveillance committee to perform functions in other entities not belonging to the economic group that the Issuer heads or forms part of. Specify this limit and state if any infringement to the limit was committed in the course of the year.		X		<p>Board members are not prevented from participating in the board of directors of other companies. However, in the case of a conflict of interest, directors must report it in accordance with sections 272 and 273 of the General Companies Law.</p> <p>The members of the syndics' committee of CGC are not preventing from serving in other companies not belonging to the economic group.</p>
Recommendation II.7: Ensuring training and career development for the members of the Governing Body and the senior management of the Issuer.				
Answer whether:				
II.7.1 The Issuer has Continuing Education programs related to the needs existing at the Issuer for the members of		X		See answer to II.1.1.9.

the Governing Body and senior management, including contents about their roles and responsibilities, integral corporate risk management, specific knowledge of the business and its regulations, the dynamics of corporate governance, and corporate social responsibility matters. In the case of the members of the Audit Committee, international accounting, audit and internal control standards, and specific regulations for the capital market. Describe the programs developed in the course of the year and their degree of compliance.				
II.7.2 The Issuer, by means other than those mentioned in II.7.1, encourages the members of the Governing Body and senior management to maintain a continuing education that supplements their educational level in a way that adds value to the Issuer. Describe the ways in which this is done.		X		<p>Board members and senior managers are encouraged to take any training course as they deem convenient since it will improve their performance and, in consequence, the company's performance.</p> <p>As mentioned before, the annual budget includes training plans as the Company considers that they are necessary for its members in light of the changes and updates in technical and professional standards.</p>
PRINCIPLE III. ENDORSE AN EFFECTIVE POLICY TO IDENTIFY, MEASURE, MANAGE AND COMMUNICATE CORPORATE RISK				
Recommendation III: The Governing Body should have a integral corporate risk management policy and monitor its correct implementation.				
Answer whether:				
III.1 The Issuer has integral corporate risk management policies relating to the fulfillment of strategic, operational, accounting, financial reporting, laws and regulations, and other goals. Make a brief description of the most relevant aspects of these policies.		X		Although there is no written and formal methodology regarding the integral corporate risk management, CGC constantly analyzes and assesses the different corporate risks that may have adverse effects on the accomplishment of the objectives.
<p>III.2 There is a Risk Management Committee within the Governing Body or the General Management. Report on the existence of procedures manuals and detail the main risk factors specific to the Issuer or its activity and the actions implemented for mitigation. In the event there is not such committee, describe the oversight role performed by the Audit Committee in relation to risk management.</p> <p>Also, specify the degree of interaction between the Governing Body or its Committees and the Issuer's General Management regarding integral corporate risk management.</p>			X	Each manager administers the inherent risks in its own role, under the supervision of the General Management.
III.3 Within the Issuer's General Management there is an independent function in charge of implementing the policies on integral risk management - the function of the Risk Management Officer or equivalent. Please specify.			X	CGC does not have an independent function in charge of risk management.
III.4 The policies on integral risk management are constantly updated, in accordance with well-known methodologies and recommendations. Mention which ones (Enterprise Risk Management, according to the conceptual framework of COSO – Committee of sponsoring organizations of the Treadway Commission –, ISO 31000, IRAM 17551 standard, Section 404 of Sarbanes-Oxley Act, other).			X	Each manager reviews its procedures in accordance with changes in regulations and internal operation. They are updated as needed.

III.5 The Governing Body reports on the results of the risk management oversight performed jointly with the General Management in the financial statements and the annual report. Specify the main points of the statements made.		X		<p>CGC discloses the identified risks on its financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and includes any specific statement in the Annual Report.</p> <p>The Board of Director is regularly informed of the result of the audits and the follow-up of the action plans adopted.</p>
PRINCIPLE IV. SAFEGUARD THE INTEGRITY OF FINANCIAL INFORMATION WITH INDEPENDENT AUDITS				
Recommendation IV: Guaranteeing independence and transparency in the functions entrusted to the Audit Committee and the External Auditor.				
Answer whether:				
The Governing Body, at the time of electing the members of the Audit Committee and taking into account that the majority of them must be independent, assesses whether it is convenient that the Committee be chaired by an independent member.			X	Not applicable because CGC does not have an Audit Committee.
<p>IV.2 There is an internal audit function that reports to the Audit Committee or to the Chairman of the Governing Body and that is responsible for evaluating the internal control system.</p> <p>State if the Audit Committee or the Governing Body performs a yearly evaluation of the performance of the internal audit area and the degree of independence of their professional work, meaning that the professionals responsible for that function are independent of the other operating areas and that they also fulfill the independence requirements with respect to the controlling shareholders or the related entities that exercise significant influence on the Issuer.</p> <p>Also, specify if the internal audit function performs its work in accordance with the international standards for the professional practice of internal audit, issued by the Institute of Internal Auditors (IIA).</p>			X	Not applicable because CGC does not have an Audit Committee. CGC performs internal audit tasks in accordance with applicable professional standards.
IV.3 The members of the Audit Committee perform a yearly evaluation of the competence, independence and performance of the External Auditors appointed by the Shareholders' Meeting. Describe the relevant aspects of the procedures applied to perform the evaluation.			X	<p>Not applicable because CGC does not have an Audit Committee.</p> <p>The external audit of the financial statements of CGC is performed by Price Waterhouse & CO S.R.L., the internationally renowned external auditing firm that keeps strict controls relating to independence, suitability and rotation of teams.</p>
IV.4 The Issuer has a policy on the rotation of the members of the Syndics' Committee and/or the External Auditor; and in connection with the latter, if the rotation includes the external audit firms or only the individuals.		X		<p>The By-laws establish that surveillance will be performed by the syndics' committee composed on 3 regular members and 3 deputy members, with a term of office of one year, which may be renewed.</p> <p>Irrespective of the provisions of the CNV Rules and the Capital Markets Law, the Board of CGC does not have a written policy regarding the rotation of external audit firms.</p>
PRINCIPLE V. OBSERVE THE RIGHTS OF SHAREHOLDERS				
Recommendation V.1: Ensuring that the shareholders have access to the Issuer information.				
Answer whether:				
V.1.1 The Governing Body promotes informative meetings with the	X			Latin Exploration S.L.U. and Sociedad Comercial del Plata S.A. are the only shareholders of CGC and have representation in the Board of

shareholders on a periodical basis, in coincidence with the presentation of the interim financial statements. Please specify, indicating the number and frequency of meetings held during the course of the year.				<p>Directors and are informed of changes in business at least on a quarterly basis. The Company always welcomes requests and consultations from the shareholders.</p> <p>In addition, CGC publishes all information required by the applicable laws and regulations, thus complying with the rules of CNV, BCRA and MAE on this regard.</p>
V.1.2 The Issuer has mechanisms for providing information to investors and a specialized sector for handling their queries and consultations. Furthermore, it has a website that can be accessed by the shareholders and other investors, with an access channel enabled for them to contact among themselves. Provide details.	X			<p>CGC provides information to investors on the company's business on a periodical basis and publishes this information in the relevant agencies (CNV, BCBA, MAE).</p> <p>In effect, CGC files its interim and annual financial statements with the National Securities Commission, Mercado de Valores de Buenos Aires S.A., through the Buenos Aires Stock Exchange and Mercado Abierto Electrónico, which is free of access for all investors. At the time of payment, it files notices of payment of the negotiable obligations issued by the Company and quarterly reports on the negotiable obligations issued. CGC must comply with reporting obligations to the holders of Class A Negotiable Obligations as stipulated in the terms and conditions of the Pricing Supplement of Class A Negotiable Obligations published in the Financial Information Highway on October 18, 2016 as well as the information system required for trading Class A Negotiable Obligations in the LuxSE's Euro MTF market.</p> <p>In its website, CGC has a <i>Financial Information</i> section where investors can have access to relevant public information about CGC.</p> <p>CGC also has a dedicated e-mail for investors' queries and consultations: CGCinversores@cg.com.ar.</p> <p>The Company, in compliance with the regulations in force, has a regular and a deputy Head of Market Relations, who verify that all relevant information becomes public, based on applicable disclosure standards, and also answer to queries and consultations arising from information of public knowledge.</p>

Recommendation V.2: Promoting active participation of all the shareholders.

Answer whether:

V.2.1 The Governing Body takes measures to promote the participation of all the shareholders in the General Shareholders' Meetings. Specify, distinguishing between the measures required by law and those offered by the Issuer to its shareholders on its own accord.			X	<p>In the case of CGC, it is not necessary to take measures to promote the participation of all the shareholders in Shareholders' Meetings because it has two shareholders only. Meetings are held at convenient times and places to make it easier for shareholders to attend. In the last meetings, agents representing 100% of the capital stock have attended the shareholders' meetings and undertook to give their votes unanimously. This is why meetings were called without complying with the requirement of publication of notices as set forth in the General Companies Law.</p>
V.2.2 The General Shareholders' Meeting has Regulations on its functioning to ensure that the information is available to the shareholders sufficiently in advance for decision-making. Describe the main guidelines of those regulations.		X		<p>The functioning of shareholders' meetings is duly described in CGC's By-laws. Although the General Shareholders' Meeting does not have Regulations on its functioning to ensure that the information is available to the shareholders sufficiently in advance for decision-making, CGC complies with the legal terms for receiving information in due time and manner.</p>
V.2.3 The mechanisms implemented by the Issuer for minority shareholders to propose issues to be discussed in the General Shareholders' Meeting in line with the regulations in force apply. State the results.			X	<p>The Issuer has not implemented any special mechanisms for this purpose. If there were minority shareholders in the future, no additional measures should be taken as CGC complies with the regulations in force associated with shareholders' meetings and disclosure of information.</p>
V.2.4 The Issuer has policies in place to encourage the participation of relevant shareholders, such as institutional investors. Specify.			X	<p>CGC does not have specific policies in place to encourage the participation of relevant shareholders, as it considers that it complies with the mechanisms prescribed by the regulations in force and the rules of the enforcement agencies, which apply to all shareholders, irrespective of their relevance.</p>
V.2.5 At Shareholders' Meetings where the appointment of members of the Governing Body is proposed, the following is made known, prior to the voting: (i) the position of each candidate			X	<p>At Shareholders' Meetings, the appointment of new members of the Board of Directors is proposed, but the position of each candidate regarding the adoption or non-adoption of a Corporate Governance Code is not known.</p>

regarding the adoption or non-adoption of a Corporate Governance Code; and (ii) the grounds for each such position.				
Recommendation V.3: Ensuring the principle of equality between share and vote.				
Answer whether: The Issuer has a policy to encourage the principle of equality between share and vote.		X		CGC guarantees compliance with this principle by observing the laws and its By-laws. The capital stock of CGC is \$ 399,137,856, made up of 399,137,856 shares carrying one (1) vote per share.
Recommendation V.4: Establishing mechanisms to protect all shareholders from takeovers.				
Answer whether: The Issuer adheres to the Mandatory Acquisition of Shares in a Public Offering. Otherwise, state if there are other mechanisms included in the by-laws, such as tag along rights.			X	<p>CGC does not adhere to the Acquisition of Shares in a Public Offering.</p> <p>Section 6 of the By-laws establish that when transferring shares by Class A shareholders to a <i>bona fide</i> third party, except for transfers between members of the same economic group and only in the case that any such transfer changes the control over CGC, any and all Class B shareholders will have the right, but will not be obliged, to sell CGC shares under the same terms, at the same moment and unit price as Class A shareholders, pursuant to the details included in the notice of offer. Within ten consecutive days counted from the notice of the offer, Class B shareholders exerting their tag along right must serve written notice to the Class A shareholders who communicated the notice of offer. If the number of shares to be sold by Class A and Class B shareholders was higher than the number of shares the buyer was willing to acquire, the transfer will be made in proportion to the shareholding of each selling shareholder.</p> <p>Section 7 of the By-laws establish that when transferring shares by Class A shareholders, except for transfers between members of the same economic group and only in the case of the sale of all shares of a Class A shareholder to a bona fide third party when that sale does not involve all the share package, any and all Class B shareholders will be obliged to sell their CGC shares under the same terms and conditions as those offered by the third party.</p>
Recommendation V.5: Encouraging the share dispersion of the Issuer.				
<p>Answer whether: The Issuer has a share dispersion of at least 20 per cent of its ordinary shares. Otherwise, whether the Issuer has a policy to increase its share dispersion in the market.</p> <p>State the percentage of share dispersion as a percentage of the Issuer's capital and the changes in that percentage over the last three years.</p>			X	<p>CGC does not adhere to the Acquisition of Shares in a Public Offering.</p> <p>See answer to V.3.</p>
Recommendation V.6: Ensuring that there is a transparent dividend policy.				
V.6.1 The Issuer has a dividend distribution policy set forth in the by-laws and approved by the Meeting of Shareholders, which establishes the conditions to distribute cash or stock dividends. If any, state the criteria and conditions for and frequency of distribution of dividends.			X	<p>CGC has a dividend distribution policy set forth in the by-laws which establishes the conditions to distribute cash or stock dividends.</p> <p>Notwithstanding the foregoing, under the terms and conditions of Class A Negotiable Obligations issued in the local and international market on November 7, 2016, CGC agreed to certain limitations to the distribution of dividends, which are included in section <i>Certain Commitments - Limitation to Restricted Payments</i> of the Pricing Supplement corresponding to Class A Negotiable Obligations published in the Financial Information Highway on October 18, 2016. These limitations are identical to the limitations undertaken by CGC under the syndicated loan executed on February 20, 2017 with Industrial and Commercial Bank of China (Argentina) S.A. -as arranger, lender and administrative agent-, the branch of Citibank N.A. set up in Argentina, Banco Hipotecario S.A. and BACS Banco de Crédito y Securitización S.A. -as lenders and arrangers, for up to seventy two million dollars (USD 72,000,000).</p> <p>Furthermore and following the closing of the fiscal year at December 31, 2017, CGC issued Class 10 Negotiable Obligations for USD 100,000,000 including additional commitments described in Note 32 - Subsequent events to the consolidated financial statements.</p>
V.6.2 The Issuer has documented processes for the preparation of a proposal to allocate the Issuer's retained earnings /(absorb accumulated losses),	X			On an annual basis, the Shareholders' Meeting decides the allocation of retained earnings/(absorption of accumulated losses) in compliance with section 17 of the By-laws, which establish that realized and liquid gains will be allocated in the following manner: a) Setting up of the Legal

which may lead to setting up legal or voluntary reserves, or reserves as laid down by the Bylaws; their carry-forward to a new fiscal year and/or dividend payments. Describe those processes and indicate in which Minutes of Shareholders' Meeting the distribution or non-distribution of dividends (whether cash or stock dividends) was approved, if not envisaged by the By-laws.				Reserve (5% until it reaches 20% of the capital), b) Remuneration of the members of the Board of Directors and Syndics' Committee, c) Dividends on common shares (provided that the terms and conditions set out in section <i>Certain Commitments - Limitation to Restricted Payments</i> of the Pricing Supplement corresponding to Class A Negotiable Obligations published in the Financial Information Highway on October 18, 2016 are fulfilled) or setting up of a discretionary reserve or allowances or a new account or fulfillment of other purpose determined by the Shareholders' Meeting.
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PRINCIPLE VI. MAINTAINING A DIRECT AND RESPONSIBLE RELATIONSHIP WITH THE COMMUNITY

Recommendation VI: Disclosing to the community the matters related to the Issuer and provide a direct communications channel with the company.

Answer whether:

VI.1 The Issuer has an updated website with public access, which not only contains relevant information on the company (by-laws, economic group, composition of the Governing Body, financial statements, annual report and others) but also allows users to make queries.	X			CGC has a website with information on the company: http://www.cgc.com.ar . It also has a telephone number +54 11 4849 6100 for consultations from 10 am to 6 pm.
VI.2 The Issuer presents a Social and Environmental Responsibility Report annually, audited by an independent external auditor. If any, state the scope or legal or geographical coverage and where it is available. Specify rules or initiatives adopted to carry out its corporate social responsibility policy (Global Reporting Initiative and/or United Nations Global Compact, ISO 26.000, SA8000, Millennium Development Goals, SGE 21-Foretica, AA 1000, Ecuador Principles, among others)			X	Although CGC does not present a Social and Environmental Responsibility Report annually, it complies with environmental laws and regulations. This matter is addressed in the Annual Report approved by the Board of Directors and the shareholders' meeting. CGC considers that a review by an independent auditor is not necessary since it has a log of all activities carried out and an audit is not mandatory under local laws.

PRINCIPLE VII. JUST AND RESPONSIBLE REMUNERATION

Recommendation VII: Establishing clear remuneration policies for the members of the Governing Body and senior managers, with an emphasis on the limitations imposed under collective bargaining agreements or envisaged in the by-laws, on the existence or non-existence of profits.

VII.1. The Issuer has a Remunerations Committee:			X	CGC does not have a Remunerations Committee as it considers that the present procedures are sufficient and complete. The Board of Directors analyzes and assesses remuneration policies at the time of approving annual budgets. The remuneration of the members of the Board of Directors is determined by the shareholders' meeting, as prescribed in the By-laws.
VII.1.1 made up of at least three members of the Governing Body, most of them, independent,			X	Not applicable because CGC does not have a Remunerations Committee.
VII.1.2 chaired by an independent member of the Governing Body,			X	Not applicable because CGC does not have a Remunerations Committee.
VII.1.3 with members proficient and with experience in HR areas			X	Not applicable because the company does not have a Remunerations Committee.
VII.1.4 holding meetings at least twice a year,			X	Not applicable because the company does not have a Remunerations Committee.
VII.1.5 whose decisions are not necessarily mandatory for the General			X	Not applicable because CGC does not have a Remunerations Committee.

Shareholders' Meeting or Surveillance Committee; rather, they are of an advisory nature in connection with the remuneration of the members of the Governing Body.				
VII. 2 If there is a Remunerations Committee, it:)			X	Not applicable because CGC does not have a Remunerations Committee.
VII.2.1 ensures that there is a clear relation between the performance of key employees and their fixed and variable remuneration, considering the risks involved and their management,			X	Not applicable because CGC does not have a Remunerations Committee.
VII.2.2 supervises that the variable portion of the remuneration of the members of the Governing Body and senior managers is commensurate with the Issuer's medium and/or long term performance,			X	Not applicable because CGC does not have a Remunerations Committee.
VII.2.3 reviews the competitive position of the Issuer's policies and practices in relation to the remuneration and benefits of comparable companies and recommends changes, if necessary,			X	Not applicable because CGC does not have a Remunerations Committee.
VII.2.4 defines and communicates the policies on retention, promotion, dismissals and lay-offs of key employees			X	Not applicable because CGC does not have a Remunerations Committee.
VII.2.5 announces the guidelines to determine retirement plans of the members of the Issuer's Governing Body and senior managers,			X	Not applicable because CGC does not have a Remunerations Committee.
VII.2.6 regularly reports to the Governing Body and the Shareholders' Meeting on the tasks performed and topics discussed at its meetings,			X	Not applicable because CGC does not have a Remunerations Committee.
VII.2.7 ensures the presence of the Chairman of the Remunerations Committee at the General Shareholders' Meeting approving remunerations to the Governing Body so that he/she can explain the Issuer's policy on remunerations of the members of the Governing Body and senior managers.			X	Not applicable because CGC does not have a Remunerations Committee.
VII. 3 If considered relevant, mention the policies applied by the Issuer's Remunerations Committee that have not been mentioned in the preceding point.			X	Not applicable because CGC does not have a Remunerations Committee.
VII. 4 If there is no Remunerations Committee, explain how the functions mentioned in Section VII. 2 are carried out within the Governing Body.		X		Certain functions mentioned in Section VII.2 are performed by the General Management, with the aid of HR, and reported to the Chairman of the Board of Directors.
<u>PRINCIPLE VIII. ENCOURAGE BUSINESS ETHICS</u>				
Recommendation VIII: Ensuring ethical conduct at the Issuer.				
VIII.1 The Issuer has a Code of Business Conduct. State main guidelines and if the Code is of public knowledge. The Code is signed by at least the members of the Governing Body and senior managers. State whether its application is encouraged among suppliers and customers.			X	CGC does not have a Business Conduct Code. However, all members, including directors, members of the Syndics' Committee and senior managers, perform their duties with honesty, commitment, respect to others, generosity, solidarity and transparency, both in internal and external relations.

VIII.2 The Issuer has mechanisms to receive complaints of illicit or unethical conduct, whether personally or by electronic means, ensuring that the information provided is kept in strict confidence and integrity and properly recorded. State if the receipt and assessment of complaints work is performed by the Issuer's employees or external and independent professionals for greater protection of the complainants.			X	CGC does not have any such mechanisms.
VIII.3 The Issuer has policies, procedures and systems for the management and resolution of complaints mentioned in point VIII.2. Describe the most relevant aspects and state the level of participation of the Audit Committee in such resolutions, particularly complaints related to internal control issues for reporting purposes and those related to the conduct of the members of the Governing Body and senior managers.			X	CGC does not have policies or procedures for the management and resolution of complaints.
<u>PRINCIPLE IX: EXTEND THE SCOPE OF THE CODE</u>				
Recommendation IX: Encouraging the incorporation of good governance practices in the by-laws.				
Answer whether: The Governing Body assesses if the provisions of the Corporate Governance Code must be shown, in whole or in part, in the By-laws, including the general and specific responsibilities of the Governing Body. State which provisions were actually included in the By-laws from the effective date of the Code up to the present day.		X		<p>The Board of CGC understands that the provisions of the Corporate Governance Code are consistent with the By-laws, as it was prepared following the regulations in force.</p> <p>The By-laws contain corporate governance provisions, specifically, provisions relating to the operation of the Board of Directors and the Syndics' Committee.</p> <p>We understand that these provisions are sufficient and effective to guarantee good practices of good corporate governance. Nonetheless, we do not rule out the possibility of including new provisions, if convenient.</p>

City of Buenos Aires, March 8, 2018

THE BOARD OF DIRECTORS

Eduardo Hugo Antranik Eurnekián

President

COMPAÑIA GENERAL DE COMBUSTIBLES S.A.

CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal year ended December 31, 2017

(presented in comparative format)

COMPAÑIA GENERAL DE COMBUSTIBLES S.A.

Legal address: Bonpland 1745 - Autonomous City of Buenos Aires, Argentina

FISCAL YEAR NO. 98

CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2017

Company's main line of business: Exploration and exploitation of hydrocarbons and byproducts

Date of registration with the Public Registry of Commerce: October 15, 1920, under number 136, folio 26, book 41, volume A of Corporations

Latest amendments to Bylaws: September 12, 2007, December 19, 2013 and April 17, 2015

Registration number with the Superintendency of Commercial Companies: 1648

Date of termination of the incorporation agreement: September 1, 2100

Name of parent company: Latin Exploration S.L. (1)

Parent company's main line of business: Investment and financial activities

Equity interest held by the parent company in capital stock and votes: 70.00% (1)

CAPITAL STATUS (2)- In pesos -

	Subscribed, issued and paid-up at 12/31/2017 and 2016
Ordinary shares with a par value of 1 per share:	
Class A shares entitled to 1 vote	279,396,499
Class B shares entitled to 1 vote	<u>119,741,357</u>
	<u>399,137,856</u>

(1) Note 26 to the consolidated financial statements

(2) Note 15 to the consolidated financial statements

COMPAÑIA GENERAL DE COMBUSTIBLES S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At December 31, 2017 and 2016
(In thousands of pesos)

	<u>Note</u>	<u>12.31.2017</u>	<u>12.31.2016</u>
<u>ASSETS</u>			
<u>NON-CURRENT ASSETS</u>			
Property, plant and equipment	8	5,692,527	3,813,141
Investments in associates	9	715,378	390,819
Other investments	13	-	9,978
Deferred tax assets	27	329,730	138,254
Other receivables	10	134,667	190,364
Trade receivables	12	60,965	63,839
Total Non-Current Assets		6,933,267	4,606,395
<u>CURRENT ASSETS</u>			
Inventories	11	422,583	675,337
Other receivables	10	1,566,894	910,556
Trade receivables	12	788,782	480,829
Other investments	13	202,552	926,218
Cash and cash equivalents	14	222,719	1,261,775
Total Current Assets		3,203,530	4,254,715
TOTAL ASSETS		10,136,797	8,861,110
<u>EQUITY</u>			
Capital stock	15	399,138	399,138
Reserves	16	610,259	841,350
Retained earnings	17	(409,889)	(231,091)
Other comprehensive income		167,111	129,667
Total equity attributable to the Company's shareholders		766,619	1,139,064
Non-controlling interests		-	6,327
TOTAL EQUITY		766,619	1,145,391
<u>LIABILITIES</u>			
<u>NON-CURRENT LIABILITIES</u>			
Contingent liabilities for lawsuits and other legal proceeding	18	32,688	11,048
Provisions	19	871,931	658,656
Tax payables	20	39,968	52,576
Financial debts	21	5,811,248	4,910,686
Trade payables	23	55,947	79,450
Total Non-Current Liabilities		6,811,782	5,712,416
<u>CURRENT LIABILITIES</u>			
Contingent liabilities for lawsuits and other legal proceeding	18	-	31,324
Provisions	19	11,836	10,432
Other liabilities	22	101,642	97,085
Tax payables	20	50,066	36,727
Salaries and social security contributions		26,975	34,638
Financial debts	21	1,149,272	1,199,731
Trade payables	23	1,218,605	593,366
Total Current Liabilities		2,558,396	2,003,303
TOTAL LIABILITIES		9,370,178	7,715,719
TOTAL EQUITY AND LIABILITIES		10,136,797	8,861,110

The accompanying notes 1 to 33 are an integral part of these consolidated financial statements.

COMPAÑÍA GENERAL DE COMBUSTIBLES S.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

(In thousands of pesos)

	Note	12.31.2017	12.31.2016
Net income	24 a)	4,897,577	3,475,124
Cost of sales	24 b)	(4,313,601)	(2,631,607)
Gross profit		583,976	843,517
Selling expenses	24 c)	(104,422)	(70,700)
Administrative expenses	24 d)	(294,233)	(236,167)
Other operating income and expenses	24 e)	12,204	(100,405)
Operating income		197,525	436,245
Gains and losses on investments valued under the equity method	24 f)	377,332	21,333
Financial income	24 g)	32,168	18,161
Financial costs	24 g)	(520,637)	(545,073)
Other financial results	24 g)	(689,187)	(284,707)
Loss before taxes		(602,799)	(354,041)
Income tax	27	190,727	121,822
Loss for the year		(412,072)	(232,219)
OTHER COMPREHENSIVE INCOME			
Financial statement translation difference	9 b)	37,444	21,908
Total other comprehensive income for the year, net of taxes		37,444	21,908
Total comprehensive loss for the year - Loss		(374,628)	(210,311)
Net loss, attributable to:			
Company shareholders		(409,889)	(231,091)
Non-controlling interests		(2,183)	(1,128)
		(412,072)	(232,219)
Total comprehensive loss, attributable to:			
Company shareholders		(372,445)	(209,183)
Non-controlling interests		(2,183)	(1,128)
		(374,628)	(210,311)
Basic and diluted earnings per share	25	(1.027)	(0.579)

The accompanying notes 1 to 33 are an integral part of these consolidated financial statements.

COMPAÑIA GENERAL DE COMBUSTIBLES S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2017 AND 2016

(In thousands of pesos)

	Capital Stock (Note 15)	Legal Reserve (Note 16)	Discretionary Reserve (1)	Other (Note 16)	Unappropriated retained earnings (Note 17)	Other comprehensive income	Equity attributable to Company shareholders	Non- controlling interest	Total
Balances at December 31, 2015	399,138	14,000	890,323	(132,789)	69,816	107,759	1,348,247	7,455	1,355,702
Resolution of the Ordinary General Meeting of Shareholders dated March 31, 2016:									
- Appropriation of retained earnings	-	3,491	66,325	-	(69,816)	-	-	-	-
Net loss for the year	-	-	-	-	(231,091)	-	(231,091)	(1,128)	(232,219)
Changes in other comprehensive income for the year (Note 3.2.11)	-	-	-	-	-	21,908	21,908	-	21,908
Balances at December 31, 2016	399,138	17,491	956,648	(132,789)	(231,091)	129,667	1,139,064	6,327	1,145,391
Resolution of the Ordinary General Meeting of Shareholders dated April 21, 2017:									
- Absorption of accumulated losses	-	-	(231,091)	-	231,091	-	-	-	-
Acquisition of non-controlling interest - Unitec Energy (Note 3.2.2 (1))	-	-	-	-	-	-	-	(4,144)	(4,144)
Net loss for the year	-	-	-	-	(409,889)	-	(409,889)	(2,183)	(412,072)
Changes in other comprehensive income for the year (Note 3.2.11)	-	-	-	-	-	37,444	37,444	-	37,444
Balances at December 31, 2017	399,138	17,491	725,557	(132,789)	(409,889)	167,111	766,619	-	766,619

(1) For maintenance of working capital and future dividends

The accompanying notes 1 to 33 are an integral part of these consolidated financial statements.

COMPAÑÍA GENERAL DE COMBUSTIBLES S.A.
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEARS ENDED December 31, 2017 AND 2016
(In thousands of pesos)

	Note	12.31.2017	12.31.2016
Cash flow from operating activities			
Net income/(loss) for the year		(412,072)	(232,219)
Adjustments to arrive at net cash flow provided by operating activities:			
Depreciation of property, plant and equipment	8	1,004,549	783,426
Gain/(loss) on deletions of property, plant and equipment	8	796	3,991
Gain/(loss) on investments valued under the equity method	24 f)	(377,332)	(21,333)
Financial results, net	24 g)	828,258	697,746
Impairment allowance for non-financial assets	24 e)	8,314	28,997
Increase in allowances for receivables, net	24 e)	32,941	27,130
Increase in provision for lawsuits and contingencies, net	24 e)	(9,635)	27,908
Gas imbalance charges	24 b)	(1,787)	(1,974)
Income accrued net of collections under the Petróleo Plus Program, the Gas Plan and incentives for production	24 a) and 24 e)	(1,072,147)	(604,974)
Gain / (loss) on assignment of the CNQ6 El Sauce area	24 e)	(12,916)	-
Other income and expenses		9,803	-
Accrued income tax	27	(190,727)	(121,822)
Changes in operating assets and liabilities:			
Receivables		257,754	448,836
Inventory		252,753	(535,244)
Non-financial debts		943,956	162,451
Income tax paid		(67,429)	(76,067)
Net cash flow provided by operating activities		1,195,079	586,852
Net cash flow provided by investment activities			
Acquisition of property, plant and equipment	8	(2,484,125)	(1,041,798)
Decrease/(Increase) in investments in companies	9 b)	26,936	(78,608)
Variance in placements of funds - current		179,390	(221,781)
Dividends collected	9 b)	64,228	-
Net cash flow used in investment activities		(2,213,571)	(1,342,187)
Net cash flow provided by financing activities			
Interest paid on financial debts	21	(566,956)	(530,358)
Financial debts settled	21	(1,328,192)	(3,989,808)
Financial debts incurred	21	1,119,480	6,772,079
Net cash flow (used in) provided by financing activities		(775,668)	2,251,913
(Decrease) Increase in cash, cash equivalents, and bank overdraft facilities		(1,794,160)	1,496,578
Cash, cash equivalents and bank overdraft facilities at the beginning of the year		1,873,185	199,522
Financial results generated by cash, cash equivalents, and bank overdraft facilities		152,937	177,085
Cash, cash equivalents and bank overdraft facilities at the end of the year (Note 14)		231,962	1,873,185
Changes not entailing movements of funds:			
Acquisition of property, plant and equipment pending settlement	8	-	160,112
Payments of property, plant and equipment and mining property previously acquired	8	(100,202)	-
Capitalization of financial costs	8	307,218	113,873
Cost of asset retirement and environmental remediation capitalized in property, plant and equipment	8	201,904	160,134

The accompanying notes 1 to 33 are an integral part of these consolidated financial statements.

COMPAÑÍA GENERAL DE COMBUSTIBLES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED

December 31, 2017

(presented in comparative format)

(in thousands of pesos, unless otherwise expressly indicated)

NOTE 1 – GENERAL INFORMATION

1.1 - The Company

Compañía General de Combustibles S.A. (“CGC” or “the Company”, or jointly with its subsidiaries “the Group”) is a corporation organized under the laws of the Republic of Argentina, registered with the Public Registry of Commerce on October 15, 1920. The incorporation agreement will expire on September 1, 2100 and its legal address is Bonpland 1745, Autonomous City of Buenos Aires, Argentina.

CGC business activities are focused on the energy sector, specifically consisting of the exploration and production of oil and gas (upstream) and gas transportation. Upstream activities are carried out both individually and through joint ventures, and gas transportation activities through Company associates. Company business extends to Argentina, Chile and Venezuela.

These consolidated financial statements of CGC were approved for issuance by the Company's Board of Directors on March 8, 2018.

1.2 - Control Group

The Company is controlled by Latin Exploration S.L.U. ("LE"), a Spanish company.

In April 2013 Corporación América acquired through Cedikor S.A. 100% of the corporate capital of LE, which was controlled by CGC (see Note 15).

This implied a change of Company control by a local Group with interests in energy, construction and infrastructure, airport operation, agribusiness, financial and other services.

1.3 - Merger through absorption of Unitec Energy S.A. (the merged company) and Compañía General de Combustibles S.A. (the merging and 100% holding company)

On December 21, 2017, the Board of Directors of Compañía General de Combustibles S.A. approved the merger through absorption between the Company, as the merging company and its 100%-controlled company Unitec Energy S.A., as the merged company, under the terms of Section 82 of General Commercial Companies Law No. 19550 and its amendments. The merger will be effective as from January 1, 2018 and will enable more efficient resources, taking advantage of a higher business scale and experience of the merging company. As from that date, all of the rights, obligations, assets and liabilities of the merged company will be added to the merging company's assets, subject to corporate approvals, as required by applicable regulations, and to registration of the merger and dissolution with the Public Registry of Commerce.

For this reason, these financial statements will be considered as special merger purpose financial statements of Compañía General de Combustibles S.A.

The Board of Directors have resolved that the merged company shall continue operating and carrying out certain business activities by means of the merging company until obtainment of the pertinent approvals, authorizations and registrations necessary for Compañía General de Combustibles S.A. to be able to operate as the continuing company upon the merger.

NOTE 2 - REGULATORY FRAMEWORK OF THE OIL&GAS SECTORS

Federal Hydrocarbons Law No. 17319

Fields property

Law 17319 set forth in its original wording that the liquid and gaseous hydrocarbons fields located in the territory of Argentina and in its continental shelf were the non-transferable property of the National Government that was not subject to the statute of limitations. However, this was amended and ownership was transferred to the Provinces where the fields in question were situated.

Exploration and exploitation of oil and gas are performed through exploration permits, operating concessions, and contracts for exploitation or partnership/joint venture agreements.

Operating concessions shall be in effect for 25 years following the granting date, plus the non-elapsed term of the exploration permit. Further, the concession term may be extended for up to 10 additional years; to that end, the concession operator must have complied with all of its obligations. When a concession expires or is concluded, all the hydrocarbon wells, operation and maintenance equipment and facilities will automatically be transferred to the Province in which the reservoir is located, or to the National Government in the case of reservoirs under federal jurisdiction, with no compensation or indemnity for the holder of the concession.

Payment of royalties and fee

Pursuant to the Hydrocarbons Law, the holders of the exploration permits and of the operating concessions must pay royalties to the Provincial or National Government (according to the location of the fields). The royalties are paid at 15% (exploration permits) or 12% (operating concession) of the estimated wellhead value (i.e. the price at the point where the product is delivered, less the carriage and treatment costs and other deductions) of the production of crude oil and the volumes of natural gas marketed and 3% of the fee. In addition, they must pay a variable annual fee per square kilometer or fraction thereof of the permit or concession area (sections 57 and 58), which is periodically set by the National Executive Branch.

Federal Law No. 26197

Law No. 26197, an amendment to the Hydrocarbons Law, establishes that the fields of liquid and gaseous hydrocarbons located in the Argentine territory and its continental shelf are the non-transferable property of the National Government or the pertinent Provincial Governments that is not subject to the statute of limitations, according to the territorial area where they are located.

Federal Law No. 26741

In May 2012 Law 26741 was enacted declaring of national public interest and as Argentina's priority objective the achievement of hydrocarbons self-supply, as well as the exploration, exploitation, industrialization, carriage and sale of hydrocarbons. Furthermore, fifty one percent (51%) of YPF S.A. and Repsol YPF Gas S.A. property was declared of public use and subject to condemnation.

Decree 1277 approved in July 2012 the implementation of Law No. 26741 and issued the Regulations on Argentina's Hydrocarbons Sovereignty, under which the Committee for Strategic Planning and Coordination of the National Hydrocarbons Investment Plan (the "Committee"), under the authority of the Economic Policy and Development Planning Secretariat with the Ministry of Economy and Public Finance, and the National Registry of Hydrocarbons Investments (the "Registry") were created.

Decree No. 1277/12 has imposed on companies operating in the Argentine oil and gas industry the obligation to submit to the Committee an annual exploration and exploitation investment plan. The Committee is in turn obliged to design a National Hydrocarbons Investment Plan to seek investments maximization and industry sustainability in the short, medium and long term. Further, sections of Decrees Nos. 1055/89, 1212/89 and 1589/89 which made reference to the free availability of hydrocarbons produced in the areas granted under

concession, the free commercialization in the domestic and foreign markets, and freedom of prices were repealed.

The Company is in compliance with the information requirements.

The Committee was dissolved by Decree No. 272/15 published in the Official Gazette on January 4, 2016 and its functions were transferred to the Ministry of Energy and Mining.

Federal Law No. 27007

In October 2014 Law No. 27007 was passed, amending Federal Hydrocarbons Law No. 17319; among other provisions, exploration and exploitation of hydrocarbons in unconventional fields were defined and regulated, the rules on extension of the concession periods were modified, systems for special royalties and for promoting investments in hydrocarbons were established, and the creation of reserved areas in favor of state-owned companies or entities, or with Government's interests, was forbidden. Further, within its temporary provisions, the law granted 90 days for completing the negotiations under way about the extension of concession periods.

Federal Law No. 27200

Law No. 27200 was published in the Official Gazette on November 4, 2015, extending until December 31, 2017 the economic emergency that had led to the creation of the system of withholdings on exports of hydrocarbons.

Systems of withholdings on exports of hydrocarbons

Law No. 25561 on Public Emergency and Exchange System Reform established the creation of a system of withholdings on exports of hydrocarbons for five years as from March 1, 2002, which was extended by Law No. 26217 for a further five-year term. The effect of those withholdings is deducted from the respective sale prices.

Effective November 2007, Economy and Production Ministry Resolution No. 394/07 set forth a new methodology for calculating the withholdings on exports of crude oil and established a treatment for certain byproducts similar to the one applicable to crude oil. This amendment involves the application of a variable export duty, based on a formula that contemplates the international crude oil prices and a cut-off value per product. According to this methodology, when the international crude oil price exceeds USD 60.90/bbl, an increasing withholding rate is set for exports of crude oil which determines a maximum income of USD 42/bbl for a standard quality of crude oil. If the international price varies between USD 45 and USD 60.90/bbl, the applicable withholding rate is 45%. If the international price is below USD 45/bbl, the authorities shall set new rates within 90 days. The same criterion applies to exports of byproducts, such as petrol, fuel oil and lubricants for which different cut-off and reference values were defined. Resolution 01/2013 of the Ministry of Economy and Public Finance modified on January 3, 2013 the methodology for the calculation of withholdings on exports of crude oil by increasing the reference value to USD 80/bbl and the cut-off value to USD 70/bbl.

In March 2008, the Ministry of Economy and Production adopted Resolution 127/08 amending in relation to natural gas Resolution 534/2006 which had set a 45% rate on the import price of gas from Bolivia, and fixing a withholding rate of 100% on exports of natural gas, considering as a valuation basis the highest price set for this product in the contracts for the import of natural gas into Argentina, applicable at each moment. This resolution also extended to LPG the calculation method applicable to the withholdings on oil exports.

Under Resolution No. 803/14, the Ministry of Economy and Public Finance modified in October 2014 the withholding rate on the exports of hydrocarbons, according to a specific table of prices and rates, with percentages ranging from 10% to 13%.

As from January 1, 2015 Resolution No. 1077/14 of the Ministry of Economy and Public Finance ("MEyFP") came into force, repealing Resolution No. 394/2007 and its amendment, Resolution No. 803/14, and establishing that when the International Price is lower than USD 71/bbl the applicable withholding rate will be 1%, and if the International Price equals to or is higher than USD 71/bbl, an increasing withholding rate will be applied.

Finally, Law 25561 was not extended and export duties have been ineffective since January 6, 2017

Foreign exchange system - Obligation to trade in the Argentine market 100% of the amounts in foreign currency from exports of crude oil and byproducts

Decree No. 1722/2011 dated October 25, 2011 reinstated the obligation to bring and trade in the foreign exchange market all of the amounts denominated in foreign currency arising from exports of crude oil and byproducts, natural gas and liquefied gases. Under this decree, CGC is required to trade 100% of the foreign currency amounts collected from its exports of goods and services.

E-market for gas

Decree No. 180/04 created an electronic market for gas ("MEG") for the daily transactions of natural gas spot sales, with a secondary market for carriage and distribution services, and established information requirements for purchasers and sellers of natural gas related to the corresponding commercial transactions.

Agreements with natural gas producers to meet domestic demand

By means of various agreements between the gas producers and the national government, some guidelines for the natural gas supply in the local market were arranged; certain volumes of gas were committed for delivery to different sectors of the gas demand (having supply to residential users as a priority), and the respective prices were set (ES Resolution 599/07, ES Resolution 172/11, ES Resolution 1070/08, ES Resolution 55/2012).

Procedures to direct gas production in order to meet domestic demand

On October 4, 2010 Resolution No. 1410/2010 of ENARGAS was published in the Official Gazette, with the approval of a "Procedure for Gas Requests, Confirmations and Control" implementing new guidelines for the dispatch of natural gas, applicable to all persons in the gas industry, and imposing new and more severe restrictions on free disposition of gas by producers.

Resolution No. 89/2016 of the Energy and Mining Ministry was published in the Official Gazette on June 1, 2016, establishing the natural gas volumes Gas Distributors may request to meet Priority Demand, under the provisions of ENARGAS Resolution No. 1410 dated September 28, 2010. Furthermore, said Resolution maintained for the above-mentioned volumes the allocation rules set out by Resolution No. 599/2007 of the former ENERGY SECRETARIAT, and application of its criteria was also extended by Resolution No. 172/2011 of that Secretariat. Lastly, Resolution No. 89/2016 authorizes natural gas producers to formalize natural gas purchase and sale agreements with Natural Gas Distributors to meet Priority Demand, with the aim of deducting those contracted volumes by the quantities the producer is to deliver in the basin in question, under the obligations to supply the domestic market, as set forth by ENARGAS Resolution No. 1410/2010.

Complementarily to Resolution No. 89/2016 of the Energy and Mining Ministry, ENARGAS resolution No. 3833/2016 was published in the Official Gazette on June 10, 2016, establishing the SUPPLEMENTARY PROCEDURE FOR GAS REQUESTS, CONFIRMATIONS AND CONTROL which contemplates the new rules for the administration of natural gas dispatches and complements and modifies the Internal Regulations of Dispatch Centers approved by ENARGAS Resolution No. 716/98 and the Procedure for Requests, Confirmation and Control of Gas established by ENARGAS Resolution No. 1410/2010.

On June 6, 2017, ENARGAS adopted Resolution No. 4502/17 approving the Procedure for dispatch administration in the Emergency Executive Committee (“CEE”), which has modified the gas delivery and confirmation procedure approved by ENARGAS Resolution No. 3833/16 and established measures and criteria to be adopted in cases of supply crises declared by Carriers, Gas Distribution Companies or the ENARGAS, which make it difficult to satisfy Priority Demand for Natural Gas. Among these measures, the CEE (or if the CEE does not agree) the ENARGAS, will define how Priority Demand will be satisfied considering the natural gas volumes made available in each basin by each producer and discounting the volumes that have been purchased to meet Priority Demand.

Terms and Conditions for Network Distribution of Natural Gas

As part of the process for the normalization of the energy sector, the Ministry of Energy and Mining called a meeting to discuss with natural gas producers, including CGC and ENARSA, the basic conditions for the supply contracts to be executed for Network Distribution of Natural Gas effective January 1, 2018. At the meeting, the Ministry of Energy and Mining informed that in view of the expiry of the extension period established through Law 27200 for the public emergency declared in 2002, Law No. 24076 resumed full effectiveness. This law establishes that the price in natural gas supply agreements will be freely determined by supply and demand.

On November 29, 2017, natural gas producers, including CGC and ENARSA, signed, at the instigation of the Ministry of Energy and Mining, the Terms and Conditions for Supply of Natural Gas to Gas Network Distribution Companies (the “Terms and Conditions”).

The Terms and Conditions set forth the basic guidelines to secure adequate supply of natural gas to Gas Distribution Companies, and thereby to residential and commercial end consumers. The Terms and Conditions further establish a plan for the gradual reduction of subsidies, all this as part of the process for the normalization of the natural gas market, which occurs over the life of the Terms and Conditions until December 31, 2019, including the transition period until said normalization.

The most important guidelines set forth in the Terms and Conditions are the following: (i) to secure adequate supply of natural gas to Gas Distribution Companies, and thereby to residential and commercial end consumers; (ii) the continuity of the plan for the gradual reduction of subsidies, all this as part of the process for the normalization of the natural gas market, which occurs over the life of those Terms and Conditions until December 31, 2019; (iii) the acknowledgment of the right to pass on to tariffs paid by users and consumers the purchase cost of gas; (iv) the prices of gas for each basin for the next two years, in United States dollars; (v) ENARSA assumes the responsibility for satisfying demand in the areas benefiting from the subsidies on household consumption of gas.

Trust Fund to finance natural gas imports

Executive Branch Decree 2067/2008 of December 3, 2008, created a Trust Fund to finance imports of natural gas and all actions required to complement natural gas injections to meet domestic demand. The Trust Fund will be composed, among others, of the tariff charges payable by the companies processing natural gas. Under ENARGAS Resolution No. 1982/11, the amounts of the charge set by Decree 2067/08 were adjusted, effective as from December 1, 2011; further, the scope of persons subject to the obligation was extended, including those engaged in gas processing (RTP gas –plant heat retention–) and electricity generation stations, among others.

Regulation of the price of natural gas at the entering point to the carriage system for Compressed Natural Gas (CNG) services and of the retail selling price for CNG

The Energy Secretariat, exercising the powers conferred upon it by Decree No. 1277/12, regulated through Resolution No. 1445/12 the price of natural gas at the entering point to the carriage system for Compressed Natural Gas (CNG) services. The price set was \$ 0.4945/m³ of 9300-Kcal natural gas, not including taxes. In addition, the resolution provided that the retail selling price of CNG must be kept at the same values prevailing on August 8, 2012.

New gas tariff schedule in the regulated market for residential and commercial customers

On March 28, 2016 the Argentine Ministry of Energy and Mining (MINEM) had adopted Resolution No. 28/16 approving the new natural gas prices at the Carriage System Entry Points, and the eligibility criteria for residential customers' entitlement to the so-called *social tariff* benefit.

As a result of certain legal actions against the above-mentioned natural gas price increases, with different outcomes at the various instances and territorial jurisdictions, MINEM Resolution No. 129/2016 was published in the Official Gazette on July 13, 2016, whereby: (i) amendments were ordered to MINEM Resolution No. 99/2016 dated June 6, 2016 setting a limit on the total amounts that residential and commercial customers were to pay for natural gas consumption after April 1, 2016: in no case could the total amount payable for a given period exceed by five times and six times, respectively, the amount paid for the same period of billings of the previous year, and (ii) the GAS REGULATORY AUTHORITY (ENARGAS) was instructed to adopt the necessary measures to conclude before December 31, 2016 the Comprehensive Tariff Review process referred to by Section 1 of MINEM Resolution No. 31/2016 dated March 29, 2016, and the public hearing required therein was to be held prior to October 31, 2016.

The National Government appealed both the court judgments that had granted provisional remedies and the ruling issued by Panel II of the Federal Court of Appeals in and for La Plata, which declared MINEM Resolutions Nos. 28/2016 and 31/2016 null and void, due to the omission of the preliminary public hearing.

The ruling issued by Panel II was confirmed by the Argentine Supreme Court in August 2016, which benefited all residential customers in Argentina. As a result, between September 16 and 18, 2016, the MINEM and the ENARGAS held a public hearing at which three components of the tariff were dealt with: the price of well head gas, the distribution margin and the transport margin.

On August 18, 2016, MINEM adopted Resolution No. 152 - E/2016 instructing the ENARGAS to order, in the exercise of its powers, the necessary measures for the providers of the public utility services of distribution of natural gas through networks nationwide to charge to residential customers the tariffs in force at March 31, 2016 for consumption made as from April 1, 2016. The Company recognized in its September 30, 2016 condensed interim financial statements the estimated effects of MINEM Resolution No. 152-E/2016.

Finally, after the public hearing has been held, Resolution No. 212-E/2016 of the Ministry of Energy and Mining was published in the Official Gazette on October 7, 2016, approving a gas tariff increase denominated in United States dollars, effective October 1, 2016, and adjustable semi-annually until the market prices are reached in 2019 and, in the case of Patagonia, Malargüe and the Puna, in 2022.

The main provisions of Resolution No. 212-E/2016 are as follows:

- The new gas tariff schedule was set in the regulated market (at the carriage system entry point) for commercial and residential customers, applicable for the period from October 1, 2016 to March 31, 2017; tariffs in effect at March 31, 2016 were maintained during the period from April 1, 2016 to September 30, 2016;
- Caps ranging between 300% and 500% were set on tariff increases for gas bills in excess of \$250 issued by the distributors to commercial or residential customers. The caps were set on the basis of the amounts billed during the same period of the preceding year;
- A 30% tariff reduction was established for commercial and residential customers that achieve 15% savings in consumption, compared to the same period of the preceding year;
- A social tariff was set for certain low-income residential customers. In this case, users will receive a rebate of 100% of their gas bill.
- Prices were set for the normalization of the well head gas price for gas production in the regulated market. Well head gas prices were set in dollars and would be passed on to the peso tariffs charged to users by the distributors at the exchange rate in effect at the time of the increase. For the

Patagonia, prices range from USD 1.29/MMBtu effective October 1, 2016, until the USD 6.72/MMBtu target is reached by October 1, 2022; and

- The Office of Hydrocarbons was instructed, until the gas prices are determined by the free interaction between supply and demand in the regulated market, to prepare semi-annually and send to the Ministry of Energy and Mining for its approval, the proposal for the gas price at the carriage system entry point for each six-month period comprised between April 1 and October 1 of the respective year, based on the prices and gradual reduction of subsidies set forth in the whereas clauses of Resolution No. 212-E/2016 of the Ministry of Energy and Mining.
- In the Province of Santa Cruz, the gas tariffs at October 1, 2016 were increased at an average of 233%, with increases ranging between 80% and 560%.

Furthermore, the ENARGAS regulations on the passing of prices of natural gas at the carriage system entry points on to the tariffs charged to residential and commercial customers of the gas distributors were published on October 7, 2016.

Resolution 29-E/2017 of the Energy and Mining Ministry was published on February 16, 2017 calling public hearings for March 10, 2017 to deal with the new prices of natural gas at the CARRIAGE SYSTEM ENTRY POINT (PIST) and of propane gas for network distribution of undiluted propane gas, effective semi-annually as from April 1, 2017, following a criterion of gradual reduction of subsidies, as set out by Resolution No. 212 of the Energy and Mining Ministry dated October 6, 2016.

MINEM Resolution 474-E/2017, which determined the new prices of natural gas at the CARRIAGE SYSTEM ENTRY POINT (PIST), applicable to the categories of residential users, and the new Prices of Propane Gas for network distribution of Undiluted Propane Gas for deliveries effective December 1, 2017, was published in the Official Gazette on December 1, 2017.

New exports of natural gas

Natural gas export duties set by Law No. 26732 were no longer applicable as from January 8, 2017.

On November 27, 2017, Decree 962/2017 was published authorizing among other aspects the export of natural gas, establishing the following principles for such export authorizations: 1) the authorizations shall be granted by MINEM, after evaluation of the requests; 2) the export agreements involving the construction of new facilities and/or new connections to gas pipelines, or the use of any of the existing systems, as well as other transport alternatives, shall be approved by MINEM, upon intervention of the ENARGAS; 3) the authorizations to be issued by MINEM may contemplate the export of gas surpluses at the quantities set out therein, provided that they are subject to interruption in the event of domestic supply problems. In this case, the approval of each gas surplus export transaction will not be necessary for the authorization, only the respective contract stating the interrupted supply condition and the absence of compensation in the event of interruption shall be submitted to the ENARGAS, for information purposes only.

Incentive programs to boost the production of hydrocarbon and reserves:

Petróleo Plus Program

Through Decree No. 2014/2008, the National Executive Branch started the Petróleo Plus program, aimed at fostering the production of crude oil and the increase in reserves by means of new investments in exploration and development. The Energy Secretariat has regulated the program by adopting Resolution 1312/2008. This program authorizes the production companies whose plans were approved by the Secretariat to increase their production and reserves within the jurisdiction of the program, to receive tax credit certificates usable on export duties that will be applied to export sales of products in the context of Resolution No. 394/2007 and Resolution No. 127/2008 (Appendix) passed by the Ministry of Economy and Production.

However, on July 13, 2015, Decree No. 1330/15 was published in the Official Gazette, which rendered the Petróleo Plus Program (Decree 2014/2008) ineffective as a result of the creation of an Incentive Program for

the Production of Crude Oil (Resolution No. 14/15 of the Committee for Strategic Planning and Coordination of the National Hydrocarbons Investment Plan).

Decree No. 1330/2015 prescribed that incentives granted by the National Government during the effective term of the program "Petróleo Plus", for which Tax Credit Certificates would have been given according to Section 3 of Decree No. 2014/2008 and which were pending settlement, will be paid through bonds BONAD 2018 and BONAR 2024.

The Company recorded a gain on the bonds it was entitled to, in the caption Net income - Government subsidies (see Note 24 a)).

Incentive Program for the Production of Crude Oil

On February, 4, 2015 Resolution No. 14/2015 of the Ministry of Economy and Public Finance (MEyFP) was published in the Official Gazette. By means of this Resolution the Incentive Program for the Production of Crude Oil (the "Program") was created. This program implemented an Incentive for Production consisting of USD 3/bbl, an Incentive for Basic Exports consisting of USD 2/bbl and an Incentive for Additional Exports consisting of USD 3 /bbl. The program will be effective from January 1, 2015 to December 31, 2015 and it can be renewed for twelve months.

The Incentive for Production is granted based on the quarterly production of beneficiary companies provided such production exceeds the "Basic Production", which takes as reference 95% of the production of the fourth quarter of 2014 and provided the sales price of reference defined plus the Incentive for Production do not exceed the limits in prices calculated for each type of crude oil. The Incentive for Basic Exports or the Incentive for Additional Exports is granted on the volumes exported on a quarterly basis and depends on whether the quarterly volume exported exceeds the basic exports (the average quarterly volume of the total amount exported in 2014). Therefore, based on the total exported volume, the minimum incentive is USD 2/bbl and it can be of USD 3/bbl, if the volume exported in any quarter of 2015 exceeds the quarterly average volume exported of 2014. In this case, the sales price of reference plus the Incentive for Basic Exports cannot exceed the limits set forth for each type of crude oil.

At the date of issue of these financial statements, the Company recorded as revenue the benefits received from the Incentives for Production under the caption Net Income - Government subsidies (see Note 24 a)).

Gas Plus Program

Under Energy Secretariat Resolution No. 24/08 the "Gas Plus" program was created to encourage production of natural gas resulting from the discovery of new reserves, new fields, tight gas, etc. The natural gas produced under the Gas Plus program will not be subject to the Agreement 2007-2011 approved by Energy Secretariat Resolution 599/07. To be included in the program, it is necessary for the producer to sign Agreement 2007-2011 and remain as a party to that agreement.

The Energy Secretariat approved under Resolutions Nos. 319/10 and 85/12 the *Well TPT.St.AG.ap-1001 ST* and *Well TPT.St.CD-1007* projects presented under the terms of the Gas Plus program by Tecpetrol, in its capacity as operator of the Aguara Güe hydrocarbon area, located in the Province of Salta and in which CGC holds an interest of 5%.

Also, the Energy Secretariat approved under Resolution No. 1083/10 the Alto Las Hormigas Project presented by CGC for the Angostura hydrocarbon area located in the Province of Río Negro and a concession to operate the Alto Las Hormigas field was requested. At the date of issue of these financial statements, this request is still pending.

The project EaFN in the area of Estancia Agua Fresca was approved through Resolution 136/2015, issued by the Energy Secretariat (currently, the Ministry of Energy and Mining).

In view of the above, the natural gas production that CGC obtains from those projects will be governed by the provisions of the Gas Plus program.

Incentive Program for the Excess Natural Gas Injection

In February 2013, the Committee for Strategic Planning and Coordination of the National Hydrocarbons Investment Plan created under Resolution No. 1/2013 the Incentive Program for the Excess Natural Gas Injection, in which the companies registered with the Registry may participate. Companies may participate by presenting projects to increase the total natural gas volume to be injected in the domestic market during the proposed period. Upon the implementation of the project, the following is established: a) compensation

for excess injection based on a price of USD 7.5/MBTU, and b) a fine in case the company has failed to increase the agreed upon production volumes within a certain period

Incentive Program for the Excess Natural Gas Injection for Companies with Reduced Injection

The Incentive Program for the Excess Natural Gas Injection for Companies with Reduced Injection was regulated by the Committee for Strategic Planning and Coordination of the National Hydrocarbons Investment Plan, the "Committee" (recently dissolved by decree 272/15 and whose functions were assigned to the Ministry of Energy and Mining) through Resolution No. 60/2013 as amended (Resolutions No. 22/2014 and No. 139/2014), which fixed a price that varies between USD 4/MBtu and USD 7,5 /MBtu, according to the highest production curve.

On July 23, 2014, the Company was registered in the abovementioned plan through Resolution No. 134/2014 of the Economic Policy and Development Planning Secretariat from the Ministry of Economy and Public Finance with effective date retroactive to June 1, 2014.

On July 15, 2015, the Committee approved Resolution No. 123/15 which defines the Rules for the purchase, sale and assignment of areas, rights and interests within the Program, which determines that companies acquiring, selling or assigning areas, rights or interests shall make the related filing within 10 days from the date of the transaction.

On July 17, 2015, the Company informed the Committee of the acquisition of Petrobras Argentina assets with effect as from April 1, 2015 (see Note 28.d). On September 9, 2015, the Committee issued Resolution No. 170/2015, by means of which it approved the amendments to the basic injection, the adjusted basic injection and the 10% theoretical adjustment curve, and the 5% theoretical since April 1, 2015, filed by the Company relating to Gas II Plan, approved by the Committee through Resolution No. 134/2014.

At the date of issue of these financial statements, the Company recorded as revenue the benefits received from the Incentives for Gas Injection in the caption Net Income - Government subsidies (see Note 24 a)).

Decree No 704/2016

On May 20, 2016, Decree No. 704/2016 dictated the issuance of additional Argentine Bonds in US dollars at an annual rate of 8% maturing in 2020 ("BONAR 2020"), which will be used, among other purposes, to settle outstanding obligations under the Incentive Program for the Excess Natural Gas Injection ("Gas Plan"). As a result, on May 24, 2016, the Company expressed its consent in writing to the terms and scope of Decree No. 704/2016 (the "Letter of Acceptance"), whereby it accepted the settlement of the outstanding amounts in consideration of the Gas Plan until December 31, 2015. According to the settlement methodology reported by the Office of Hydrocarbons the amount due was \$242.5 million. In June 2016 the Company received BONAR 2020 for an original nominal value of USD 15.7 million. At December 31, 2017, the balance of the account receivable under the Stimulus Program for the Excess Natural Gas Injection shows a 12-month accrual not yet paid for approximately \$1.043 billion.

Incentives programs had a maximum duration of five years, and ended on December 31, 2017 without having been renewed.

Incentive Program for Investments in Production Development of Natural Gas extracted from Unconventional Reservoirs

MINEM Resolution 46-E/2017 was published on March 6, 2017, whereby the Incentive Program for Investments in Production Development of Natural Gas extracted from Unconventional Reservoirs was created. The aim of this program is to encourage investments for the production of natural gas from unconventional reservoirs at the Neuquina Basin, and will be in effect from the date of its publication until December 31, 2021.

The Resolution establishes a remuneration for the produced volumes of Unconventional Gas in the areas covered by the concession in the Neuquina Basin and included in the Program. To that end, the concession must have a specific investment plan, approved by the Provincial Competent Authority, with the authorization of the Office of Hydrocarbons.

The remuneration amount will result from subtracting the weighted average unit Effective Price obtained from natural gas sales to the domestic market, including both conventional and unconventional gas, and the unit Minimum Price set under the Resolution for each year, multiplied by the production volumes of unconventional gas. The Minimum Prices set by the Resolution are 7.50 USD/MMBtu for the year 2018; 7.00 USD/MMBtu for the year 2019; 6.50 USD/MMBtu for the year 2020 and 6.00 USD/MMBtu for the year 2021.

The remunerations under the Program will be paid, for each concession included in the Program, at 88% to companies and 12%, to the Province corresponding to each concession area included in the Program. On November 2, MINEM Resolution 419-E/2017 was published, and its Annex will replace the similar Annex to Resolution 46-E/2017. The new resolution has amended the former in relation to the following issues:

- a) The Initial Production computed will be “the monthly average Unconventional Gas production calculated for the period between July 2016 and June 2017”. And that the Included Production, for the purposes of the remunerations, will be i) for the concession areas with an Initial Production of less than 500,000 m³/day, the total monthly production of Unconventional Gas obtained from that Included Concession, to which the requesting company is entitled, and ii) for the concession areas with an Initial Production in excess of 500,000 m³/day, the total monthly production of Unconventional Gas obtained from that Included Concession, to which the requesting company is entitled, net of the Initial Production;
- b) It modifies the definition of Effective Price, previously defined as “the weighted average price per volume of the total sales of natural gas by each company to the domestic market”, and now defined as the “weighted average price per volume of the total sales of natural gas in the Republic of Argentina, which will be published by the Office of Hydrocarbons”, regulating the application of the guidelines for making this calculation; and
- c) The following requirement is introduced to qualify for the Program: that the investment plan to be submitted for each concession reaches a mean annual production, in any consecutive period of twelve months prior to December 31, 2019, equal to or higher than 500,000 m³/day. And the obligation to refund the amounts of the remunerations received (plus interest) corresponding to the concession areas that do not reach the above-mentioned production volume, and that SRH may require presentation of a bond insurance policy to guarantee refund of the remunerations collected by the participating companies, and the power to suspend payments if the required insurance policy is not presented.

No modifications have been made to the definitions of Included Unconventional Gas and Included Concessions, or to the Price, Payment Dates and Method and Control of Production, among other issues included in the annex approved by Resolution 46-E/2017. MINEM Resolution No. 447-E/2017 was published on November 17, 2017, extending application of the Incentive Program for Investments in Production Development of Natural Gas extracted from Unconventional Reservoirs (applicable to Neuquina Basin, created under MINEM Resolution No. 46-E/2017 and modified by MINEM Resolution No. 419-E/2017) to the production of natural gas from unconventional reservoirs situated in the Austral Basin.

Under Resolution No. 38/2018 dated January 27, 2018, the Office of Hydrocarbons with the Ministry of Energy and Mining approved Compañía General de Combustibles S.A. adherence to the Incentive Program

for Investments in Production Development of Natural Gas extracted from Unconventional Reservoirs, as concessionaire for exploitation of the area Campo Indio Este-El Cerrito, situated in the Province of Santa Cruz. Under this Resolution, CGC was empowered to receive remunerations accrued as a result of its adherence to that program as from January 2018.

NOTE 3 - BASIS FOR PREPARATION AND PRESENTATION

3.1 - BASIS FOR PREPARATION AND PRESENTATION

These consolidated financial statements corresponding to the fiscal year ended December 31, 2017 are presented in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared in compliance with Technical Pronouncements No. 26 and No. 29 of the Argentine Federation of Professional Councils in Economic Sciences (FACPCE), adopting the International Financial Reporting Standards (IFRS) issued by the IASB, for entities included in the public offering regime under Law No.17811 and its amendments, either due to their capital or their corporate bonds, or entities that have requested authorization to be included in the aforementioned regime. According to the professional accounting standard and regulatory provisions mentioned above, IFRS are of mandatory application by the Company as from its inclusion in the public offering regime.

These consolidated financial statements are stated in thousands of pesos (\$), legal tender in Argentina, and were prepared based on the accounting records of CGC and its controlled companies. They have been stated at historical cost, except for the revaluation of some financial assets and some non-current assets. Certain figures at December 31, 2016 have been reclassified for comparative purposes with those of this period.

Under IAS 29 *Financial Reporting in Hyperinflationary Economies*, an entity's functional currency is that of a hyperinflationary economy, irrespective of whether the financial statements are based on a historical cost or current cost approach. Financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date. To this end, in general terms, non-monetary items include inflation from the acquisition date of the item or the restatement date, as applicable. To determine whether there is a hyperinflationary economy, the standard provides a series of factors to be taken into account, among others, a cumulative inflation rate over three years that is approaching, or exceeds, 100%. At December 31, 2017, the Board of Directors considers that due to the lack of consistent data published on inflation and other indicators that can lead to a final conclusion on the matter, there is no evidence to affirm that Argentina is a hyperinflationary economy. Therefore, these financial statements have not been restated as would otherwise be required under IAS 29.

However, over the last years, some macroeconomic variables affecting the Company's business, like salaries and input prices, have changed significantly. This situation must be considered when assessing and interpreting the Company's financial situation and results disclosed in these financial statements.

The preparation of these consolidated financial statements in accordance with IFRS requires the Company to make estimates and assessments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of issue of these financial statements as well as recorded income and expenses in the fiscal year. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

3.1.1 - DEPOSIT OF CORPORATE AND ACCOUNTING DOCUMENTATION

Pursuant to General Resolution No. 629/14 of the National Securities Commission, we report that the documentation supporting the Company's accounting and management operations and the accounts books and corporate books of CGC are deposited in the offices located at Bonpland 1745, City of Buenos Aires, and in the warehouses of the supplier Iron Mountain Argentina S.A., with business address at Amancio Alcorta 2482, City of Buenos Aires.

NOTE 3.2 - ACCOUNTING POLICIES

The main accounting policies used in the preparation of these consolidated financial statements are summarized below. Except as otherwise stated, these policies have been applied consistently in all periods reported.

3.2.1 Changes in accounting policies under IFRS

New accounting standards and interpretations issued by the IASB not yet effective at December 31, 2017 and not early adopted by the Company

IFRS 9 - Financial Instruments

In July 2014, the IASB published the full version of IFRS 9, Financial Instruments, which established the classification, measurement and recognition of financial assets and liabilities, simplifying the classification of financial assets, and introduced a new model of expected credit loss. This standard is applicable for fiscal years commencing on or after January 1, 2018.

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from contracts with customers, establishing the requirements for the recognition of revenue from contracts with customers. This standard is applicable for fiscal years commencing on or after January 1, 2018.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 “Leases”, which sets out the principles for recognition, measurement, presentation and disclosure of leases. This standard is applicable for all years commencing on or after January 1, 2019.

The Company has analyzed the impact of application of IFRS 9 and 15 on its financial position and the results of its operations, and has concluded that the impact will not be significant. The Company is analyzing the possible impact that the application of IFRS 16 could have on its financial position and the results of its operations.

3.2.2 Consolidation – Subsidiaries

The financial statements of CGC at December 31, 2017 and 2016 were joined with the best financial information available at these dates of the following companies:

Company	Country	Functional currency	Number of shares (direct and indirect interest)		% of interest (direct and indirect)		Number of possible votes	
			2017	2016	2017	2016	2017	2016
Unitec Energy S.A. (1)	Argentina	Argentine peso	100	93.26	100%	93.26%	100	93.26
Compañía General de Combustibles Chile Ltda.	Chile	Chilean peso	100	100	100%	100%	100	100
Compañía General de Combustibles Internacional Corp.	Panama	US dollar	100	100	100%	100%	100	100

Subsidiaries are all entities over which the Company has control as a result of its exposure or rights to variable returns and its ability to affect those returns through power to direct the relevant activities, generally accompanying a shareholding of more than 50% of the voting rights. At the time of determining if CGC controls an entity, the existence and effect of potential voting rights that can be currently exercised or converted must be taken into consideration. The group also assesses the existence of control where there is no more than 50% of the voting rights but the operating and financial policies can be directed as a result of the "factual control". "Factual control" arises when as a result of the relative size of the group voting rights due to the number and dispersion of the other shareholders CGC has the power to direct operating and financial policies, etc.

Subsidiaries are consolidated from the date on which the Company acquires control and are deconsolidated from the date control ceases.

The Company uses the acquisition method to register purchases of subsidiaries. The acquisition cost is determined as the fair value of transferred assets, equity instruments issued and debts assumed at the acquisition date. Costs directly attributable to the acquisition are charged to income/loss as incurred.

Non-controlling interest in the acquired company is stated at fair value at the acquisition date or at the equity value of net assets acquired. The acquisition cost in excess and the amount of the non-controlling interest of the acquired company over net identifiable assets is recorded as goodwill. If this value is lower than the fair value of net acquired assets, the difference is recognized in the Consolidated Statement of Comprehensive Income.

Given that the functional currency of some subsidiaries is different from the Company's functional currency, foreign exchange gains or losses arising from intercompany transactions are generated. These gains or losses are included in Financial Income/Loss, in the Consolidated Statement of Comprehensive Income.

Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Company.

CGC has consolidated its financial statements on a line by line basis into the financial statements of the companies over which it exerts control.

In consolidating the companies over which it exerts control, the amounts of the investment in the controlled company and the participation in their income and cash flows replace the totality of the assets, liabilities, income/loss and cash flows of the controlled company, which separately reflect the non-controlling interest in controlled companies. Receivables and liabilities and intercompany transactions of the consolidated Group

have been excluded from consolidation. Gains and losses from intercompany transactions of the consolidated Group have been totally eliminated.

(1) Purchase of Unitec Energy S.A.

At December 31, 2016, CGC's interest in Unitec Energy S.A. accounted for 93.26% of capital and votes. On March 23, 2017, the Shareholders of Unitec Energy S.A. resolved to capitalize irrevocable contributions for \$24,090 received in 2016, so CGC equity interest in Unitec Energy S.A. reached 94.47% of capital and votes. On November 30, 2017, the Shareholders of Unitec Energy S.A. resolved to capitalize irrevocable contributions for \$20,100 received in 2017, so CGC equity interest in Unitec Energy S.A. reached 95.19% of capital and votes.

Under a corporate reorganization, as mentioned in Note 1.3, CGC acquired on December 20, 2017 a non-controlling interest in Unitec Energy; as a result, CGC's interest in that company amounted to 100% at December 31, 2017.

3.2.3 Participation in joint arrangements and associates

3.2.3.1 Participation in joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control, i.e. the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Under IFRS 11, investments in joint arrangements are either joint operations or joint ventures, depending on the contractual rights and obligations of the parties. The Company has analyzed the nature of joint arrangements and determined that they fall within the scope of joint operations. In consequence, the Company recognizes in its financial statements the assets, liabilities, revenue from ordinary activities and expenses relating to its participation in joint operations of the various consortiums and joint ventures for hydrocarbon exploration and production.

3.2.3.2 Associates

Associates are all entities over which the Company has significant influence, being the power to participate in the financial and operating policy decisions of the investee (but not control or joint control), generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are initially accounted for at cost, including the goodwill recognized at the acquisition date, and subsequently valued in accordance with the equity method.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates.

Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Company.

To value the investments in associates, each of them is considered a cash generating unit (CGU), and it is analyzed if at each closing date there is objective evidence that an investment in an associate is not recoverable. The impairment amount, if any, is calculated as the difference between the recoverable value of the associate and its carrying value and recognizes the resulting amount in the Consolidated Statement of Comprehensive Income.

3.2.4 Foreign currency translation

The main considerations relating to the translation of operations in foreign currency other than the presentation currency are disclosed below.

3.2.4.1 Functional and presentation currency

The items included in the Company's financial statements have been stated in the currency of the main economic environment where the entity operates (the "functional currency"). The functional and presentation currency of the Company is the Argentine peso.

When the conditions set forth by IAS 29 to consider Argentina as a hyperinflationary economy occur, the respective financial statements are to be restated as from the date of the latest restatement (March 1, 2003), or the latest revaluation of the assets that were revalued on the date of transition to IFRS.

3.2.4.2 Balances and transactions

Foreign currency transactions are converted into the functional currency at the exchange rate prevailing at the date of the transaction or valuation when the items are re-measured.

Foreign exchange gains or losses resulting from the settlement of these transactions or measurements at closing of the monetary assets and liabilities in foreign currency are recognized under the Consolidated Statement of Comprehensive Income.

3.2.4.3 Subsidiaries and associates

The results and financial position of the subsidiaries and associates with a functional currency other than the Group's presentation currency shall be translated into the presentation currency at closing using the following procedures:

- assets and liabilities shall be translated at the closing rate;
- results shall be translated at average exchange rates.

Gains/losses arising from the translation of functional currency into presentation currency are recognized under Other comprehensive income. When the investment is sold or otherwise disposed of, in whole or in part, Other comprehensive income is reclassified to the Consolidated Statement of Comprehensive Income as part of the proceeds from sale or disposition.

3.2.5 Property, plant and equipment

Property, plant and equipment (or fixed assets) are recorded at cost less accumulated depreciation and all accumulated impairment loss.

The Company used the amount of property, plant and equipment using generally accepted accounting purposes, at the transition date, as attributed cost.

In the case of works in progress the construction of which extends over substantial time until completion, financial costs relating to third-party funding are capitalized until the asset built can be used. In the fiscal

years ended December 31, 2017 and 2016 financial costs were capitalized in the amount of \$307,218 and \$113,873, respectively.

I) Oil and gas exploration activities

The Company applies IFRS 6 "Exploration for and Evaluation of Mineral Resources" to account for its oil and gas exploration and evaluation activities.

As a result, in accordance with IFRS 6, the Company capitalizes oil and gas exploration and evaluation expenses, such as topographical, geological, geochemical and geophysical studies; exploratory drilling; evaluation of oil and gas reserves, and mining property associated with unproven reserves, such as assets for exploration and evaluation as a special category (Exploration and evaluation assets) within Property, plant and equipment. The costs prior to obtaining an exploration permit are charged to income/loss as incurred. This means that exploration costs are temporarily capitalized until the results of the exploration efforts are evaluated so as to determine if there are sufficient hydrocarbon reserves to commercially exploit them.

If exploration and evaluation activities do not conclude that there are sufficient hydrocarbon reserves, the amounts capitalized are charged to income/loss at the time this conclusion is reached. Exploration and evaluation assets in relation to which reserves were identified are tested for impairment, prior to reclassification of the line "Production facilities and wells".

Exploration and evaluation assets are not subject to depreciation or amortization.

II) Oil and gas development activities

Development costs are costs incurred to develop and produce proven reserves and provide facilities for extraction, collection and storage of oil and gas. This item includes payments of exploitation concession rights, which are recorded under "Mining Property" line.

Development costs incurred to drill development wells (successful and dry) and to construct facilities or install equipment for production purposes are capitalized and classified as "Works in progress" until their completion. Once productive, these wells are reclassified to "Production facilities and wells" and depreciation begins; oil and gas production costs are charged to income/loss.

Subsequent expenses are incorporated as a cost component of these assets only if they are an improvement and/or extend the useful life and/or increase the production capacity of assets and/or it is probable that the asset generates an increase in net cash flows.

The costs of maintenance and repair that only restore production to its original level are charged to income/loss in the fiscal year they are incurred.

The costs of asset retirement obligation and well plugging obligations are capitalized at discounted value, together with the assets that gave rise (within the "Production facilities and wells" line) to them and are depreciated using the units of production method. As counterpart, a liability is recognized for this item at the estimated value of the discounted sums payable. These values are adjusted when necessary based on changes in current costs, the date on which wells will be retired and/or any other information available. (See Note 3.2.14.1).

III) Depreciation

Below is a detail of depreciation methods during the estimated useful life of assets:

- i) The acquisition cost of property with proven reserves is depreciated through the application of the ratio between hydrocarbons produced and estimated total proven reserves.

- ii) Assets for the development of hydrocarbons (plants, wells and exploitation and production facilities) are depreciated, area by area, through the application of the ratio between the hydrocarbons produced and estimated developed and proven reserves.

Changes in the estimate of reserves are considered in the depreciation calculation as prospective.

- iii) For assets whose service capacity is not directly related with the production of hydrocarbons, the linear estimated rates are applied based on the features of each asset. Rates applied are as follows:

<u>Caption</u>	<u>Rate %</u>
Furniture and fixtures	10.00
Machinery, equipment and facilities	10.00
Software and computer equipment	33.33
Real estate	4.00
Vehicles	20.00

Depreciation rates are reviewed every year and it is compared whether the remaining useful life differs from that previously estimated. The effect of these changes is recorded as profit or loss for the year in which they are determined.

Gains and losses from the sale of assets are calculated by comparing the income obtained to the carrying amount, and are recognized in the profit or loss within "Other operating income and expenses".

IV) Impairment of property, plant and equipment

The value recorded of property, plant and equipment does not exceed their recoverable value.

When there are events or circumstances that indicate a potential impairment, an impairment test is run at the level of identifiable cash flows:

- Exploration and evaluation costs are examined on a regular basis by Management to ensure that the value recorded is recoverable. Such verification is made at least once a year (at the end of the year) and whenever there are signs of a possible value write-down. Events and signs include the evaluation of seismic data, requirements to abandon areas without renewal of exploration rights, unsuccessful results of drilling and studies, non-compliance of exploration commitments, lack of planned investments and unfavorable market, political and economic conditions.

At December 31, 2017 and 2016 no exploration expenses were allocated.

- Property, plant and equipment (excluding exploration and evaluation costs): The Company's Management assesses their recoverability when events or changes to circumstances (including significant decrease in the market value of the assets, in the prices of the main products sold by the Company or in the oil and gas reserves, as well as changes in the regulatory framework in which the operations are developed, significant increases in operating costs, or obsolescence evidence or physical damage) may indicate that the value of an asset or CGU may not be recoverable. The carrying value of an asset is adjusted to its recoverable value in case it exceeds such value.

The recoverable value of assets is in general the estimated use value as from the future cash flows from the use of those assets, discounted at a rate that reflects the cost of capital employed. For its calculation, the company uses projection of cash flows based on the best available estimates of income, expenses and investments considering relevant past events and expectations as regards the development of the business and market. The changes in sales prices of hydrocarbons, costs, investments and exchange rates are some of the most significant factors involved in the calculation. The Company verifies that the cash flows do not exceed temporarily the limit of the productive life of oil fields and/or the termination of permits, agreements or exploitation agreements.

In subsequent periods to the recording of the impairment, the pertinence of its reversal is analyzed as long as changes are verified in the estimates made to determine the recoverable values. In that case, the accounting measurement of the asset or CGU rises to the lower amount between: a) the accounting measurement that the asset or cash generating unit would have had if the impairment loss would have never been recognized; and b) its recoverable value.

At December 31, 2017 and 2016, the impairment allowance of non-financial assets amounts to \$87,472 and \$127,552, respectively.

At December 31, 2017 impairment losses were recognized for a total of \$8,314, made up of \$13,417 for Laguna de los Capones area, \$619 for Sarmiento area and a reversal for \$5,722 of the impairment of value of El Sauce area.

At December 31, 2016, impairment losses were recognized for a total of \$28,997; \$20,794 of these losses correspond to El Sauce area; \$4,456 to Laguna de los Capones area; and \$3,747 to Sarmiento area, which took the value of these investments in those areas to zero. The main reasons for this decision were: i) the impact of the fall in local prices on the curve of future sales of hydrocarbons together with the variations in costs, and ii) the unfavorable outcomes of the investment campaigns conducted.

This loss was recognized in the Consolidated Statement of Comprehensive Income, under Other operating income and expenses (see Note 8).

3.2.6 Inventories

Inventories comprise crude oil and materials. Inventories are valued at the lower of the acquisition cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of inventories includes expenses incurred in the production or acquisition, and other costs necessary to take them to their current condition and location.

Net realizable value is the sales price estimated in the normal course of business, less applicable estimated costs to sell.

The evaluation of the recoverable value is made at year end, charging to profits or loss the timely correction in value when they are overvalued.

3.2.7 Financial Instruments

3.2.7.1 Recognition and measurement of financial assets

Regular purchases and sales of financial assets are recognized at the transaction date, when the Company commits to purchase or sell the asset. Financial assets are derecognized from the statement of financial position when the rights to receive cash flows from financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial assets not valued at fair value through profit or loss are initially recognized at fair value plus transaction costs.

Financial assets valued at fair value through profit or loss are initially recognized at fair value and the transaction costs are charged to profit or loss.

Gains or losses from changes in the fair value of assets measured at fair value and which are not part of a hedging transaction, are shown in the income statement under "Financial income or costs" in the fiscal year in which they take place.

Gains or losses from financial assets at amortized cost and which are not part of a hedging transaction are expensed in the income statement when the financial asset is derecognized or its value is impaired, and by means of the amortization process applying the effective interest rate method.

3.2.7.2 Classification

The Company classifies its financial instruments under the following categories: financial assets at amortized cost, financial assets at fair value through profit and loss, financial liabilities at amortized cost and financial liabilities at fair value through profit and loss. This classification depends on the business model of the Company to manage its financial instruments and the characteristics of the instrument's contractual cash flows.

- Financial assets

The Company's financial assets are measured at amortized cost if both the following conditions are met:

- i) they are held within the business model with the aim of obtaining contractual cash flows, and
- (ii) the contractual conditions of the financial asset give rise on specified dates to cash flows that are only collections of the principal and interest on the outstanding principal amount.

Certificates of deposit and share certificates in companies which are members of the economic group are included in this category.

In case the above is not complied with, the financial assets are measured at fair value. Mutual funds, government securities, listed shares and equity interests in Petronado S.A. are included in this category.

- Financial liabilities

The Company has determined that all financial liabilities measured at amortized cost using the effective interest method and modifications in the valuation are recognized in the statement of comprehensive income.

3.2.7.3 Impairment of financial assets

The Company determines at the closing date of the financial statements if there is objective evidence of the reduction in the value of a financial asset or group of financial assets.

Impairment losses of financial assets are recognized when there is objective evidence of impairment as a result of one or more events occurred subsequently to the initial recognition of the financial asset and such events have an impact on the cash flows for that financial asset or group of assets that may be reliably estimated.

Impairment tests may include signs that the debtors or group of debtors are experiencing significant financial difficulties, non-compliance or payment of principal and interest in arrears, the probability that they be declared bankrupt or subject to any other type of financial reorganization, and when observable data indicate that there is a measurable decrease in future estimated cash flows, such as changes in the default charges or in the economic conditions co-related with breaches.

The amount of the loss is measured as the difference between the carrying value of the asset and present value of future estimated cash flows (excluding future credit losses not incurred) discounted at the original effective interest rate of the financial asset. The carrying value of the asset is written down and the amount of the loss is recognized in the consolidated income statement. As a practical recommendation, the Company may measure the impairment based on the fair value of an instrument using an observable market price. If, in a subsequent period, the amount of the impairment loss and the write-down may be objectively related with an event that takes place after having recognized the impairment (for example, an improvement in the debtor's credit rating), the reversal of the impairment loss previously recognized is recorded in the statement of comprehensive income.

3.2.8 Trade receivables and payables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method, net of the impairment allowance, if applicable.

An impairment allowance for trade receivables is set up when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Trade payables are initially recognized at fair value and subsequently valued at amortized cost using the effective interest method.

3.2.9 Other receivables and debts

Remaining receivables and debts have been initially valued at fair value and subsequently valued at amortized cost using the effective interest method.

In the case of credits to boost the production of hydrocarbons granted in favor of CGC, within the framework of the Oil and Gas programs created by the National Government, they are recognized as credits within Other Receivables from the inception of the right for CGC to collect the credit upon compliance with the requirements established in the programs, with a counterpart in gains under Net income - government subsidies.

3.2.10 Cash and cash equivalents

Cash and cash equivalents include cash, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Bank overdraft are included as cash and cash equivalents.

Bank overdrafts, if any, are shown within the caption "Financial debts" under current liabilities of the Consolidated Statement of Financial Position.

3.2.11 Equity accounts

The recognition of activities in this caption is made based on decisions in Shareholders' meetings, legal and regulatory standards.

- Capital stock

Capital stock represents the capital issued, which is formed by contributions made by shareholders. It is represented by ordinary nominative non-endorsable shares of \$1 face value each.

- Irrevocable capital contributions

It includes the irrevocable contributions for the future subscription of shares made by the Shareholders, which were recorded at original value and accepted by the Company's Board of Directors (Note 15).

- Legal reserve

In accordance with legal provisions of General Companies Law No. 19550, 5% of the net profits from the statement of comprehensive income for the year plus/less the adjustments to prior years, transfers from other comprehensive income to unappropriated retained earnings and accumulated losses of prior years, must be allocated to the legal reserve until it reaches 20% of the capital stock.

- Discretionary reserve

It corresponds to the allocation made by the Company's Shareholders' Meeting, whereby an specific amount is allocated to set up a special reserve chiefly aimed at maintaining the Company's productive activities, which are focused on the business for the exploration and production of oil and gas.

- Other comprehensive income

The exchange differences generated by the effect of the conversion into Argentine currency of the interest in foreign related companies are included in the account "Other comprehensive income"

- Unappropriated retained earnings/accumulated losses

It comprises unappropriated gains or accumulated losses, which if positive may be distributed by a decision of the Shareholders' Meeting as long as they are not subject to legal restrictions, such as that mentioned in the "Legal Reserve" paragraph.

It comprises the result from prior years which were not distributed, the amounts transferred from other comprehensive income and prior year adjustments due to the effect of the application of IFRS.

In case there are unappropriated losses to be absorbed at year end to be considered by the Shareholders' Meeting, below is the order for offsetting then against balances that must be followed:

1. Reserved profits
 - a. Discretionary reserve
 - b. Legal reserve
2. Additional paid-in capital
3. Capital stock

- Distribution of dividends

Distribution of dividends among the shareholders of the Company is recognized as a liability in the financial statements in the fiscal year in which the dividends are approved by the Company's Shareholders' Meeting.

- Non-controlling interest

Non-controlling interest represents the interest of third parties other than the Company's owners on equity.

3.2.12 Financial debts

Borrowings are initially recognized at fair value, net of the transaction costs incurred. In subsequent periods, borrowings are valued at amortized cost. Any difference between the funds received (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the term of the borrowings, using the effective interest method.

Borrowings are classified as current liabilities unless the Company has the right to defer the payment of liabilities for at least 12 months subsequent to the date of the financial statements.

3.2.13 Income tax and minimum notional income tax

3.2.13.1 Current and deferred income taxes

Tax charge for the year comprises current and deferred taxes. Taxes are charged to results, except when they refer to items recognized in other comprehensive income or directly in equity. In this case, income taxes are recognized in other comprehensive income or directly in equity, respectively.

Current income tax is calculated based on the laws approved or to be approved at the date of the financial statements in the countries in which the Company and its subsidiaries operate and generate taxable income. Management regularly assesses the positions on the tax returns regarding situations where the applicable tax regulation is subject to interpretation and, if necessary, establishes provisions based on the amounts payable to the tax authorities. Deferred tax is recognized according to the liability method, for the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not recognized when it arises from the initial recognition of an asset or liability in a transaction other than a business combination, which, at the time of the transaction, does not affect the accounting result or tax gain or loss.

Deferred tax assets are recognized only to the extent that tax benefits are likely to be obtained in the future to be able to offset the temporary differences. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to offset the amounts recognized and when deferred tax assets and liabilities derive from income tax payable to the tax authorities by the same entity, or different entities, which seek to settle the current tax assets and liabilities at their net amount.

3.2.13.2 Minimum notional income tax

Tax on minimum notional income in Argentina was imposed by Law No. 25063 in 1998 for a term of ten years; its application was successively extended until December 30, 2019. On July 22, 2016, this tax was repealed by Law No. 27260 effective for fiscal years commencing on January 1, 2019. This tax complements

income tax; while this latter is levied on tax profits for the year, the minimum notional income tax is a minimum tax levied on the potential income of certain productive assets at the rate of one percent, thus the Company's tax obligation will agree with the higher of both taxes. If in a fiscal year, however, minimum notional income tax obligation exceeds income tax liability, the surplus will be computable as a payment on account of income tax through the next ten years.

At December 31, 2017 and 2016 the amount determined as tax obligation was a tax loss and, therefore, a provision for minimum notional income tax was set up.

3.2.13.3 Tax reform in Argentina

On December 29, 2017, the National Executive Branch enacted Law 27430 on Income Tax. This law introduced several changes to the income tax treatment, among others: (a) Income tax rate: The income tax rates for Argentine companies will be reduced gradually from 35% to 30% for fiscal periods beginning on or after January 1, 2018 until December 31, 2019, and to 25% for fiscal periods beginning on or after January 1, 2020; (b) tax on dividends. A tax is levied on dividends or profits distributed, among others, by Argentine companies or permanent establishments to: individuals, undivided estates or foreign beneficiaries, according to the following rates: (i) dividends on profits generated in the fiscal years beginning on or after January 1, 2018 until December 31, 2019 will be subject to a 7% withholding; and (ii) dividends on profits obtained in fiscal years beginning on or after January 1, 2020 will be subject to a 13% withholding; (c) dividends on profits obtained until the previous year commenced January 1, 2018 will continue to be subject, for all beneficiaries thereof, to a withholding of 35% from the amount in excess of distributable retained earnings free of taxes (equalization tax transition period); (d) optional tax revaluation: The law prescribes that companies may choose to have their Argentine-based assets that generate taxable income revalued for tax purposes. The special tax on the amount of the revaluation depends on the asset: 8% for real property other than inventories, 15% for real property-inventories, and 10% for personal property and other items of property. Once an option has been exercised for an item of property, the other items of the same category must be written up. This tax is not deductible from income tax, nor is the taxable result arising from the revaluation subject to that tax. At the date of these financial statements, the Company is considering exercising this option; (e) Index-adjustments of deductions. Acquisitions or investments made in the fiscal years beginning on or after January 1, 2018 will be index-adjusted based on the Domestic Wholesale Price Index ("IPIM", its acronym in Spanish) published by the National Institute of Statistics and Census ("INDEC", its acronym in Spanish). This will increase the deductible depreciation and its computable cost in the event of a sale.

The effect of the application of the changes in income tax rates on deferred tax assets and liabilities, in line with the tax reform detailed above, based on the expected year of realization is a loss of \$132,492 (See Note 27).

3.2.14 Allowances and provisions

3.2.14.1 Allowances and provisions

Allowances and provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources involving economic benefits will be required to settle the obligation; and the amount has been reliably estimated.

The amount recorded as provisions is the best estimate of the resource outflow necessary to settle the present obligation, at the end of the reporting year, considering the pertinent risks and uncertainties. When a provision is measured using the estimated cash outflow for settling the present obligation, the book value represents the present value of that cash flow.

Allowances and provisions recognized by the Company are:

- Asset retirement obligation and environmental remediation: for the calculation, the Company considered the plan for the retirement of wells until the end of the concession and valued them at retirement estimated

cost, discounted at a rate that reflects the specific risks of liabilities and time value of money (see Note 3.2.5 II). Asset retirement obligations of the area once operations have been completed led Management to make estimates of long-term retirement costs and of the remaining period up to retirement.

- Provision for gas imbalance: it corresponds to the volume of gas owed due to the gas production allocated to the company above the production resulting from its contractual participation in the area Aguara Güe. For this calculation, the Company considered the return curve agreed between the parties until the end of the concession and valued it based on the lower of the estimated production cost or book value (see Note 19).

3.2.14.2 Allowances and Provisions

The Company is subject to several complaints, lawsuits and litigation arising from the normal course of business. Liabilities as regards these complaints, lawsuits and other litigation cannot be accurately estimated. The Company analyzes the status of each contingency and assesses the potential financial exposure, applying the criteria indicated above, for which purpose, it prepares the estimates with the assistance of legal counsel.

Contingencies include pending legal proceedings or claims for eventual damages to third parties arisen in the development of activities as well as claims from third parties arising from interpretation of legislation.

The Company assesses the existence of additional expenses directly associated with the final resolution of each contingency, which are included in its valuation in the case its amount can be reasonably estimated. If the potential loss is not probable but reasonably possible, or it is probable but its amount cannot be estimated, the nature of the contingent liability and an estimate of the probability of occurrence is disclosed in note to the financial statements. Contingencies considered remote are not disclosed, unless they involve guarantees, in which case the nature of guarantees is included in note to the financial statements (see Note 18).

3.2.15 Balances with related parties

Receivables and debts held with the parent and other related parties arising from different transactions have been valued according to the conditions agreed upon by the parties involved (Note 26).

3.2.16 Revenue recognition

Income from the sale of crude oil, natural gas, propane, butane and fuel are recognized with the transfer of ownership in accordance with the terms of the related contracts, which occurs when the client holds possession of the product, assuming its risks and rewards, prices have been determined and their collectibility has been reasonably ensured.

Income from sales for oil and natural gas production activities, in which the Company has a joint participation with other producers, are recognized on the basis of the contractual participation that the Company in each Joint Venture (UTE) irrespective of the actual allocation. Any imbalances between the actual and contractual allocation will give rise to the recognition of a debt or a receivable, based on the production allocated to the Company above or below the production resulting from its contractual participation in the Joint Venture. At December 31, 2017 and 2016, the Company records liabilities for gas imbalance for an amount of \$15,375 and \$16,716 respectively, which correspond to 151.75 and 164.98 million of cubic meters, respectively (Note 19).

Benefits from the programs to boost the production of crude oil and gas are recognized in accounting at the time the conditions to access to the benefit have been complied with and that their collection is reasonably ensured.

Other income is recognized based on accrual.

3.2.17 Segment reporting

The Board of Directors has determined the operating segments based on reports reviewed and used to make strategical decisions. Segment reporting is presented in a manner consistent with the internal reporting. The Board of the Company as well as management are responsible for allocating resources and assessing the performance of operating segments.

The detail of this information is disclosed in Note 6.

NOTE 4- FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

4.1.1. Market risk

The market risk is the potential loss due to adverse movements in market variables. The Company is exposed to various types of market risks: foreign exchange rate, interest rate and price.

For each of the market risks described below a sensitivity analysis is included of the main risks inherent in the financial instruments, showing how income and equity might be affected as required by the IFRS 7, Financial Instruments: Information to be disclosed.

The sensitivity analysis used variations in the risk factors representative of their historical behavior. The estimates made account for both favorable and unfavorable variations. The impact on income and/or equity is estimated based on the financial instruments held by the Company at the end of each year.

a) Foreign exchange risk

The foreign exchange risk arises when future commercial transactions or the assets or liabilities recognized are stated in a currency other than the entity's functional currency.

The Company's Income/Loss and Equity are subject to changes in the rates of exchange of the currencies used. The currency with the highest exposure is USD. The Company's exposure to currencies other than USD is not significant. Significant depreciations of the Argentine peso, the Company's legal tender and functional currency, regarding USD, the currency to which the Company is exposed, can adversely affect on the Company.

The Company is also exposed to the fluctuation of the pertinent rates of exchange when converting the financial statements of Group companies that use a functional currency other than the Argentine peso.

The carrying amounts of monetary assets and liabilities denominated in foreign currency at the closing of each fiscal year are the following:

2017.....		2016.....	
	Class and amount of foreign currency (in thousands of pesos)	Exchange rate applicable \$	Amount in currency Argentine (in thousands of pesos)	Amount in currency foreign	Amount in currency Argentine (in thousands of pesos)
CURRENT ASSETS					
<u>Cash and cash equivalents</u>					
	USD	5,482	18.549	101,684	78,428
	Guatemalan quetzal	36	2.525	90	19
	Venezuelan bolivar	3,066	0.006	17	512
	Chilean pesos	19,696	0.030	594	13,852
					308
<u>Other investments</u>					

Placements of funds	USD	10,920	18.549	202,552	54,840	865,930
<u>Trade receivables</u>						
Accounts receivable	USD	20,834	18.549	386,441	20,612	325,456
<u>Other receivables</u>						
Related companies	USD				621	9,805
Accounts receivable	USD	1,943	18.549	36,040	3,953	62,411
	Chilean pesos	43,902	0.030	1,324	50,687	1,127
	Guatemala n quetzal	49	2.525	125	50	106
	Venezuela n bolivar	14,066	0.006	78	5,462	128
Total Current Assets				728,945		2,503,700
<u>NON-CURRENT ASSETS</u>						
<u>Trade receivables</u>	USD	1,688	18.549	31,311		
<u>Investments in subsidiaries and associates</u>	USD				531	8,392
<u>Other investments</u>	USD				100	1,586
<u>Other receivables</u>						
Related companies	USD				3,623	57,207
Total Non-Current Assets				31,311		67,185
TOTAL ASSETS				760,256		2,570,885

<u>CURRENT LIABILITIES</u>						
<u>Trade payables</u>	USD	14	18.549	268	7	106
	USD	36,837	18.649	686,967	14,219	225,947
	Venezuela	22,361	0.006	124	5,548	130
	n bolivarian pesos	2,255	0.030	68	2,609	58
<u>Financial debts</u>	USD	61,716	18.649	1,150,946	75,593	1,201,167
<u>Salaries and social security contributions</u>	Venezuela	28,493	0.006	158	12,546	294
	n bolivarian pesos					
<u>Tax payables</u>	Guatemala	2	2.525	5	2	5
	n quetzal					
	Venezuela	541	0.006	3	683	16
	n bolivarian pesos					
<u>Other liabilities</u>	USD				3,902	62,000
Total Current Liabilities				1,838,539		1,489,723
<u>NON-CURRENT LIABILITIES</u>						
<u>Trade payables</u>	USD	3,000	18.649	55,947	5,000	79,450
<u>Financial debts</u>	USD	311,612	18.649	5,811,248	304,748	4,842,441
Total Non-Current Liabilities				5,867,195		4,921,891
TOTAL LIABILITIES				7,705,734		6,411,614
TOTAL				(6,945,478)		(3,840,729)

The Company holds 94% approximately of its financial liabilities in US dollars.

The Company does not use derivative instruments as hedge against foreign exchange fluctuations.

The table below shows the effect that a 20% variation would have on the exchange rates disclosed in income/loss and in the Company's shareholders' equity, considering the exposure of its financial assets and liabilities denominated in a currency other than the Argentine peso at closing.

	12.31.2017	12.31.2016
Net Asset (Liability) position in US dollars	(372,431,652)	(241,707,308)
Exchange rate at year-end	18.649	15.890
Effect of sensitivity stated in pesos	(1,389,095,575)	(768,145,825)
Applied sensitivity	20%	20%

The sensitivity of comprehensive income and equity as of December 31, 2017 and 2016, as a result of the appreciation of the rate of exchange on financial assets and liabilities denominated in USD would have meant a decrease in comprehensive income and equity of (\$1,389,095,575) and (\$768,145,825), respectively.

b) Commodities price risk

International prices of crude oil and gas have historically relied on different factors such as, international supply and demand, political and economic circumstances in oil and gas producing regions, climate conditions, competition with other sources of energy, government regulations and global conflicts and terrorism. The Company does not have control and will not gain control on factors affecting oil and gas international prices. International prices have fluctuated and it is likely that they will continue fluctuating significantly. The government adopted a convergence policy between the local and the international benchmark price which ended on December 31, 2017.

At December 31, 2017 and 2016, the Company had no futures contracts or financial derivatives of commodities prices. On February 8, 2018, a put hedge instrument was arranged which covers the lower price of Oil Brent below USD65/bbl in the international markets for the period from February 1, 2018 to October 31, 2018, for an amount of 534,633 bbl, paying a premium of USD 1.7 MM.

c) Interest rate risk

The Company may be exposed to risks related to fluctuations in interest rates, depending on the different maturity dates and currencies in which a loan was taken or cash invested in financial assets.

Financial liabilities include Corporate Bonds, local financial loans and credit facilities from local banks. These loans are mainly used for working capital and investments. As regards short-term financial assets, they basically include sight deposits, term deposits and units in mutual funds.

The Company does not use derivative financial instruments to hedge interest rate risks.

The variations in interest rates may affect income or expenses arising from interest on financial assets and liabilities at a floating rate. Furthermore, they can affect the fair value of financial assets and liabilities accruing a fixed interest rate.

At December 31, 2017 and 2016, approximately 100% and 99%, respectively, of the total financial liabilities were subject to fixed interest rates and the remainder, to variable interest rates.

The table below shows the breakdown of the Company's loans by interest rate and currency in which they are denominated:

	12.31.2017	12.31.2016
Fixed rate:		
United States dollar	6,959,167	6,037,637
Subtotal fixed-rate loans	6,959,167	6,037,637
Variable rate:		
Argentine peso	1,353	72,780
Subtotal variable-rate loans	1,353	72,780
Total financial debts	6,960,520	6,110,417

The information on the Company's loans and related interest rates is included in Note 21.

The Company's debt subject to variable interest rates amounted to \$1,353 at December 31, 2017; in view of its low materiality, the Company is not exposed to a significant risk of cash flows as a result of variations in interest rates.

4.1.2. Credit risk

Credit risk is the possibility the Company has of suffering losses arising from non-compliance with contractual obligations by third parties.

The credit risk to which the Company is exposed mainly arises from credit sales made to its customers, advances to suppliers or other third parties, and cash resources and deposits and investments in financial institutions.

The Company's credit risk is measured and controlled by customer or individual third party.

The provisions for insolvency are determined meeting the following criteria:

- Receivables aging
- Existence of debts in receivership
- The analysis of the customer's capacity to repay the receivables provided

In the fiscal year ended December 31, 2017, 53% approximately of the Company's hydrocarbon sales revenue were generated by crude oil and the remaining 47% by natural gas and liquids.

At December 31, 2017, Company's trade receivables totaled \$849,747, 93% of which will expire in the short term and the other 7% is classified as non-current and correspond to: a) a \$29,887 nominal value of a receivable from Camuzzi, Gas del Sur S.A. recorded at present value for \$24,687; and b) a pre-reorganization proceeding receivable from customer Oil Combustibles S.A., disclosed at its present value of \$80,126. In both cases, for the determination of present values, the Company uses a benchmark rate representative of the time value of money and the estimated collection term.

On April 8, 2016, the First Instance Court No. 1 with jurisdiction over summary proceedings, in and for the city of Comodoro Rivadavia, Office No. 2 of Comodoro Rivadavia, Province of Chubut, ordered that reorganization proceedings of Oil Combustibles S.A. be commenced and established July 25, 2016 as the deadline for creditors holding claims of cause or title prior to March 30, 2016 to file a proof of claims with the trustee in reorganization under the terms of section 32 of Law 24522.

On July 21, 2016, the Company filed a proof of claims with the trustee in reorganization for its trade receivables in US dollars and pesos upon cause prior to March 30, 2016 for a nominal value of USD 3,954,985 and \$14,334, respectively. The proof of claims was recognized under a Court resolution on October 6, 2017.

The Company sets up an allowance for doubtful accounts which reflects the best estimate of possible losses related to trade receivables and other credits.

The credit risk of liquid funds and other financial investments is limited since the parties are bank institutions with adequate credit ratings.

4.1.3. Liquidity risk

The liquidity risk is mainly associated with: (i) the Company's capacity to finance its investments and business plans with stable financing sources, (ii) its level of indebtedness, and (iii) the type of due dates of the financial debt.

The Board of Directors and Management supervises current and future business projections to: (i) structure its financial liabilities so that their due dates not interfere with the current business flow in the short and medium term, considering the conditions at each date in the credit markets to which it has access, and (ii) maintain its asset positions in instrument with adequate liquidity.

The Company's Administration & Finance department invests cash surpluses in interest-bearing accounts, such as time deposits, mutual funds and Corporate Bonds, choosing instruments with appropriate due dates and adequate credit quality and liquidity to obtain a sufficient margin, as determined in the projections mentioned above.

The Company maintains diversified funding sources, including banks and capital markets, and is exposed to refinancing risk at maturity date.

Below is an analysis of the Company's financial liabilities considering contractual due dates. The amounts disclosed in the table are contractual undiscounted cash flows:

<u>Less than 1 year</u>	<u>Between 1 and 2</u>	<u>Between 2 and 5</u>
-------------------------	------------------------	------------------------

	years		years
At December 31, 2017			
Overdraft facilities	1,353	-	-
Bank loans	1,080,352	268,114	-
Corporate Bonds	67,567	-	5,543,134
Total	1,149,272	268,114	5,543,134

4.2 Capital risk management

The main objective of the Company's capital management is to maintain the credit rating and capital ratios to finance its business and maximize the value for its shareholders.

Further, CGC seeks to maintain a certain fund-generating level of operating activities to meet its investment plan, as well as all its commitments.

The Company monitors capital based on the leverage ratio. This ratio is calculated by dividing net debt by equity. Net debt corresponds to the total debt (including current and non-current debts) less cash and cash equivalents and current financial assets at fair value with a counterpart in profit and losses. Total equity corresponds to equity attributed to its owners as it is shown in the statement of financial position, plus net debt.

At December 31, 2017 and 2016, leverage ratios were the following:

	12.31.2017	12.31.2016
Total loans	6,960,520	6,110,417
Less: cash and cash equivalents and financial assets at fair value through profit or loss	(233,315)	(1,874,749)
Net debt	6,727,205	4,235,668
Total principal	7,493,824	5,374,732
Leverage ratio	89.77%	78.81%

4.3 Fair value estimate

The Company classifies the measurements of financial instruments at fair value using a fair value hierarchy, which reflects the relevance of the variables used to carry out such measurements. The fair value hierarchy has the following levels:

- Level 1: (Unadjusted) quoted prices in active markets for identical assets or liabilities.
- Level 2: data other than the quoted prices included in Level 1 observable for assets or liabilities, whether directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: data on assets and liabilities not based on information observable in the market (i.e. not observable information).

The value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is considered active when the quoted prices are regularly available through a stock exchange, financial agent, sectoral institution, or regulatory agency and such prices show transactions regularly performed at current market value between independent parties. The quoted market price used for financial assets held by the Company is the current offering price. These instruments are included in Level 1.

The fair value of financial instruments not traded in active markets is determined using valuation techniques. These valuation techniques maximize the use of observable market information, where available, and tend not to rely on the Company's specific estimates. If all the significant variables to calculate the fair value of a financial instrument are observable, the instrument is included in Level 2.

If one or more variables used to calculate the fair value are not observable in the market, the instrument is included in Level 3.

The following table shows the financial assets of the Group stated at fair value at December 31, 2017 and 2016.

<u>At 12.31.2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Other short-term investments:</u>				
Government securities	190,092	-	-	190,092
Total current assets	190,092	-	-	190,092
<u>Investments in companies:</u>				
Petronado S.A. (Venezuela) (Note 9)	-	-	11,064	11,064
Total non-current assets	-	-	11,064	11,064

<u>At 12.31.2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Other short-term investments:</u>				
Mutual funds	40,079	-	-	40,079
Listed shares (Note 26 a))	313,244	-	-	313,244
Total current assets	353,323	-	-	353,323
<u>Investments in companies:</u>				
Petronado S.A. (Venezuela) (Note 9)	-	-	10,117	10,117
Total non-current assets	-	-	10,117	10,117

NOTE 5 - CRITICAL ACCOUNTING CRITERIA AND ESTIMATES

To prepare financial statements it is necessary to use estimates for certain assets, liabilities and other transactions. The Company uses assumptions and judgments which are reviewed on a regular basis; however, actual results may differ from the estimates made.

Estimates and judgments are constantly assessed and are based on the historical experience and other factors, included the expectations of future events considered reasonable according to the circumstances.

Below is a detail of the most significant estimates and assumptions:

a) Hydrocarbon reserves

Reserves are the volumes of oil and gas (expressed in m3 of oil equivalent) which generate or are related to an economic gain in the areas where the Company operates or has an investment (direct or indirect) and on which it has rights over its exploitation.

There are various factors that create uncertainty as to the estimate of proven reserves and of future production profiles, development costs and prices, including several factors beyond the control of the producer. The procedure for calculating reserves is a subjective process for estimate of crude oil and natural gas to be recovered from the subsoil, which causes certain level of uncertainty. Reserves are estimated based on the quality of the geological and engineering information at the date of calculation and interpretation.

Reserve estimates are adjusted if changes in the aspects considered for their evaluation so justify it, or at least, once a year. The reserves estimates at December 31, 2017 were prepared by Company technical staff and the areas of Southern Basin in Argentina were audited by DeGolyer and MacNaughton (Note 33).

b) Asset retirement obligation and provision for well plugging

Asset retirement and well plugging obligations once operations have been completed led Management to make estimates of long-term retirement costs and of the remaining period up to retirement. It should be mentioned that technology, costs and political, environmental and safety considerations constantly change, giving rise to possible differences between actual future results and estimates.

c) Assets impairment

For the purpose of assessing the recoverability of non-financial assets, these assets are grouped together in the lower levels for which there are cash flows individually identifiable.

The Company regularly assesses the recoverability of Property, plant and equipment, which includes exploration and evaluation assets, as mentioned in Note 3.2.5.IV), when there are events or circumstances indicating potential impairment evidence. The estimate of future cash flows includes making estimates about two key elements: reserves and future prices. The estimate of future prices requires the use of significant judgments about uncertain future events. Reserves were discussed in paragraph a) to this Note.

The carrying amount of Property, plant and equipment is considered impaired by the Company when the value-in-use, calculated based on the estimated cash flows expected from those assets, discounted and separately identifiable, or their net realizable value are lower than their carrying amounts. This analysis is made at the lowest level for which there are identifiable cash flows (CGUs).

For assessment purposes, each related company has been considered as a CGU.

To assess whether a CGU might be affected, external and internal sources are analyzed, considering specific events and circumstances, which in general include the discount rate in the cash flow projections of each CGU and the business condition in terms of economic and market factors, such as tariff, inflation, exchange rate, costs and other cash expenditures, as well as the industry regulatory framework under which the Company operates.

The Company records impairment charges when it estimates that there is objective evidence of its existence or when the costs of these assets are not recovered with future cash flows.

A previously recognized impairment loss is reversed when there is a subsequent change in the estimates used in computing the asset recoverable amount. In that case, the new amount may not exceed the amount they would have had at the new measurement date had the impairment not been recognized. Both the impairment charge and its reversal are recognized in income.

The value-in-use calculation requires the use of estimates and is based on cash flow projections prepared based on economic and financial budgets approved by Management.

At the time of estimating future cash flows, critical judgment by Management is required. Actual cash flows and values may significantly vary from expected future cash flows and the related values obtained through discount techniques.

d) Costs of exploration and evaluation

The Company accounts for its evaluation and exploration costs as detailed in Note 3.2.5.I). The Company's management should make analyses and estimates of whether those assets should continue being treated as such, when even the evaluations have been completed or when there is no sufficient information to conclude about the exploration effort made. To carry out such analysis, management consults technical experts in the subject.

e) Determination of the income tax charge and deferred taxes

The valuation of the income tax expense depends on various factors, including interpretations of tax treatments to transactions and/or events which are not expressly foreseen by the current tax law, as well as estimates as to the timing and payment of deferred taxes. In addition, current collections and payments of taxes may differ from these estimates in the future due to changes in the tax regulations and/or their interpretations, as well as to unforeseen future transactions that may have an impact on the Company's balance sheets for tax purposes.

f) Contingencies

The Company is subject to several complaints, lawsuits and litigation arising from the normal course of business. Liabilities as regards these complaints, lawsuits and other litigation cannot be accurately estimated. The Company analyzes the status of each contingency and assesses the potential financial exposure, applying the criteria described in Note 3.2.14.2, for which purpose it prepares the estimates mainly with the assistance of legal advisors.

NOTE 6 – INFORMATION BY SEGMENTS

The business segments were defined in the usual manner with which management analyzes the information during the decision making process.

The representative manner followed by management for decision-making purposes has been determined as the “adjusted EBITDA”. The adjusted EBITDA is the Company's ordinary income before interest, income tax, depreciation and amortization of all tangible and intangible assets of the Company, and before any other income/loss not implying movement of funds in cash, plus cash dividends collected by the Company. It includes sales revenue and net income from operations plus cash dividends collected by the Company less (i) operating expenses (without including amortization charges), exploration (without including dry exploration wells and deletion of capitalized exploration costs), production and carriage, and (ii) business and administrative expenses and other taxes, including withholdings on exports.

Management information used for decision-making purposes is prepared monthly and includes the breakdown of the following segments of the Company:

- 1) Oil and gas exploration and production (“Oil and gas”), made up by investments in oil and gas areas and investments in the public private partnership Petronado S.A. of Venezuela.
- 2) Natural gas transportation made up by the direct and indirect investments in the related companies TGN, TGM and Gas Andes.
- 3) Net income from operations corresponding to the Central Structure, those not identified with any business segment, and intra-segment deletions are disclosed together.

The Central Structure includes expenses common to the various business segments, such as administrative expenses, tax on financial transactions, interest on financial liabilities and income tax, incurred by the Company during the normal course of its operations and which for control purposes are managed from the Central Structure and are not reallocated among the operating segments.

Below is a detail of the information on each business segment identified by Company Management:

	2017			
	Exploration and production of oil and gas	Gas transportation	Central structure	TOTAL
Net income	4,897,577	-	-	4,897,577
Cost of sales	(3,288,854)	-	-	(3,288,854)
Gross profit	1,608,723	-	-	1,608,723
Selling expenses	(104,422)	-	-	(104,422)
Central structure expenses	-	-	(269,671)	(269,671)
Other operating income and expenses	(1,673)	40,939	-	39,266
Adjusted EBITDA	1,502,628	40,939	(269,671)	1,273,896
Other operating income and expenses	12,916	-	(31,664)	(18,748)
Depreciation and amortization	(988,583)	-	(15,966)	(1,004,549)
Impairment allowance for non-financial assets	(8,314)	-	-	(8,314)
Tax on financial transactions	(36,164)	-	(8,596)	(44,760)
Gains/losses on long-term investments	-	377,332	-	377,332
Subtotal	482,483	418,271	(325,897)	574,857
Financial income	-	-	32,168	32,168
Financial costs	-	-	(520,637)	(520,637)
Other financial results	-	-	(689,187)	(689,187)
Income/(Loss) before taxes	482,483	418,271	(1,503,553)	(602,799)
Income tax	(174,927)	(10,235)	375,889	190,727
Income/(Loss) for the year	307,556	408,036	(1,127,664)	(412,072)
Adjusted EBITDA				1,273,896
Dividends collected in the current year				64,228
Adjusted EBITDA as per dividends collected				1,338,124

	2016			
	Exploration and production of oil and gas	Gas transportation	Central structure	TOTAL
Net income	3,475,124	-	-	3,475,124
Cost of sales	(1,839,873)	-	-	(1,839,873)
Gross profit	1,635,251	-	-	1,635,251
Selling expenses	(70,700)	-	-	(70,700)
Central structure expenses	-	-	(200,059)	(200,059)
Exploration expenses	-	-	-	-
Other operating income and expenses	(25,730)	12,417	-	(13,313)
Adjusted EBITDA	1,538,821	12,417	(200,059)	1,351,179
Other operating income and expenses	-	-	(58,095)	(58,095)
Depreciation and amortization	(776,221)	-	(7,205)	(783,426)
Impairment allowance for non-financial assets	(28,997)	-	-	(28,997)
Tax on financial transactions	(15,513)	-	(28,903)	(44,416)
Gains/losses on long-term investments	-	21,333	-	21,333
Subtotal	718,090	33,750	(294,262)	457,578
Financial income	-	-	297,569	297,569
Financial costs	-	-	(1,109,188)	(1,109,188)
Income/(Loss) before taxes	718,090	33,750	(1,105,881)	(354,041)
Income tax	(260,959)	(4,346)	387,127	121,822
Income/(Loss) for the year	457,131	29,404	(718,754)	(232,219)
Adjusted EBITDA				1,351,179
Dividends collected in the current year				-
Adjusted EBITDA as per dividends collected				1,351,179

NOTE 7 - FINANCIAL INSTRUMENTS

Financial instruments by category

<u>ASSETS</u>	<u>12.31.2017</u>	<u>12.31.2016</u>
Financial assets at amortized cost:		
Other receivables	1,701,561	1,100,920
Trade receivables	849,747	544,668
Other investments	12,460	582,873
Cash and cash equivalents	222,719	1,261,775
Total	2,786,487	3,490,236
Financial assets at fair value:		
Other investments	190,092	353,323
Investments in Companies	11,064	10,117
Total	201,156	363,440
<u>LIABILITIES</u>		
Financial liabilities at amortized cost:		
Trade payables	1,274,552	672,816
Financial debts	6,960,520	6,110,417
Other debts, social security charges and taxes payable	218,651	221,026
Total	8,453,723	7,004,259

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

The breakdown of this caption is as follows:

Main account		Original values				Depreciation				Net	Net	
		Value at the beginning of year	Additions	Transfers	Deletions (2)	Value at end of year	Accumulated at the beginning of the year	Deletions	For the year	Accumulated at end of year	at - 12.31.2017	at - 12.31.2016
DEVELOPMENT AND PRODUCTION ASSETS												
Wells and production facilities		4,232,820	201,904	2,458,408	(69,891)	6,823,241	1,853,200	(43,196)	871,063	2,681,067	4,142,174	2,379,620
Other production-related assets		23,293	-	-	(44)	23,249	11,864	(39)	2,910	14,735	8,514	11,429
Mining property		1,054,571	3,950	-	(17,831)	1,040,690	319,975	(8,330)	114,501	426,146	614,544	734,596
Materials and spare parts		7,832	210	-	(2,972)	5,070	-	-	-	-	5,070	7,832
Works in progress (1)		555,201	2,531,573	(2,496,765)	-	590,009	-	-	-	-	590,009	555,201
Subtotal		5,873,717	2,737,637	(38,357)	(90,738)	8,482,259	2,185,039	(51,565)	988,474	3,121,948	5,360,311	3,688,678
EXPLORATION AND EVALUATION ASSETS												
		237,227	134,108	-	(10,017)	361,318	-	-	-	-	361,318	237,227
CENTRAL ASSETS	MANAGEMENT	35,891	21,300	38,357	(104)	95,444	21,103	(104)	16,075	37,074	58,370	14,788
--												
TOTAL 12.31.2017		6,146,835	2,893,045	-	(100,859)	8,939,021	2,206,142	(51,669)	1,004,549	3,159,022	5,779,999	
TOTAL 12.31.2016		4,676,814	1,475,917	-	(5,896)	6,146,835	1,424,621	(1,905)	783,426	2,206,142		3,940,693
											(87,472)	(127,552)
											5,692,527	3,813,141

- (1) The cost of works in progress whose construction extends over time includes, where applicable, financial costs accrued from financing through third party capital. In the years ended December 31, 2017 and December 31, 2016, \$307,218 and \$113,873, respectively, were recorded for the capitalization of financial costs.
- (2) These financial costs include in the fiscal year ended December 31, 2017 the write-off of assets for the assignment of an interest in the CNQ6-EI Sauce area for \$48,394, which had been included in the obsolescence allowance for non-financial assets (Note 28.a) (3)).

The changes in the allowance for non-financial assets impairment are as follows:

	12.31.2017	12.31.2016
Balance at the beginning of year	127,552	98,555
Increases (1)	8,314	28,997
Decreases (2)	(48,394)	-
Balance at year end	87,472	127,552

(1) Allocated to other operating income and expenses

(2) Corresponds to the write-off resulting from the assignment of the interest in the CNQ6-El Sauce area (Note 28.a) (3)).

NOTE 9 - INVESTMENTS IN COMPANIES

a) Below is a detail of the investments in companies at December 31, 2017 and 2016:

Company	12.31.2017	12.31.2016
Investments in Associates		
Gasinvest S.A.	272,502	79,504
Gasoducto GasAndes Argentina S.A.	148,757	139,858
Gasoducto GasAndes S.A. (Chile)	112,950	132,181
Transportadora de Gas del Norte S.A.	423	26
Transportadora de Gas del Mercosur S.A. (2)	137,833	-
Andes Operaciones y Servicios S.A. (Chile)	13,273	10,557
Subtotal	685,738	362,126
Other investments		
Petronado S.A. (Venezuela) (3)	11,064	10,117
Other investments	10,000	10,000
Subtotal	21,064	20,117
Goodwill (1)	8,576	8,576
Total investments	715,378	390,819

(1) Originated in the acquisition of an interest in Gasoducto GasAndes S.A. (Chile) on October 7, 2014.

(2) See Note 30 (2)

(3) See Note 30 (5)

b) Below are the changes in the investments in subsidiaries and associates at December 31, 2017 and 2016:

	12.31.2017	12.31.2016
At the beginning of the year	390,819	268,773
Translation differences	37,444	21,908
Result of investments in associates	377,332	21,333
Acquisition of ownership interests in associates (Note 30 (4))		78,608
Dividends collected	(64,228)	-
Associates' capital reduction	(26,936)	-
Gain/ (loss) for valuation at fair value of Petronado S.A.	947	197
At the end of the year	715,378	390,819

- c) The accounting information selected for the investments in associates (according to CGC's percentage of participation) is shown below:

COMPANY	12.31.2017			
	Assets	Liabilities	Income/(loss)	Income from sales
Gasinvest S.A.	215,650	197	192,247	-
Gasoducto GasAndes Argentina S.A.	166,714	17,957	24,621	90,208
Gasoducto GasAndes S.A. (Chile)	297,601	184,651	21,499	93,407
Andes Operaciones y Servicios S.A. (Chile)	20,854	7,580	736	28,951
Transportadora de Gas del Mercosur S.A.	235,989	98,156	137,833	74
Transportadora de Gas del Norte S.A.	5,139	4,716	396	1,823

COMPANY	12.31.2016			
	Assets	Liabilities	Income/(loss)	Income from sales
Gasinvest S.A.	21,976	2,105	(61,793)	-
Gasoducto GasAndes Argentina S.A.	170,498	30,639	32,800	81,681
Gasoducto GasAndes S.A. (Chile)	327,548	195,367	41,596	84,244
Andes Operaciones y Servicios S.A. (Chile)	17,411	6,854	1,339	24,383
Transportadora de Gas del Norte S.A.	2,131	2,106	(121)	853

NOTE 10 - OTHER RECEIVABLES

The breakdown of other receivables is as follows:

	12.31.2017	12.31.2016
<u>Non-current:</u>		
Related parties (Note 26 a))	122,493	162,234
Minimum notional income tax	96,346	94,888
Value added tax	24,293	22,776
Sundry	40	539
Allowance for other receivables	(108,505)	(90,073)
Total	134,667	190,364
<u>Current:</u>		
Receivables under Petróleo Plus Program	-	26,177
Receivables under the incentive program for Gas Injection	1,043,389	567,657
Receivables from the propane gas supply agreement	20,296	19,012
Receivables from export refunds from Patagonia ports	12,855	10,943
Related parties (Note 26 a))	3,010	13,244
Value added tax	305,878	158,212
Income tax	116,507	40,002
Other tax credits	13,514	32,423
Advances to suppliers	4,275	1,651
Expenses to be recovered	28,861	34,889
Pre-paid insurance	2,791	5,367
Sundry	15,518	979
Total	1,566,894	910,556

Activity in the allowance for other receivables is as follows:

	12.31.2017	12.31.2016
<u>Non-Current</u>		
Balance at the beginning of year	90,073	74,007
Increases (1)	18,432	16,066
Balance at year end	108,505	90,073

(1) \$ (13,918) and \$1,025 were charged to other operating income and expenses, and \$32,350 and \$15,041 were charged to financial results in 2017 and 2016, respectively.

NOTE 11 - INVENTORIES

The breakdown of inventories is as follows:

	12.31.2017	12.31.2016
Oil and byproducts	267,610	506,685
Materials and spare parts	154,973	168,652
Total	422,583	675,337

NOTE 12 - TRADE RECEIVABLES

The breakdown of trade receivables is as follows:

	12.31.2017	12.31.2016
<u>Non-Current</u>		
Ordinary (1)	104,813	63,839
Less: Allowance for doubtful accounts	(43,848)	-
Total	60,965	63,839
<u>Current</u>		
Ordinary	822,505	511,541
Less: Allowance for doubtful accounts	(33,723)	(30,712)
Total	788,782	480,829

(1) See Note 4.1.2

Activity in the allowance for doubtful accounts is as follows:

	12.31.2017	12.31.2016
Balance at the beginning of year	30,712	4,607
Increases (Note 24 e))	46,859	26,105
Balance at year end	77,571	30,712

Accounts receivable covered by an allowance correspond to certain customers that are delayed in their payments more than six months.

At December 31, 2017 and 2016 there are trade receivables past due but not covered by an allowance for \$38,108 and \$180,042, respectively. The aging of these balances is as follows:

	12.31.2017	12.31.2016
From 0 to 3 months (1)	16,222	175,580

From 3 to 6 months	21,886	4,462
Total	38,108	180,042

- (1) Includes receivables for \$122,551 at December 31, 2016, for deliveries of gas to distributors for consumption by residential customers, whose billings and collections were affected by the provisional remedies described in Note 2. "New gas rate schedule in the regulated market for residential and commercial customers".

At December 31, 2017 and 2016, the amounts of trade receivables for \$ 822,505 and \$ 511,541, respectively, fully complied with contractual terms and their fair value did not significantly differ from the carrying amount.

The aging of these balances is as follows:

	12.31.2017	12.31.2016
Past due		
From 0 to 3 months	16,222	175,580
From 3 to 6 months	21,886	4,462
From 6 to 9 months	4,998	4,123
From 9 to 12 months	1,036	7,645
Over a year	27,689	18,943
To be due		
From 0 to 3 months	750,674	300,788
Total	822,505	511,541

The carrying amount of trade receivables is stated in the following currencies:

	12.31.2017	12.31.2016
Argentine peso	436,064	186,085
United States dollar	386,441	325,456
Total	822,505	511,541

NOTE 13 - OTHER INVESTMENTS

The breakdown of other investments is as follows:

<u>Non-Current:</u>	12.31.2017	12.31.2016
Placements of funds - Related parties (Note 26 a))	-	8,392
Corporate Bonds	-	1,586
Total	-	9,978
<u>Current:</u>		
Related parties (Note 26 a))	10,596	-
Corporate Bonds	1,864	-
Time deposits	-	572,895
Government securities (2)	190,092	313,244
Mutual funds (1)	-	40,079
Total	202,552	926,218

- (1) At December 31, 2016, it includes 18,484 units of the fixed-income mutual fund "Toronto Trust Renta Fija".
- (2) At December 31, 2017, they include 9,073,648 Argentine Bonds denominated in US dollars 8% due in 2020 (Bonar 2020 US dollars), received as provided for by Decree No. 704/2016. The bonds were subject to the restrictions indicated in said Decree until December 31, 2017.

NOTE 14 - CASH AND CASH EQUIVALENTS

	12.31.2017	12.31.2016
Cash and imprest fund	243	218
Banks	222,476	1,261,557
Total	222,719	1,261,775

For purposes of the statement of cash flows, cash, cash equivalents and bank overdrafts include:

	12.31.2017	12.31.2016
Cash and cash equivalents	222,719	1,261,775
Mutual funds	-	40,079
Placements of funds	10,596	-
Time deposits (less than 3 months)	-	572,895
Overdraft facilities	(1,353)	(1,564)
Total	231,962	1,873,185

NOTE 15 - CAPITAL STOCK AND IRREVOCABLE CAPITAL CONTRIBUTIONS

Capital stock

The Extraordinary Shareholders' Meeting held on December 19, 2013 decided to modify the number of Class "A" and "B" shares, due to the transfer of shares of Latin Exploration, S.L. to Sociedad Comercial del Plata S.A. (see Note 26); as a result, the capital stock was set in the amount of \$ 70,000, represented by 70,000,000 ordinary, registered, non-endorsable shares of one (1) vote per share, of which 49,000,000 are Class "A" shares and 21,000,000 are Class "B" shares, in the same proportion as the 70% ownership of Latin Exploration S.L. and 30% ownership of Sociedad Comercial del Plata S.A.

At December 31, 2014 the capital stock amounted to \$ 70,000 and has been fully subscribed, paid-up and registered with the Superintendency of Commercial Companies.

Approval of a capital increase by Ordinary Shareholders' Meeting and Extraordinary Shareholders' Meeting dated April 17, 2015

On April 17, 2015, the Ordinary Shareholders' Meeting and the Extraordinary Shareholders' Meeting unanimously decided to increase capital stock by \$ 329,137,856 through the issuance of 329,137,856 ordinary registered non-endorsable shares with face value of \$1 each and carrying one vote per share. Shares were paid up through (i) a cash contribution of \$ 97,986,331 made by Latin Exploration S.L.U. on October 2, 2014; (ii) a contribution of \$ 161,806,067 made with 144,624,267 shares of Unitec energy S.A. (Note 2.2.3) belonging to Latin Exploration S.L.U. ; and (iii) a contribution of \$ 69,345,458 made with 61,981,828 shares of Unitec Energy S.A. which belong to Sociedad Comercial del Plata S.A.

On April 17, 2015, Latin Exploration S.L.U. transferred 29,395,899 registered non-endorsable shares with a face value of \$1 each and a voting right per share to Sociedad Comercial del Plata S.A.

Given the capital contributions and the transfer of shares made, as of April 17, 2015, CGC share capital amounts to \$ 399,137,856 and is made up of 399,137,856 registered non-endorsable shares with a face value of \$1 each and carrying one vote per share. The shareholders of Latin Exploration S.L.U. and Sociedad Comercial del Plata S.A. hold 70% and 30% of the capital stock and votes, respectively. Latin Exploration S.L.U. holds 279,396,499 shares and Sociedad Comercial del Plata S.A. holds 119,741,357 shares.

At December 31, 2017 and 2016, the capital stock amounts to \$ 399,138 and has been fully subscribed, paid-up and registered.

NOTE 16 - RESERVES

	Legal reserve	Discretionary Reserve (1)	Other (2)	Total Reserves
Balances at December 31, 2015	14,000	890,323	(132,789)	771,534
Ordinary General Shareholders' Meeting dated March 31, 2016 (income appropriation):	3,491	66,325	-	69,816
Balances at December 31, 2016	17,491	956,648	(132,789)	841,350
Ordinary Shareholders' Meeting dated April 21, 2017 (absorption of accumulated losses):	-	(231,091)	-	(231,091)
Balances at December 31, 2017	17,491	725,557	(132,789)	610,259

- (1) For maintenance of working capital and distribution of future dividends and/or absorption of losses. The amounts included under this caption were established by the Shareholders' Meetings that approved the pertinent annual financial statements.
- (2) Corresponds to the difference between the price paid and the carrying amount of the acquisition of Unitec Energy S.A. in 2015.

NOTE 17 - RETAINED EARNINGS

	12.31.2017	12.31.2016
Balances at December 31, 2015		69,816
Ordinary General Shareholders' Meeting held on March 31, 2016 (appropriation of earnings)		(69,816)
Net income / (loss) for the year		(231,091)
Balances at December 31, 2016	(231,091)	(231,091)
Ordinary General Shareholders' Meeting held on April 21, 2017 (absorption of accumulated losses)	231,091	
Net income / (loss) for the year	(409,889)	
Balances at December 31, 2017	(409,889)	

NOTE 18 – CONTINGENT LIABILITIES FOR LAWSUITS AND OTHER LEGAL PROCEEDINGS

The provision for lawsuits, administrative claims and contingencies was determined considering the opinion of the legal advisors, based on the amounts estimated to face contingent situations that would probably create obligations for the Company, taking into account the likelihood of the amounts involved and their possibility of occurrence.

At the date of issuance of these financial statements, the Company and the regulatory authorities have interpretation differences referred to the calculation of hydrocarbon royalties. It is estimated that the resolution of these situations will not cause significant impacts not considered in these financial statements.

Furthermore, the Company is facing tax claims in Venezuela related to income tax and municipal duties, which to date are still pending resolution. The Company's Board of Directors and Management, based on the elements available to date, believe that the final resolution of this situation will not significantly affect the Company's equity and financial position or the results of its operations.

Reorganization Plan: On June 28, 2012, the Court of First Instance declared CGC's reorganization plan fulfilled. On May 17, 2016, Argentina's Supreme Court dismissed the ordinary appeal filed by AFIP in re. Cía. General de Combustibles S.A. s/ concurso s/ incidente de revisión por AFIP. Payment of this tax liability is secured by a bond insurance policy taken out by CGC, which will be maintained until CGC settles the receivable recognized in favor of AFIP, and included in an installment payment plan regulated by Law No. 26476.

The changes in the provision for lawsuits and contingencies are as follows:

	12.31.2017	12.31.2016
<u>Non-Current</u>		
Balance at the beginning of year	11,048	14,581
Increases / (decreases) (1)	21,640	(3,533)
Balance at year end	32,688	11,048
	12.31.2017	12.31.2016
<u>Current</u>		
Balance at the beginning of year	31,324	-
(Decreases) increases (1)	(31,324)	31,324
Balance at year end	-	31,324

(1) \$ (9,635) and \$27,908 allocated to other operating income and expenses in 2017 and 2016, and \$ (49) and \$ (117) to financial results in 2017 and 2016.

NOTE 19 - PROVISIONS

The breakdown of provisions is as follows:

	12.31.2017	12.31.2016
<u>Non-current:</u>		
For gas imbalance (Note 3.2.14.1)	13,691	15,371
Asset retirement obligation and provision for environmental remediation (Note 3.2.14.1)	855,484	640,530
Sundry	2,756	2,755
Total	871,931	658,656
	12.31.2017	12.31.2016
<u>Current:</u>		
For gas imbalance (Note 3.2.14.1)	1,684	1,345
Fees for reorganization trustees	1,976	2,127
Sundry	8,176	6,960
Total	11,836	10,432

The changes in the provision for gas imbalance and asset retirement obligation and environmental remediation are as follows:

	Gas imbalance		Asset retirement obligation and provision for environmental remediation	Total	
	Non-Current	Current	Non-Current	Non-Current	Current
Balances at the beginning of year	15,371	1,345	640,530	655,901	1,345
Increases charged to Assets (1)	-	-	201,904	201,904	-
Charged to income/(loss) (2)	(2,126)	339	-	(2,126)	339
Present value/exchange difference (3)	446	-	38,591	39,037	-
Write-off due to the assignment of the CNQ6 El Sauce area (4)	-	-	(25,541)	(25,541)	-
Balances at year end	13,691	1,684	855,484	869,175	1,684

- (1) \$201,904 allocated to Property, plant and equipment.
(2) (\$1,787) allocated to costs of sales.
(3) \$39,037 allocated to financial costs.
(4) See Note 28.a) (3).

NOTE 20 - TAX PAYABLES

The breakdown of tax payables is as follows:

	12.31.2017	12.31.2016
<u>Non-current:</u>		
Payment plan, Section 32 Law No. 11683	35,298	46,335
Payment plan Law No. 26476	763	1,814
Payment plan - AFIP General Resolution No. 3451	3,907	4,427
Total	39,968	52,576
<u>Current:</u>		
Provision for turnover tax	770	2,570
Other taxes	521	375
Tax withholdings and collections	35,809	22,885
Payment plan, Section 32 Law No. 11683	11,038	9,397
Payment plan Law No. 26476	1,051	939
Payment plan - AFIP General Resolution No. 3451	519	441
Sundry	358	120
Total	50,066	36,727

NOTE 21 - FINANCIAL DEBTS

The breakdown of financial debts is as follows:

	12.31.2017	12.31.2016
<u>Non-current:</u>		
Bank loans	268,114	-
Corporate Bonds	5,543,134	4,910,686
Total	5,811,248	4,910,686
<u>Current:</u>		
Overdraft facilities	1,353	1,564
Bank loans	1,080,352	560,462
Corporate Bonds	67,567	637,705
Total	1,149,272	1,199,731

Breakdown	December 31, 2017	December 31, 2016	Annual interest rate	Date Expiration	Currency
Financial debt					
<u>NON-CURRENT</u>					
Bank loans					
Syndicated bank loans (Note 21.b)	268,114	-	6.25%	2018-2019	JS dollar
Subtotal	268,114	-			
Corporate Bonds					
- (Note 21.a)					
Corporate Bonds - class A	5,543,134	4,700,389	9.50 %	2021	JS dollar
- (Note 21.d)					
Corporate Bonds - class 2	-	142,051	0.00%	2019	JS dollar
Corporate Bonds - class 8	-	68,246	Private Badlar interest rate plus 4.5%	2018	Pesos
Subtotal	5,543,134	4,910,686			
Total non-current assets	5,811,248	4,910,686			

CURRENT**Bank loans**

Syndicated bank loans (Note 21.b)	1,080,352	-	6.25%	2018-2019	JS dollar
Syndicated bank loans (Note 21.e)	-	558,217	4.50%	2017	JS dollar
Bank overdrafts	1,353	1,564	23.00%	2017	Pesos
Banco Macro S.A.	-	2,245	15.25%	2015-2017	Pesos

Subtotal

1,081,705	562,026
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Corporate Bonds

(Note 21.d)

Corporate Bonds - class 4	-	245,835	4.75%	2017	JS dollar
Corporate Bonds - class 6	-	293,239	5.00 %	2017	JS dollar
Corporate Bonds - class 7	-	47,066	1.50%	2017	JS dollar

(Note 21.a and 21.d)

Accrued interest payable	67,567	51,565		2017	JS dollar
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Subtotal

67,567	637,705
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Total current

1,149,272	1,199,731
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TOTAL

6,960,520	6,110,417
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The carrying value of financial debts is similar to their fair value.

The activity in financial debts at December 31, 2017 and 2016 is shown below:

	12.31.2017	12.31.2016
Balance at the beginning	6,110,417	2,681,952
Overdraft facilities, net	(211)	(160)
Interest accrued	599,418	546,293
Effect of exchange rate variation	1,026,564	630,419
Loans obtained	1,119,480	6,772,079
Payments of principal	(1,328,192)	(3,989,808)
Payments of interest	(566,956)	(530,358)
Balance at period end	6,960,520	6,110,417

21.a) International Program for the issue of Corporate Bonds

On November 7, 2016, Class "A" Corporate Bonds for USD 300 million were issued and settled at a nominal annual fixed rate of 9.5%, under the negotiable obligation issue program for a maximum nominal value of up to USD 300 million, outstanding at any time, as approved by the Ordinary and Extraordinary Meeting of Shareholders held on February 1, 2016 and authorized by CNV Resolution 18026 dated April 21, 2016. Principal amortization and maturity shall be in a sole payment within five years counted as from the issue date (November 7, 2021). Interest is paid semi-annually, on May 7 and November 7. The first interest payment date was May 7, 2017. The cost related to the issuance of the new debt amounted to \$86,447.

The Company has traded the Corporate Bonds in the Merval, through the Buenos Aires Stock Exchange, and in the Euro MTF market, through the Luxembourg Stock Exchange.

The funds received for this International Offer were allocated, in compliance with the requirements of Section 36 of the Corporate Bonds Law and other regulations applicable in Argentina, to the full repayment of the Company's Syndicated Loan in US Dollars reported in Note 21.e); to the full settlement of the series of Corporate Bonds issued by the Company under the local program reported in Note 21.d); and the rest of the funds was applied to investments in fixed assets, particularly for the exploration and exploitation of hydrocarbons in the Austral Basin, investments in working capital and for other general corporate purposes.

Under the terms and conditions set out in relation to the issuance of these Corporate Bonds under the international program, CGC will be required to comply with certain restrictions on indebtedness, restricted payments (including dividends), the setting up of liens, and other requirements. At the date of issue of these financial statements, we have complied with the agreed upon restrictions.

21.b) Syndicated Loan Agreement in US Dollars executed on February 20, 2017 and disbursed on February 21 and March 15, 2017

On February 20, 2017, the Company executed a Syndicated Loan Agreement in US Dollars with Industrial and Commercial Bank of China (Argentina) S.A. (ICBC), as administrative agent, for an amount of up to USD 72,000,000. Funds for USD 64,000,000 were received on February 21, 2017 and USD 8,000,000 on March 15, 2017 and will be applied to capital expenditures and working capital.

The syndicated loan in US dollars accrues interest at a fixed annual rate of 6.25%. Interest will be paid on a quarterly basis, and the first interest installment will fall due on May 21, 2017. Principal will be repaid in five equal and consecutive quarterly installments, with the first one falling due on February 21, 2018 and the last installment, on February 21, 2019.

21.c) Update of the prospectus of the global program for the issuance of ordinary Corporate Bonds, not convertible into shares, for a maximum nominal value outstanding at any time of up to USD 250,000,000

On October 2, 2017, the Board of Directors of the Company resolved to authorize an updated prospectus of the global program for the issuance of ordinary Corporate Bonds, not convertible into shares, for a maximum nominal value outstanding at any time of up to USD 250,000,000. On January 12, 2018, Class 10 Corporate Bonds were issued under this program, as indicated in the subsequent events note to these financial statements. (See Note 32)

21.d) Local Program for the issuance of Corporate Bonds for a maximum nominal value outstanding at any time of up to USD 250,000,000

The Directors and Shareholders of CGC approved on October 2, 2014 the creation of a program for the issue of Corporate Bonds for a total outstanding nominal value of up to USD 250.0 million, as described in the Program prospectus of December 16, 2014. The creation of the Program and the public offering of the Corporate Bonds to be issued thereunder were authorized by CNV Resolution No. 17570 dated December 10, 2014, so the Company is subject to the regulations of the CNV and of the Buenos Aires Stock Exchange. The Corporate Bonds were issued and placed in conformity with the Corporate Bonds Law No. 23576 and its amendments, the Capital Markets Law No. 26831 and its amendments and decrees of implementation and the regulations of the CNV, as per the text restated by General Resolution No. 622/13. The manner in which each Class and/or Series of Corporate Bonds is issued is set out in the respective Pricing Supplement, subject to applicable legislation.

In fiscal year 2015, CGC issued the following Corporate Bonds:

Corporate Bonds	Date of issue	Currency	Total amount of the issue	Interest rate	Expiration date	Outstanding nominal value December 31, 2016 (1)
Class 4	4/30/2015	USD	40,000,000	nominal annual fixed rate of 4.75%	4/30/2017	15,471,025
Class 6	9/9/2015	USD	31,730,300	nominal annual fixed rate of 5.00%	9/9/2017	18,454,300
Class 2	11/12/2015	USD	20,880,968	-	11/12/2019	8,975,849
Class 7	11/24/2015	USD	30,000,000	nominal annual fixed rate of 1.50%	11/24/2017	2,962,000
Class 8	12/10/2015	\$	103,977,272	variable rate equivalent to Badlar rate + 450 basis points	12/10/2018	68,477,272

(1) On December 20, 22 and 27, 2016, the Company repurchased the Corporate Bonds for their redemption.

The net proceeds from the issuance of each Series and/or Class of Corporate Bonds were applied, as required by Section 36 of the Corporate Bonds Law, and as described in the pertinent Pricing Supplement, to the financing of productive projects in Argentina by making investments in the exploration and exploitation of hydrocarbons in the provinces of Santa Cruz (Austral Basin) and Río Negro (Neuquen Basin), through the

drilling of productive and exploratory wells and production-related investments, such as the development of facilities and workovers.

Class 2, 4, 6, 7 and 8 Corporate Bonds issued under the local program in fiscal year 2015 were fully redeemed on March 7, 2017. As set out in the pricing supplements, the redemption price of the Corporate Bonds consisted of the redemption premium that is equivalent to 101% plus accrued and unpaid interest, calculated until the redemption date.

The total principal amount redeemed on the Class 2, 4, 6, 7 and 8 Corporate Bonds issued under the local program corresponds to 100% of their residual value:

Class 4 NO for USD 15,471,025; Class 6 NO for USD 18,454,300; Class 2 NO for USD 8,975,849; Class 7 NO for USD 2,962,000 and Class 8 NO for \$68,477,272.

21.e) Contract of Syndicated Loan in US Dollars disbursed on October 5, 2016

On September 30, 2016, the Company entered into a Syndicated Loan in US Dollars with ICBC, as administrative agent, for USD 127.3 million to repay the syndicated loan in pesos mentioned in Note 21.f), and to pay off other short-term debts held by the Company. The funds were disbursed on October 5, 2016.

On November 8, 2016 the amount of USD 92.3 million was amortized with the proceeds from the Issuance of Corporate Bonds for local and foreign investors, as reported in Note 21.d) to these financial statements. Principal due on the Syndicated Loan in US Dollars at December 31, 2016 amounts to USD 35.0 million and accrues interest at a fixed nominal annual rate of 4.5%. It was repaid at maturity on February 3, 2017.

21.f) Issuance of a Syndicated Loan in Pesos and guarantees at March 30, 2015, extended on April 20, 2015, partially prepaid on December 10, 2015 and fully prepaid on October 5, 2016

The purchase of Petrobras assets in 2015 was financed by a syndicated loan agreement in pesos executed with Industrial and Commercial Bank of China (Argentina) S.A. ("ICBC"), as administrative agent, in March 2015, in the amount of \$825.0 million (the syndicated loan in pesos), which was extended in April 2015 to \$ 1,075.0 million, at adjusted BADLAR plus a margin, with quarterly interest accruals and amortization as from June 2015. Maturity of the final balance was June 2019.

In December 2015, principal for \$100.0 million was amortized in advance, so principal due at December 31, 2015 amounted to \$975.0 million.

Three principal installments for \$248.0 million were paid in the fiscal year 2016.

On October 5, 2016, the loan was repaid in advance with the funds obtained under the Syndicated Loan in US Dollars, as reported in Note 21 e) to these financial statements.

NOTE 22 - OTHER LIABILITIES

The breakdown of other liabilities is as follows:

	12.31.2017	12.31.2016
<u>Current:</u>		
Oil and gas royalties	57,505	34,460
Sundry (1) (2)	44,137	62,625
Total	101,642	97,085

(1) Includes 44,137 in 2017, corresponding to an advance payment to Echo Energy Plc. for the joint investment agreements in exploration (Note 28 a) (5)

(2) Includes 62,417 in 2016 corresponding to the balance payable under the agreement for the extension of the hydrocarbon concession terms (Note 28 a) (2)).

NOTE 23 - TRADE PAYABLES

The breakdown of other liabilities is as follows:

	12.31.2017	12.31.2016
<u>Non-current:</u>		
Ordinary suppliers (1)	55,947	79,450
Total	55,947	79,450
<u>Current:</u>		
Ordinary suppliers (1)	690,190	343,882
Ordinary suppliers of joint ventures	20,441	25,260
Related parties (Note 26 a))	115,292	38,453
Invoices to be received	392,682	185,771
Total	1,218,605	593,366

- (1) At December 31, 2017 and December 31, 2016, USD 5,000,000 and USD 7,000,000, respectively, are pending settlement due to the agreement for the acquisition of a gas compression plan in Campo Boleadoras, province of Santa Cruz. Out of this balance, \$55,947 and \$79,450 is disclosed under ordinary suppliers - non-current and \$37,298 and \$31,780 under ordinary suppliers - current.

NOTE 24 - BREAKDOWN OF MAIN INCOME STATEMENT CAPTIONS

a) Net income

	12.31.2017	12.31.2016
Crude oil delivered	1,939,488	1,567,478
Gas delivered	1,710,060	881,520
Other	171,524	215,443
Government subsidies	1,076,505	801,177
Export refunds	-	10,312
Withholdings from exports of hydrocarbons	-	(806)
Total	4,897,577	3,475,124

b) Cost of sales

	12.31.2017	12.31.2016
Stocks at the beginning	675,337	140,093
Purchases	227,730	159,514
Inventory consumption	(241,257)	(76,822)
Expenses attributable to cost of sales (1)	4,074,374	3,084,159
Stocks at year end (Note 11)	(422,583)	(675,337)
Cost of sales	4,313,601	2,631,607

(1) Expenses attributable to cost of sales

	12.31.2017	12.31.2016
Fees and compensation for services	3,918	5,725
Outsourced services	1,503,228	1,170,822
Salaries, wages and social security contributions	178,738	133,026
Other expenses on personnel	19,104	16,753
Depreciation of property, plant and equipment	988,583	776,221
Taxes, duties and contributions	37,265	20,949
Fuel, gas and electricity	54,297	47,094
General insurance	18,453	34,912
Spare parts and repairs	303,401	203,676
Wells maintenance	158,908	79,648
Office expenses	56,443	33,514
Travel and per diem	4,244	3,933
Royalties, fee and easements	633,066	470,491
Gas imbalance	(1,787)	(1,974)

Environmental control	116,664	89,218
Other	(151)	151
Total	4,074,374	3,084,159

c) Selling expenses

	12.31.2017	12.31.2016
Turnover tax	104,422	70,700
Total	104,422	70,700

d) Administrative expenses

	12.31.2017	12.31.2016
Fees and compensation for services	82,686	66,072
Salaries, wages and social security contributions	109,682	91,896
Other expenses on personnel	7,501	5,464
Depreciation of property, plant and equipment	15,966	7,205
Taxes, duties and contributions	19,313	30,211
General insurance	1,732	1,433
Spare parts and repairs	25,674	10,602
Office expenses	9,003	7,727
Travel and per diem	9,034	6,974
Communications	3,999	2,757
Other	9,643	5,826
Total	294,233	236,167

e) Other operating income and expenses

	12.31.2017	12.31.2016
Fees for services rendered	45,590	25,108
Outsourced services	(7,234)	(25,730)
Charge for impairment provision for non-financial assets (Note 8)	(8,314)	(28,997)
Incentives under Petróleo Plus program	5,561	-
Charge for allowance for other receivables (Note 10)	13,918	(1,025)
Charge for allowance for trade receivables (Note 12)	(46,859)	(26,105)
Charge for provision for lawsuits and contingencies (Note 18)	9,635	(27,908)
Expenses related to reorganization proceedings	(115)	(92)
Turnover tax	(4,651)	(12,691)
Gain/(loss) on the assignment of the CNQ6-El Sauce area (Note 28.a) (3))	12,916	-
Sundry	(8,243)	(2,965)
Total	12,204	(100,405)

f) Gains and losses on investments valued under the equity method

<u>Associate</u>	12.31.2017	12.31.2016
Gasinvest S.A.	192,247	(54,172)
Gasoducto GasAndes Argentina S.A.	24,621	32,800
Gasoducto GasAndes S.A. (Chile)	21,499	41,596
Andes Operaciones y Servicios S.A. (Chile)	736	1,339
Transportadora de Gas del Norte S.A.	396	(230)
Transportadora de Gas del Mercosur S.A.	137,833	-
Total	377,332	21,333

g) Financial results

	12.31.2017	12.31.2016
<u>Financial income</u>		
Interest	32,168	18,161
Total	32,168	18,161
<u>Financial costs</u>		
Interest	(520,637)	(545,073)
Total	(520,637)	(545,073)
<u>Other financial results</u>		
Income from measurement of financial instruments at fair value	38,600	68,343
Exchange differences, net	(685,607)	(303,954)
Other financial expenses	(42,180)	(49,096)
Total	(689,187)	(284,707)

NOTE 25 - EARNINGS PER SHARE

The basic earnings per share are calculated by dividing the income allocable to the holders of the Company's shares by the weighted average number of ordinary shares outstanding during the fiscal year, excluding treasury stock acquired by the Company (Note 15).

The Company does not have preferred shares or debt convertible to shares, so the basic earnings per share are equal to the diluted earnings per share.

	12.31.2017	12.31.2016
Income allocable to the Company's shareholders	(409,889)	(231,091)
Weighted average number of ordinary outstanding shares	399,138	399,138
Basic and diluted earnings per share (pesos)	(1.027)	(0.579)

NOTE 26 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

At December 31, 2017 and 2016 the Company was controlled by Latin Exploration S.L.U., a company based in Spain. The ultimate parent company of the Group is Southern Cone Foundation, a foundation set up in Liechtenstein.

In April 2013, Cedecor S.A. acquired 100% of the capital stock of Latin Exploration S.L.U., a company that held 81% of CGC's share capital. As a result of that acquisition, Cedecor S.A. granted Sociedad Comercial del Plata S.A. (SCP) an irrevocable, unconditioned and exclusive option to purchase up to an 11% of CGC shares; the term for SCP to exercise the purchase option was one year. SCP exercised the option in December, 2013. At December 31, 2017 and 2016 LE holds 70% of CGC's shares and voting rights, and SCP the remaining 30% (see Note 15 to these financial statements).

a) Balances with related parties at December 31, 2017 and 2016 are included below:

	12.31.2017	12.31.2016
<u>Other investments</u>		
<u>Non-Current:</u>		
Transportadora de Gas del Mercosur S.A.	-	8,392
<u>Current:</u>		
Transportadora de Gas del Mercosur S.A.	10,596	-
<u>Other receivables</u>		
<u>Non-Current:</u>		
Latin Exploration SL	20,019	20,019
Petronado S.A.	102,474	57,207
Transportadora de Gas del Norte S.A.	-	85,008
Total	122,493	162,234
<u>Current:</u>		
Gasoducto GasAndes S.A. (Argentina)	3,010	2,591
Transportadora de Gas del Norte S.A.	-	1,519
Petronado S.A.	-	9,134
Total	3,010	13,244
<u>Trade payables</u>		
Corredor Americano S.A.	115,292	38,453

b) The main transactions with related parties for the years ended December 31, 2017 and 2016 are included below:

Company	12.31.2017			
	Sale of services	Interest earned	Dividends collected	Outsourced services
<u>Associated companies</u>				
Transportadora de Gas del Norte S.A.	7,394	8,081	-	-
Gasoducto GasAndes Argentina S.A.	22,164	-	35,519	-
Gasoducto GasAndes S.A. (Chile)	-	-	28,709	-
Transportadora de Gas del Mercosur S.A.	-	661	-	-
<u>Other companies</u>				
Corredor Americano S.A. (1)	-	-	-	479,833
Company	12.31.2016			
	Sale of services	Interest earned	Outsourced services	
<u>Associated companies</u>				
Transportadora de Gas del Norte S.A.	3,903	-	-	
Gasoducto GasAndes S.A.	18,709	-	-	
<u>Other companies</u>				
Transportadora de Gas del Mercosur S.A.	-	593	-	
Petronado S.A.	2,401	-	-	
Corredor Americano S.A. (1)	-	-	208,650	

(1) Corredor Americano S.A. is a related entity since it is under the indirect control of the same shareholders as CGC

NOTE 27 - INCOME TAX

Accounting standards require income tax to be accounted for under the deferred tax method. This criterion implies recognizing assets and liabilities items for deferred tax, in the cases in which there are temporary differences between the accounting valuation and the tax valuation of assets and liabilities and also for the recoverable tax losses.

The breakdown of the income tax included in the Consolidated Statement of Income and the breakdown of deferred tax is the following:

	12.31.2017	12.31.2016
Income tax for the year		
Current tax - Loss	(749)	(7)
Deferred tax - Income	191,476	121,829
Total Income tax	190,727	121,822

Detail of the main components of net deferred tax assets and liabilities is as follows:

	12.31.2017	12.31.2016
<u>Deferred tax assets</u>		
Property, plant and equipment	18,358	60,801
Allowance for impairment	11,836	10,964
Provision for lawsuits	8,172	3,867
Asset retirement obligation	214,560	223,258
Allowance for doubtful accounts	45,011	40,502
Inventories - crude oil, materials and spare parts	437	387
Tax losses	299,104	150,604
Other	3,192	7,006
Total deferred tax assets	600,670	497,389
<u>Deferred tax liabilities</u>		
Property, plant and equipment	(234,462)	(313,901)
Other	(36,478)	(45,206)
Impairment of financial assets	-	(28)
Total deferred tax liabilities	(270,940)	(359,135)
Total net deferred tax assets	329,730	138,254
	12.31.2017	12.31.2016
Classification of deferred tax		
<u>Deferred tax assets</u>		
Deferred tax asset (Unitec Energy S.A.)	35,135	53,844
Deferred tax asset (CGC)	294,595	84,410
Total deferred tax asset, consolidated	329,730	138,254

Net deferred Assets:	At the beginning	Account activity for the year	At year-end
Impairment provision for non-financial assets	10,964	872	11,836
Impairment of financial assets	(28)	28	-
Provision for lawsuits	3,867	4,305	8,172
Asset retirement obligation	223,258	(8,698)	214,560
Allowance for doubtful accounts	40,502	4,509	45,011
Inventories - crude oil, materials and spare parts	387	50	437
Property, plant and equipment and intangible assets	(253,100)	36,996	(216,104)
Tax losses(*)	150,604	148,500	299,104
Other	(38,200)	4,914	(33,286)
Total	138,254	191,476	329,730

(*) Company Management is evaluating the recovery of tax losses taking into consideration, among others, the projected business profitability and the tax planning strategies, on the basis of the tax losses expiration term. Available evidence, both positive and negative, properly evaluated has been considered in the analysis. The Company's tax losses at the expected recovery rate at December 31, 2017 are as follows:

Date of generation	Available through	Amount
2014	2019	5,434
2015	2020	64,564
2016	2021	28,810
2017	2022	200,296
		299,104

Reconciliation between the income tax charge for the year and what would result from applying the tax rate imposed by the legislation in force on the accounting income is as follows:

	12.31.2017	12.31.2016
Income before income tax	(602,799)	(354,041)
Tax rate in effect, applied on income for the year	35%	35%
Subtotal	210,980	123,914
Effect of change in tax rate (Note 3.2.13.3)	(132,492)	-
Effect of permanent differences and provisions	112,239	(2,092)
Total income tax	190,727	121,822

NOTE 28 - PARTICIPATION IN OIL AND GAS AREAS

The Company recognizes in its financial statements the assets, liabilities, revenue from ordinary activities and expenses relating to its participation in joint operations of the various consortia and joint ventures for hydrocarbon exploration and production. At December 31, 2017 and 2016, the financial statements and management reports of joint ventures at those dates were used.

a) The areas and joint ventures in which CGC participated during fiscal years ended December 31, 2017 and 2016 (see also Note 29) are shown below.

Basin	Area	% participation	Operator	Term Until	Activity
Argentina					
Northwestern	Aguaragüe	5.00	Tecpetrol S.A.	2027	Exploration and exploitation
	Palmar Largo	17.85	High Luck	2017	Exploitation
Austral	Santa Cruz I	100.00 (2 and 5a)	CGC	2023/35	Exploration and exploitation
	Santa Cruz I Oeste	100.00	CGC	2033	Exploitation
	Santa Cruz II	100.00 (2)	CGC	2027/33	Exploitation
	Glencross	87.00	CGC	2033	Exploitation
	Estancia Chiripa	87.00	CGC	2033	Exploitation
	CA2-Laguna de los Capones	100.00 (2 and 5a)	CGC	2026	Exploration and exploitation
	Tapi Aike	100.00 (4 and 5b)	CGC		Exploration
	Piedrabuena	100.00 (1)	Unitec Energy S.A.	29 g)	Exploration
Neuquina	Mata Amarilla	100.00 (1)	Unitec Energy S.A.	29 g)	Exploration
	Angostura	100.00	CGC	29 c)	Exploration
	CNQ6-El Sauce	(3)	CGC	2025	Exploration and exploitation
Golfo San Jorge	Sarmiento	100.00 (1)	Unitec Energy S.A.	29 h)	Production
Venezuela	Campo Onado	26.004	Petronado S.A.	2026	Exploitation
Guatemala	A-9-96	100.00	CGC	29 f)	Exploration

- (1) Consolidated areas of Unitec Energy S.A.
- (2) On June 27, 2016 an agreement for the extension for 10 years of the concession term of Santa Cruz I Fractions A, B, C and D, Santa Cruz II Fraction A and B and Laguna de los Capones was entered into with the Energy Institute of Santa Cruz. The agreement was ratified on July 5, 2016 by a Decree from the Provincial Executive Branch, and by the Legislative Branch for the Province of Santa Cruz through Law No. 3500, published in the Official Gazette in the Province of Santa Cruz on November 22, 2016.
- (3) On July 20, 2017, CGC (as Assignee) and Central Argentina International LLC (Argentine Branch) (as Assignor) appeared before the Energy Secretariat in the province of Neuquén to request authorization from the Provincial Executive Branch to assign in favor of the assignee all of the rights and obligations corresponding to the Assignor's interest in the Concession for the Exploitation of CNQ6-El Sauce area. On August 4, 2017, CGC informed Energía Compañía Petrolera S.A. that it had assumed 100% of the rights and obligations arising under the Concession for the Exploitation of CNQ6-El Sauce area, and assigned them to Energía Compañía Petrolera S.A. To that end, CGC agreed to transfer the possession and operation of the concession effective September 1, 2017. On August 15, 2017, the Company and Energía Compañía Petrolera S.A. requested from the Energy Secretariat in the Province of Neuquen authorization for that assignment. To date, the authorizations of the two assignments under the terms of Section 72 of the Hydrocarbons Law have not been granted.
- (4) Decree No. 775/2017 issued by the Executive Branch of the Province of Santa Cruz was published in the Official Gazette on September 7, 2017. Under this decree, and within the framework of public bid IESC No. 1/17, the Company was awarded the exploration and eventual exploitation of the Tapi Aike area. In view of the foregoing, on September 25, 2017, the Company and the Province of Santa Cruz entered into an agreement regulating the conditions under which the exploration work would be performed in the area. This agreement was ratified by the Executive Branch for the Province of Santa Cruz under Provincial Decree 1154/2017.
- (5) On October 31, 2017, the Company executed with Echo Energy Plc. ("Echo Energy") the following joint investment agreements for the exploration of four blocks in the Austral Basin in the Province of Santa Cruz:
 - a) Farm-out agreement for the concessions to exploit Fractions C and D of the Santa Cruz I area and Laguna de los Capones area. Under this agreement, the Company will transfer to an Argentine branch of Echo Energy Plc, effective January 1, 2018, 50% of the rights and obligations arising from the concessions to exploit Fractions C and D of the Santa Cruz I area and Laguna de los Capones area, and Echo Energy agrees to pay

100% of the cost and investments of the work plan for an amount of up to USD 70 million, plus VAT. Additionally, Echo Energy agreed to pay the Company up to USD 10 million in three installments, subject to compliance with certain milestones. Payment of the first installment of USD 2.5 million was received on November 1, 2017.

b) Farm-out agreement for the Tapi Aike area. Under this agreement, and subject to certain conditions, the Company will assign and transfer to an Argentine branch of Echo Energy 50% of all the rights and obligations arising from the exploration permit in the Tapi Aike area, effective January 1, 2018. As consideration for the assignment of Company's rights and obligations over the Tapi Aike area, Echo Energy agrees to pay 65% of the costs and investments of the basic exploration plan for the first exploration period.

In the two agreements, the Company will be the area operator. Those agreements have led to the execution of Joint Operating Agreements and to the creation of joint ventures to carry out the joint operations in the area. In the event of noncompliance with any obligation by Echo Energy, the Company may rescind the agreements and recover the assigned interests.

(6) Decree No. 2439, dated December 2, 2015 establishes completion of the first exploration period in the areas of Laguna Grande, Lago Cardiel and Guanaco Muerto and their total reversion.

b) The total amounts of the consolidated statements of financial position relating to the participation of the Company in joint operations at December 31, 2017 and 2016 and the income statements for the fiscal years ended December 31, 2017 and 2016 are shown below.

	12.31.2017	12.31.2016
Non-current assets	56,531	71,744
Current assets	5,643	2,557
Total assets	62,174	74,301
Non-current liabilities	34,587	35,271
Current liabilities	20,830	25,537
Total liabilities	55,417	60,808
	12.31.2017	12.31.2016
Operating loss (*)	82,636	96,453
Net loss (*)	111,237	105,104

(*) Sales in joint ventures are not included since production is directly assigned to each of the participants (see Note 3.2.16).

c) Investment commitments: at December 31, 2017 the Company's participation in minimum commitments in these areas amounted to USD 99.5 million approximately, USD 18.2 million of which correspond to the Angostura area and USD 76.4 to the Tapi Aike area (Note 28 a) (4)).

NOTE 29 - SITUATION OF THE OIL AND GAS AREAS

a) Aguaragüe

In December 2012, the Province of Salta and the partners of Aguaragüe UTE agreed to extend the term of the concession area for 10 years, counted as from the expiration date, i.e. November 14, 2027. The partners assumed, among other obligations, to make investments by drilling development wells and enlarging the hydrocarbon production and treatment facilities during the first two years, counted as from the date the Memorandum of Agreement becomes effective. The investments committed are being complied with as planned.

b) Santa Cruz I and Santa Cruz I Oeste

On March 31, 2015, the Company's Board of Directors approved the acquisition of PESA's interest in the Joint Ventures Santa Cruz I (71%) and Santa Cruz I Oeste (50%).

On November 9, 2015, Provincial Decree No. 2216/2015 was published in the Official Gazette of the Province of Santa Cruz. This Decree authorized the assignment to CGC of 100% of PESA's interest in the rights and obligations arising from the operating concessions over the following areas: (i) "Bajada Fortaleza", "Campo Boleadoras", "Campo Indio", "Cañadón Deus", "Dos Hermanos", "El Cerrito", "La Paz", "La Porfiada", "Laguna del Oro", "Puesto Peter", "Santa Cruz I Fracción A", "Santa Cruz I Fracción B", "Santa Cruz I Fracción C", "Santa Cruz I Fracción D", "An Aike" which make up the Joint Venture Santa Cruz I; (ii) "El Campamento", "El Cerrito Oeste", "Estancia Agua Fresca", "Puesto Oliverio", which make up the Joint Venture Santa Cruz I Oeste; (iii) "Barda Las Vegas", "María Inés", "María Inés Oeste", "Santa Cruz II Fracción A", "Santa Cruz II Fracción B", which make up the Joint Venture SCII y (iv) "Estancia Chiripá", "Glencross", "La Menor" (subject to reversion), and "Ea. Librún" (subject to reversion), all of them located at the Southern Basin, Province of Santa Cruz.

This transaction means the early termination of such Joint Venture Agreements to the Company.

c) Angostura

Through MP Resolution 470/12 dated April 17, 2012, the Ministry of Production of the Province of Río Negro extended the term of the First exploration period of the Angostura area for 180 consecutive days, the expiration date being October 18, 2012. In October 2012, prior to expiration, CGC: (i) served notice of the occurrence of an "Act of God or Force Majeure" event under sections 2.9 and 23 of the Bidding Terms and Conditions of Bid 01/07 and section 8 of the Contract arising from Bid 01/07 as a result of the objections raised by land owners to the works and the impossibility to restore the minimum and necessary conditions to ensure the peaceful and regular performance of the drilling works originally scheduled for 2011-2012; and (ii) requested, in consequence, an extension of ONE (1) year of the term set forth in section 1 of Resolution 407 of the Ministry of Production of the Province of Río Negro to have enough time to bring the force majeure event to an end and perform the works suspended as a result thereof.

At the same time, it was requested that the area fall within the scope of Decree 1541/11 of the Province of Río Negro. This decree allowed permits of unconventional hydrocarbon exploration to be effective for up to 4 years. The decree was repealed in November 2012 all of the sudden and no new regulation for unconventional hydrocarbons was issued.

In October 2012, CGC declared that the "Alto Las Hormigas" area could be exploited and requested the concession of exploitation rights under section 27 and subsequent sections of Law 17319 and the Contract arising from Bid 01/07. On November 12, 2012, the Secretariat of Hydrocarbons of the Province of Río Negro reported through SH Note No. 387/2012 that the procedure to grant exploitation rights over "Alto Las Hormigas" area has started.

The conflict with land owners (giving rise to the force majeure event reported in October 2012) lead in August 2013 to the cease of activities in the north part of the area where "Alto Las Hormigas" and "Las

Moras” fields are located since the land owners illegally prevented CGC from performing the activities authorized by PEP Decree No. 354/07.

On January 24, 2014, CGC again served notice of force majeure event (which had already been served in October 2012) in accordance with section 8 of the Contract arising from Bid 01/07. In this notice, CGC also requested: (i) the temporary suspension of the expiration date of the First exploration period (extended as per MEP Resolution No. 407/12) until the force majeure event reported in Note GCRG 159/12, Note dated 2.23.2012 (without number), Note CGRG 027/12, Note CGRG 069/12, Note CGRG 104/12 and CGRG 141/12 come to an end; and (ii) an extension of ONE (1) year of the term set forth in section 1 of Resolution 407/12 counted as from the date on which the force majeure event comes to an end.

In recognition of the *act of God or force majeure* situation, on October 6, 2014 the Energy Secretariat for the Province of Río Negro called a liaison committee which has not been held at the date of issue of these financial statements, so as to define a work plan to enable compliance with the obligations assumed, and resolve upon the petition to exploit the Alto Las Hormigas field.

Lastly, on November 13, 2017, an addendum to the contract arising from public bid 1/2007 was signed between the Province of Río Negro, represented by the Energy Secretary, and CGC, whereby the company was granted an extension of the exploration period for 18 months counted as from its approval by a Provincial Executive Branch Decree. Under this addendum, CGC undertakes to perform in the area 3,652 working units, equivalent to 7 repairs of wells and the drilling of 7 exploratory wells. To date, this addendum is pending approval by the Provincial Executive Branch for the Province of Río Negro.

At December 31, 2017, CGC has capitalized in Property, Plant and Equipment \$ 116.5 million corresponding to assessment and exploration investments made in the Angostura area, which to date have not been sufficient to confirm the existence of sufficient hydrocarbons to justify their commercial development.

d) El Sauce

On July 20, 2017, CGC (as Assignee) and Central Argentina International LLC (Argentine Branch) (as Assignor) appeared before the Energy Secretariat in the province of Neuquén to request authorization from the Provincial Executive Branch to assign in favor of the assignee all of the rights and obligations corresponding to the Assignor’s interest in the Concession for the Exploitation of CNQ6-El Sauce area. On August 4, 2017, CGC informed Energía Compañía Petrolera S.A. that it had assumed 100% of the rights and obligations arising under the Concession for the Exploitation of CNQ6-El Sauce area, and assigned them to Energía Compañía Petrolera S.A. To that end, CGC agreed to transfer the possession and operation of the concession effective September 1, 2017. On August 15, 2017, the Company and Energía Compañía Petrolera S.A. requested from the Energy Secretariat in the Province of Neuquen authorization for that assignment. To date, the authorizations of the two assignments under the terms of Section 72 of the Hydrocarbons Law have not been granted.

e) Campo Onado (Venezuela)

Transactions in Venezuela since April 1, 2006 are performed through the company Petronado S.A., instead of the Onado Joint Venture. CGC holds 26.004% of equity interests in that company (see Note30 (5)).

f) A-9-96 (Guatemala)

In July 1997, the Company was granted 100% of the seismic exploration rights of the A-9-96 area (Contract 4-98) in Guatemala. Exploration activities within this area, located in the central production area of Guatemala, started in 1998. In accordance with the bidding terms and conditions and under the exploration contract, once the Company has recovered all investments made, it will share net profits with the government of Guatemala.

In its bid, the Company granted 48.84% of net profits obtained in A-9-96 area in relation to the production levels until 20,000 bbl/day.

On July 16, 2012, the Company signed an agreement for the assignment of all rights, interests and obligations under Contract 4-98 to Quattro Exploration & Production in consideration of the assignee's taking over all investment commitments and related obligations. On December 5, 2012 notes were filed with the Ministry of Energy and Mining requesting the authorization of the assignment, which has not been granted to date.

The Company set up an allowance for impairment of related assets (tax credits).

g) Exploration areas - Piedrabuena and Mata Amarilla

At December 31, 2017 UNITEC is the only holder of exploration permits and concessionaire of exploitation of hydrocarbon on the areas of Piedrabuena and Mata Amarilla, located in the Province of Santa Cruz.

The concession of the areas of Laguna Grande, Lago Cardiel, Piedrabuena, Mata Amarilla and Guanaco Muerto was awarded to Oil M&S S.A. and UNITEC S.A through Decrees Nos. 2034/08 and 3317/08 (Laguna Grande), 2037/08 and 3312/08 (Lago Cardiel), 2036/08 and 3316/08 (Piedrabuena), 2035/08 and 3313/08 (Mata Amarilla) and 2040/08 and 3315/08 (Guanaco Muerto), all of them in the Province of Santa Cruz. Authorization of assignments was granted by decrees Nos. 3072/09 (Piedrabuena), 3070/09 (Mata Amarilla), 3074/0 (Guanaco Muerto), 3071/09 (Laguna Grande) and 3073/09 (Lago Cardiel), issued pursuant to sections 72 and 74 of Law No. 17319 and the final deeds of assignment executed on March 30, 2010. To this end, on March 30, 2010, Oil M&S S.A. and UNITEC created a joint venture ("Santa Cruz UTE") to develop works and investments and carry out activities within the scope of Law 17319 (as amended), including exploration, evaluation, development, exploitation and commercialization of the areas in accordance with the joint operation agreement.

On April 29, 2015 an agreement was signed whereby Oil assigned to UNITEC 100% of Oil's rights and obligations arising from exploration permits and concession contracts subject to approval of the assignment by the assignor. In consideration for the assignment, UNITEC undertook to pay the amounts due to the assignor. Through Decree No. 2416 dated November 30, 2015, Oil M&S Sociedad Anónima is authorized to assign to Unitec Energy S.A. the totality of the rights and obligations arising from holding 50% of the exploration permits over the areas of Piedrabuena, Mata Amarilla, Laguna Grande, Lago Cardiel and Guanaco Muerto. The latter will have 100% of the rights and obligations under the exploration permits of the areas mentioned before.

In addition, Decree No. 2439 of December 2, 2015 ratified the resolutions of the Board of Directors of the Energy Institute Nos. 035/IES D./15; 036/IES D./15; 037/IES D./15; 038/IES D./15 and 039/IES D./15 fixing the fees due at \$6,080,372.53 for the years 2013, 2014 and 2015; the pending training units and the pending working units are set in the case of Lago Cardiel. These resolutions establish the completion of the first period under the exploration permit over the areas of Laguna Grande, Lago Cardiel and Guanaco Muerto and their reversion and, in the areas of Piedra Buena and Mata Amarilla, the resolutions authorize the

second exploration period, a reduction in the number of commitments for the second period and the partial reversion requested through notes dated March 20, 2013 and September 29, 2015.

At December 31, 2017, UNITEC has capitalized \$47,344 under property, plant and equipment, which correspond to investments in exploration and evaluation. These investments have not been sufficient to confirm the existence of hydrocarbons so as to support its commercial development.

h) Sarmiento

UNITEC has been an operator of the Sarmiento area located in the Province of Chubut since March 2011. It has entered into an agreement for Operation of extraction of hydrocarbons At Risk ("SOAR") with YPF S.A. (holder of the concession) for a term of 6 years (maturing in 2017), which may be renewed until 2021, if certain conditions are met.

Considering that the service agreement with YPF S.A. for the operation of the Sarmiento area expired on November 14, 2017 and that it will not be extended, Unitec Energy S.A. has allocated \$1,779 to other expenses at December 31, 2017, for the estimated costs of the return of the area operation, and \$619 for the estimated costs of the abandonment of the facilities.

NOTE 30 - SITUATION OF ASSOCIATES AND OTHER COMPANIES

Investments in companies where CGC does not have a controlling interest are mainly investments in companies engaged in natural gas transportation. The list of investments is included below:

Company	Ref.	Participation %	
		12.31.2017	12.31.2016
<u>Associated companies</u>			
Gasinvest S.A.	(1) (4) (6)	40.8574	40.8574
Gasoducto GasAndes Argentina S.A.		39.9999	39.9999
Gasoducto GasAndes S.A. (Chile)		39.9999	39.9999
Andes Operaciones y Servicios S.A. (Chile)		50.0000	50.0000
Transportadora de Gas del Norte S.A.	(3) (4)	0.0465	0.0465
Transportadora de Gas del Mercosur S.A.	(2) (6)	10.8988	10.8988
<u>Other companies</u>			
Petronado S.A. (Venezuela)	(5)	26.0040	26.0040

- (1) Parent company of Transportadora de Gas de Norte S.A. holding 56.3538% of equity interests.
- (2) According to the financial statements of Transportadora Gas del Mercosur S.A. (TGM), as a result of the energy crisis affecting Argentina and problems relating to the gas shortage in the domestic market, the National Government issued a series of regulations to limit exports of gas. In this context, disputes relating to contracts have arisen between TGM and its only customer, YPF S.A. ("YPF"), due to difficulties in the availability of natural gas which affect the only user of the carriage capacity of the Company's gas pipeline, the Brazilian thermal power plant AES Uruguiana Empreendimentos S.A. ("AES U"). Although TGM invoiced a monthly fixed fee in US dollars for steady-flow carriage under "take or pay" conditions to reserve capacity, YPF has rejected and failed to pay steady-flow carriage fees since September 2008. On these grounds, on April 15, 2009, TGM terminated the carriage contract with YPF and the dispute was submitted to international arbitration. On June 26, 2013, the Arbitral Tribunal, by a majority of votes, ruled in favor of TGM both in relation to the unpaid invoices due under the contract for steady-flow natural gas transportation entered into by the companies and the Memorandum of Agreement signed by TGM and YPF, as well as to the damages resulting from the termination of both legal instruments. After resolving some jurisdiction matters relating to the petition for annulment filed by YPF, the Tribunal started the second stage of arbitration on December 17, 2013, aimed at determining the damages arising from the partial award on responsibility. In January 2014, TGM filed a claim for damages with the Arbitral Tribunal for an amount of USD 362.6 million, which was answered by YPF in April 2014. However, YPF requested the annulment of the initial award, which was dismissed by the Arbitral Tribunal and resulted in the appeal filed by YPF with the courts with jurisdiction over commercial matters in and for the City of Buenos Aires, which is currently pending before the federal courts with jurisdiction over administrative-litigation matters. Based on the opinion of its legal counsel, the Company considers that the Argentine courts do not have jurisdiction over any matter relating to the initial award since the seat of arbitration is the city of Montevideo, Uruguay and this determines the exclusive jurisdiction of Uruguayan courts. However, an Argentine court decided that it had

jurisdiction over the case and ordered the stay of the arbitral proceeding. TGM appealed the ruling to the Argentine Supreme Court of Justice, and the appeal was dismissed. In September 2015 the Arbitral Tribunal decided to resume the arbitral proceeding and carried out the hearings to question the expert witnesses summoned by the parties. In December 2015, the Argentine court, at the request of YPF, declared the annulment of the initial award. In February 2016 TGM filed an extraordinary appeal against this decision. Also, on April 26, 2016, the Company was notified of the award in relation to damages estimation issued by a majority of votes in the arbitration proceedings before the International Chamber of Commerce, ordering YPF to pay the amount of US\$ 319,067,022 to TGM, as the principal amount corresponding to invoices, irrevocable contributions and indemnities for early termination of the carriage contract.

On December 20, 2017, the Extraordinary Meeting of Shareholders of TGM resolved by majority vote to approve the execution of a settlement agreement with YPF (the "Settlement Agreement"), which put an end to the dispute between the parties.

In essence, the Settlement Agreement, which was also approved by the Board of Directors of YPF, is in full force and effect and there has been contract performance, sets forth YPF's obligation to pay TGM as compensation the sum of USD 107 million in January 2018, plus USD 7 million in seven (7) equal annual installments between February 2018 and February 2024, as full and final payment for all legal and arbitration proceedings, and claims TGM might enforce against YPF under the arbitration awards.

YPF paid the USD 107 million compensatory installment under the Settlement Agreement on January 2, 2018. Additionally, on February 1, 2018, YPF paid the first annual installment for said compensation in an amount of USD 1 million.

TGM and YPF entered into an interruptible gas transportation contract for export. In December 2017, the Company and YPF entered into a carriage contract under the special conditions of the Interruptible Carriage Service for Export ("STI", its Spanish acronym) for a maximum volume of 2.8 MMm3/day, from Aldea Brasilera, Province of Entre Ríos, to the locality of Paso de los Libres, Province of Corrientes. This contract will remain in effect from December 29, 2017 to December 28, 2027. As consideration for the STI, YPF will pay the Company USD 32 per one thousand cubic meters carried, in accordance with the provisions of Decree 689/2002. YPF irrevocably undertakes to pay TGM annually, per each year from 2018 up to and including 2024, as non-refundable payment on account of the contractual price, the amount of USD 1,857,143 per annum, as payment on account, whether it has made use of the STI or not. This payment on account entitles YPF to exercise a make up gas right between 2018 and 2024.

Considering the settlement agreement reached by YPF and TGM, the Company has reversed the obsolescence allowance that covered the investment in TGM, and has recorded the investment by the equity method at December 31, 2017.

- (3) The financial statements of Transportadora Gas del Norte S.A. (TGN) show that due to the significant changes that have occurred in the main macroeconomic variables in Argentina since 2001, the National Government has passed laws and issued decrees and regulations since January 2002 that deeply changed the economic model then in effect, and had a major impact on the economic and financial equation of the Company, its business and regulatory framework.

With the Public Emergency Law No. 25561 ("LEP") being passed in early 2002 and its constant renewal ever since, gas transportation tariffs were pesified and frozen.

Given that the implementing decree of LEP did not set forth an alternative mechanism for a tariff review, this situation directly caused the disruption of the economic and financial equation for the License.

Between July 1999 and March 2014, TGN's peso tariffs were frozen; this deprived the Company of the possibility of continuing investing in extensions of the gas transportation system, and it was replaced in this role by public trusts organized as from 2004 by the former National Energy Secretariat, financed with tariff charges that, at that time, largely surpassed the tariff collected by TGN.

The joint effect of the tariff freeze and the sustained increase in operating costs as well as the devaluation of the Argentine peso against the US dollar have substantially impaired TGN's operating result, which was reported as a loss from 2011 up to and including the first quarter of 2016. TGN does not receive, nor has it received, any subsidies from the National Government.

In April 2014 and June 2015, TGN received temporary tariff increases of 20% and 69.1%, respectively.

In February 2016, TGN entered into a second Temporary Agreement with the Ministry of Economy and Public Finance and the Ministry of Energy and Mining, setting the basic guidelines for a temporary adjustment to tariffs and a future Comprehensive Tariff Review, subject to the execution of a comprehensive renegotiation agreement.

On March 31, 2016 ENARGAS adopted Resolution I/ 3723 dictating a temporary increase of 289.2% in TGN's tariffs, effective April 1, 2016. Likewise, ENARGAS set a mandatory investment plan. In the meantime, TGN is not allowed to distribute dividends without prior authorization from ENARGAS.

On March 30, 2017, TGN entered into an agreement with the Ministry of Finance and the MINEM for the comprehensive renegotiation of the License (the "Comprehensive Agreement"), whose effective date is subject to the PEN's approval, after intervention of the Federal Treasury Attorney's Office, Argentina's General Accounting Office, and both chambers of the National Congress following the opinion of a bicameral commission. TGN obtained a new temporary average tariff increase of 49% in March 2017, and another temporary average tariff increase of 71.6% in December of the same year, in both cases on account of the higher increase that will be applied as a result of the comprehensive tariff review performed by the ENARGAS and upon execution of mandatory investments for \$ 457 million until March 2018.

The Comprehensive Agreement, ratified by the Extraordinary Shareholders' Meeting held on June 14, 2017, ended a fifteen-year period of legal and regulatory instability that had started in 2002 with the LEP. It sets forth the terms and conditions agreed to between the PEN and TGN to adapt the License, establishes the guidelines under which the ENARGAS conducted the comprehensive tariff review for the period 2017-2022 and concludes the renegotiation process developed within the framework of the LEP. Once this agreement comes into force, its provisions will cover the contract period from January 6, 2002 to the termination date of the License.

Between April 1, 2017 and March 31, 2022, the Company must implement a Mandatory Investment Plan for approximately \$ 5.6 billion. The Comprehensive Agreement also established the guidelines under which the ENARGAS carried out the CRR for the period 2017-2022.

As a condition precedent to the ratification of the Comprehensive Agreement, TGN requested a stay of the suit filed against the National State claiming damages for the pesification and subsequent freeze on its tariffs. Additionally, within ninety calendar days from the effective date of the ENARGAS resolution that approves the tariff schedule resulting from the comprehensive tariff review, or from the last step of the increase, which may not be later than April 1, 2018, or from the effective date of resolutions approving the distribution tariff schedules including the aforementioned tariff schedules, as appropriate, TGN shall fully and expressly waive the right and abandon the action brought against the National State, as well as all rights it might invoke or enforce against the National State, based on or related to facts or measures ordered with respect to the License under the LEP and/or because the Producer Price Index ("PPI") has become ineffective due to its cancellation. The same must be done by the Company's controlling shareholder, Gasinvest, and the shareholders representing at least two thirds of Gasinvest's capital stock.

The Comprehensive Agreement contains an indemnity clause for the benefit of the National State. TGN agrees to hold the National State harmless in the event that any of TGN's and/or Gasinvest's shareholders and/or any of their possible assignees obtain a final and conclusive award or judgment, in the Argentine Republic or abroad, consisting of any type of economic indemnity, relief or compensation whether based on or related to facts or measures ordered with respect to the License, under the emergency situation established by the LEP and/or the cancellation of the PPI, including court costs and fees.

In such a case, the Company will not be entitled to seek any relief, indemnity or compensation from the National State, and the costs and expenses that TGN incurs shall in no case be passed on to the users of the carriage service.

Further, in relation to arbitration awards obtained prior to the signing of the Comprehensive Agreement by the former shareholders CMS and Total, the Company agrees to hold the National State harmless. The amount of the indemnity, to be determined, will not include the pro rata percentage of reduction that would have been established or will be established in the related payment agreements, will exclude the amount of default interest payable by the National State and will be calculated at present value. As a reference, we include the amounts established in some awards: CMS Gas Transmission Company v. Argentine Republic (case ARB/01/8, award in favor of CMS of USD 133.2 million dated May 12, 2005), and Total S.A. v. Argentine Republic (case ARB/04/1, award in favor of Total of USD 85.2 million dated November 27, 2013).

TGN shall be liable for those amounts, only through sustainable investments, additional to those established by the ENARGAS as mandatory investments under the CRR, in gas pipelines and complementary installations in the Neuquina Basin. These investments shall not be included in the Company's rate base.

The tariff increases implemented since 2016 have enabled TGN to finance its operating and maintenance expenses, execute certain works and settle financial debts by the respective maturities. In order for the tariffs to remain at real values over time and thus be able to meet the demands of the operation and maintenance of the gas pipeline system, the comprehensive tariff review conducted by the ENARGAS introduces non-automatic semi-annual carriage tariff adjustments, between five-year reviews, regarding observable variations in the prices related to the cost of the service, so as to maintain the economic and financial sustainability of the rendered service and its quality.

CGC's direct and indirect interest in TGN accounts for 23.07% at December 31, 2017.

- (4) On July 10, 2014 Compañía General de Combustibles S.A. and Tecpetrol Internacional S.L.U. (jointly referred to as the "Buyers") and Total Gas y Electricidad Argentina S.A. and Total GasAndes S.A. (jointly referred to as the "Sellers") entered into a share purchase agreement relating to the equity interests the Sellers hold in Transportadora Gas del Norte S.A. ("TGN") and in its parent company GASINVEST S.A. ("GASINVEST"). The Sellers jointly hold 0.0309% of TGN capital, plus 15.35% indirectly through GASINVEST.

This transaction was mainly subject to the ENARGAS approval of the sale of the GASINVEST shares described above and of the assignment of the Technical Assistance Contract. Upon compliance with the purchase and sale conditions in February 2016, and after payment of the price of \$78,608, and the transfer of the shares on March 3, 2016, CGC's interest in TGN and GASINVEST amounts to 0.0466% and 40.85% of capital, respectively, and CGC's direct and indirect interest in TGN amounts to 23.07% at December 31, 2017.

- (5) In September 1997, the Government of Venezuela and a joint venture, including Compañía General de Combustibles S.A. (holding a majority interest), entered into an agreement by means of which the Government of Venezuela granted the companies a right of exploration of Campo Onado for a term of 20 years.

Under the contract of production, the Government of Venezuela holds exclusive property rights on all the hydrocarbons extracted within the area, while the joint venture receives the total net proceeds from the sale until the settlement period, and between 30% and 60% for the following years.

In 2005, the Government of Venezuela announced the mandatory conversion of the 32 operating agreements entered into by and between Petróleos de Venezuela S.A. ("PDVSA") affiliates and privately-held oil companies between 1992 and 1997. Among those agreements, we can mention the Campo Onado Third Round Operating Agreement entered into on July 29, 1997 by and between CGC and Corpoven, S.A. a PDVSA affiliate (the "Operating Agreement"). The conversion includes the migration of the operating agreements to partially state-owned companies in accordance with the Hydrocarbons Organic Law (Government's interest higher than 50%).

In August 2006, the conversion of the operating agreements was signed. It was determined that privately-held oil companies would hold an interest of 40% while the Government of Venezuela would hold 60%.

As a result of this migration process, the Operating Agreement of Campo Onado became Petronado S.A., a partially state-owned company.

According to the new corporate structure, CGC holds 26.004% of Petronado S.A.

Petronado S.A., as well as the other partially state-owned company, must sell to PDVSA all liquid hydrocarbons they produce within the defined area, according to a price formula related to international benchmarks such as WTS and WTI.

Venezuela is facing a deep economic crisis: oil is at its lowest price in more than a decade (and Venezuela relies on the export of oil as its main source of income), there is skyrocketing inflation and shortage of products. This has forced the Government into issuing a decree declaring the Economic Emergency on January 14, 2016, and will allow President Nicolás Maduro to adopt special measures to develop strategic policies that will help to reformulate the financial and productive system of Venezuela. It is expected that in 2018 the volume of foreign currency offered and/or approved through the controlled exchange system will decline even more.

Additionally, modifications in the exchange mechanisms have created uncertainties relating to financial reporting as new exchange rates used to remeasure assets and liabilities denominated in Venezuelan bolívar and related income and expenses have to be reconsidered.

Despite the difficult situation for operations in Venezuela, the Company will continue doing business that country in a foreseeable future through its associate, Petronado S.A.

After assessing different factors, the Company decided that since October 1, 2015 material influence has been lost over the entity, mainly due to the lack of access to accounting information. As a result, the investment in Petronado S.A. is recorded at fair value with changes through profits and losses in accordance with IAS 39 and IFRS 9 (instead of using the equity method). The initial measurement will be the value recorded at October 1, 2015 based on the financial information available at that date.

This is the reason why income was recognized in 2017 and 2016 in the amount of \$ 947 and \$ 197, respectively, under Financial Results from measurement at fair value of the financial instruments to disclose under non-current investments the fair value of the investment in Petronado S.A. of \$ 11,064 and \$ 10,117 in 2017 and 2016, respectively.

- (6) In July 27, 2011, CGC and Tecpetrol Internacional S.L. ("Tecpetrol") jointly filed for arbitration proceedings with the International Chamber of Commerce (ICC) against Argentinean Pipeline Holding Company S.A. (APHC) - formerly, Petronas S.A. ("Petronas") for breach of the shareholders' pre-emption right as a result of the transfer of the equity interests Petronas held in TGM and Gasinvest S.A. (companies where CGC, Tecpetrol and Petronas are shareholders, jointly with other companies).

On June 26, 2013 the Arbitral Tribunal rendered the Final Award in which - after stating that CGC and Tecpetrol validly issued their acceptance of the offer according to the Shareholders' Agreements - it ordered APHC to:

- i.- comply with the stock purchase agreement entered by and between APHC and CGC/Tecpetrol based on the acceptance of the offer; and
- ii.- pay CGC and Tecpetrol \$ 278 plus interest as from June 14, 2012 for loss of profits for the dividends accrued from the shares at issue.

However, the Arbitral Tribunal explained that it could not order enforcement measures regarding the Final Award on RPM given its jurisdiction and the fact that RPM has not taken part of the agreement which determined the tribunal's powers to enforce it.

This did not mean that the Final Award cannot be enforced against RPM either through an out-of-court procedure or through a competent authority due to the effects of the notice of pendency, its bad faith and the limitations appearing in the title to the shares acquired.

Therefore, on July 12, 2013 CGC and Tecpetrol served notice on SADESA and RPM Gas regarding the Final Award, which, according to the title deed and the notice of pendency, was applicable to them.

Furthermore, the companies were requested to ask the pertinent companies to register all properties, assets and rights included in the CCA in favor of CGC's and Tecpetrol. RPM Gas and Sadesa repudiated this request.

CGC and Tecpetrol asked for supplementary precautionary measures in court. However, these measures were denied on the grounds that third parties' rights cannot be affected by precautionary measures.

Panel F, however, allowed the commencement by CGC and Tecpetrol of an ordinary judicial proceeding against RPM Gas.

On July 11, 2014, CGC and Tecpetrol started at the Federal Commercial Court of Original Jurisdiction in and for the City of Buenos Aires No. 18, Clerk's Office No. 35 ordinary proceedings against RPM GAS S.A. requesting that the Court ordered this company to transfer to them all the shares, receivables, rights and obligations, under the CCA entered into between APHC and CGC/Tecpetrol. To date, the judge deemed the complaint to have been answered by RPM and ordered that notice of the documentary evidence offered should be served.

In the event of a favorable ruling for CGC, CGC equity interests in TGM and Gasinvest would increase by 1.867% and 6.0951%, respectively.

NOTE 31- SECURED AND RESTRICTED ASSETS AND OTHER SURETIES GRANTED

At December 31, 2017 and 2016 the Company did not hold restricted assets. See constitution of a security interest in detail in the subsequent events note (Note 32).

NOTE 32 - SUBSEQUENT EVENTS

After December 31, 2017, no event, situation or circumstance that is not publicly known and that affects or may significantly affect the Company's economic or financial position has occurred in addition to those mentioned in the notes to these consolidated financial statements, except for the issuance of Corporate Bonds.

- **Issuance of Class 10 Corporate Bonds**

On January 12, 2018, Class “10” Corporate Bonds for USD 100 million were issued and settled at a nominal annual fixed rate of 9.7%, under the Negotiable Obligation Issue Program for a maximum nominal value of up to USD 250 million, outstanding at any time, authorized by CNV Resolution 17570 dated December 10, 2014. Principal amortization and maturity shall be in a sole payment within 42 months counted as from the issue date (July 12, 2021). Interest is paid semi-annually, on January 12 and July 12. The first interest payment date shall be July 12, 2018.

Class 10 Corporate Bonds are simple Corporate Bonds, not convertible into shares, issued pursuant to Corporate Bonds Law No. 23575 (jointly with its amendments, the “**Corporate Bonds Law**”), a non-recourse debt against to CGC and guaranteed by company’s midstream assets . The Corporate Bonds are without recourse because the only source of payment will be the funds obtained from (i) dividend payments and/or other distributions under shares in Gasinvest S.A., Gasoducto Gasandes (Argentina) S.A. and Gasoducto Gasandes S.A. owned by the Company (“the encumbered shares”), and/or (ii) the sale and/or public auction of those shares. Principal, interest and other items owed under the Corporate Bonds shall be paid exclusively with the Available Funds (as defined hereinbelow). If on any interest payment date there are not sufficient available funds to pay, in whole or in part, the amounts for compensatory interest owed under the Corporate Bonds and payable on that Interest Payment Date, compensatory interest payable in whole or in part on that Interest Payment Date exceeding the amount of the Available Funds existing on that Interest Payment Date shall be automatically capitalized on that Interest Payment Date. If for any reason the Available Funds are not sufficient to pay all of the amounts of principal, interest and other items owed under the Corporate Bonds, the holders may not claim from the Company payment of the unpaid balances for principal, interest and/or other items under the Corporate Bonds that have not been paid with the Available Funds for not being sufficient. Company's obligation regarding payments that are to be made under the Corporate Bonds shall be limited exclusively to apply and/or cause to apply the Available Funds to the payment of principal, interest and other items owed under the Corporate Bonds, as prescribed herein, and the Company will assume no responsibility in case that the Available Funds are not sufficient, for any reason, to fully repay the amounts of principal, interest and other items owed under the Corporate Bonds. If, after all of the amounts of principal, interest and other items owed under the Corporate Bonds have been paid, any remainder of Encumbered Shares and/or Available Funds still exists, those Encumbered Shares and/or Available Funds shall be the exclusive property of the Company.

To guarantee that the Available Funds will be applied exclusively to the payment of principal, interest and other items owed under the Corporate Bonds, on December 27, 2017 the Company and the Collateral Agent (Banco de Valores S.A.) entered into: (i) a share pledge agreement, whereby the Company will grant in favor of the Collateral Agent, to the benefit of the holders, a first priority security interest on the Gasinvest Shares; and (ii) a trust agreement, whereby the Company will create a trust to the benefit of the holders of class 10 Corporate Bonds, whose trust assets will be the Available Funds, which will be received and kept by the Collateral Agent, as trustee, in one or more trust accounts in dollars and/or pesos, and used by the trustee to make the payments of principal, interest and other items under the Corporate Bonds. The Shares in Gasoducto Gasandes (Argentina) S.A. and Gasoducto Gasandes S.A. will not be pledged under the Pledge Contract or under any other document.

The net proceeds from the placement of the Corporate Bonds shall be applied by the Company, as prescribed by Section 36 of the Corporate Bonds Law, in particular, as follows: (i) the investment in physical assets situated in Argentina, particularly to investments in the exploration and exploitation of hydrocarbons in the province of Santa Cruz (Austral basin); (ii) the refinancing of liabilities; and (iii) the supply of working capital in Argentina. The Company may temporarily invest the funds not yet applied in Permitted Investments.

Under the terms and conditions set out in relation to the issuance of these Corporate Bonds under the international program, CGC will be required to comply with certain restrictions on indebtedness, restricted payments (including dividends), the setting up of liens, and other requirements.

NOTE 33 - RESERVES

Oil and gas reserves (Information not covered by the Auditors' Report)

The following table shows the estimated proven oil reserves (including crude oil, condensate and natural gas liquids (NGL)) and natural gas at December 31, 2017 (Note 5.a):

	Developed proven reserves		Undeveloped proven reserves		Total Proven Reserves	
	Crude oil, condensed and LNG (a)	Natural gas (b)	Crude oil, condensed and LNG (a)	Natural gas (b)	Crude oil, condensed and LNG (a)	Natural gas (b)
Argentina	1,335	5,374	337	1,528	1,672	6,902
Total	1,335	5,374	337	1,528	1,672	6,902

(a) (in thousands of m3)

(b) (in millions of m³)

“Free translation from the original in Spanish for publication in Argentina”

INDEPENDENT AUDITORS' REPORT

To the Shareholders, President and Directors of
Compañía General de Combustibles S.A.
Legal address: Bonpland 1745
Autonomous City of Buenos Aires
Tax Registration No. 30-50673393-2

Report on the financial statements

We have audited the accompanying consolidated financial statements of Compañía General de Combustibles S.A. and its subsidiaries (the “Company”), including the consolidated statement of financial position at December 31, 2017 and the consolidated statements of comprehensive income, statement of changes in equity and consolidated cash flows for the year then ended, as well as a summary of the significant accounting policies and other explanatory information.

The balances and other information corresponding to the fiscal year 2016 are an integral part of the audited financial statements mentioned above; therefore, they must be considered in connection with these financial statements.

Responsibility of the Board of Directors

The Board of Directors of the Company is responsible for the preparation and reasonable presentation of these consolidated financial statements under International Financial Reporting Standards (IFRS) adopted by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE) as professional accounting standards and incorporated into the regulations of the National Securities Commission (CNV), as approved by the International Accounting Standards Board (IASB). Further, the Board of Directors is responsible for the existence of adequate internal control to prepare consolidated financial statements free of any material misstatements due to errors or irregularities.

Auditors' responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements, based on our audit. We performed our audit in accordance with International Auditing Standards (IAS) as adopted by the FACPCE through Technical Pronouncement No. 32 and related adoption circulars. These standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from any material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and other information disclosed in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the consolidated financial statements due to fraud or error. In making those risk assessments, the auditor must consider internal control relevant to the Company's preparation and reasonable presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by the Company's management, as well as evaluating the overall presentation of the consolidated financial statements.

We consider that the elements of judgment obtained provide a sufficient and adequate basis for expressing our audit opinion.

Opinion

In our opinion, the consolidated financial statements mentioned in the first paragraph of this report present fairly, in all material respects, the consolidated financial position of Compañía General de Combustibles S.A. and its subsidiaries at December 31, 2017, its consolidated comprehensive income and consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards.

Report on compliance with current regulations

In accordance with current regulations, we report that, in connection with Compañía General de Combustibles S.A.:

- a) the consolidated financial statements of Compañía General de Combustibles S.A. are transcribed into the “Balances” book and as regards those matters that are within our competence, they are in compliance with the provisions of the General Corporations Law and pertinent resolutions of the National Securities Commission;
- b) the individual financial statements of Compañía General de Combustibles S.A. arise from accounting records kept in all formal respects in conformity with legal provisions, which maintain the security and integrity conditions on the basis of which they were authorized by the National Securities Commission;
- c) we have read the informative review, on which, as regards those matters that are within our competence, we have no observations to make;
- d) at December 31, 2017, the debt accrued by Compañía General de Combustibles S.A. in favor of the Argentine Integrated Social Security System according to the Company's accounting records and calculations, amounted \$9,292,071, none of which was claimable at that date.
- e) as required by article 21, indent b), Chapter III, Section VI, Title II of the rules issued by the National Securities Commission, we report that total fees for auditing and related services billed to the Company during the fiscal year ended 31 December, 2017 account for:
 - e.1) 91% of the total fees for services billed to the Company for all items during that fiscal year;
 - e.2) 52% of the total fees for services for auditing and related services billed to the Company, its parent companies, subsidiaries and related companies during that year;
 - e.3) 47% of the total fees for services billed to the Company, its parent companies, subsidiaries and related companies for all items during that year;
- f) we have applied the anti-money laundering and financing of terrorism procedures for Compañía General de Combustibles S.A. comprised in the professional standards issued by the Professional Council in Economic Sciences of the Autonomous City of Buenos Aires.

Autonomous City of Buenos Aires, March 8, 2018

PRICE WATERHOUSE & CO. S.R.L.

(Partner)

C.P.C.E.C.A.B.A. V. 1 F. 17
Alejandro P. Frechou
Public Accountant (UBA)
C.P.C.E.C.A.B.A. V. 156 F. 85