

YPF SOCIEDAD ANONIMA
Form 20-F/A
October 20, 2008

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

FORM 20-F/A
(Amendment No. 2)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007
Commission file number: 1-12102

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

Republic of Argentina
(Jurisdiction of incorporation or organization)

Avenida Pte. R. Sáenz Peña 777
C1035AAC Ciudad Autónoma de Buenos Aires, Argentina
(54-11) 4329-2000
(Address of principal executive offices)

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

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

* Listed not for trading but only in connection with the registration of American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

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

The number of outstanding shares of each class of stock of YPF Sociedad Anónima as of December 31, 2007 was:

Class	
A	3,764
Shares	
Class	
B	7,624
Shares	
Class	
C	105,736
Shares	
Class	
D	393,195,669
Shares	
	393,312,793

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No S

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

EXPLANATORY NOTE

This Annual Report on Form 20-F/A (“Form 20-F/A”) is being filed by us as Amendment No. 2 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2007 (the “2007 Form 20-F”). This Form 20-F/A is filed solely for the purpose of (1) including all information and sections that were previously included in our 2007 Form 20-F filed on April 15, 2008 and in Amendment No. 1 to our 2007 Form 20-F filed on April 16, 2008, (2) addressing the filing to the Commission’s current address, (3) modifying a statement regarding the effectiveness of our disclosure controls and procedures to remove any ambiguity regarding the effectiveness of our disclosure controls and procedures at a reasonable assurance level, and (4) removing the subtotal of “Future net cash flows, before income taxes” in the standardized measure of discounted future net cash flows in the “Supplemental Information on Oil and Gas Producing Activities (Unaudited)” section of our financial statements. Other than as stated above, this Form 20-F/A does not amend, update or restate the information in any other item or section of the 2007 Form 20-F as originally filed on April 15, 2008 or reflect any events that have occurred after the original filing of the 2007 Form 20-F on April 15, 2008.

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Conversion Table

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

1 barrel = 42 U.S. gallons

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

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

1 kilometer = 0.63 miles

1 million Btu = 252 termies

1 cubic meter of gas = 35.3147 cubic feet of gas

1 cubic meter of gas = 10 termies

1000 acres = approximately 4 square kilometers

References

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

Disclosure of Certain Information

In this annual report, references to “Audited Consolidated Financial Statements” are to YPF’s audited consolidated balance sheets as of December 31, 2007, 2006 and 2005, and YPF’s audited consolidated statements of income for the three years ended December 31, 2007, 2006 and 2005.

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

- for the subsidiaries that were consolidated using the global integration method at the date or for the periods indicated, 100% of the assets, liabilities and results of operations of such subsidiaries without excluding minority interests, and
- for those subsidiaries whose results were consolidated using the proportional integration method, a pro rata amount of the assets, liabilities and results of operations for such subsidiaries at the date or for the periods indicated. For information regarding consolidation, see Note 1 to the Audited Consolidated Financial Statements.

The Audited Consolidated Financial Statements and other amounts derived from such Audited Consolidated Financial Statements, included in this annual report, reflect the effect of changes in the purchasing power of money by the application of the method for remeasurement in constant pesos. All the amounts were remeasured to constant pesos as of February 28, 2003. See Note 1 to the Audited Consolidated Financial Statements.

Forward-Looking Statements

This annual report, including any documents incorporated by reference, contains statements that we believe constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include statements regarding the intent, belief or current expectations of us and our

management, including statements with respect to trends affecting our financial condition, financial ratios, results of operations, business, strategy, geographic concentration, production volume and reserves, as well as our plans with respect to capital expenditures, business strategy, geographic concentration, cost savings, investments and dividends payout policies. These statements are not a guarantee of future performance and are subject to material risks, uncertainties, changes and other factors which may be beyond our control or may be difficult to predict.

Accordingly, our future financial condition, prices, financial ratios, results of operations, business, strategy, geographic concentration, production volumes, reserves, capital expenditures, cost savings, investments and dividend policies could differ materially from those expressed or implied in any such forward-looking statements. Such factors include, but are not limited to, currency fluctuations, the price of petroleum products, the ability to realize cost reductions and operating efficiencies without unduly disrupting business operations, replacement of hydrocarbon reserves, environmental, regulatory and legal considerations and general economic and business conditions in Argentina, as well as those factors described in the filings made by YPF and its affiliates with the Securities and Exchange Commission, in particular, those described in “Item 3. Key Information—Risk Factors” below and “Item 5. Operating and Financial Review and Prospects.” YPF does not undertake to publicly update or revise these forward-looking statements even if experience or future changes make it clear that the projected results or condition expressed or implied therein will not be realized.

Oil and Gas Terms

Oil and gas reserves definitions used in this annual report are in accordance with the reserves definitions of Rule 4-10(a) (1)-(17) of Regulations S-X of the SEC.

The definitions of Reserves Estimate, Reserves Audit and Reserves Review as given below and used hereunder are not terms defined under U.S. Securities and Exchange Commission (“SEC”) Rules or Regulations and are terms used by YPF in this annual report as defined herein and consequently such definitions may be defined and used differently by other companies.

For the purpose of this annual report, any reserves estimate, or any independent reserves audit or any reserves review invoked hereunder, are in accordance with the oil and gas reserves definitions of Rule 4-10(a) (1)-(17) of Regulations S-X of the SEC.

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

“acreage”: The total area, expressed in acres or km², over which we have interests in exploration or production. Net acreage is our interest in the relevant exploration or production area.

“concession”: A grant of access for a defined area and time period that transfers certain entitlements to produce hydrocarbons from the host country to an enterprise. The company holding the concession generally has rights and responsibilities for exploration, development, production and sale of hydrocarbon. Typically, the concession is granted under a legislated fiscal system where the host country collects royalties on the estimated value at the wellhead of crude oil production and the natural gas volume commercialized and taxes or fees on profits earned.

“exploratory well”: A well drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir, or to extend a known reservoir.

“hydrocarbons”: Crude oil and natural gas.

“natural gas liquids,” or “NGL”: The portions of gas from a reservoir that are liquefied at the surface in separators, field facilities, or gas processing plants. NGL from gas processing plants is also called liquefied petroleum gas, or “LPG.”

“oil and gas producing activities”:

- (i) Such activities include:
- A. The search for crude oil, including condensate and natural gas liquids, or natural gas (“oil and gas”) in their natural states and original locations.
 - B. The acquisition of property rights or properties for the purpose of further exploration and/or for the purpose of removing the oil or gas from existing reservoirs on those properties.
 - C. The construction, drilling and production activities necessary to retrieve oil and gas from their natural reservoirs, and the acquisition, construction, installation, and maintenance of field gathering and storage systems – including lifting the oil and gas to the surface and gathering, treating, field processing (as in the case of processing gas to extract liquid hydrocarbons) and field storage. For purposes of this section, the oil and gas production function shall normally be regarded as terminating at the outlet valve on the lease or field storage tank; if unusual physical or operational circumstances exist, it may be appropriate to regard the production function as terminating at the first

point at which oil, gas or gas liquids are delivered to a main pipeline, a common carrier, a refinery, or a marine terminal.

(ii) Oil and gas producing activities do not include:

A. The transporting, refining and marketing of oil and gas;

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- B. Activities relating to the production of natural resources other than oil and gas;
- C. The production of geothermal steam or the extraction of hydrocarbons as a by-product of the production of geothermal steam or associated geothermal resources as defined in the Geothermal Steam Act of 1970; or
- D. The extraction of hydrocarbons from shale, tar sands or coal.

“proved oil and gas reserves”: Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

i) Reservoirs are considered proved if economic productibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes:

- A. that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and
- B. the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

ii) Reserves that can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the “proved” classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

iii) Estimates of proved reserves do not include the following:

- A. oil that may become available from known reservoirs but is classified separately as “indicated additional reserves”;
- B. crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors;
- C. crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and
- D. crude oil, natural gas, and natural gas liquids, that may be recovered from oil sales, coal, gilsonite and other such sources.

“proved developed reserves”: Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as “proved developed reserves” only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

“proved undeveloped reserves”: Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for

recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

“recovery factor”: The recoverable amount of the original or residual estimated hydrocarbons in place in a reservoir, expressed as a percentage of total hydrocarbons in place.

“refining capacity”: The crude oil processing capacity of refineries, expressed as an average over a period of time for the quality of oil and under conditions for which the facility was designed. Such capacity could be improved through the application of updated operation and maintenance techniques, increased availability, equipment revamps, de-bottlenecking, and the use of higher qualities of crude oil than those for which the refinery was originally designed, among other improvements.

“reserves audit”: A reserves audit is the process of reviewing certain factual matters and assumptions on which an estimate of reserves and/or reserves information prepared by others has been based and the rendering of an opinion about (1) the appropriateness of the methodologies employed, (2) the adequacy and quality of the data relied upon, (3) the depth and thoroughness of the reserves estimation process, (4) the classification of reserves appropriate to the relevant definitions used, and (5) the reasonableness of the estimated reserves quantities and/or the reserves information, and is, therefore, free of material misstatement. The term “reasonableness” cannot be defined with precision but reflects a quantity and/or value difference as contemplated under “Internal Control on Reserves and Reserves Audits.” Often a reserves audit includes a detailed review of certain critical assumptions and independent assessments with acceptance of other information less critical to the reserves estimation. Typically, a reserves audit letter should be of sufficient rigor to determine the appropriate reserves classification for all reserves in the property set evaluated and to clearly state the reserves classification system being utilized. In contrast to the term “audit” as used in a financial sense, a reserves audit is generally less rigorous than a reserves report.

The estimation of reserves and other reserves information is an imprecise science due to the many unknown geological and reservoir factors that can only be estimated through sampling techniques. Since reserves are therefore only estimates, they cannot be audited for the purpose of verifying exactness. Instead, reserves information is audited for the purpose of reviewing in sufficient detail the policies, procedures, methods and data used by us in estimating our reserves information so that the reserves auditors may express an opinion as to whether, in the aggregate, the reserves information furnished by us is reasonable within established and predetermined tolerances and has been estimated and presented in conformity with generally accepted petroleum engineering and evaluation principles and within the rules and regulations of the SEC.

In some cases, the auditing procedure may require independent estimates of reserves information for some or all properties. The desirability of such re-estimation will be determined by the reserves auditor exercising his or her professional judgment in arriving at an opinion as to the reasonableness of our reserves information. In those cases, an external reservoir engineer makes an independent comprehensive evaluation of reserves by interpreting and assessing all the pertinent data to generate such engineer’s own cash flow analysis and proved reserves estimate. The degree of assurance of such independent estimates cannot usually be provided with numeric precision.

The main product of these external engineering evaluations is a report that includes the engineer’s actual proved reserves estimates and economic evaluation. This report may also, at our request, include maps, logs, or other technical backup used by the external reservoir engineer, with an opinion letter that includes the reserves auditor’s findings, conformance or not with the applicable principles, definitions and procedures for estimating reserves. This opinion may also, at our request, include conclusions and recommendations. In the aforementioned case where the auditor performs an independent estimate of reserves information, we will call it an external reserves certification.

In all cases, in the opinion letter or report issued by the auditor, the reserves auditor states his or her professional standing and professional affiliation as a registered or certified professional from an appropriate governmental authority or professional organization.

A reserves auditor is a professional who has sufficient educational background, professional training and professional experience to enable him or her to exercise prudent professional judgment while in charge of the conduct of an audit of reserves information estimated by others. The determination of whether a reserves auditor is professionally qualified is made on an individual-by-individual basis with reference to the recognition and respect of his or her peers. A reserves auditor would normally be considered by us to be qualified if he or she (i) has a minimum of 10 years' practical experience in petroleum engineering or petroleum production geology, with at least

five years of such experience in charge of the estimations and evaluation of reserves information; and (ii) either (A) has obtained, from a college or university of recognized stature, a bachelor's or advanced degree in petroleum engineering, geology or other discipline of engineering or physical science, or (B) has received, and is maintaining in good standing, a registered or certified professional engineer's license or a registered or certified professional geologist's license, or the equivalent thereof, from an appropriate governmental authority or professional organization.

Our standard of independence for reserves auditors is that he or she must not have any financial interest in the properties under evaluation. This is in order that there is no incentive for his or her reports to be outcome-oriented because there is no direct economic benefit for him or her as a consequence of the results of his or her work. An independent reserves auditor's compensation is based only on professional services carried out to deliver an unbiased analysis suitable for the public and financial communities. We also require that a statement of such independence is included in the auditor's report.

The meaning of the terms "reserves audit," "reserves report," "external reserves certification" among others may not be comparable to other similar terms used by other companies in respect of proved reserves.

"reserves estimate": The process whereby a qualified reserves estimator performs a comprehensive evaluation by interpreting and assessing all the pertinent data to generate such proved reserves estimates and cash flow analysis. The main product of this evaluation results in a report that includes: (i) the actual reserve estimate quantities, (ii) the future producing rates from such reserves, (iii) the future net revenues from such reserves, and (iv) the present value of such future net revenue. This report may also include maps, logs or other technical backup used by the estimator.

"reserves review": The process whereby a qualified reserves professional reviewer conducts a high-level assessment of reserves information to determine if it is plausible. The steps consist primarily of:

inquiry;
analytical procedures;
analysis;
review of historical reserves performance; and
discussions with reserves management staff.

"plausible" means the reserves data appearing to be worthy of belief based on the information obtained by a reserves estimator or by an independent qualified reserves auditor in carrying out the aforementioned steps. It may result in a statement like "Nothing came to my attention that would indicate the reserves information has not been prepared and presented in accordance with the applicable principles and definitions."

Our standard for an "Independent Qualified Reserves Auditor" is that an Independent Qualified Reserves Auditor is a professional who has sufficient educational background, professional training and professional experience to enable him or her to exercise prudent professional judgment while in charge of the conduct of an audit of reserves information estimated by others. The determination of whether a Reserves Auditor is professionally qualified is made on an individual-by-individual basis with reference to the recognition and respect of his or her peers. A Reserves Auditor would normally be considered by us to be qualified if he or she (i) has a minimum of 10 years' practical experience in petroleum engineering or petroleum production geology, with at least 5 years of such experience in charge of the estimations and evaluation of reserves information; and (ii) either (A) has obtained, from a college or university of recognized stature, a bachelor's or advanced degree in petroleum engineering, geology or other discipline of engineering or physical science, or (B) has received, and is maintaining in good standing, a registered or certified professional engineer's license or a registered or certified professional geologist's license, or the equivalent thereof, from an appropriate governmental authority or professional organization.

Our standard of independence for Consulting Reserves Auditors is that he or she must not have any financial interest in the properties under evaluation. This is in order that there is no incentive for his or her reports to be outcome-oriented because there is no direct economic benefit for him or her as a consequence of the results of his or her work. The Independent Qualified Reserves Auditor's compensation is based only on professional services

carried out to deliver an unbiased analysis suitable for the public and financial communities. We also require that a statement of such independence be included in the auditor's report.

Reviews do not require examination of the detailed documentation that supports the reserves information, unless this information does not appear to be plausible. A reserves review, due to the limited nature of the investigation involved, does not provide the level of assurance provided by a reserves estimate or a reserves audit. Though reserves reviews can be done for specific applications, they are not a substitute for an audit or an estimate.

Abbreviations:

“bbl”	Barrels
“Bcf”	Billion cubic feet 10 ⁹ cubic feet
“Bcm”	Billion cubic meters 10 ⁹ cubic meters
“boe”	Barrels of oil equivalent
“boe/d”	Barrels of oil equivalent per day

“Condensate” Mixture of hydrocarbons that exist in the gaseous phase at original temperature and pressure of the reservoir, but when produced condense into liquid phase at temperature and pressure associated with surface production equipment

“Gas”	Natural gas
“GWh”	Gigawatt hours
“HP”	Horse Power
“km”	Kilometers
“km ² ”	Square kilometers
“m”	Thousand
“m ³ ”	Cubic meter
“m ³ /d”	Thousand barrels per day
“mboe/d”	Thousand barrels of oil equivalent per day
“mcf”	Thousand cubic feet
“mcm”	Thousand cubic meters
“mm”	Million
“m ³ bbl”	Million barrels

“mmboe”	Million barrels of oil equivalent
“mmboe/d”	Million barrels of oil equivalent per day
“mmBtu”	Million British thermal units
“mmcf”	Million cubic feet

“mmcf/d”	Million cubic feet per day
“mmcm”	Million cubic meters
“mmcm/d”	Million cubic meters per day
“mtn”	Thousand tons
“MW”	Megawatts
“Oil”	Crude oil, condensate and natural gas liquids
“WTI”	West Texas Intermediate
“USA”	United States

Oil and gas reserves definitions used in this annual report are in accordance with the reserves definitions of Rule 4-10(a) (1)-(17) of Regulation S-X of the SEC.

The definitions of reserves estimate, reserves audit and reserves review as given below and used hereunder are not terms defined under SEC Rules or Regulations and are terms used by us in this annual report as defined herein and consequently such terms may be defined and used differently by other companies.

For the purpose of this annual report, any reserves estimate, or any independent reserves audit or any reserves review invoked hereunder, are in accordance with the oil and gas reserves definitions of Rule 4-10(a) (1)-(17) of Regulation S-X of the SEC.

PART I

ITEM 1. Identity of Directors, Senior Managers and Advisers

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable

Not applicable.

ITEM 3. Key Information

Selected Financial Data

The following tables present our selected financial and operating data. You should read this information in conjunction with our Audited Financial Statements and related notes, and the information under “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report.

The financial data as of December 31, 2007, 2006 and 2005 and for the years then ended is derived from our Audited Consolidated Financial Statements, which are included in this annual report. The financial data as of and for the years ended December 31, 2004 and 2003 is derived from our audited financial statements, which are neither included nor incorporated by reference in this annual report. Our audited financial statements have been prepared in accordance with generally accepted accounting principles in Argentina, which we refer to as Argentine GAAP and which differ in certain significant respects from generally accepted accounting principles in the United States, which we refer to as U.S. GAAP. Notes 13, 14 and 15 to our Audited Consolidated Financial Statements provide a description of the significant differences between Argentine GAAP and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of net income and shareholders’ equity as of December 31, 2007, 2006 and 2005 and for the years then ended.

In this annual report, except as otherwise specified, references to “\$,” “U.S.\$” and “dollars” are to U.S. dollars, and references to “Ps.” and “pesos” are to Argentine pesos. Solely for the convenience of the reader, peso amounts as of and for the year ended December 31, 2007 have been translated into U.S. dollars at the exchange rate quoted by the Argentine Central Bank (Banco Central de la República Argentina or Central Bank) on December 28, 2007 of Ps.3.15 to U.S.\$1.00 (the last quoted rate in December 2007), unless otherwise specified. The exchange rate quoted by Central Bank on April 10, 2008 was Ps. 3.16 to U.S.\$1.00. The U.S. dollar equivalent information should not be construed to imply that the peso amounts represent, or could have been or could be converted into U.S. dollars at such rates or any other rate. See “Item 3. Key Information—Exchange Rates.”

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals may not sum due to rounding.

	As of and for Year Ended December 31,					
	2007 (in millions of U.S.\$, except for per share and per ADS data)	2007	2006	2005(1)	2004(1)	2003(2)
Consolidated Income Statement Data:						
Argentine GAAP(3)						
Net sales(4)(5)	9,239	29,104	25,635	22,901	19,931	17,514
Gross profit	3,208	10,104	9,814	11,643	10,719	9,758
Administrative expenses	(256)	(805)	(674)	(552)	(463)	(378)
Selling expenses	(673)	(2,120)	(1,797)	(1,652)	(1,403)	(1,148)
Exploration expenses	(166)	(522)	(460)	(280)	(382)	(277)
Operating income	2,113	6,657	6,883	9,161	8,471	7,955
Income on long-term investments	11	34	183	39	154	150
Other expenses, net	(139)	(439)	(204)	(545)	(981)	(152)
Interest expense	(93)	(292)	(213)	(459)	(221)	(252)
Other financial income (expenses) and holding gains (losses), net	257	810	667	561	359	202
Income from sale of long-term investments	2	5	11	15	—	—
Reversal (impairment) of other current assets	22	69	(69)	—	—	—
Income before income tax	2,173	6,844	7,258	8,772	7,782	7,903
Income tax	(876)	(2,758)	(2,801)	(3,410)	(3,017)	(3,290)
Net income from continuing operations	1,297	4,086	4,457	5,362	4,765	4,613
Income on discontinued operations	—	—	—	—	3	15
Income from sale of discontinued operations	—	—	—	—	139	—
Net income	1,297	4,086	4,457	5,362	4,907	4,628
Earnings per share and per ADS(6)	3.30	10.39	11.33	13.63	12.48	11.77
Dividends per share and per ADS(6) (in pesos)	n.a.	6.00	6.00	12.40	13.50	7.60
Dividends per share and per ADS(6)(7) (in U.S. dollars)	n.a.	1.93	1.97	4.25	4.70	2.62
U.S. GAAP						
Operating income	1,643	5,176	5,626	8,065	6,550	7,567
Net income	1,056	3,325	3,667	5,142	4,186	4,435
Earnings per share and per ADS(6) (in pesos)	n.a.	8.45	9.32	13.07	10.64	11.28
Consolidated Balance Sheet Data:						
Argentine GAAP(3)						
Cash	62	196	118	122	492	355
Working capital	1,296	4,081	4,905	2,903	3,549	4,001
Total assets	12,096	38,102	35,394	32,224	30,922	32,944

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Total debt(8)	316	994	1,425	1,453	1,930	2,998
Shareholders' equity(9)	8,273	26,060	24,345	22,249	21,769	22,534
U.S. GAAP						
Total assets	12,935	40,746	37,046	34,748	32,540	34,125
Shareholders' equity	9,228	29,067	26,241	24,254	23,506	24,334
Other Consolidated Financial Data:						
Argentine GAAP						
Fixed assets depreciation	1,314	4,139	3,718	2,707	2,470	2,307
Cash used in fixed asset acquisitions	1,957	6,163	5,002	3,722	2,867	2,418

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- (1) Consolidated income and balance sheet data for the years ended December 31, 2005 and 2004 set forth above include the retroactive effect from the application of new accounting rules in Argentina effective since January 1, 2006.
 - (2) Consolidated income and balance sheet data for the year ended December 31, 2003 set forth above do not include the retroactive effect from the application of new accounting rules in Argentina, which was not material.
 - (3) The financial statements reflect the effect of changes in the purchasing power of money by the application of the method for remeasurement in constant Argentine pesos set forth in Technical Resolution No. 6 of the Argentine Federation of Professional Councils in Economic Sciences (“F.A.C.P.C.E.”) and taking into consideration General Resolution No. 441 of the National Securities Commission (“CNV”), which established the discontinuation of the remeasurement of financial statements in constant Argentine pesos as from March 1, 2003. See Note 1 to the Audited Consolidated Financial Statements.
 - (4) Includes Ps.1,350 million for the year ended December 31, 2007, Ps.1,451 million for the year ended December 31, 2006, Ps.1,216 million for the year ended December 31, 2005, Ps.1,122 million for the year ended December 31, 2004 and Ps.760 million for the year ended December 31, 2003 corresponding to the proportional consolidation of the net sales of investees in which we hold joint control with third parties. See Note 13(b) to the Audited Consolidated Financial Statements.
 - (5) Net sales are net to us after payment of a fuel transfer tax, turnover tax and, from 2002, customs duties on hydrocarbon exports. Royalties with respect to our production are accounted for as a cost of production and are not deducted in determining net sales. See Note 2(g) to the Audited Consolidated Financial Statements.
 - (6) Information has been calculated based on outstanding capital stock of 393,312,793 shares. Each ADS represents one Class D share. There were no differences between basic and diluted earnings per share and ADS for any of the years disclosed.
 - (7) Amounts expressed in U.S. dollars are based on the exchange rate as of the date of payment. For periods in which more than one dividend payment was made, the amounts expressed in U.S. dollars are based on exchange rates at the date of each payment.
 - (8) Total debt under Argentine GAAP includes nominal amounts of long-term debt of Ps.523 million as of December 31, 2007, Ps.510 million as of December 31, 2006, Ps.1,107 million as of December 31, 2005, Ps.1,684 million as of December 31, 2004 and Ps.2,085 million as of December 31, 2003.
 - (9) Our subscribed capital as of December 31, 2007 is represented by 393,312,793 shares of common stock and divided into four classes of shares, with a par value of Ps.10 and one vote per share. These shares are fully subscribed, paid-in and authorized for stock exchange listing.

Exchange Rates

From April 1, 1991 until the end of 2001, the Convertibility Law (Law No. 23,928) established a fixed exchange rate under which the Central Bank was obligated to sell U.S. dollars at one peso per U.S. dollar. On January 6, 2002, the Argentine Congress enacted the Public Emergency Law (Law No. 25,561, the Public Emergency and Foreign Exchange System Reform Law), formally putting an end to the Convertibility Law regime and abandoning over 10 years of U.S. dollar-peso parity. The Public Emergency Law, which has been extended until December 31, 2008, grants the executive branch of the Argentine government the power to set the exchange rate between the peso and

foreign currencies and to issue regulations related to the foreign exchange market. Following a brief period during which the Argentine government established a temporary dual exchange rate system pursuant to the Public Emergency Law, the peso has been allowed to float freely against other currencies since February 2002 although the government has the power to intervene by buying and selling foreign currency for its own account, a practice in which it engages on a regular basis.

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

Year ended December 31,	Low	High	Average	Period End
			(pesos per U.S. dollar)	
2003	2.76	3.35	2.94(1)	2.93
2004	2.80	3.06	2.94(1)	2.98

	Low	High	Average	Period End
	(pesos per U.S. dollar)			
2005	2.86	3.04	2.90(1)	3.03
2006	3.03	3.10	3.07(1)	3.06
2007	3.05	3.18	3.12(1)	3.15
Month				
October 2007	3.15	3.18	3.16	3.15
November 2007	3.12	3.15	3.14	3.15
December 2007	3.13	3.15	3.14	3.15
January 2008	3.13	3.16	3.14	3.16
February 2008	3.15	3.17	3.16	3.16
March 2008	3.14	3.17	3.16	3.17
April 2008(2)	3.16	3.17	3.16	3.16

Source: Central Bank

- (1) Represents the average of the exchange rates on the last day of each month during the period.
- (2) Through April 10, 2008.

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

Exchange Controls

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

On December 3, 2001, the Argentine government imposed a number of monetary and currency exchange control measures through Decree 1570/01, which included restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad (including the transfer of funds to pay dividends) without the Central Bank's prior authorization subject to specific exceptions for transfers related to foreign trade. Since January 2003, the Central Bank has gradually eased these restrictions and expanded the list of transfers of funds abroad that do not require its prior authorization (including the transfer of funds to pay dividends). In June 2003, the Argentine government set restrictions on capital flows into Argentina, which mainly consisted of a prohibition against the transfer abroad of any funds until 180 days after their entry into the country. In June 2005, the government established further restrictions on capital flows into Argentina, including increasing the period that certain incoming funds must remain in Argentina to 365 calendar days and requiring that 30% of incoming funds be deposited with a bank in Argentina in a non-assignable, non-interest-bearing account for 365 calendar days. Under the exchange regulations currently in force, restrictions exist in respect of the repatriation of funds or investments by non-Argentine residents. For instance, subject only to limited exceptions, the repatriation by non-Argentine residents of funds received as a result of the sale of the Class D shares in the secondary market is subject to a limit of U.S.\$500,000 per person per

calendar month. In order to repatriate such funds abroad, non-Argentine residents also are required to demonstrate that the funds used to make the investment in the Class D shares were transferred to Argentina at least 365 days before the proposed repatriation. The transfer abroad of dividend payments is currently authorized by applicable regulations to the extent that such dividend payments are made in connection with audited financial statements and are approved by a shareholders' meeting.

12

Risk Factors

Risks Relating to Argentina

Argentina's economy may not continue to grow at current rates or may contract in the future

The Argentine economy has experienced significant volatility in recent decades, including numerous periods of low or negative growth and high and variable levels of inflation and devaluation. Since the most recent crisis of 2001 and 2002, the Argentine economy has grown at a rapid pace during recent years, with GDP increasing on a real basis by 8.7% in 2003, 9.0% in 2004, 9.2% in 2005, 8.5% in 2006 and 8.7%, based on preliminary data, in 2007. However, no assurances can be given that current rates of growth will continue. The Argentine economy remains susceptible to, among other things, a decline in commodity prices, limited international financing and investment in infrastructure and an increase in inflation. Sustained inflation in Argentina could increase our costs of operation, in particular labor costs, and without a corresponding increase in the price of our products, may negatively impact our results of operations and financial condition. Substantially all of our operations, properties and customers are located in Argentina, and, as a result, our business is to a large extent dependent upon economic conditions prevailing in Argentina. If economic conditions in Argentina were to deteriorate, it would likely have an adverse effect on our financial condition and results of operations.

Political and regulatory developments in Argentina may affect our domestic operations

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

- limitations on our ability to pass increases in international prices of crude oil and other hydrocarbon fuels and exchange rate fluctuations through to domestic prices, or to increase local prices of natural gas (in particular for residential customers), gasoline and diesel;
 - higher taxes on exports of hydrocarbons;
 - restrictions on hydrocarbon export volumes driven mainly by the requirement to satisfy domestic demand;
- in connection with the Argentine government's policy to provide absolute priority to domestic demand, regulatory orders to supply natural gas and other hydrocarbon products to the domestic retail market in excess of previously contracted amounts;
- the import of certain hydrocarbon fuels at international market prices to satisfy domestic demand at significantly lower domestic prices;
- regulatory developments leading to the imposition of stricter supply requirements, fines or other actions by governmental authorities in response to fuel shortages at service stations;
- the implementation or imposition of stricter quality requirements for petroleum products in Argentina; and
 - higher taxes on domestic fuel sales not compensated by price increases.

The Argentine government has made certain changes in regulations and policies governing the energy sector to give absolute priority to domestic supply at low, stable prices in order to sustain economic recovery. As a result of the above-mentioned changes, for example, on days during which a gas shortage occurs, exports of natural gas (which are also affected by other government curtailment orders) and the provision of gas supplies to industries, electricity generation plants and service stations selling compressed natural gas are interrupted for priority to be given to residential consumers at lower prices. We cannot assure you that changes in applicable laws and regulations, or adverse judicial or administrative interpretations of such laws and regulations, will not adversely affect our results of operations. See "Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government." Similarly, we cannot assure you that future government policies aimed at sustaining economic recovery or in response to domestic needs will not adversely affect the oil and gas industry.

In January 2007, Law No. 26,197 was enacted, which, in accordance with Article 124 of the National Constitution, provided that Argentine provinces shall be the owners of the hydrocarbon reservoirs located within their territories. Pursuant to the law, the Argentine Congress is charged with enacting laws and regulations aimed at developing mineral resources within Argentina, while the provincial governments are responsible for enforcing these laws and administering hydrocarbon fields that fall within the territories of their respective provinces. Certain provincial governments, however, have construed the provisions of Law No. 26,197 and Article 124 to empower the provinces to enact their own regulations concerning exploration and production of oil and gas within their territories. There can be

no assurance that regulations or taxes (including royalties) enacted or administered by the provinces will not conflict with federal law, and such taxes or regulations may adversely affect our operations and financial condition.

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

In recent years, due to regulatory, economic and government policy factors, our domestic gasoline, diesel and other fuel prices have lagged substantially behind prevailing international and regional market prices for such products, and our ability to increase prices has been limited. For example, in January 2008, diesel import prices were approximately U.S.\$700/cubic meter, while the average domestic sales prices were approximately U.S.\$350/cubic meter before government subsidies. Likewise, the prices at which we sell natural gas in Argentina (particularly to the residential sector) are subject to government regulations and currently are substantially below regional market prices for natural gas. For additional information on domestic pricing for our products, see “Item 5. Operating and Financial Review and Prospects” and “Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—Market Regulation.” We cannot assure you that we will be able to increase the prices of our products sufficiently in the future, and limitations on our ability to do so would continue to adversely affect our financial condition and results of operations. Similarly, we cannot assure you that hydrocarbon prices in Argentina will reach prevailing international or regional levels.

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

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

During the last several years, the Argentine authorities have adopted a number of measures that have resulted in the substantial restriction of exports of natural gas from Argentina, and the Argentine government’s current policy is not to allow any exports of natural gas other than to the residential sector in certain other countries.

Due to the foregoing, we have been obliged to sell a part of our natural gas production previously destined for the export market in the local Argentine market and have not been able to meet our contractual gas export commitments in whole or, in some cases, in part, leading to disputes with our export clients and forcing us to declare force majeure under our export sales agreements. We believe that the measures mentioned above constitute force majeure events that relieve us from any contingent liability for the failure to comply with our contractual obligations, although no assurance can be given that this position will prevail. See “Item 4. Information on the Company—Exploration and Production—The Argentine natural gas market” and “Item 8. Financial Information—Legal Proceedings.”

In addition, the effectiveness after certain specific dates of certain of our natural gas export authorizations is subject to an analysis by the Secretariat of Energy of natural gas reserves in the Noroeste basin. The result of such analysis is uncertain and may have an adverse impact upon our performance of the export gas sales agreements related to such export authorizations should the Secretariat determine that reserves are inadequate. See “Item 8. Financial Information—Legal Proceedings—Argentina.”

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

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

The imposition of new export duties and other taxes could adversely affect our results

In recent years, new duties have been imposed on exports. In March 2002, oil and gas companies were levied with a five-year, 20% tax on proceeds from the export of crude oil and a five-year, 5% tax on proceeds from the export of oil products. These duties on exports were increased on May 11, 2004 to the following taxation rates: 25% on exports of crude oil, 20% on exports of butane, methane and LPG, and 5% on exports of gasoline and diesel. On May 26, 2004, a 20% duty on natural gas and natural gas liquids exports was imposed. On August 4, 2004, the Ministry of Economy and Production issued a resolution establishing a progressive scheme of export duties for crude oil, with rates ranging from 25% to 45%, depending on the quotation of the WTI reference price at the time of export and thereby modifying the fixed 25% tax rate established in May of that year.

Resolution 394/2007 of the Ministry of Economy and Production, published on November 16, 2007, amends the export duties on crude oil and other crude derivative products. The new regime provides that when the WTI international price exceeds the reference price, which is fixed at U.S.\$60.9/barrel, the producer shall be allowed to collect at U.S.\$42/barrel, with the remainder being withheld by the Argentine government as an export tax. If the WTI international price is under the reference price but over U.S.\$45/barrel, a 45% withholding rate will apply. If such price is under U.S.\$45/barrel, the applicable export tax is to be determined within a term of 90 business days. The withholding rate determined as indicated above also currently applies to diesel, gasoline and other crude derivative products. In addition, the calculation procedure described above also applies to other petroleum products and lubricants based upon different withholding rates, reference prices and prices allowed to producers. See “Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—Market Regulation.”

With respect to natural gas products, in July 2006, the Ministry of Economy and Production issued Resolution 534/06, which increased to 45% the export duty on natural gas. This resolution also required the Customs General Administration to apply the natural gas price set by the Framework Agreement between Argentina and Bolivia (the “Framework Agreement”), which was approximately U.S.\$6/mmBtu in December 2007, as the valuation basis for calculating export duties on natural gas sales, irrespective of the actual price of such sales. In 2006, exports from the Tierra del Fuego province, which were previously exempted from taxes, were made subject to export duties at the prevailing rates. Moreover, in May 2007 the Ministry of Economy and Production increased to 25% the export duty on exports of butane, propane and LPG.

Resolution No. 127/2008 of the Ministry of Economy and Production increased export duties applicable to natural gas exports from 45% to 100%, mandating a valuation basis for the calculation of the duty as the highest price established in any contract of any Argentine importer for the import of gas, abandoning the previously applicable reference price set by the Framework Agreement between Argentina and Bolivia mentioned above. Resolution No. 127/2008 provides with respect to LPG products (including butane, propane and blends thereof) that if the international price of the relevant LPG product, as notified daily by the Secretariat of Energy, is under the reference price established for such product in the Resolution (U.S.\$338/m³ for propane, U.S.\$393/m³ for butane and U.S.\$363/m³ for blends of the two), the applicable export duty for such product will be 45%. If the international price exceeds the reference price, the producer shall be allowed to collect the maximum amount established by the Resolution for the relevant product (U.S.\$223/m³ for propane, U.S.\$271/m³ for butane and U.S.\$250/m³ for blends of the two), with the remainder being withheld by the Argentine government as an export tax.

As a result of the aforementioned export tax increases, we may be and, in certain cases, have already been forced to seek the renegotiation of our export contracts, despite, in most cases, the prior authorization of such contracts by the Argentine government. We cannot provide assurances that we will be able to renegotiate such contracts on terms acceptable to us.

The imposition of these export taxes has adversely affected our results of operations. We cannot assure you that these taxes will not continue or be increased in the future or that other new taxes will not be imposed.

We may be exposed to fluctuations in foreign exchange rates

Our results of operations are exposed to currency fluctuation and any devaluation of the peso against the U.S. dollar and other hard currencies may adversely affect our business and results of operations. The value of the peso has fluctuated significantly in the past and may do so in the future. We are unable to predict whether, and to what extent, the value of the peso may further depreciate or appreciate against the U.S. dollar and how any such fluctuations would affect our business.

We may be subject to exchange and capital controls

In 2001 and 2002, as a result of the economic crisis, Argentina imposed exchange controls and transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments abroad. Under current Argentine law, exporters are required to convert proceeds from export operations into domestic currency, subject to certain exceptions applicable to the oil and gas industry that permit us to retain abroad 70% of export proceeds. See “Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—Repatriation of Foreign Currency.” There can be no assurances regarding future modifications to exchange and capital controls. The imposition of stricter exchange and capital controls could adversely affect our financial condition or results of operations and our ability to meet our foreign currency obligations and execute our financing plans.

Our access to international capital markets is influenced by the perception of risk in Argentina and other emerging economies, which may affect our ability to finance our operations and the trading values of our securities.

International investors consider Argentina to be an emerging market. Economic and market conditions in other emerging market countries, especially those in Latin America, influence the market for securities issued by Argentine companies. Volatility in securities markets in Latin America and in other emerging market countries may have a negative impact on the trading value of our securities and on our ability and the terms on which we are able to access international capital markets.

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

Oil and gas prices could affect our level of capital expenditures

The prices that we are able to obtain for our hydrocarbon products affect the viability of investments in new exploration, development and refining, and as a result the timing and amount of our projected capital expenditures for such purposes. We budget capital expenditures related to exploration, development, refining and distribution activities by taking into account, among other things, market prices for our hydrocarbon products. In the event that current domestic prices prevail or decrease, our ability to improve our hydrocarbon recovery rates, find new reserves and carry out certain of our other capital expenditure plans is likely to be adversely affected, which in turn would have an adverse effect on our results of operations.

Our reserves and production are likely to decline

Argentina’s oil and gas fields are mature and our reserves and production are declining as reserves are depleted. In the last two years our proved reserves declined by approximately 20%, and we replaced 51% of our production with new proved reserves during 2007; average daily production in 2007 declined by approximately 4.1% from 2006. We are engaged in efforts to mitigate these declines by adding reserves through technological enhancements aimed at improving our recovery factors as well as through deepwater offshore exploration and development of tight gas. These efforts are subject to material risks and may prove unsuccessful due to risks inherent to the oil and gas industry.

Our oil and natural gas reserves are estimates, in accordance with the guidelines established by the U.S. Securities and Exchange Commission (SEC)

Our oil and gas proved reserves are estimated in accordance with the guidelines established by the SEC. Proved reserves are estimated using geological and engineering data to determine with reasonable certainty whether the crude oil or natural gas in known reservoirs is recoverable under existing economic and operating conditions.

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

- the results of drilling, testing and production after the date of the estimates, which may require substantial revisions;
- the quality of available geological, technical and economic data and the interpretation and judgment of such data;
 - the production performance of our reservoirs;
- developments such as acquisitions and dispositions, new discoveries and extensions of existing fields and the application of improved recovery techniques;
- changes in oil and natural gas prices, which could have an effect on the size of our proved reserves because the estimates of reserves are based on prices and costs at the date when such estimates are made, and a decline in the price of oil or gas could make reserves no longer economically viable to exploit and therefore not classifiable as proved; and
- whether the prevailing tax rules, other government regulations and contractual conditions will remain the same as on the date estimates are made (as changes in tax rules and other government regulations could make reserves no longer economically viable to exploit).

Many of the factors, assumptions and variables involved in estimating proved reserves are beyond our control and are subject to change over time. See “Item 4. Information on the Company—Exploration and Production—Reserves.” Consequently, measures of reserves are not precise and are subject to revision. Any downward revision in our estimated quantities of proved reserves could adversely impact our financial results, leading to increased depreciation, depletion and amortization charges and/or impairment charges, which would reduce earnings and shareholders’ equity.

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

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

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

The Federal Hydrocarbons Law provides for oil and gas concessions to remain in effect for 25 years as from the date of their award, and further provides for the concession term to be extended for up to 10 additional years, subject to terms and conditions approved by the grantor at the time of the extension. The expiration of a substantial part of

our and other Argentine oil companies' concessions occurs in 2017. The authority to extend the terms of current and new permits, concessions and contracts has been vested in the governments of the provinces in which the relevant area is located (and the federal government in respect of offshore areas beyond 12 nautical miles). In order to be eligible for the extension, any concessionaire and permit holder must have complied with its obligations under the Federal Hydrocarbons Law and the terms of the particular concession or permit, including evidence of payment of taxes and royalties, the supply of the necessary technology, equipment and labor force and compliance with various environmental, investment and development obligations. Under the Federal Hydrocarbons Law, non-compliance with these obligations and standards may also result in the imposition of fines and in the case of material breaches, following the expiration of applicable cure periods, the revocation of the concession or permit. We cannot provide assurances that our concessions will be extended or that additional investment, royalty payment or other requirements will not be imposed on us in order to obtain extensions. The termination of, or failure to obtain the extension of, a concession or permit could have a material adverse effect on our business and results of our operations.

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

We face intense competition in bidding for crude oil and natural gas production areas, which are typically auctioned by governmental authorities, especially those areas with the most attractive crude oil and natural gas reserves. Some provinces of Argentina, including La Pampa, Neuquén and Chubut, have created provincial government-owned companies to develop activities in the oil and gas industry. Energía Argentina S.A. (ENARSA), the Argentine state-owned energy company, has also entered the market, particularly in the context of offshore exploration. As a result, the conditions under which we are able to access new exploratory or productive areas could be adversely affected.

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

Our operations, like those of other companies in the oil and gas industry, are subject to a wide range of environmental, health and safety laws and regulations in the countries in which we operate. These laws and regulations have a substantial impact on our operations and those of our subsidiaries, and could result in material adverse effects on our financial position and results of operation. A number of events related to environmental, health and safety matters, including changes in applicable laws and regulations, adverse judicial or administrative interpretations of such laws and regulations, changes in enforcement policy, the occurrence of new litigation or development of pending litigation, and the development of information concerning these matters, could result in new or increased liabilities, capital expenditures, reserves, losses and other impacts that could have a material adverse effect on our financial condition and results of operations. See "Item 8. Financial Information Legal Proceedings," "Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—Argentine Environmental Regulations" and "Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—U.S. Environmental Regulations." Environmental, health and safety regulation and jurisprudence in Argentina is developing at a rapid pace and no assurance can be provided that such developments will not increase our cost of doing business and liabilities.

The cessation of natural gas deliveries from Bolivia may have a material adverse effect on our long-term natural gas supply commitments

We rely on imports of natural gas from Bolivia pursuant to the Framework Agreement between the Bolivian and Argentine governments. See "Item 4. Information on the Company Exploration and Production—the Argentine natural gas market." The current delivery capacity from Bolivia is 7.7mmcm/d, and the delivery of volumes exceeding 7.7mmcm/d is subject to the construction of the North East Pipeline, which has not yet commenced. Bolivian natural gas imports pursuant to the Framework Agreement are performed under a gas supply agreement between YPFB (the Bolivian state-owned oil and gas company) and ENARSA, which establishes a guaranteed delivery volume of

4.6mmcm/d. The price charged by Bolivia pursuant to this agreement was approximately U.S.\$6/mmBtu in December 2007 (approximately U.S.\$6.98/mmBtu in March 2008). We have entered into a gas supply contract with ENARSA to buy a portion of such gas (with a guaranteed volume of 2.6mmcm/d) through December 31, 2009 at a price of approximately U.S.\$1.8/mmBtu. The difference between our

contractual price and cost of the natural gas purchased pursuant to the Framework Agreement is currently absorbed by ENARSA and financed by the Argentine government with the collection of export duties on natural gas.

Any suspension of natural gas deliveries from Bolivia under these contracts, or an increase in the subsidized price of gas currently charged by ENARSA, could have a material adverse effect on our financial condition and results of operations, including our inability to provide gas to certain clients, since we plan to fulfill our supply contracts of natural gas in part through import volumes from Bolivia.

We are party to a number of legal proceedings

As described under “Item 8. Financial Information—Legal Proceedings,” we are party to a number of labor, commercial, civil, tax, criminal, environmental and administrative proceedings that, either alone or in combination with other proceedings, could, if resolved in whole or in part adversely to us, result in the imposition of material costs, fines, judgments or other losses. While we believe that we have provisioned such risks appropriately based on the opinions and advice of our external legal advisors and in accordance with applicable accounting rules, certain loss contingencies, particularly those relating to environmental matters, are subject to change as new information develops and it is possible that losses resulting from such risks, if proceedings are decided in whole or in part adversely to us, could significantly exceed any reserves we have established.

Our business depends to a significant extent on our production and refining facilities and logistics network

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

We could be subject to organized labor action

Although we consider our current relations with our workforce to be good, we have experienced organized work disruptions and stoppages in the past and we cannot assure you that we will not experience them in the future, which could adversely affect our business and revenues.

Risks Relating to Our Class D Shares and ADSs

Repsol YPF controls a significant majority of our shares and voting rights

Following the Petersen Transaction, as defined in “Item 7. Major Shareholders and Related Party Transactions,” Repsol YPF controls approximately 84% of our capital stock and voting rights and Petersen Energía S.A. (“Petersen Energía”) controls approximately 15% of our shares and voting rights, in each case subject to the shareholders’ agreement described below. In addition, Repsol YPF has granted certain affiliates of Petersen Energía options to purchase an additional 10.1% of our capital stock held by Repsol YPF. A number of YPF corporate matters are subject to the voting and other procedures set forth in a shareholders’ agreement entered into between Repsol YPF, certain affiliates of Repsol YPF and Petersen Energía. Repsol YPF will be able to determine substantially all other matters requiring approval by a majority of our shareholders, including the election of a majority of our directors. Subject to the terms of the shareholders’ agreement, Repsol YPF will also direct our operations and may be able to cause or prevent a change in our control. See “Item 7. Major Shareholders and Related Party Transactions Shareholders’ Agreement.” Repsol YPF’s and Petersen Energía’s interests may differ from those of our other shareholders.

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

Under our bylaws, the approval of the holder of our Class A shares is required to undertake certain strategic transactions, including a merger, an acquisition that results in the purchaser holding 15% or more of our capital stock or an acquisition that results in the purchaser holding a majority of our capital stock. The interests of our Class A shareholder, the Argentine government, may differ from those of our other shareholders, and, as result, we may not be able to undertake certain transactions on terms that are advantageous to our other shareholders or at all.

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

Active markets may not develop for our Class D shares or the ADSs

As of the date of this annual report, less than 1% of our capital stock is held by non-affiliates. As a result, the public markets for our Class D shares and ADSs have had limited trading volume. Although the ADSs will continue to be listed on the NYSE and the underlying Class D shares will continue to be listed on the BASE, we cannot assure you that more active and liquid markets will develop or of the price at which the Class D shares or the ADSs may be sold.

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

Argentine law currently permits the government to impose temporary restrictions on capital movements in circumstances where a serious imbalance develops in Argentina’s balance of payments or where there are reasons to foresee such an imbalance. Although the transfer of funds abroad in order to pay dividends currently does not require Central Bank approval, restrictions on the movement of capital to and from Argentina such as those that previously existed during the recent economic crisis could, if reinstated, impair or prevent the conversion of dividends,

distributions, or the proceeds from any sale of Class D shares, as the case may be, from pesos into U.S. dollars and the remittance of the U.S. dollars abroad. We cannot assure you that the Argentine government will not take such measures in the future.

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

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

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

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

Repsol YPF owns Class D shares and ADSs representing a significant majority of our capital stock (which may be reduced by approximately 10% if the Petersen Options described under “Item 7. Major Shareholders and Related Party Transaction—Option Agreements” are exercised). Petersen Energía owns ADSs representing up to approximately 15% of our capital stock (which may be increased up to approximately 25% if the Petersen Options described under “Item 7. Major Shareholders and Related Party Transaction—Option Agreements” are exercised). In addition, as described in greater detail under “Item 7. Major Shareholders and Related Party Transactions—Registration Rights and Related Agreements,” we have filed and undertaken to maintain an effective shelf registration statement for the benefit of the lenders under the senior secured term loan facility provided to Petersen Energía to enable it to enter into the Petersen Transaction. The lenders under the senior secured term loan facility, upon the acceleration of such facility following the occurrence and continuation of an event of default under such facility, will be able to freely sell up to approximately 15% of our outstanding capital stock (which may be increased to approximately 25% if the Petersen Options are exercised) under the shelf registration statement. Sales of a substantial number of Class D shares or ADSs after the consummation of this offering by Repsol YPF, Petersen Energía, such lenders or any other significant shareholder, or the anticipation of such sales, could decrease the trading price of our Class D shares and the ADSs. See “Item 7. Major Shareholders and Related Party Transactions.”

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

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

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

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

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

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

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

ITEM 4. Information on the Company

History and Development of YPF

Overview

We are Argentina's leading energy company, operating a fully integrated oil and gas chain with leading market positions across the domestic upstream and downstream segments. Our upstream operations consist of the exploration, development and production of crude oil, natural gas and liquefied petroleum gas. Our downstream operations include the refining, marketing, transportation and distribution of oil and a wide range of petroleum products, petroleum derivatives, petrochemicals, liquid petroleum gas and bio-fuels. Additionally, we are active in the gas separation and natural gas distribution sectors both directly and through our investments in several affiliated companies. In 2007, we had consolidated net sales of Ps.29,104 million (U.S.\$9,239 million) and consolidated net income of Ps.4,086 million (U.S.\$1,297 million).

Most of our predecessors were state-owned companies with operations dating back to the 1920s. In November 1992, the Argentine government enacted the Privatization Law (Law No. 24,145), which established the procedures for our privatization. In accordance with the Privatization Law, in July 1993, we completed a worldwide offering of 160 million Class D shares that had previously been owned by the Argentine government. As a result of that offering and other transactions, the Argentine government's ownership interest in our capital stock was reduced from 100% to approximately 20% by the end of 1993.

Since 1999, we have been controlled by Repsol YPF, an integrated oil and gas company headquartered in Spain with global operations. Repsol YPF owned approximately 99% of our capital stock from 2000 until February 21, 2008, when Petersen Energía, S.A. purchased 58,603,606 of our ADSs, representing 14.9% of our capital stock, from Repsol YPF for U.S.\$2,235 million. In addition, Repsol YPF also granted certain affiliates of Petersen Energía options to purchase up to an additional 10.1% of our outstanding capital stock within four years. See "Item 7. Major Shareholders and Related Party Transactions." We believe that Petersen Energía's participation in our capital stock and management will strengthen our Argentine ties and expertise.

Upstream Operations

- We operate more than 70 oil and gas fields in Argentina, accounting for approximately 42% of the country's total production of crude oil, excluding natural gas liquids, and approximately 42% of its total natural gas production, including natural gas liquids, in 2007, according to the Argentine Secretariat of Energy.
- We had proved reserves, as estimated as of December 31, 2007, of approximately 623 mmbbl of oil and 3,708 bcf of gas, representing aggregate reserves of 1,283 mmboe.
 - In 2007, we produced 120 mmbbl of oil (329 mbbbl/d) and 635 bcf of gas (1,740 mmcf/d).

Downstream Operations

- We are Argentina's leading refiner with operations conducted at three wholly owned refineries with combined annual refining capacity of approximately 116 mmbbl (319.5 mbbbl/d). We also have a 50% interest in Refinor, a jointly controlled entity operated by Petrobras Energía S.A., which has a refining capacity of 26.1 mbbbl/d.
- Our retail distribution network for automotive petroleum products as of December 31, 2007 consisted of 1,692 YPF-branded service stations, which we believe represented approximately 31.1% of all service stations in

Argentina.

- We are a leading petrochemical producer in Argentina and in the Southern Cone of Latin America, with operations conducted through our Ensenada plant. In addition, Profertil, a company that we jointly control, is a leading producer of urea in the Southern Cone.

The following chart illustrates our organizational structure, including our principal subsidiaries, as of the date of this annual report.

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

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The Argentine Market

Argentina is the second largest producer of natural gas and the fourth largest producer of crude oil in Latin America based on 2006 production, according to the BP Statistical Review.

In response to the economic crisis of 2001 and 2002, the Argentine government, pursuant to the Public Emergency Law (Law No. 25,561), established export taxes on certain hydrocarbon products. In subsequent years, in order to satisfy growing domestic demand and abate inflationary pressures, this policy was supplemented by constraints on domestic prices, temporary export restrictions and subsidies on imports of natural gas and diesel. As a result, local prices for oil and natural gas products have remained significantly below those prevalent in neighboring countries and international commodity exchanges, heightening domestic demand for such products. For example, in January 2008, diesel import prices were approximately U.S.\$700/cubic meter, while the average domestic sales prices were approximately U.S.\$350/cubic meter before government subsidies. In addition, the price at which Bolivia exports natural gas to Argentina was approximately U.S.\$6/mmBtu in December 2007 (U.S.\$6.98/mmBtu in March 2008), while our average sales price for such gas in Argentina was approximately U.S.\$2.29/mmBtu.

Argentina's gross domestic product, or GDP, has grown at an average annual real rate of approximately 9% from 2003 to 2006, after declines during the economic crisis of 2001 and 2002. Driven by this economic expansion and low domestic prices, energy demand has increased significantly during the same period, outpacing energy supply (which in the case of oil declined). For example, Argentine natural gas and diesel consumption grew at average annual rates of 6.5% and 6.9%, respectively, during this period, according to the BP Statistical Review and the Argentine Secretariat of Energy. As a result of this increasing demand and actions taken by the Argentine regulatory authorities to support domestic supply, exported volumes of hydrocarbon products, especially natural gas and diesel, declined steadily over this period. At the same time, Argentina has increased hydrocarbon imports, becoming a net importer of certain products, such as diesel, and increased imports of natural gas. In 2003, Argentina's net exports of diesel amounted to approximately 1,349 thousand cubic meters, while in 2007 its net imports of diesel amounted to approximately 800 thousand cubic meters, according to the Argentine Secretariat of Energy. Significant investments in the energy sector are expected to be required in order to support continued economic growth, as the industry is currently operating near capacity.

Demand for diesel in Argentina exceeds domestic production. In addition, the import prices of refined products substantially exceed the domestic sales prices of such products, rendering the import and resale of such products uneconomic. As a result, service stations experience temporary shortages and are required to suspend or curtail diesel sales. While we are operating our refineries at or above capacity, during peak demand periods we are forced to prorate supplies among our service stations according to historical sales levels.

As the largest integrated oil and gas company in Argentina, we believe that we are well positioned to benefit from potential reform in the energy sector, although we cannot assure that reforms will be implemented or, if implemented, that they will be advantageous to our business. We also believe that, as a result of limitations on the prices of our products, our margins should be less sensitive to declines, if any, in international prices of oil and gas.

History of YPF

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

sell majority interests in our production rights to certain major producing areas and to undertake an internal management and operational restructuring program.

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

In January 1999, Repsol YPF acquired 52,914,700 Class A shares in block (14.99% of our shares) which were converted to Class D shares. Additionally, on April 30, 1999, Repsol YPF announced a tender offer to purchase all outstanding Class A, B, C and D shares (the "Offer"). Pursuant to the Offer, in June 1999, Repsol YPF acquired an additional 82.47% of our outstanding capital stock. Repsol YPF acquired additional stakes in us from minority shareholders and other transactions in 1999 and 2000. As of December 31, 2007, Repsol YPF controlled 99.04% of our share capital.

Between 2004 and 2005 we made non-strategic asset divestitures totaling U.S.\$239.5 million.

On February 21, 2008, Petersen Energía purchased 58,603,606 of our ADSs, representing 14.9% of our capital stock, from Repsol YPF for U.S.\$2,235 million. In addition, Repsol YPF also granted certain affiliates of Petersen Energía options to purchase up to an additional 10.1% of our outstanding capital stock within four years. Repsol YPF will retain a majority of our capital stock and, subject to the shareholders' agreement entered into between Repsol YPF and Petersen Energía, will be able to determine substantially all issues decided by our shareholders. See "Item 7. Major Shareholders and Related Party Transactions."

Business Segments

We organize our business along the following segments:

- Exploration and Production;
- Refining and Marketing; and
- Chemical.

The Exploration and Production segment's sales to third parties in Argentina and abroad include sales of natural gas and services fees (primarily for the transportation, storage and treatment of hydrocarbons and products). In addition, crude oil produced by us in Argentina, or received from third parties in Argentina pursuant to service contracts, is transferred from Exploration and Production to Refining and Marketing at transfer prices established by us, which generally seek to approximate Argentine market prices.

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

The Chemical segment sells petrochemical products both in the domestic and export markets.

Additionally, we record certain assets, liabilities and costs under the Corporate and Other segment, including corporate administration costs and assets, certain building construction activities and environmental remediation activities related to YPF Holdings' discontinued operations.

The following table sets forth net sales and operating income for each of our lines of business for the years ended December 31, 2007, 2006 and 2005:

	For the Year Ended December 31,		
	2007	2006	2005
	(in millions of pesos)		
Net Sales(1)			
Exploration and Production(2)(3)			
To unrelated parties	3,288	3,076	2,910
To related parties	724	774	626
Intersegment sales and fees(3)	14,056	14,033	11,659
Total Exploration and Production	18,068	17,883	15,195
Refining and Marketing(4)			
To unrelated parties	20,375	17,651	15,791
To related parties	2,045	1,624	1,425
Intersegment sales and fees	1,858	1,526	962
Total Refining and Marketing	24,278	20,801	18,178
Chemical			
To unrelated parties	2,563	2,401	2,062
Intersegment sales and fees	892	647	207
Total Chemical	3,455	3,048	2,269
Corporate and Other			
To unrelated parties	109	109	87
Intersegment sales and fees	440	282	243
Total Corporate and Others	549	391	330
Less intersegment sales and fees	(17,246)	(16,488)	(13,071)
Total net sales(5)	29,104	25,635	22,901
Operating Income (Loss)			
Exploration and Production	5,679	6,564	7,140
Refining and Marketing	1,234	258	1,900
Chemical	500	572	542
Corporate and Other	(620)	(540)	(451)
Consolidation adjustments	(136)	29	30
Total operating income	6,657	6,883	9,161

(1) Net sales are net to us after payment of a fuel transfer tax, turnover tax and customs duties on exports. Royalties with respect to our production are accounted for as a cost of production and are not deducted in determining net sales. See Note 2 (g) to the Audited Consolidated Financial Statements.

(2) Includes exploration and production operations in Argentina and the United States.

(3)

Intersegment sales of crude oil to Refining and Marketing are recorded at transfer prices established by us, which generally seek to approximate Argentine market prices.

(4) Includes LPG activities.

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(5) Total net sales include export sales of Ps.8,400 million, Ps.8,649 million, and Ps.8,644 million for the years ended December 31, 2007, 2006 and 2005, respectively. The export sales were mainly to the United States, Brazil and Chile.

Exploration and Production

Principal properties

Argentine properties

Our production is concentrated in Argentina and our domestic operations are subject to numerous risks. See “Item 3. Key Information—Risk Factors.”

Argentina is the fourth largest hydrocarbon producing nation in Latin America and the fourth largest in terms of reserves, after Mexico, Venezuela and Brazil. Oil has historically accounted for the majority of the country’s hydrocarbon production and consumption, although the relative share of natural gas has increased rapidly in recent years. According to the Secretariat of Energy, 19 sedimentary basins have been identified in the country. Five of these are combined onshore/offshore and three are entirely offshore. Total onshore acreage is composed of approximately 334 million acres, and total offshore acreage includes 99 million acres on the South Atlantic shelf within the 200-meter depth line. A substantial portion of the 432 million acres in sedimentary basins has yet to be evaluated by exploratory drilling. Commercial production is concentrated in five basins: Neuquina, Cuyana and Golfo San Jorge in central Argentina, Austral in southern Argentina (which includes onshore and offshore fields), and the Noroeste basin in northern Argentina. The Neuquina and Golfo San Jorge basins are the most significant basins for our activities in Argentina. As of December 31, 2007, we had an interest in 18.6 million net acres onshore and offshore (within the 200-meter depth line), of which 6.4 million net acres were under production concessions and 12.2 million net acres were under exploration permits.

The following table shows our gross and net interests in productive oil and gas wells and exploration permits and production concessions in Argentina by basin, as of December 31, 2007.

	Wells				Acreage			
	Oil		Gas		Production Concessions(1)		Exploration Permits(1)	
	Gross(2)	Net(2)	Gross(2)	Net(2)	Gross(2)	Net(2)	Gross(2)	Net(2)
Onshore	(thousands of acres)							
Neuquina	3,288	2,811	575	418	4,008	3,114	1,478	1,246
Golfo San Jorge	6,805	5,975	51	50	2,472	2,347	4,927	2,464
Cuyana	805	627	—	—	427	375	2,157	1,861
Noroeste	29	8	47	15	1,329	372	—	—
Austral	120	37	54	16	602	181	—	—
Offshore	5	2	—	—	115	63	18,920	6,625

(1) Production concessions are granted after commercially exploitable quantities of oil or gas are discovered, are based upon the estimated field size as determined by geological and geophysical techniques and are subject to adjustment based upon new information concerning the reservoir. Accordingly, not all acreage covered by production concessions is, in fact, producing. Acreage held under exploration permits is unproved and non-producing.

(2) “Gross” wells and acreage include all wells and acreage in which we have an interest. “Net” wells and acreage equals gross wells and acreage after deducting third party interests.

The table below provides certain information with respect to our principal oil and gas fields in Argentina at December 31, 2007, all of which are mature:

Areas (1)	Interest	Production 2007		Reserves as December 31, 2007			Basin/Location	Development stage of the area
		Oil (mdbl)	Gas (mmcf)	Oil (Mdbl)	Gas (mmcf)	BOE (mboe)		
Barrancas	100%	2,218	75	16,377	574	16,479	Cuyana	Mature Field
Cerro Fortunoso	100%	1,871	—	9,287	0	9,287	Neuquina	Mature Field
La Ventana	(2)	1,988	269	13,983	1,896	14,321	Cuyana	Mature Field
Vizcacheras	100%	3,594	351	25,748	2,117	26,125	Cuyana	Mature Field
El Portón-Chihuido								
La Salina	100%	12,661	58,660	58,416	351,645	121,042	Neuquina	Mature Field
Chihuido Sierra Negra	100%	10,783	1,903	45,817	7,548	47,161	Neuquina	Mature Field
Paso Bardas Norte	100%	302	13,367	329	45,086	8,359	Neuquina	Mature Field
Señal Picada	100%	2,156	150	18,323	1,135	18,525	Neuquina	Mature Field
Aguada Toledo – Sierra Barrosa	100%	813	52,909	7,690	177,190	39,247	Neuquina	Mature Field
Loma la Lata	100%	17,066	271,057	92,411	1,840,126	420,127	Neuquina	Mature Field
El Trébol	100%	2,132	318	11,285	1,075	11,477	Golfo San Jorge	Mature Field
Manantiales Behr	100%	5,885	3,998	23,428	9,843	25,182	Golfo San Jorge	Mature Field
Seco León	100%	3,502	3,812	19,953	16,069	22,815	Golfo San Jorge	Mature Field
Barranca Baya	100%	4,157	853	20,757	3,767	21,428	Golfo San Jorge	Mature Field
Lomas del Cuy	100%	3,344	2,079	13,415	6,946	14,652	Golfo San Jorge	Mature Field
Los Perales	100%	7,962	22,149	34,680	46,150	42,899	Golfo San Jorge	Mature Field

(1) Exploitation areas.

(2) 69.6% for crude oil and 60% for natural gas liquids and natural gas.

Approximately 84% of our proved crude oil reserves in Argentina are concentrated in the Neuquina (50%) and Golfo San Jorge (34%) basins, and 96% of our proved gas reserves in Argentina are concentrated in the Neuquina (79%), Noroeste (13%) and Austral (4%) basins.

As of December 31, 2007, YPF held 109 production concessions and exploration permits in Argentina. YPF directly operates 73 of them, including 61 production concessions and 12 exploration permits.

As of December 31, 2007, we held 18 exploration permits in Argentina, 11 of which are onshore exploration permits and seven of which are offshore exploration permits. We have 100% ownership of five onshore permits and one offshore permit, and our participating interests in the rest vary between 27% and 90%. Our interests in the offshore permits vary between 30% and 50%.

As of December 31, 2007, we had 91 production concessions. We have a 100% ownership interest in 54 production concessions, and our participating interests in the remaining 37 production concessions vary between 12% and 70%.

Joint ventures and contractual arrangements in Argentina

We participate in 18 exploration and production joint ventures in Argentina. Our interests in these joint ventures range from 12% to 70%, and our obligations to share exploration and development costs vary under these agreements. In addition, under the terms of some of these joint ventures, we have agreed to indemnify our joint venture partners in the event that our rights with respect to such areas are restricted or affected in such a way that the purpose of the joint venture cannot be achieved. For a list of the exploration and production joint ventures in which we participate, see Note 6 to the Audited Consolidated Financial Statements. We are also a party to a number of other contractual arrangements that arose through the renegotiation of service contracts and risk contracts and their conversion into production concessions and exploration permits, respectively.

International properties – United States

Our foreign operations, through YPF Holdings, are subject to certain environmental claims. See “—Environmental Matters—YPF Holdings—operations in the United States.”

As of December 31, 2007, we had mineral rights in 56 blocks in the United States, comprised of 51 exploratory blocks, with a net surface area of 863 square kilometers and five development blocks, with a net surface area of 17 square kilometers.

Our U.S. subsidiaries' net petroleum production in the United States for 2007 was 100 mboe, while in 2006 the net production for the year was 105 mboe.

Our U.S. subsidiaries net proved reserves in the United States as of December 31, 2007 were 6,935 mboe.

Our U.S. subsidiaries have entered into various operating agreements and capital commitments associated with the exploration and development of their oil and gas properties. Such contractual, financial and/or performance commitments are not material, except those commitments related to the development of the Neptune Field.

The Neptune Field is located in deep water in the Central Gulf of Mexico, approximately 120 miles from the Louisiana coast. The field is comprised of Atwater Blocks 573, 574, 575, 617 and 618. The Sigsbee Escarpment is the dominant sub-sea feature of the field, with water depths ranging from 4,200 ft. to 6,500 ft. The host facility is located above the escarpment in 4,250 ft. of water, in Green Canyon Block 613. BHP Billiton is the operator of the Neptune Field. The joint venture participants are BHP Billiton (35%), Marathon Oil Corp. (30%), Woodside Petroleum Ltd (20%), and our indirect subsidiary Maxus (US) Exploration (15%).

The Neptune reserves will be produced using a standalone tension leg platform (TLP). The facility will have the design capacity to produce up to 60,000 bpd and 50 mmcf/day. Sub-sea development wells will be tied back to the TLP. The oil and gas will be exported via new lateral pipelines into the existing Caesar and Cleopatra trunk lines. The new lateral pipelines will be installed, owned and operated by Enbridge Offshore LLC.

On March 16, 2008, we were notified that a structural anomaly had been identified on at least one of the pontoons on the Neptune Platform. As a result, commencement of operations has been delayed while the facility is inspected, the structural anomaly is evaluated, and any necessary corrective actions are implemented. As of the date of this annual report, no information as to the timing or potential cost of these actions was available, nor did we know when such information may become available.

Exploration and Development Activities

The following table shows the number of wells drilled by us in Argentina, or in which we participated, and the results obtained, for the periods indicated.

	For the Year Ended December 31,		
	2007	2006	2005
Gross wells drilled(1)			
Exploratory			
Oil	4	1	6
Gas	2	1	1
Dry	17	17	7
Total	23	19	14
Development			
Oil	622	703	632
Gas	75	42	34
Dry	14	12	18
Total	711	757	684
Net wells drilled(1)			
Exploratory			
Oil	4	1	5
Gas	1	1	—
Dry	12	13	5
Total	17	15	10
Development			
Oil	488	580	485
Gas	51	15	17
Dry	13	10	16
Total	552	605	518

(1) "Gross" wells means all wells in which we have an interest. "Net" wells means gross wells after deducting interests of others.

Our principal exploration activities in 2007 focused mainly on underexplored areas within currently producing onshore regions. In 2007, we also completed all of our planned seismic acquisition and site surveys in shallow and deep water basins in Argentine offshore areas in which we plan to commence our drilling operations in 2008.

Three-dimensional seismic testing is being extensively used in several basins to increase exploratory success, improve the quality of exploratory prospects, optimize positioning of the wells and decrease development risk. In 2006, 2,960 km² of three-dimensional seismic testing were recorded and evaluated, including 2,523 km² of onshore seismic testing (1,593 km² exploratory and 930 km² for development) and 437 km² of offshore seismic testing in the offshore Colorado Marina basin (as part of an 1,974 square kilometers survey completed in February 2007). In 2007, a total of 2,611 km² of three-dimensional seismic testing were recorded in the Austral basin and the offshore Colorado Marina basin.

During 2007, 23 exploratory wells (operated and non-operated areas) were drilled: 18 in the Neuquina basin, 4 in the Golfo San Jorge basin and one in the Austral basin. Successful wells included the Borde Sur del Payún (oil), Borde Sur del Payún Shallow (oil), Los Cavados Este (oil), Rincon Amarillo x-5 (gas) (located in the Neuquina

basin), Estancia Baltaza (oil) (located in the Golfo San Jorge basin) and Arroyo Gamma Sureste (gas) located in Austral basin.

With respect to production initiatives, we continued to improve our facilities and focus our efforts to improve operating efficiencies at our key oil and gas properties. For example, our U.S.\$30 million Low Pressure Compression Project at the Loma La Lata natural gas field became fully operational in August 2007. In addition, a new natural gas processing and compression plant with a total capacity of 21 mmcf/d was completed at the Loma La Lata field during the first half of 2007, at a total cost of U.S.\$13 million. This plant fed from 10 high CO₂-content wells and has been operating since June 30, 2007, processing 10.6 mmcf/d. We expect that the new plant will help YPF to keep the Huincul Methanol plant in service for at least three years.

Our key ongoing production asset capital improvement projects include the Ramos Low Pressure Project in the northwest of Argentina, which is expected to increase compression capacity at that site from 23,680 HP to 38,500 HP (this project is expected to be completed during the first quarter of 2008 at a total cost of approximately U.S.\$22 million) and a water injection project at Rincón de los Sauces in the Neuquina basin, in the Chihuido de la Sierra Negra field, to mitigate the natural production decline attributable to the maturity of that field (this project is expected to be completed in 2009 at a total cost of approximately U.S.\$133 million). In the year ended December 31, 2007, we also repaired 30 wells, drilled eleven new wells to replace collapsed wells and commenced the revamping of the water treatment plant in Chihuido de la Sierra Negra (we invested U.S.\$21.8 million in these projects in 2007). We also continued our work on the Water Alternating GAS (WAG) project in Chihuido de la Sierra Negra in 2007, where a pilot project is expected to be completed in the first half of 2008. Due to the development of new fields, 55 new wells were drilled in Desfiladero Bayo, Bayo Este and Cañadón Amarillo during the year 2007.

In the block CNQ 7A, operated by Petroandina Resources, in which we have a 50% interest, the delineation of the El Corcobo Norte, Jagüel Casa de Piedra, Cerro Huanunl Sur and Puesto Pinto Reservoirs has been completed and the development of those reservoirs has begun. The El Corcobo Norte and Jagüel Casa de Piedra water injection projects also have begun, and a steam injection project in Puesto Pinto has started.

We are also working on a pipeline installation from Corcobo Norte to Puesto Hernandez, which will facilitate the transport of crude to our refinery in Lujan de Cuyo, replacing the current truck transport to the Medanito Plant.

In UNAS (the minor South Business Unit in the Golfo San Jorge basin), 434 injection wells were closed due to the application of new state and provincial regulations, which established tighter anular space control parameters. As a result, the water injection volume was reduced by 91 mbbls/d during 2007, resulting in a reduction in production of an estimated 4 mbbls/d net of oil. Both the Las Heras and Chubut Cañadón Seco economic units have started a remediation campaign, performing overhauls on 71 wells and drilling five replacement wells. The total capital expenditure for these jobs was U.S.\$15 million.

Our production declines in recent periods are attributable mainly to the continuing maturity of our fields, although work stoppages and pipeline issues have on occasion contributed to production and capital project delays. During 2007, in the UNAS and UNAO (the West Business Unit in the Neuquina and Cuyana basin), a series of labor and community conflicts halted the production of approximately 1.32 million of barrels of oil equivalent. In December 2006, due to some problems that affected the main pipeline of Magallanes UTE located in the Tierra del Fuego province, oil and gas production was stopped. At the beginning of 2007, our joint venture partner began to replace 18.6 km of pipeline (17 km offshore and 1.6 km onshore), which connects the A3 platform and the battery. In addition, 3.7 km of pipeline that links the AM2 and AM3 platforms will be replaced. These works were long-delayed by unfavorable weather conditions, and are expected to be completed in the first half of 2008. The total contribution by YPF for this project is estimated to be U.S.\$20.9 million.

As of March 31, 2008, we had 35 gross and 25 net wells in the process of drilling.

We are engaged in efforts, through the PLADA program, to mitigate the decline in our reserves and production by adding reserves through technological enhancements aimed at improving our recovery factors, including through better reserve delineation, secondary and tertiary recovery, and infill drilling. PLADA was implemented, beginning in 2007, under the Front End Loading (“FEL”) methodology, and visualization stage studies have so far been conducted on 41 areas of reserves.

Reserves

In each concession, we or the consortium of which we are a part are entitled to the reserves that can be produced over the license period, which may be the life of the field.

The following table sets forth our estimated proved reserves and proved developed reserves of crude oil and natural gas at December 31, 2005, 2006, and 2007, which are subject to the explanations and qualifications that follow.

	Crude Oil(1) (millions of barrels)	Gas (Bcf)	Combined(2) (boe in millions)
Proved Developed and Undeveloped Reserves			
Reserves as of December 31, 2005	777	4,683	1,611
Revisions of previous estimates(3)	9	(63)	(2)
Extensions, discoveries and improved recovery	20	46	29
Production for the year	(126)	(651)	(242)
Reserves as of December 31, 2006	680	4,015	1,396
Revisions of previous estimates(3)	46	319	100
Extensions, discoveries and improved recovery	17	9	19
Production for the period	(120)	(635)	(232)
Reserves as of December 31, 2007	623	3,708	1,283
Proved Developed Reserves			
As of December 31, 2005	604	3,201	1,174
As of December 31, 2006	521	2,571	979
As of December 31, 2007	460	2,441	895

(1) Includes crude oil, condensate and natural gas liquids.

(2) Volumes of gas in the table above and elsewhere in this annual report have been converted to boe at 5.615 mcf per barrel.

(3) Revisions in estimates of reserves are performed at least once a year. Revision of oil and gas proved reserves are considered prospectively in the calculation of depreciation.

Net crude oil and gas proved reserves as of December 31, 2007 were 1,283 million boe (49% oil, and 51% gas), a 8% decrease compared to net crude oil and gas proved reserves of 1,396 million boe reported as of December 31, 2006.

Changes in our estimated net proved reserves

— Changes in our estimated net proved reserves during 2006

1. Revisions of previous estimates

During 2006, the proved reserves were revised downwards by 2.5 million boe (a decrease of 63.0 billion cubic feet of gas and an increase of 8.7 million barrels of oil).

Revision of previous estimates of proved reserves in UNAO assets not operated by us resulted in the removal of 53.5 billion cubic feet of proved reserves of gas and 1.5 million barrels of proved reserves of oil. Revisions were immaterial for the assets not operated by us in UNAS areas. Revision on the minor UNAO areas resulted in the removal of 5.4 billion cubic feet of proved gas reserves and the inclusion of 2.7 million barrels of

proved reserves of oil. The reserves of all the productive areas were externally audited by GCA (Gaffney, Cline & Associates) and D&M (DeGolyer & MacNaughton) over a period of two years (2005-2006).

Main changes to proved reserves have been due to:

- In the Noroeste basin, 9.2 billion cubic feet of gas were removed fundamentally due to the low production behavior of the Campo Durán (Tupambi) deposit in the Aguara Güe area.
- In the Cuyana basin, except for the inclusion of 0.7 million barrels of oil due to the upgrading of recovery systems at the Estructura Cruz de Piedra deposit, all the other areas showed low production behavior and gave rise to an overall removal of 4.6 million barrels of oil.
- In the Neuquina basin, the primary upward revisions were made in the Aguada Toledo-Sierra Barrosa area, where 52.9 billion cubic feet of gas reserves were added due to the implementation of low compression, the repair of a well and the adjustment update of the material balance.
- In the Paso Bardas Norte area, 3.7 billion cubic feet of gas reserves were added due to the adjustment of the Materials Balance in the Huitrín La Tosca deposit and in the Piedras Negras area, and 3.1 billion cubic feet of gas were reclassified as proved following the signing of a gas contract for electric power generation.
- The primary downward revisions in this basin occurred in the Puesto Cortadera, Rincón del Mangrullo and Loma La Lata-Lotena deposits. Overall, 56.1 billion cubic feet of proved gas reserves were removed due to the adverse effect of some wells and the corresponding adjustment of estimates. In the Filo Morado area within the Faja Plegada, a downward revision of 23 billion cubic feet of gas and 1.6 million barrels of oil was made due to production behavior.
- In Southern Argentina, the positive results of development drilling (primarily in the areas of Manantiales Behr, Zona Cental-Bella Vista Este, Escalante, El Trébol, Las Heras and Lomas del Cuy) in locations adjacent to the production areas, classified as not proved due to their geological uncertainty and to the fields' improved production response, resulted in the inclusion of 5.5 million barrels of oil and 4.2 billion cubic feet of gas into proved reserves.

2. Improved recovery

Additions of net proved reserves for improvements in the recovery were largely due to: the successful completion of technical/economic feasibility studies for the expansion of existing projects at UNAS, which will be implemented within the next three years; the improvement of response from ongoing projects in UNAS; and the response from physical activity performed at UNAO that have added 8.7 million barrels of oil.

3. Extensions and discoveries

In the Neuquina basin, in the Malargüe area, 1.9 million barrels were added as proved oil reserves due to the outlining activity performed at the Loma de La Mina and Loma Alta areas.

In the Rincón de los Sauces area, the outlining projects of Desfiladero Bayo Este and the Pata Mora fields, and the discoveries in the area of the CNQ 7A exploration permit, resulted in the addition of 1.9 million barrels of proved oil reserves.

Proved gas reserves have been added in the Loma La Lata area as the result of offset wells in the areas Aguada Toledo-Sierra Barrosa, Lindero Atravesado, Rincón del Mangrullo and Aguada Pichana for a total of 33.8 billion

cubic feet of gas.

In the Golfo San Jorge basin, offset wells in the vicinity of proved areas (principally at Manantiales Behr, Barranca Baya, Seco León, Lomas del Cuy and Cañadon Yatel) added 6.0 million barrels of proved oil reserves.

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An anticlinal structure of Tertiary sandstone which contains dry gas was discovered at the Cerro Piedra field. The production started at the end of 2006 with one well, and the field will be fully developed after working-over three other wells. Estimated proved reserves were 8.1 billion of cubic feet of gas (1.4 million boe).

— Changes in our estimated net proved reserves during 2007

1. Revisions of previous estimates

During 2007, the proved reserves were revised upwards by 100 million boe (an increase of 319 billion cubic feet of gas and 46 million barrels of oil).

Main changes to proved reserves have been due to:

- In the Noroeste basin, in the Acambuco area, 74.7 billion cubic feet of natural gas and 1.5 million barrels of oil, condensate and natural gas liquids were added to proved reserves by the production performance of well Mac-1001-bis in Macueta reservoir, which in turn provided a basis for considering the two neighboring wells, Mac.x-1002 and Mac.e-1003, as proved undeveloped reserves. The reserves of San Pedrito reservoir were revised downwards as a result of a more extensive material-balance study performed by YPF and 28.4 billion cubic feet of gas and 0.1 million barrels of condensate were removed from proved reserves.
- In the Aguaragüe area, 23.7 billion cubic feet of gas were added to proved reserves in Santa Rosa-Icla reservoir. The increase was mainly in proved undeveloped reserves and is related to volumetric studies conducted in areas where new drilling activity is to be performed in 2009 and 2010.
- In the Loma La Lata-Sierras Blancas reservoir, the revision of the development plan for the southeastern and northeastern parts of the field, in conjunction with a general improvement in production performance, resulted in the addition of 168.8 billion cubic feet of gas and 9.1 million barrels of associated liquids to proved reserves.
- In the San Roque area, in accordance with a new evaluation of the fields, 54.0 billion cubic feet of gas and 3.0 million barrels of associated liquids in Aguada San Roque reservoir, as well as 50.0 billion cubic feet of gas and 3.2 million barrels of associated liquids in Loma las Yeguas reservoir, were added to proved reserves. The addition was mostly to proved undeveloped reserves and in both cases was related to the planned installation of compression facilities scheduled for mid 2008.
- In the CNQ7A area, proved reserves were increased by 6.7 million barrels of oil because of the general revaluation of reserves performed in conformity with the development plans for the four reservoirs. These plans, which include the drilling and workover of more than 350 wells, are being implemented by the operator.
- In Golfo San Jorge basin fields, the positive results of development drilling (primarily in the areas of Manantiales Behr, Cañadón Vasco and Cañadón Perdido) in locations adjacent to the production areas, previously classified as non-proved due to their geological uncertainty, and to the fields' improved production response, resulted in the inclusion of 2.3 million barrels of oil in proved reserves.
- The production performance in some of the south areas has been adversely affected by the closing of injection wells due to corrosion problems which has caused a downward deviation in current production estimates. Secondary production decreased for that reason in some areas, but primary production increased in others, mainly in Barranca Baya, Escalante and Tierra del Fuego areas, with these effects practically offsetting one another. The temporary closing of injector wells resulted in the recategorization of certain proved developed production oil reserves into proved developed non-productive and proved undeveloped oil reserves. The downward revisions resulted in a

reduction of 1.2 million barrels of oil in proved reserves.

- Those reserves that were booked since 2003, without a development program for the next two years, were taken out, resulting in the removal of 4.0 million barrels from proved oil reserves, mainly in Los Perales, Barranca Baya and Manantiales Behr fields.
- The anti-clinical structure of Tertiary sandstone discovered in 2006 in the Cerro Piedra field in the Southern region has been in production throughout 2007. The new pressure analysis shows that dry gas reserves increased by 4.2 billion cubic feet.
- The delay in various development plans resulted in the removal of 1.6 million barrels of proved oil reserves because production would be beyond the concession expiration date.
- In Austral basin, in CAM 2 A Sur area, the well Poseidón-112 was flooded and thus closed down, resulting in a net proved reserve decrease of 0.6 million boe.
- In Neptune (USA), the delineation and development activity carried out has produced new information about the geological and petrophysical parameters which differs, in some cases, from previous estimates, leading to a negative revision of 574 mboe of proved reserves, comprised of negative revisions of 0.7 billion cubic feet of gas and 452 mbbl of oil. The revised figures are in line with the estimate of GCA.

2. Improved recovery

In the Cuyana basin, in the Barrancas area 0.3 million barrels of oil were added to proved reserves as a result of the successful drilling of wells B-499 and B-501 as part of the secondary recovery project for the Cabras/Brecha Verde reservoir.

In the Neuquina basin, in the Desfiladero Bayo area, 2.2 million barrels of oil were added to proved reserves due to the drilling of 14 new wells as part of the Centro Infill Project in the Agrío + Troncoso and Rayoso reservoirs.

In the Chihuido de la Sierra Negra area, 1.3 million barrels of oil were added to proved reserves due to the commencement of drilling during 2007 and the establishment of drilling plans for 2008 for the Lomita-Rayoso reservoir.

In the CNQ7A area, definition for a secondary recovery project in the Jaguel Casa de Piedra reservoir as part of the overall development plan established for the field resulted in the addition of 1.0 million barrels of oil to proved reserves based on the successful results of a pilot injection project started in November 2005.

In the Señal Picada area, 0.7 million barrels of oil were added to proved reserves because of the expansion of the secondary recovery project to the eastern part of the SP-Quintuco reservoir.

In the Golfo San Jorge oil fields, 1.8 million barrels of oil were added to net proved reserves as a result of improvements in recovery through water injection projects.

3. Extensions and discoveries

In the Cuyana basin, in the area La Ventana Central, 0.2 million barrels of oil were added to proved reserves as a result of the extension of well RV-35 in the Rio Viejas reservoir.

In the Neuquina basin, the most important upward revision was in the Aguada Toledo-Sierra Barrosa area, where 3.4 billion cubic feet of gas were added to proved reserves in the Cupén Mahuida Precuyano reservoir as a result of the

appraisal of well CuM.a-13.

In the Loma Alta Sur area, 1.4 million barrels of oil and 1.1 billion cubic feet of gas were added to proved reserves as a result of the appraisal of wells LA.a-16 and LA.a-17.

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In the Desfiladero Bayo area, 0.3 million barrels of oil were added to proved reserves in the reservoir Agrio + Troncoso as a result of the appraisal of well DB.a-185 and 0.5 million barrels of oil in the Desfiladero Bayo Este reservoir as a result of the appraisal of well DBE.a-90.

In the Cañadón Amarillo area, 0.5 million barrels of oil were added to proved reserves in the reservoir Barda Negra + Tordillo as a result of the appraisal of well Cam.x-1002.

In the Señal Picada area, 0.3 million barrels of oil were added to proved reserves in the reservoir SP-Quintuco as a result of the appraisal of well SP.a-299 together with the definition of a development plan for the eastern part of the field.

In the Golfo San Jorge basin, offset wells in the vicinity of proved areas (principally at Manantiales Behr, Barranca Baya and Cañadon Yatel) added 4.2 million of barrels of proved oil reserves.

In the Manantiales Behr area, 1.6 million barrels of oil were added to proved reserves in the Grimbeek field as a result of several appraisals of wells in the Grimbeek north zone.

A new small anticlinal structure of Tertiary sandstone which contains dry gas was discovered at the Cerro Piedra field in the south last year. Estimated proved reserves were 0.6 billion cubic feet of gas and the field was connected to existing facilities and is currently in production.

— Additional Information—Restatement of Previously Reported Reserves as of December 31, 2004

On January 26, 2006, we announced that we would reduce our prior proved reserve estimates by 509 million boe (55% gas), including 493 million boe corresponding to our proved developed and undeveloped reserves and 16 million boe corresponding to proved developed and undeveloped reserves of affiliated companies. The Audit and Control Committee of our parent company, Repsol YPF, undertook an independent review of the facts and circumstances of the reduction in proved reserves. The Audit and Control Committee presented the final conclusions to the Board of Directors of Repsol YPF at its meeting of June 15, 2006. According to the independent review, the process for determining reserves with respect to our fields in Argentina was flawed from 2003 to 2004, and our personnel at times failed to apply properly SEC criteria for reporting proved reserves.

The independent review reported that this was principally due to:

- lack of proper understanding of and training on the requirements of the SEC for booking proved reserves;
- undue optimism regarding the technical performance of the fields and focus on replacement ratio;
- absence of a meaningful deliberative process for determining proved reserves and resolving disputes; and
- unwillingness to accept personal responsibility for reporting internally adverse facts regarding reserves and a corresponding tendency to view such issues as falling within another person's or department's jurisdiction. Over time, problems emerged and grew in the absence of delineation of responsibilities for booking proved reserves and in the absence of clear directives pre-2005.

This notwithstanding, no evidence was found that any personnel involved in the reporting of proved reserves were motivated by personal gain.

The tables below reflect the reconciliation of proved reserves as restated with proved reserves as originally reported for the year 2004:

	Oil	
	Proved developed and undeveloped reserves	Proved developed reserves
	(Millions of barrels)	
As originally reported as of December 31	1,114	908
Effect of the adjustment		
As of beginning of year	(67)	(63)
Movement during the year	17	18
Total	(50)	(45)
As restated as of December 31	1,064	863

	Gas	
	Proved developed and undeveloped reserves	Proved developed reserves
	(Billions of cubic feet)	
As originally reported as of December 31	6,820	5,041
Effect of the adjustment		
As of beginning of year	(1,531)	(1,383)
Movement during the year	387	387
Total	(1,144)	(996)
As restated as of December 31	5,676	4,045

As of December 31, 2004, the aggregate effect on proved reserves volumes of the reserves restatement was 254 million boe, comprising 50 million barrels of oil and 1,144 billion cubic feet of gas. This amounted to 11% of the total proved reserves originally stated at that date (2,330 million boe). Of the total aggregate effect 87% had been in the proved developed reserves category and 13% had been categorized as proved undeveloped reserves. The reserves restatement gave rise to an estimated reduction of Ps.1,132 million in the standardized measure of discounted future net cash flow for us. This effect represented approximately 3% of the total standardized measure that was originally stated at that date.

Internal controls on reserves and reserves audits

All of our oil and gas reserves held in consolidated companies have been estimated by our petroleum engineers.

All the assumptions made, and the basis for the technical calculations used, in the estimates regarding our oil and gas proved reserves are based on the guides and definitions established by the SEC's Rule 4-10(a) of Regulation S-X.

In order to meet the high standard of "reasonable certainty," reserves evaluations are stated taking into consideration additional guidance as to reservoir economic productivity requirements, acceptable proved area extensions, recovery factors and improved recovery methods, marketability under existing economic and operating conditions and project maturity.

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

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

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

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

Proved reserves are limited to:

- a. the portion of the reservoir delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and in the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir; and
- b. the economic limit, the expiration data of a production license or, in the case of gas reserves, the expiration of applicable gas sales contracts.

All proved reserves estimates are also evaluated and tested based on all technical constraints and restrictions, including, but not limited to:

- For depletion-type reservoir or other reservoirs where performance has disclosed a reliable decline in production-rate trends or other diagnostic characteristics, reserves are estimated by the application of appropriate decline curves or other performance relationships. In analyzing decline curves, reserves are estimated to the calculated economic limits based on current economic conditions.
- Reserves on undrilled acreage are limited to those drilling units offsetting productive units that were reasonably certain of production when drilled. Proved reserves for other undrilled units are claimed only where it could be demonstrated with certainty that there was continuity of production from the existing productive formation.
- The reserves estimated are typically expressed as gross and net reserves. Gross reserves are defined as the total estimated petroleum to be produced from the properties at the year end. Net reserves are defined as that portion of the gross reserves attributable to our interest after deducting interests owned by third parties.
- Historical cost of operations and development of the properties evaluated, as well as product prices, including agreements affecting revenues and future operations, form an integral part of the estimates and form the basis for the economic evaluation for the engineer to assist in its estimates.

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

- a) The Quality Reserve Coordinator (QRC), which is a professional assigned at each Exploration and Production Business Unit of Repsol YPF to ensure that there are effective controls in the proved reserves estimation and approval process of the estimates of the Group (Repsol YPF and its consolidated subsidiaries, which include us) and the timely reporting of the related financial impact of proved reserves changes. These QRCs are responsible for reviewing proved reserves estimates and ensuring integrity and accuracy of reporting.
- b) A formal review through technical review committees to ensure that both technical and commercial criteria are met prior to the commitment of capital to projects.

c) The Internal Audit, which examines the effectiveness of the Group's financial controls, designed to assure the reliability of reporting and safeguarding of all the assets and examining the Group's compliance with the law, regulations and internal standards.

d) A quarterly internal review from the Reserves Control Direction of Repsol YPF which is separate and independent from the operating business units, over the movement of proved reserves submitted by the Business Unit and associated with properties where technical, operational or commercial issues have arisen.

e) Booking proved reserves in any given property at any given time requires central authorization. Furthermore, the volumes booked are externally audited on a periodic basis. The initial selection of the properties for external audit is performed by the Reserves Control Direction with the approval of Repsol YPF's Audit and Control Committee. The properties for external audit in any given year are selected on the following basis:

- i. all properties on a three year cycle, with properties audited in the first year of the cycle corresponding to those audited in the first year of the previous cycle;
- ii. recently acquired properties not audited in the previous cycle and properties with respect to which there is new information which could materially affect prior reserves estimates; and
- iii. approximately one-third of the volume of the net proved reserves at the end of the year of the audit.

The properties to be externally audited in any given year may be modified for various reasons, such as the presence of new technical or production information or legal, tax or regulatory changes.

For those areas audited by independent firms, Repsol YPF's proved reserves figures have to be within 7% or 10 million boe of the independent auditor figures for Repsol YPF to declare that the volumes have been ratified by an external auditor. In the event that the difference, above or below, is greater than the tolerance, Repsol YPF will reestimate its proved reserves to achieve this tolerance level or should disclose the figures of the external auditor.

For external audit purposes, the reserves areas in Argentina are grouped into three segments: "main areas" to refer to those areas with greater volumes of reserves for each economic unit, so as to achieve a total amount audited equivalent to one-third of the total reserves of Repsol YPF, in accordance with the objective of auditing 100% of Repsol YPF group reserves in a three-year cycle. The amount of one-third of Repsol YPF's total reserves equals approximately 62% of our total reserves in Argentina.

In 2007, a new external auditing cycle began. D&M audited the "main areas" operated by us in the Noroeste, Cuyana and Neuquina basins, and GCA audited the "main areas" operated by us in the Golfo San Jorge basin. All these external audits in 2007 were performed as of September 30, 2007, and cumulatively covered 68.4% of our proved reserves in Argentina as of that date.

Our total estimated proved reserves as of December 31, 2007 were 1,283 million boe. As of September 30, 2007, external reservoir engineers audited fields which, in our estimates as of such date, contained proved reserves of 896.7 million boe in the aggregate.

We are required, in accordance with Resolution S.E. No. 324/06 of the Secretariat of Energy, to file annually and by March 31 of every year details of our estimates of reserves of oil and gas and resources with the Argentine Secretariat of Energy, as defined in that resolution and certified by an independent reserves auditor, although the relevant deadline relating to the filing of information for the year ending December 31, 2007 has been extended to April 30, 2008. The aforementioned certification only has the meaning established by Resolution S.E. No. 324/06, and is not to be interpreted as a certification of oil and gas reserves under the SEC rules. We last filed such a report for the year ended December 31, 2006 and the estimates of our proved oil and gas reserves filed with the Argentine Secretariat of Energy are materially higher than the estimates of our proved oil and gas reserves contained in this annual report mainly because: i) information filed with the Secretariat of Energy includes all properties of which we are operators,

irrespective of the level of our ownership interests in such properties; ii) information filed with the Secretariat of Energy includes other categories of reserves and resources different to proved reserves that are not included in this annual report, which contains estimates of proved reserves consistent with the SEC's guidance; and iii) the definition of proved reserves under Resolution S.E. No. 324/06 is different from the definition of "proved oil and gas reserves" established in Rule 4-10(a)(2) of Regulation S-X. Accordingly, all proved oil and gas reserve

estimates included in this annual report reflect only proved oil and gas reserves consistent with the rules and disclosure requirements of the SEC.

Production

The following table shows our historical average net daily oil (including crude oil, condensate and natural gas liquids) and gas production in Argentina by basin and average sales prices for the years indicated, as well as total average daily oil and gas production.

	For the Year Ended December 31,		
	2007	2006	2005
	(thousands of barrels per day)		
Oil production(1)(2)			
Neuquina	192	201	213
Golfo San Jorge	101	105	108
Cuyana	27	28	31
Noroeste	5	7	9
Austral	3	5	5
Total oil production	329	346	366
	(millions of cubic feet per day)		
Gas production(1)			
Neuquina	1,381	1,392	1,439
Golfo San Jorge	126	112	112
Cuyana	3	3	11
Noroeste	167	172	163
Austral	60	100	102
Total gas production	1,737	1,779	1,827
Average sales price			
Oil (U.S.\$ per barrel)(3)	44.57	42.81	35.53
Gas (U.S.\$ per mcf)	1.66	1.63	1.34

(1) Oil and gas production amounts are stated before making any deductions with respect to royalties. Royalties are accounted for as a cost of production and are not deducted in determining net sales (see Note 2 (g) to the Audited Consolidated Financial Statements).

(2) Includes crude oil, condensate and natural gas liquids.

(3) The average sales price per barrel of oil represents the transfer price established by us, which approximates the Argentine market price.

In 2007, crude oil and natural gas production, on a boe basis, decreased by 4.1% compared to 2006. As compared to 2006, crude oil (including condensate and natural gas liquids production) decreased by 4.8% in 2007. With respect to natural gas, the production decreased by 2.5% in 2007 compared to 2006.

The composition of the crude oil produced by us in Argentina varies by geographic area. Almost all crude oil produced by us in Argentina has very low or no sulfur content. We sell substantially all the crude oil we produce in Argentina to our Refining and Marketing business line. Most of the natural gas produced by us is of pipeline quality. All of our gas fields produce commercial quantities of condensate, and substantially all of our oil fields produce associated gas.

Our lifting cost per boe amounted to Ps.15.7, Ps.11.8 and Ps.8.4 in 2007, 2006 and 2005, respectively. We calculate our lifting costs based on the figures presented in the results of operations of oil and gas producing activities under “Supplemental information on oil and gas producing activities (unaudited)” in the Audited Consolidated Financial Statements. We calculate lifting cost as the quotient of production costs (excluding royalties, local taxes, and other costs) divided by annual production (in terms of boe). In 2007, production costs amounted to Ps.6,996; royalties, local taxes, and other costs amounted to Ps.3,361; and our annual production was 232 mmboe.

Natural gas transportation and storage capacity

Decree No. 180/2004 created two trust funds to help finance an expansion of the North Pipeline operated by TGN (Transportadora Gas del Norte), whose capacity increased by 1.8 million cubic meters per day (63.6 mmcf/d) in 2005, and an expansion of the San Martín Pipeline operated by TGS (Transportadora Gas del Sur), whose capacity increased by 2.9 million cubic meters per day (102.4 mmcf/d) in 2005. Both expansions are currently operating. We contributed approximately U.S.\$100 million in loans to the expansion of TGN’s North Pipeline. We believe this expansion will enable us to obtain an increased volume of Bolivian gas imports. Our loans have since been fully repaid.

Natural gas is delivered by us through our own gathering systems to the trunk lines from each of the major basins. The firm capacity of the natural gas transportation pipelines in Argentina is mainly used by the distribution companies under long-term firm transportation contracts. All of the available capacity of the transportation pipelines is taken by firm customers mainly during the winter, leaving capacity available for interruptible customers in varying degrees throughout the rest of the year.

We have continued to analyze the possible utilization of natural underground structures located near consuming markets as underground natural gas storage facilities, with the objective of storing natural gas during periods of low demand and selling the natural gas stored during periods of high demand. The most advanced gas storage project undertaken by us in Argentina is “Diadema”, which is located in the Patagonia region, near Comodoro Rivadavia City. The injection of natural gas into the reservoir started in January 2001, and we have now completed our fourth season of gas withdrawal. We have recently abandoned a gas injection/withdrawal pilot project in Lunlunta Carrizal, located 60 kilometers southeast of Mendoza, because of an inadequate gas cap. Accordingly, the assets corresponding to this project have been reduced to their recovery value.

Natural gas supply contracts and exports

As a consequence of the energy crisis in Argentina, since 2002 the Argentine government has established resolutions and regulations which regulate both the export and internal market. These regulations have affected Argentine producers’ ability to export natural gas. We have appealed the validity of the aforementioned regulations and resolutions and have invoked the occurrence of a force majeure event under certain export natural gas purchase and sales agreements, although certain counterparties to such agreements have rejected our position. See “Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—Market Regulation” and “Item 8. Financial Information—Legal Proceedings.”

We have entered into a number of natural gas purchase and sale agreements pursuant to which we are frequently required to “deliver or pay” or under which our customers are required to “take or pay.” Such contracts have been entered into only with domestic industrial users and power plants and in the export markets, while the domestic residential market is served through the injection of natural gas into the Argentine pipeline system, often pursuant to regulatory requirements (and not on a contractual basis with customers).

We have recently had trouble meeting certain of our principal contractual supply obligations as a result of export restrictions imposed by the government. See “Item 8. Financial Information—Legal Proceedings—Argentina.” The

principal contracts among these are described briefly below.

We are currently committed to supply a daily quantity of 104 mmcf/d to the Methanex plant in Cabo Negro, Punta Arenas, in Chile (under three 20-year agreements entered into in 1997, 1999 and 2005). In 2010, we are scheduled to begin to supply an additional 21 mmcf/d of natural gas to the plant.

We have a 12-year contract (entered into in 1999 and subsequently modified) to supply 26 mmcf/d of natural gas to the Termoandes power plant located in Salta, Argentina. The natural gas comes from the Noroeste basin. This power plant provides power to a high voltage line running from Salta to Región II in Chile.

We currently have several supply contracts with Chilean electricity producers (through the Gas Andes pipeline linking Mendoza, Argentina, to Santiago, Chile, which has a transportation capacity of 353 mmcf/d), including a 15-year contract (signed in 1998) to provide 63 mmcf/d to the San Isidro Electricity Company (Endesa) in Quillota, Chile (all of this plant's natural gas needs), a 15-year contract (signed in 1999) to supply 20% of the natural gas requirements of the electricity company, Colbun (approximately 11 mmcf/d), and a 15-year contract (signed in 2003) to supply 35 mmcf/d to Gas Valpo. We also have an 18-year contract (entered into in 1999) to deliver 99 mmcf/d of natural gas to a Chilean distribution company that distributes natural gas to residential and industrial clients through a natural gas pipeline (with a capacity of 318 mmcf/d) connecting Loma La Lata (Neuquén, Argentina) with Chile. Finally, in Chile we also have natural gas supply contracts with certain thermal power plants in northern Chile utilizing two natural gas pipelines (with a carrying capacity of 300 mmcf/d each) connecting Salta, Argentina, to Northern Chile (Región II).

In Brazil, we have a 20-year supply contract (entered into in 2000) to provide 99 mmcf/d of natural gas to AES's thermal power plant through pipeline linking Aldea Brasileira, Argentina, to Uruguayana, Brazil (with a capacity of 560 mmcf/d). We also have a contract to supply Petrobras with natural gas for its planned natural gas pipeline from Uruguayana to Porto Alegre, although the project has been delayed as a result of the excess of energy currently offered in the Southern and South-eastern parts of Brazil.

The Argentine natural gas market

We estimate (based on preliminary reports of amounts delivered by transport companies) that natural gas consumption in Argentina totaled approximately 1,428 Bcf in 2007. We estimate that the number of users connected to distribution systems throughout Argentina amounted to approximately 6.9 million as of December 31, 2007. The domestic natural gas market has grown significantly over recent years, driven by the forces of economic growth and domestic price and export constraints, although we do not believe that the natural gas market will continue to grow at the same rate as it has recently unless significant new discoveries are made or more gas is imported.

In 2007, we sold approximately 35% of our natural gas to local residential distribution companies, approximately 58% to industrial users (including Mega (Compañía Mega S.A.) and Profertil (Profertil S.A.)) and power plants, and approximately 7% in exports to foreign markets (principally Chile). Approximately 79% of our natural gas sales were produced in the Neuquina basin.

Demand for natural gas is currently driven by domestic constraints on natural gas prices that commenced in 2002 following the currency devaluation, which created very low prices for natural gas as compared to alternative fuels. Consequently, demand for natural gas has soared.

In January 2004, Decree No. 181/04 authorized the Secretariat of Energy to negotiate with producers a pricing mechanism for natural gas supplied to industries and electric generation companies. Domestic market prices at the retail market level were excluded from these negotiations. Subsequently, the Argentine government has taken a number of additional steps aimed at satisfying domestic natural gas demand, including pricing regulations, export controls and higher export taxes and domestic market injection requirements. See "Item 4. Information on the Company—Regulatory Framework and Relationship with Argentine Government."

During the last several years the Argentine authorities have adopted a number of measures restricting exports of natural gas from Argentina, including issuing injection orders pursuant to Resolutions No. 659 and No. 752 (which

require exporters to increase supply of natural gas into the Argentine domestic market), issuing express instructions to suspend exports, suspending processing of natural gas and adopting restrictions on natural gas exports imposed through transportation companies and/or emergency committees created to address crisis situations.

These restrictions were imposed on all Argentine exporting producers, affecting natural gas exports from every producing basin. Exporting producers, such as us, have no choice but to comply with the government's directions to

curtail exports in order to supply gas to the domestic market, whether such directions are issued pursuant to resolutions or otherwise. The above-mentioned Resolutions provide penalties for non-compliance. Rule SSC No. 27/2004 issued by the Undersecretary of Fuels (“Rule 27”), for example, punishes the violation of any order issued thereunder by suspending or revoking the production concession. Resolutions No. 659 and No. 752 also provide that producers not complying with injection orders will have their concessions and export permits suspended or revoked and state that pipeline operators are prohibited from shipping any natural gas injected by a non-complying exporting producer.

The government began suspending natural gas export permits pursuant to Rule 27 in April 2004, and in June 2004 the government began issuing injection orders to us under Resolution No. 659. Thereafter, the volumes of natural gas required to be provided to the domestic market under the different mechanisms described above have continued to increase substantially. The regulations pursuant to which the government has restricted natural gas export volumes in most cases do not have an express expiration date. Likewise, we have not received any documentation indicating that the government will suspend or withdraw these actions. Accordingly, we are unable to predict how long these measures will be in place, or whether such measures or any further measures adopted will affect additional volumes of natural gas.

Because of the Argentine government’s restrictions, we could not meet our export commitments and were forced to declare force majeure under our natural gas export sales agreements. As a result of actions taken by the Argentine authorities, through actions described in greater detail under “Item 4. Information on the Company—Regulatory Framework and Relationship with Argentine Government,” we have been forced to reduce the export volumes authorized to be provided under the relevant agreements and permits as shown in the chart below:

Year	Maximum Contracted Volumes (MCV)(1) (in million cubic meters)	Restricted Volumes(2) (in million cubic meters)	Percentage of Restricted Volumes vs MCV
2005	5,995.2	875	14.5%
2006	6,015.1	1,240	20.6%
2007	5,979.1	3,682	61.6%

(1) Reflects the maximum quantities committed under our natural gas export contracts. Includes all of our natural gas export contracts pursuant to which natural gas is exported to Chile and Brazil.

(2) Reflects the volume of contracted quantities of natural gas for export that were not delivered.

In June 2007, we were compelled pursuant to Resolution No. 599/07 of the Secretariat of Energy to enter into an agreement with the government regarding the supply of natural gas to the domestic market during the period 2007 through 2011 (the “Agreement 2007-2011”). The purpose of the Agreement 2007-2011 is to guarantee the supply of the domestic market demand at the levels registered in 2006, plus the growth in demand by residential and small commercial customers (the “agreed demand levels”). Producers that have signed the Agreement 2007-2011, such as us, would commit to supply a part of the agreed demand levels according to certain shares determined for each producer based upon such producers’ shares of total Argentine production for the 36 months prior to April 2004. For this period, our share of production was approximately 36.5%, or 36.8 mmcm/d. The Agreement 2007-2011 also provides guidelines for the terms of supply agreements for each market segment, and certain pricing limitations for each market

segment.

Argentine natural gas supplies

Most of our proved natural gas reserves in Argentina are situated in the Neuquina basin (approximately 77% as of December 31, 2007), which is strategically located in relation to the principal market of Buenos Aires and is supported by sufficient pipeline capacity during most of the year. Accordingly, we believe that natural gas from this region has a competitive advantage compared to natural gas from other regions. The capacity of the natural gas pipelines in Argentina has proven in the past to be inadequate at times to meet peak-day winter demand, and there is no meaningful storage capacity in Argentina. Since 1993, local pipeline companies have added capacity allowing for

approximately an additional 63 million cubic meters per day of natural gas to be provided, improving their ability to satisfy peak-day winter demand but no assurances can be given that this additional capacity will be sufficient to meet demand.

On June 29, 2006, the Bolivian and Argentine governments executed the Framework Agreement, pursuant to which they agreed that the natural gas imports from Bolivia to Argentina should be managed by ENARSA. The Framework Agreement establishes a 20-year delivery plan of between 7.7 and 27.7 mmcm/d of Bolivian gas to Argentina. The delivery of volumes exceeding 7.7 mmcm/d is subject to the construction of the North East Pipeline, with an expected capacity of 20 mmcm/d. The agreed upon price was approximately U.S.\$6.98/mmBtu in March 2008, and is periodically adjusted according to a formula based upon a basket of fuels. The increased cost of the natural gas purchased pursuant to the Framework Agreement is currently absorbed by ENARSA and financed by the Argentine government with the collection of export duties on natural gas. In the context of the Framework Agreement, on April 25, 2007, we accepted the offer made by ENARSA for the sale of natural gas obtained by ENARSA from the Republic of Bolivia through December 31, 2009. The principal terms and conditions of our agreement with ENARSA are as follows: (i) maximum contracted quantity of up to 4.4 mmcm/d; (ii) guaranteed quantity equal to 60% of the maximum contracted quantity; (iii) annual take-or-pay quantity equal to 60% of the maximum contracted quantity; (iv) price of U.S.\$1.6/mmBtu for the natural gas plus U.S.\$0.237/mmBtu for the liquid components contained therein; (v) price reopening at any time in relation to changes in Argentine government's compensation to ENARSA; and (vi) limited allowed curtailments or interruptions of supply due to operative conditions and scheduled maintenance. This agreement is effective through December 31, 2009. See "Item 3. Key Information—Risk Factors—Risks Relating to the Argentine Oil and Gas Business and Our Business—The cessation of natural gas deliveries from Bolivia may have a material adverse effect on our long-term natural gas supply commitments."

During 2007, our domestic natural gas sales volumes were basically unchanged from the volumes sold in 2006. The customer mix in the two periods was also similar, although we have had to increase our provisions to the domestic residential market segment in 2007.

Other investments and activities

Natural gas liquids

We participated in the development of Mega to increase its ability to separate liquid petroleum products from natural gas. Mega allowed YPF, through the fractionation of gas liquids, to increase production at the Loma La Lata gas field by approximately 5.0 million cubic meters per day in 2001.

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

Mega operates:

- A separation plant, which is located in Loma La Lata, in the province of Neuquén.
- A natural gas liquids fractionation plant, which produces ethane, propane, butane and natural gasoline. This plant is located in the city of Bahía Blanca in the province of Buenos Aires.
 - A pipeline that links both plants and that transports natural gas liquids.
 - Transportation, storage and port facilities in the proximity of the fractionation plant.

Mega required a total investment of approximately U.S.\$715 million and commenced operations at the beginning of 2001. Mega's maximum annual production capacity is 1.35 million tons of natural gasoline, LPG and ethane. YPF is Mega's main supplier of natural gas. The production of the fractionation plant is used mainly in the petrochemical operations of Petroquímico Bahía Blanca ("PBB") and is also exported by tanker to Petrobras' facilities in Brazil.

Electricity market – Generation

We participate in three power stations with an aggregate installed capacity of 1,622 megawatts (“MW”):

- A 45% interest in Central Térmica Tucumán (410 MW combined cycle) through Pluspetrol Energía;
- A 45% interest in Central Térmica San Miguel de Tucumán (370 MW combined cycle);
- A 40% interest in Central Dock Sud (775 MW combined cycle and 67 MW gas turbines), directly and through our investment in Inversora Dock Sud S.A.

Additionally, we operate assets that are part of Filo Morado, which has an installed capacity of 63 MW.

In 2007, these plants collectively generated approximately 10,220 GWh in the aggregate.

We also own and operates power plants supplied with natural gas produced by us, which produce power for use by us in other business units:

- Los Perales power plant (74 MW), which is located in the Los Perales natural gas field;
 - Chihuido de la Sierra Negra power plant (40 MW);
- The power plant located at the Plaza Huincul refinery (40 MW).

Natural gas distribution

We currently hold through our subsidiary YPF Inversora Energética S.A. a 45.33% stake in Gas Argentino S.A. (“GASA”), which in turn holds a 70% stake in Metrogas S.A. (“Metrogas”), which is a natural gas distributor in southern Buenos Aires and one of the main distributors in Argentina. During 2007, Metrogas distributed approximately 23.75 million cubic meters of natural gas per day to 2 million customers in comparison with approximately 23.35 million cubic meters of natural gas per day distributed to 2 million customers in 2006. The economic crisis that affected the country at the end of 2001 and beginning of 2002 caused a severe deterioration of the financial and operational situation of GASA. Thus the decision was made on March 25, 2002 to suspend payment of principal and interest on its entire financial debt. From then on, Metrogas’ management has focused on an efficient and rational use of its cash flow in order to be able to comply with all of the legal requirements agreed with the Argentine government with respect to its services. After negotiating a restructuring of its outstanding debt with its creditors, GASA has reached and executed on December 7, 2005 an agreement (the Master Restructuring Agreement, or “MRA”) with its creditors, by which such creditors would exchange debt for equity in GASA and/or Metrogas. After this exchange is completed, YPF Inversora Energética S.A. will hold a 31.7% stake in GASA. The agreement has been presented to the National Antitrust Protection Board (Comisión Nacional de Defensa de la Competencia or “CNDC”) and the National Gas Regulatory Authority (Ente Nacional Regulador del Gas or “ENARGAS”) both Argentine governmental entities, and is subject to their approval as condition precedent to the closing of the MRA. The MRA included a creditors’ option to terminate that agreement if, by December 7, 2006, the closing of the debt restructuring had not occurred. While ENARGAS approval has been obtained, the CNDC has not yet granted its approval, and the closing is still pending. As of the date of this annual report, however, the creditors have not communicated their intention to terminate the MRA.

At the same time, Metrogas has reached an agreement with its main creditors in order to restructure its financial debt and align its future financial commitments to the expected generation of funds. The main objective of the restructuring

process is to modify certain terms and conditions included in its outstanding loans and negotiable agreements by adjusting interest rates and the amortization period so as to align them with the expected cash flow required for repayment of the indebtedness. Accordingly, on April 20, 2006, Metrogas entered into an out-of-court preventive agreement with creditors representing approximately 95% of its unsecured indebtedness, which became effective in May 2006.

Refining and Marketing

During 2007, our Refining and Marketing activities included crude oil refining and transportation, and the marketing and transportation of refined fuels, lubricants, LPG, compressed natural gas and other refined petroleum products in the domestic wholesale and retail markets and certain export markets.

The Refining and Marketing segment is organized into the following divisions:

- Refining and Logistic Division;
- Refining Division
- Logistic Division
- Domestic Marketing Division;
 - Trading Division; and
 - LPG General Division.

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

Refining division

We wholly own and operate three refineries in Argentina:

- La Plata Refinery, located in the province of Buenos Aires;
- Luján de Cuyo Refinery, located in the province of Mendoza; and
- Plaza Huincul Refinery, located in the province of Neuquén (together referred as the “Refineries”).

Our three wholly-owned refineries have an aggregate refining capacity of approximately 319,500 barrels per calendar day. The refineries are strategically located along our crude oil pipeline and product pipeline distribution systems. In 2007, 82.0 % of the crude oil processed by our refineries was supplied by our upstream operations. Through our stake in Refinor, we also own a 50% interest in a 26,100 barrel-per-calendar-day refinery located in the province of Salta, known as Campo Durán.

The following table sets forth the throughputs and production yields for our refineries for each of the three years ended December 31, 2007:

	For the Year Ended December 31,		
	2007	2006	2005
	(millions of barrels)		
Throughput crude/Feedstock	122.0	118.1	113.1

Production			
Diesel fuel	46.9	47.7	43.9
Gasoline	32.6	31.1	32.3
Jet fuel	6.1	5.7	6.6
Base oils	2.0	2.8	2.7
	(thousands of tons)		
Fuel oil	2,132	1,548	1,198

	For the Year Ended December 31,		
Coke	919	929	967
LPG	607	595	596
Asphalt	201	186	204

In 2007, overall volumes of crude oil / feedstock processed increased by 3.3% compared with 2006, and sales volumes in foreign markets decreased 4.5% compared with 2006. In 2007, refinery capacity utilization reached over 100%, compared with 98.4% in 2006.

In 2006, overall volumes of crude oil processed increased by 4.4% compared with 2005, and volumes sales in foreign markets were 25% lower than in 2005. Refinery capacity utilization in 2006 reached 98.4%, compared with 94.4% in 2005 and 93.1% in 2004.

The La Plata refinery is the largest refinery in Argentina, with a capacity of 189,000 barrels of crude oil per calendar day. The refinery includes three distillation units, two vacuum distillation units, two catalytic cracking units, two coking units, a coker naphtha hydrotreater unit, a platforming unit, a gasoline hydrotreater, a diesel fuel hydrofinishing unit, an isomerization unit, an FCC (Fluid Cracking Catalysts) naphtha splitter and desulfuration unit, and a lubricants complex. The refinery is located at the port in the city of La Plata, in the province of Buenos Aires, approximately 60 kilometers from the City of Buenos Aires. In 2007 the refinery processed approximately 192,500 barrels of crude oil per calendar day. The capacity utilization rate at the La Plata refinery for 2007 was 7.4% higher than in 2006. The capacity utilization rate at the La Plata refinery for 2006 was 3.9% higher than in 2005. The crude oil processed at the La Plata refinery comes mainly from our own production in the Neuquina and Golfo San Jorge basins. Crude oil supplies for the La Plata refinery are transported from the Neuquina basin by pipeline and from the Golfo San Jorge basin by vessel, in each case to Puerto Rosales, and then by pipeline from Puerto Rosales to the refinery.

In September 2003, we commenced the construction of a new FCC naphtha splitter and a desulfuration unit in the La Plata refinery, and in 2004, we commenced the construction of a new naphtha splitter in the Luján de Cuyo refinery. Both projects, which were completed during 2006, have allowed us to meet higher technical requirements imposed by legislation in Argentina that limit the level of sulfur in fuels (gasoline). In 2006, we began revamping the FCC unit in the La Plata refinery and expect to finish during 2008. When completed, this project will allow us to process reduced crude for the first time in order to increase the production of gasoline and diesel.

The Luján de Cuyo refinery has an installed capacity of 105,500 barrels per calendar day, the third largest capacity among Argentine refineries. The refinery includes two distillation units, a vacuum distillation unit, two coking units, one catalytic cracking unit, a platforming unit, a Methyl TerButil Eter ("MTBE") unit, an isomerization unit, an alkylation unit, a naphtha splitter, and hydrocracking and hydrotreating units. In 2007, the refinery processed approximately 106,300 barrels of crude oil per calendar day. In 2007 the capacity utilization rate was 2.5% lower than in 2006. The capacity utilization rate for 2006 was 4.0% higher than in 2005. Because of its location in the western province of Mendoza and its proximity to significant distribution terminals owned by us, the Luján de Cuyo refinery has become the primary facility responsible for providing the central provinces of Argentina with petroleum products for domestic consumption. The Luján de Cuyo refinery receives crude supplies from the Neuquina and Cuyana basins by pipeline directly into the facility. Approximately 88% of the crude oil processed at the Luján de Cuyo refinery is produced by us. Most of the crude oil purchased from third parties comes from oil fields in Neuquén or in Mendoza.

The Plaza Huincul refinery, located near the town of Plaza Huincul in the province of Neuquén, has an installed capacity of 25,000 barrels per calendar day. In 2007, the refinery processed approximately 27,100 barrels of crude oil

per calendar day. In 2007, the capacity utilization rate was 4.9% higher than in 2006. The capacity utilization rate for 2006 was 8.7% higher than in 2005. The only products currently produced commercially at the refinery are gasoline, diesel fuel and jet fuel, which are sold primarily in nearby areas and in the southern regions of Argentina. Heavier products, to the extent production exceeds local demand, are blended with crude oil and transported by pipeline from the refinery to La Plata refinery for further processing. The Plaza Huincul refinery receives its crude

supplies from the Neuquina basin by pipeline. Crude oil processed at the Plaza Huincul refinery is mostly produced by us. In 2007, 24% of the refinery's crude supplies were purchased from third parties.

During 1997 and 1998, each of our refineries and our Applied Technology Center were certified under ISO (International Organization for Standardization) 9002 and ISO 14000 (environmental performance) and were recertified under ISO 9001 (version 2000) in 2003.

Capital expenditures in 2007 for efficiency and environmental projects and other improvements at the three refineries amounted to U.S.\$74.8 million.

Logistic division

Crude oil and products transportation and storage

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

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

From	To	YPF Interest	Length (km)	Daily Capacity (bpd)
Puesto Hernández	Luján de Cuyo Refinery	100%	528	85,200(3)
Puerto Rosales	La Plata Refinery	100%	585	316,000
La Plata Refinery	Dock Sud	100%	52	106,000
Brandsen	Campana	30%	168	120,700
Puesto Hernández/ P. Huincul/Allen	Puerto Rosales	37%	888(1)	232,000
Puesto Hernández	Concepción (Chile)	36%	428(2)	114,000

(1) Includes two parallel pipelines of 513 kilometers each from Allen to Puerto Rosales, with a combined daily throughput of 232,000 barrels.

(2) This pipeline ceased operating on December 29, 2005.

(3) The incorporation of new pumps in 2007 allowed an increase in the pumping volume of the Puesto Hernandez-Luján de Cuyo pipeline.

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

As of December 31, 2007, we had a 36% interest in the 428-kilometer Transandean pipeline, which transported crude oil from Argentina to Concepción in Chile. This pipeline ceased operating on December 29, 2005, as a consequence of the interruption of oil exports resulting from decreased production in the north of the province of Neuquén. At present, the future of the pipeline is under evaluation and the assets related to this pipeline were reduced to their recovery value.

We also own 33.15% of Terminales Marítimas Patagónicas S.A., operator of two storage and port facilities: Caleta Córdova (province of Chubut), which has a capacity of 314,000 cubic meters, and Caleta Olivia (province of Santa Cruz), which has a capacity of 246,000 cubic meters. We also have a 30% interest in Oiltanking Ebytem S.A., operator of the maritime terminal of Puerto Rosales, which has a capacity of 480,000 cubic meters, and of the crude oil pipeline that connect Brandsen (60,000 cubic meters of storage capacity) to the ESSO refinery in Campana (168 km), in the province of Buenos Aires.

In Argentina, we also operate a network of multiple pipelines for the transportation of refined products with a total length of 1,801 kilometers. We also own 16 plants for the storage and distribution of refined products with an approximate aggregate capacity of 983,620 cubic meters. Three of these plants are annexed to the refineries of Luján de Cuyo, La Plata and Plaza Huincul. Ten of these plants have maritime or river connections. We operate 53 airplane refueling facilities (40 of them are wholly owned) with a capacity of 24,000 cubic meters, own 27 trucks, 112 suppliers and 16 dispensers. These facilities provide a flexible countrywide distribution system and allow us to facilitate exports to foreign markets, to the extent allowed pursuant to government regulations. Products are shipped mainly by truck, ship or river barge.

Domestic marketing division

Through our Marketing Division, we market gasoline, diesel fuel and other petroleum products to retail and wholesale customers. We also sell convenience food products through our service stations, although such sales do not account for a material amount of our revenues.

In 2007, retail, wholesale, lubricants and specialties and aviation sales reached Ps.14,433 million, representing 59.4% of the Refining and Marketing segment's consolidated revenue, with Ps.7,332 million generated by retail customers.

As of December 31, 2007, the Marketing Division's sales network in Argentina included 1,692 retail service stations (compared to 1,731 at December 31, 2006), of which 98 are directly owned by us, and the remaining 1,594 are affiliated service stations. Operadora de Estaciones de Servicio S.A. ("OPESSA") (a wholly owned subsidiary of ours), operates 162 of our retail service stations, 75 of which are directly owned by us, 25 of which are leased to ACA (Automovil Club Argentino), and 62 of which are leased to independent owners. Additionally, we have a 50% interest in Refinor, which operates 77 retail service stations, 13 of which are directly owned by Refinor. We will continue our efforts to eliminate nonstrategic existing stations, and dealer-operated stations which do not comply with the level of operational efficiency that we require.

We estimate that, as of December 31, 2007 and as of December 31, 2006, our points of sale accounted for 31.1% and 31.1% of the Argentine market, respectively. In Argentina, Shell, Petrobras and Esso are our main competitors and own approximately 15.6%, 12.7% and 10.5%, respectively, of the points of sale in Argentina, according to the latest information available to us. During 2007 all oil companies decreased the number of their points of sales. Additionally, the number of non-branded stations decreased substantially.

During 2007, we slightly decreased our market share in the diesel fuel and gasoline markets from 54.8% to 54.7%, according to our analysis of data provided by the Secretariat of Energy.

The "Red XXI" marketing program, launched in October 1997, which has significantly improved operational efficiency and provides us with immediate performance data from each station, is aimed at connecting most of our service stations network. As of December 31, 2007, 1,480 stations were linked to the Red XXI system.

In 2007, we launched the Escuela Comercial YPF (YPF Business School), which focuses on performance, employability, operational excellence and customer satisfaction. The YPF Business School is aligned with our business strategy to promote a sense of belonging and common vision shared by all the members of our business chain. In 2007, the YPF Business School had carried out 1,300 didactic activities, within its four branches of study, involving 1,764 of our employees or business partners (owned and branded service stations and distributors).

We began an ISO 9001 certification process involving our gas station network in 1998. Currently, we allow each gas station operator to certify its management system. YPF-owned service stations have been certified under ISO 9001 and 14000 standards for the past ten years, and a small number of such service stations have been certified under

OHSAS (Occupational Health and Safety Assessment Series) 18001 and ISO 22000 in the past two years.

Our sales to the agricultural sector are principally conducted through a network of 133 distribution bases operated by 119 distributors (eight of which are owned by us).

Sales to transportation, industrial, utility, and mining sectors are made primarily through our direct sales efforts. The main products sold in the domestic wholesale market include diesel fuel and fuel oil. During 2006, the direct sales unit has expanded its offering to the sale of products such as bags for storing grains, fertilizers and glyphosate.

Sales to the aviation sector are made directly by us. The products sold in this market are jet fuel and aviation gasoline.

Our lubricants and specialties unit markets a wide variety of products that includes lubricants, greases, asphalt, paraffin, base lubricant, decanted oil, carbon dioxide and coke. This unit is responsible for the production, distribution and commercialization of the products in the domestic and exports markets. These operations are ISO 9001: 2000 and Tierra 16949 certified. The lubricants production facilities are also ISO 14001 certified.

During 2007, our lubricants and specialties sales to domestic markets increased by 10% from 1,216 million in 2006 to Ps.1,335 million in 2007. We export lubricants to 20 countries, including the United States. Sales to export markets increased by 10% from Ps.212 million in 2006 to Ps.234 million in 2007. During 2007, total lubricants sales increased by 20%, total asphalt sales increased by 8% and total derivatives sales increased by 7%.

In a market of increasing costs, the strategy of differentiation followed by our lubricants and specialties unit allowed it to maintain its position of leadership in the Argentine market despite experiencing a slightly decreased market share, from 36.9% in 2006 to 36.4% in 2007. Lead domestic automotive manufacturers Ford, VW, Scania, Seat, Porsche and General Motors, which represent more than 60% of the automotive industry in Argentina, exclusively use and recommend YPF-branded lubricant products.

With respect to biofuels, our main objectives in this area are to secure our biofuel needs for the domestic market and to create associations for the production and marketing of biofuels in light of Argentina's potential as a biofuels exporter to the European Union and other international markets.

In January 2010, every oil company in Argentina will be obligated under Argentine law (Law 26,093) to blend all fuels with 5% of biofuels.

In addition, and in line with our commitment to the environment and the development of alternative fuels, we have launched the Bioenergy Program 2007-2010 through the Biofuels Unit under its Lubricants and Specialties Division. This nationwide research and development program is being developed together with a university and other official entities with the objective of developing alternative crops to be used in the production of biofuels, thereby also promoting development in regional economies in Argentina.

Trading division

Our Trading Division sells crude oil and refined products to international customers and oil to domestic oil companies. Sales to international companies for the years 2007 and 2006 totaled Ps.4,664 million (U.S.\$1,495 million) and Ps.4,945 million (U.S.\$1,606 million), respectively, 90% and 80% of which, respectively, represented sales of refined products, 2% and 12% of which, respectively, represented crude oil deliveries and the remaining 8% of which (for both years) represented sales of marine fuels. On a volume basis, sales consisted of 2.68 million and 5.50 million barrels of crude oil, 14.7 million and 21.2 million barrels of refined products and 1.42 million and 1.67 million barrels of marine fuels, respectively. Exports include crude oil, unleaded gasoline, diesel fuel, fuel oil, liquefied petroleum gases, light naphtha and virgin naphtha. This Division's export sales are made principally to the United States, Brazil and Mexico. Domestic sales of crude oil reached Ps.438 million (U.S.\$140 million) and Ps.677 million (U.S.\$221 million), and 3,45 million and 5.6 million barrels in the years 2007 and 2006, respectively. Domestic sales of marine fuels, reached Ps.255 million (U.S.\$82 million) and Ps.258 million (U.S.\$84 million), and 1.3 and 1.5 million barrels, respectively.

LPG general division

Production

We are one of the largest LPG producers in Argentina, with a yearly production of 789,011 tons in 2007 (including 260,754 tons of LPG destined for petrochemical usage).

We also have a 50% interest in Refinor, a jointly-controlled company, which produced 365,464 tons of LPG in 2007.

The LPG division obtains LPG from natural gas processing plants and from its refineries and petrochemical plant. It also purchases LPG from third parties as detailed in the following table:

	Purchase (tons) 2007
LPG from Natural Gas Processing Plants:(1)	
General Cerri	13,983
Filo Morado	14,022
El Portón	124,851
San Sebastián	16,311
Total Upstream	169,167
LPG from Refineries and Petrochemical Plants:	
La Plata Refinery	247,238
Luján de Cuyo Refinery	93,079
Ensenada Petrochemical Plant	18,773
Total Refineries & Petrochemical Plants(2)	359,090
LPG purchased from jointly controlled companies:(3)	125,539
LPG purchased from unrelated parties (4)	69,456
Total	723,252

(1)The San Sebastian plant is a joint-venture in which we own a 30% interest; El Portón is 100% owned by us; General Cerri belongs to a third party with which we have a processing agreement. Filo Morado comprises assets that are operated by us.

(2)This production is net of 260,754 tons of LPG used as petrochemical feedstock (olefins derivatives, polybutenes and maleic).

(3) Purchased from Refinor.

(4) Includes imports of 24,167 tons of LPG

LPG marketing

We sell LPG to the foreign market, the domestic wholesale market and to distributors that supply the domestic retail market. The LPG general division does not directly supply the retail market and such market is supplied by Repsol YPF Gas, which is not a YPF company.

Our LPG sales for the years 2007 and 2006 can be broken down by market as follows:

	Sales Capacity 2007 2006 (tons)	
Domestic market		
Retail to related parties under common control	245,429	237,362
Other bottlers/propane network distributors	106,608	105,000
Other wholesales	101,877	79,813
Foreign market/exports		
Exports	247,115	359,501
Total sales	701,029	781,676

Total sales of LPG (excluding LPG used as petrochemical feedstock) to all markets (domestic and foreign markets combined) were Ps.889 million and Ps.820 million in 2007 and in 2006, respectively.

Chemicals

In 2007 and 2006, our revenues from chemical sales were Ps.3,455 million and Ps.3,048 million, respectively, and our operating income of the Chemicals segment was Ps.500 million and Ps.572 million, respectively.

Petrochemicals are produced at five different facilities at our petrochemical complexes in Ensenada and Plaza Huinul.

Our petrochemical production operations in Ensenada are closely integrated with our refining activities (La Plata Refinery). This close integration allows for a flexible supply of feedstock, the efficient use of byproducts (such as hydrogen) and others synergies.

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

	Capacity (tons per year)
Ensenada:	
Aromatics	
BTX (Benzene, Toluene, Mixed Xylenes)	244,000
Paraxylene	38,000
Orthoxylene	25,000
Cyclohexane	95,000
Solvents	66,100
Olefins Derivatives	
MTBE	60,000
Butene I	25,000
Oxoalcohols	35,000
TAME	105,000
LAB/LAS	
LAB	52,000
LAS	25,000
Polybutenes	
PIB	26,000
Maleic	
Maleic Anhydride	17,500

Plaza Huincul:

Methanol

411,000

53

Natural gas, the raw material for methanol, is supplied by our upstream unit. The use of natural gas as a raw material allows us to monetize reserves, demonstrating the integration between the petrochemical and the upstream units.

We also use high carbon dioxide-content natural gas in our methanol production. We completed a project for the treatment and conditioning of natural gas in Sierra Barrosa for this purpose. This project was completed in record time (commenced in August 2006 and completed in June 2007), allowing us to keep our methanol plant working at 50% of its production capacity during the winter period. The project enables us to process high carbon dioxide-content natural gas that could have not been otherwise commercialized.

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

In 2007 and 2006, 57% and 50%, respectively, of our petrochemicals sales were made in the domestic market and 43% and 50%, respectively, were made in the export market. During 2007, the petrochemicals exports were destined to Mercosur countries, Latin America, Europe, and the United States.

We also participate in the fertilizer business directly and through Profertil, our 50%-owned subsidiary.

Profertil is jointly controlled by us and Agrium (a worldwide leader in fertilizers), that produces urea and ammonia and started operations in 2001. We are Profertil's principal supplier of natural gas, supplying approximately 29% of Profertil's feedstock.

Our Ensenada petrochemical plant was certified under ISO 9001 in 1996 and recertified in October 2007. The La Plata petrochemical plant was certified under ISO 14001 in 2001 and recertified (version 2004) in October 2007. The plant was also certified under OHSAS 18001 in 2005 and recertified in October 2007.

Our Methanol plant was certified under ISO 9001 (version 2000) and under ISO 14001 (Version 2000) in October 2007.

Repsol YPF's presence has strengthened our position in the global markets, improving our access to these markets due to a better negotiating position derived from Repsol YPF's ability to offer a more complete portfolio of products and a sales force of its own, now located in regions previously served only by distributors.

Research and Development

We have a research and development facility in La Plata, Argentina, which works in cooperation with research and development activities of Repsol YPF. To carry out research and development programs of mutual interest, Repsol YPF maintains different cooperation agreements with universities, companies and other technological centers, both public and private. In 2007, Repsol YPF spent more than U.S.\$12 million under these agreements (240 of which were in place).

Repsol YPF participates actively in the research and development programs sponsored by different government administrations, taking part during 2007 in 19 projects sponsored by the Spanish Administration and in seven European Union projects.

The research and development projects and activities apply to the entire value chain of the business – including exploration of new deposits of crude or gas, extraction and conditioning for transportation, transformation and manufacture of products at industrial complexes, and distribution to the end customer. Repsol YPF's two technology centers, one in Spain (Móstoles) and another in Argentina (La Plata), together employ a total of 450 people. In 2007,

the Repsol YPF Technology Unit allocated U.S.\$96 million to the activity, to which another U.S.\$9 million were added in projects executed through the business units.

In the Hydrocarbon Exploration and Production area, the projects are focused towards three main objectives: (i) increasing the production of crude oil and gas towards improving the petroleum recovery factor (both for heavy and

extra-heavy crudes, as well as for conventional ones); (ii) exploiting natural gas reserves through the liquefied natural gas chain and other alternatives; and (iii) reducing the environmental impact of operations and optimizing production and decreasing operating costs.

In Petroleum Product Refinery and Marketing, the Technology Unit provides specialized technological support to the refineries to produce gasoline and gas oil of the best quality, complying ahead of time with the requirements of international standards. In addition, new products are also being developed, such as bio-fuels or better performing lubricants and asphalts.

In Petrochemicals, Repsol YPF continued its significant effort with resources geared toward the consolidation of the proprietary technology developed in the last few years.

Repsol YPF develops its own technology when it has a competitive advantage and acquires available technology (optimizing and adapting them for the markets in which it competes) when it proves to be more advantageous to its business goals. Repsol YPF's goal is to increase the collaboration with the surrounding technological environment, universities and centers of public investigation, as well as with other companies, for a better use of and flexibility in the employment of resources and to decrease the risks in those areas in which it is involved.

Competition

The deregulation and privatization process created a competitive environment in the Argentine oil and gas industry. In our Exploration and Production business, we encounter competition from major international oil companies and other domestic oil companies in acquiring exploration permits and production concessions. Our Exploration and Production business may also encounter competition from oil and gas companies created and owned by certain Argentine provinces, including La Pampa, Neuquén and Chubut, as well as from ENARSA, the Argentine state-owned energy company, especially in light of the recent transfer of hydrocarbon properties to ENARSA and the provinces described under "Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—Law No. 26,197." In our Refining and Marketing and Chemicals businesses, we face competition from several major international oil companies, such as Esso (a subsidiary of ExxonMobil), Shell and Petrobras, as well as several domestic oil companies. In our export markets, we compete with numerous oil companies and trading companies in global markets.

We operate in a dynamic market in the Argentine downstream industry and the crude oil and natural gas production industry. Crude oil and most refined products prices are subject to international supply and demand and Argentine regulations and, accordingly, may fluctuate for a variety of reasons. Some of the prices in the internal market are controlled by local authorities. See "Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government." Changes in the domestic and international prices of crude oil and refined products have a direct effect on our results of operations and on our levels of capital expenditures. See "Item 3. Key Information—Risk Factors—Risks Relating to the Argentine Oil and Gas Business and Our Business—Oil and gas prices could affect our level of capital expenditures."

Environmental Matters

YPF – Argentine operations

Our operations are subject to a wide range of laws and regulations relating to the general impact of industrial operations on the environment, including emissions into the air and water, the disposal or remediation of soil or water contaminated with hazardous or toxic waste, fuel specifications to address air emissions and the effect of the environment on health and safety. We have made and will continue to make expenditures to comply with these laws

and regulations. In Argentina, local, provincial and national authorities are moving toward more stringent enforcement of applicable laws. In addition, since 1997, Argentina has been implementing regulations that require

our operations to meet stricter environmental standards that are comparable in many respects to those in effect in the United States and in countries within the European Community. These regulations establish the general framework for environmental protection requirements, including the establishment of fines and criminal penalties for their violation. We have undertaken measures to achieve compliance with these standards and are undertaking various abatement and remediation projects, the more significant of which are discussed below. We cannot predict what environmental legislation or regulation will be enacted in the future or how existing or future laws will be administered or enforced. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of regulatory agencies, could require additional expenditures in the future by us for the installation and operation of systems and equipment for remedial measures and could affect our operations generally. In addition, violations of these laws and regulations may result in the imposition of administrative or criminal fines or penalties and may lead to personal injury claims or other tort liabilities.

In 2007, we continued to make investments in order to comply with new Argentine fuel specifications that are expected to come into effect between 2008 and 2016, pursuant to Resolution No. 1283/06 of the Secretariat of Energy (which replaces the Resolution No. 398/03) relating, among other things, to the purity of diesel fuels. In addition, we have completed basic engineering studies and begun detailed engineering studies for the construction of diesel fuel oil desulfuration units at La Plata and Luján de Cuyo refineries. These projects have been delayed due to the postponement of the implementation of fuel specification regulations. We currently plan to invest a total of approximately U.S.\$795 million between 2008 and 2012 to comply with the above-mentioned gasoline quality environmental specifications.

At each of our refineries, we are performing, on a voluntary basis, remedial investigations and feasibility studies and pollution abatement projects, which are designed to address liquid effluent discharges and air emissions. In addition, we have implemented an environmental management system to assist our efforts to collect and analyze environmental data in its upstream and downstream operations.

In addition to the projects related to the new specification standards mentioned above, we have begun to implement a broad range of environmental projects in the Domestic Exploration and Production and Refining and Marketing and Chemical segments. Capital expenditures for those environmental projects associated with Refining and Marketing segment's projects during 2007 were approximately U.S.\$62 million. The primary projects at La Plata include installation of separation and water treatment systems to replace existing systems, air pollution control devices, flare gas recovery systems, hydrocarbon recovery systems, double bottoms in several tanks and site remediation. In addition, during 2007, the storage facilities at certain service stations were replaced by new and safer technologies, such as double wall tanks, and hot oil furnaces were replaced by gas boilers.

Capital expenditures associated with Domestic Exploration and Production environmental projects during 2007 were approximately U.S.\$151 million and included oil and gas recovery systems, flowlines and components construction, and remediation of well sites, tank batteries and oil spills in the gathering systems of fields. Expenditures will also be made to improve technical assistance and training and to establish environmental contamination remediation plans, air emissions monitoring plans and ground water investigation and monitoring programs.

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

In 1991, we entered into an agreement (Convenio de Cooperación Interempresarial, or "CCI") with certain other oil and gas companies to implement a plan to reduce and assess environmental damage resulting from oil spills in Argentine

waters to reduce the environmental impact of potential oil spills offshore. This agreement involves consultation on technological matters and mutual assistance in the event of any oil spills in rivers or at sea due to accidents involving tankers or offshore exploration and production facilities.

Regarding climate change, we have been developing a strategy since 2002 to address the requirements of the Kyoto Protocol. The main elements of this plan are the following:

- actively promote the identification and pursuit of opportunities to reduce greenhouse gas emissions within our operations. For that, we take into account the cost of carbon in our business decisions; and
- intensify the execution of internal projects for generating credit by the clean development mechanisms that help our parent company, Repsol YPF, meet its obligations. We collaborate with competent authorities from the countries in which we operate, in particular the Argentina Clean Development Mechanism Office (“OAMD”).

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

YPF Holdings—Operations in the United States

Laws and regulations relating to health and environmental quality in the United States affect YPF Holdings’ operations in the United States. See “Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—U.S. Environmental Regulations.”

In connection with the sale of Diamond Shamrock Chemicals Company (“Chemicals”) to a subsidiary of Occidental Petroleum Corporation (“Occidental”) in 1986, Maxus agreed to indemnify Chemicals and Occidental from and against certain liabilities relating to the business and activities of Chemicals prior to the September 4, 1986 closing date (the “Closing Date”), including certain environmental liabilities relating to certain chemical plants and waste disposal sites used by Chemicals prior to the Closing Date.

In addition, under the agreement pursuant to which Maxus sold Chemicals to Occidental, Maxus is obligated to indemnify Chemicals and Occidental for certain environmental costs incurred on projects involving remedial activities relating to chemical plant sites or other property used to conduct Chemicals’ business as of the Closing Date and for any period of time following the Closing Date which relate to, result from or arise out of conditions, events or circumstances discovered by Chemicals and as to which Chemicals provided written notice prior to September 4, 1996, irrespective of when Chemicals incurs and gives notice of such costs.

Tierra Solutions Inc. (“Tierra”) was formed to deal with the results of the alleged obligations of Maxus, as described above, resulting from actions or facts that occurred primarily between the 1940s and 1970s while Chemicals was controlled by other companies.

See “Item 8. Financial Information—Legal Proceedings—YPF Holdings” below for a description of environmental matters in connection with YPF Holdings.

Property, Plant and Equipment

Most of our property, consisting of interests in crude oil and natural gas reserves, refineries, storage, manufacturing and transportation facilities and service stations, is located in Argentina. We also own property in the United States. See “—Exploration and Production—Principal properties—International properties—United States.”

There are several classes of property which we do not own in fee. Our petroleum exploration and production rights are in general based on sovereign grants of concession. Upon the expiration of the concession, our exploration and production assets associated with the particular property subject to the relevant concession revert to the government. In addition, as of December 31, 2007, we leased 87 service stations to third parties and also had activities with service stations that are owned by third parties and operated by them under a supply contract with us for the distribution of our products.

Regulatory Framework and Relationship with the Argentine Government

Overview

The Argentine oil and gas industry is currently subject to certain policies and regulations that have resulted in domestic prices that are substantially lower than prevailing international market prices, export restrictions, domestic supply requirements that oblige us from time to time to divert supplies from the export or industrial markets in order to meet domestic consumer demand, and increasingly heavy export duties on the volumes of hydrocarbons allowed to be exported. These governmental pricing limitations, export controls and tax policies have been implemented in an effort to satisfy increasing domestic market demand at prices below international market prices.

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

The executive branch of the Argentine government issues the regulations to complement these laws. The regulatory framework of the Hydrocarbons Law was established on the assumption that the reservoirs of hydrocarbons would be national properties and Yacimientos Petrolíferos Fiscales Sociedad del Estado, our predecessor, would lead the oil and gas industry and operate under a different framework than private companies. In 1992, Law No. 24,145, referred to as the “Privatization Law,” privatized YPF and provided for transfer of hydrocarbon reservoirs from the Argentine government to the provinces, subject to the existing rights of the holders of exploration permits and production concessions.

The Privatization Law granted us 24 exploration permits covering approximately 132,735 square kilometers and 50 production concessions covering approximately 32,560 square kilometers. The Hydrocarbons Law limits to five the number of concessions that may be held by any one entity, and also limits the total area of exploration permits that may be granted to a single entity. Based on our interpretation of the law, we were exempted from such limit with regard to the exploration permits and production concessions awarded to us by the Privatization Law. Nevertheless, the National Department of Economy of Hydrocarbons (Dirección Nacional de Economía de los Hidrocarburos), applying a restrictive interpretation of Section 25 and 34 of the Hydrocarbons Law, has objected to the award of new exploration permits and production concessions in which we have a 100% interest. As a result, our ability to acquire 100% of new exploration permits and/or production concessions has been hindered, although this interpretation has not impeded our ability to acquire any permits or concessions where an interest is also granted to other parties. As a consequence of the transfer of ownership of certain hydrocarbons areas to the provinces, we participate in competitive bidding rounds organized since the year 2000 by several provincial governments for the award of contracts for the exploration of hydrocarbons.

In October 2004, the Argentine Congress enacted Law No. 25,943 creating a new state-owned energy company, Energía Argentina S.A. The corporate purpose of ENARSA is the exploration and exploitation of solid, liquid and gaseous hydrocarbons, the transport, storage, distribution, commercialization and industrialization of these products, as well as the transportation and distribution of natural gas, and the generation, transportation, distribution and sale of electricity. Moreover, Law No. 25,943 granted to ENARSA all exploration concessions in respect to offshore areas located beyond 12 nautical miles from the coast line up to the outer boundary of the continental shelf that were vacant at the time of the effectiveness of this law (i.e., November 3, 2004).

In addition, in October 2006, Law No. 26,154 created a regime of tax incentives aimed at encouraging hydrocarbon exploration and which apply to new exploration permits awarded in respect of the offshore areas granted to ENARSA and those over which no rights have been granted to third parties under the Hydrocarbons Law, provided the provinces

in which the hydrocarbon reservoirs are located adhere to this regime. Association with ENARSA is a precondition to qualifying for the benefits provided by the regime created by Law No. 26,154. The benefits include: early reimbursement of the value added tax for investments made and expenses incurred during the exploration period and for investments made within the production period; accelerated amortization of investments

made in the exploration period and the accelerated recognition of expenses in connection with production over a period of three years rather than over the duration of production; and exemptions to the payment of import duties for capital assets not manufactured within Argentina. As of the date of this annual report, we have not used the tax incentives previously mentioned.

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

- In 1992, the Privatization Law approved the transfer of the ownership of hydrocarbons reserves to the provinces where they are located. However, this law provided that the transfer was conditioned on the enactment of a law amending the Hydrocarbons Law to contemplate the privatization of Yacimientos Petrolíferos Fiscales Sociedad del Estado.
- In October 1994, the Argentine National Constitution was amended and pursuant to Article 124 thereof, provinces were granted the primary control of natural resources within their territories.
- In August 2003, Executive Decree No. 546/03 transferred to the provinces the right to grant exploration permits, hydrocarbons exploitation and transportation concessions in certain locations designated as “transfer areas,” as well as in other areas designated by the competent provincial authorities.
- In January 2007, Law No. 26,197 acknowledged the provinces’ ownership of the hydrocarbon reservoirs in accordance with Article 124 of the National Constitution (including reservoirs to which concessions were granted prior to 1994) and granted provinces the right to administer such reservoirs.

Law No. 26,197

Law No. 26,197, which amended the Hydrocarbons Law, transferred to the provinces and the City of Buenos Aires the ownership over all hydrocarbon reservoirs located within their territories and in the adjacent seas up to 12 nautical miles from the coast. Law No. 26,197 also provides that the hydrocarbon reservoirs located beyond 12 nautical miles from the coast to the outer limit of the continental shelf shall remain within the ownership of the federal government.

Pursuant to Law No. 26,197, the Argentine Congress shall continue to enact laws and regulations to develop oil and gas resources existing within all of the Argentine territory (including its sea), but the governments of the provinces where the hydrocarbon reservoirs are located shall be responsible for the enforcement of these laws and regulations, the administration of the hydrocarbon fields and shall act as granting authorities for the exploration permits and production concessions. However, the administrative powers granted to the provinces shall be exercised within the framework of the Hydrocarbons Law and the regulations which complement this law.

Consequently, even though Law No. 26,197 established that the provinces shall be responsible for administering the hydrocarbon fields, the Argentine Congress retained its power to issue rules and regulations regarding the oil and gas legal framework. Additionally, the Argentine government retained the power to determine the national energy policy.

It is expressly stated that the transfer will not affect the rights and obligations of exploration permit and production concession holders, or the basis for the calculation of royalties, which shall be calculated in accordance with the concession title and paid to the province where the reservoirs are located.

Law No. 26,197 provides that the Argentine government shall retain the authority to grant transportation concessions for: (i) transportation concessions located within two or more provinces territory and (ii) transportation concessions directly connected to export pipelines for export purposes. Consequently, transportation concessions which are located

within the territory of only one province and which are not connected to export facilities shall be transferred to the provinces.

Finally, Law No. 26,197 grants the following powers to the provinces: (i) the exercise in a complete and independent manner of all activities related to the supervision and control of the exploration permits and production

concessions transferred by Law No. 26,197; (ii) the enforcement of all applicable legal and/or contractual obligations regarding investments, rational production and information and surface fee and royalties payment; (iii) the extension of legal and/or contractual terms; (iv) the application of sanctions provided in the Hydrocarbons Law; and (v) all the other faculties related to the granting power of the Hydrocarbons Law.

Public Emergency

On January 6, 2002, the Argentine Congress enacted Law No. 25,561, the Public Emergency and Foreign Exchange System Reform Law (“Public Emergency Law”), which represented a profound change of the economic model effective as of that date, and rescinded the Convertibility Law No. 23,928, which had been in effect since 1991 and had pegged the peso to the dollar on a one-to-one basis. In addition, the Public Emergency Law granted the executive branch of the Argentine government authority to enact all necessary regulations in order to overcome the economic crisis in which Argentina was then immersed.

After the enactment of the Public Emergency Law, several other laws and regulations have been enacted. The following are the most significant measures enacted to date in Argentina to overcome the economic crisis:

- Conversion into pesos of (i) all funds deposited in financial institutions at an exchange rate of Ps.1.40 for each U.S.\$1.00 and (ii) all obligations (e.g., loans) with financial institutions denominated in foreign currency and governed by Argentine law at an exchange rate of Ps.1.00 for each U.S.\$1.00. The deposits and obligations converted into pesos would be thereafter adjusted by a reference stabilization index, the Coeficiente de Estabilidad de Referencia (“CER”), to be published by the Argentine Central Bank. Obligations governed by non-Argentine law have not been converted to pesos under the new laws. Substantially all of our dollar-denominated debt is governed by non-Argentine law.
- Conversion into pesos at an exchange rate of Ps.1.00 for each U.S.\$1.00 of all obligations outstanding among private parties at January 6, 2002 that are governed by Argentine law and payable in foreign currency. The obligations so converted into pesos would be adjusted through the CER index, as explained above. In the case of non-financial obligations, if as a result of the mandatory conversion into pesos the resulting intrinsic value of goods or services that are the object of the obligation are higher or lower than their price expressed in pesos, either party may request an equitable adjustment of the price. If they cannot agree on such equitable price adjustment, either party may resort to the courts. Executive Decree No. 689/02 established an exception to the Public Emergency Law and regulations and provides that the prices of long-term natural gas sale and transportation agreements executed before the enactment of the Decree and denominated in U.S. dollars will not be converted into pesos (Ps.1.00 for each U.S.\$1.00) when the natural gas is exported.
- Conversion into pesos at an exchange rate of Ps.1.00 for each U.S.\$1.00 of all tariffs of public services, the elimination of the adjustment of tariffs by foreign indexes such as the Purchaser Price Index (PPI)/Consumer Price Index (CPI) index, and the imposition of a period of renegotiation with the governmental authorities thereafter.
- Imposition of customs duties on the export of hydrocarbons with instructions to the executive branch of the Argentine government to set the applicable rate thereof. See also “—Taxation” below.

Exploration and Production

The Hydrocarbons Law establishes the basic legal framework for the regulation of oil and gas exploration and production in Argentina. The Hydrocarbons Law empowers the executive branch of the Argentine government to establish a national policy for development of Argentina’s hydrocarbon reserves, with the principal purpose of satisfying domestic demand.

Pursuant to the Hydrocarbons Law, exploration and production of oil and gas is carried out through exploration permits, production concessions, exploitation contracts or partnership agreements. The Hydrocarbons Law also permits surface reconnaissance of territory not covered by exploration permits or production concessions upon

authorization of the Secretariat of Energy and/or competent provincial authorities, as established by Law No. 26,197, and with permission of the private property owner. Information obtained as a result of surface reconnaissance must be provided to the Secretariat of Energy and/or competent provincial authorities, which may not disclose this information for two years without permission of the party who conducted the reconnaissance, except in connection with the grant of exploration permits or production concessions.

Under the Hydrocarbons Law, the federal and/or competent provincial authorities may grant exploration permits after submission of competitive bids. Permits granted to third parties in connection with the deregulation and demonopolization process were granted in accordance with procedures specified in Executive Decrees No. 1055/89, 1212/89 and 1589/89 (the “Oil Deregulation Decrees”), and permits covering areas in which our predecessor company, Yacimientos Petrolíferos Fiscales S.A., was operating at the date of the Privatization Law and that were granted to us by such law. In 1991, the executive branch of the Argentine government established a program under the Hydrocarbons Law (known as Plan Argentina) pursuant to which exploration permits were auctioned. The holder of an exploration permit has the exclusive right to perform the operations necessary or appropriate for the exploration of oil and gas within the area specified by the permit. Each exploration permit may cover only unproved areas not to exceed 10,000 square kilometers (15,000 square kilometers offshore), and may have a term of up to 14 years (17 years for offshore exploration). The 14-year term is divided into three basic terms and one extension term. The first basic term is up to four years, the second basic term is up to three years, the third basic term is up to two years and the extension term is up to five years. At the expiration of each of the first two basic terms, the acreage covered by the permit is reduced, at a minimum, to 50% of the remaining acreage covered by the permit, with the permit holder deciding which portion of the acreage to keep. At the expiration of the three basic terms, the permit holder is required to revert all of the remaining acreage to the Argentine government, unless the holder requests an extension term, in which case such grant is limited to 50% of the remaining acreage.

If the holder of an exploration permit discovers commercially exploitable quantities of oil or gas, the holder has the right to obtain an exclusive concession for the production and development of this oil and gas. The Hydrocarbons Law provides that oil and gas production concessions shall remain in effect for 25 years as from the date of the award of the production concession, in addition to any remaining exploration term at the date of such award. The Hydrocarbons Law further provides for the concession term to be extended for up to 10 additional years, subject to terms and conditions approved by the grantor at the time of the extension. Under Law No. 26,197, the authority to extend the terms of current and new permits and concessions and has been vested in the governments of the provinces in which the relevant block is located (and the Argentine government in respect of offshore blocks beyond 12 nautical miles). In order to be entitled to the extension, a concessionaire, such as us, must have complied with all of its obligations under the Hydrocarbons Law, including, without limitation, evidence of payment of taxes and royalties and compliance with environmental, investment and development obligations. Upon the expiration of the 10-year extension period of the current concessions, the provinces are entitled to award new concessions or contracts in respect of the relevant blocks.

A production concession also confers on the holder the right to conduct all activities necessary or appropriate for the production of oil and gas, provided that such activities do not interfere with the activities of other holders of exploration permits and production concessions. A production concession entitles the holder to obtain a transportation concession for the oil and gas produced. See “—Transportation of Liquid Hydrocarbons” below.

Exploration permits and production concessions require holders to carry out all necessary work to find or extract hydrocarbons, using appropriate techniques, and to make specified investments. In addition, holders are required to:

- avoid damage to oil fields and waste of hydrocarbons;

- adopt adequate measures to avoid accidents and damage to agricultural activities, fishing industry, communications networks and the water table; and
 - comply with all applicable federal, provincial and municipal laws and regulations.

According to the Hydrocarbons Law, holders of production concessions, including us, also are required to pay royalties to the province where production occurs. A 12% royalty is payable on the value at the wellhead (equal to the price upon delivery of the product, less transportation, treatment costs and other deductions) of crude oil production and the natural gas volumes commercialized. The value is calculated based upon the volume and the sale price of the crude oil and gas produced, less the costs of transportation and storage. In addition, if a concession holder allots crude oil production for further industrialization processes at its plants, the concession holder is required to agree with the provincial authorities or the Secretariat of Energy, as applicable, on the reference price to be used for purposes of calculating royalties.

However, in January 2008, the Secretariat of Energy passed Disposition No. 1, which provided guidelines for the calculation of royalties. Disposition No. 1 sets a minimum reference price for the calculation of royalties and does not permit downward adjustments of this price based upon the quality of crude oil. As a result, the reference price for some of our production calculated according to Disposition No. 1 is approximately U.S.\$10 per barrel higher than the price calculated according to the methodology set forth in the Hydrocarbons Law, as discussed above. We are currently evaluating Disposition No. 1.

In addition to the above, the Public Emergency Law, which created the export withholdings, established that export withholdings were not to be deducted from the export price for purposes of calculating the 12% royalties. The royalty expense is accounted for as a production cost. Any oil and gas produced by the holder of an exploration permit prior to the grant of a production concession is subject to the payment of a 15% royalty. See “Item 8. Financial Information—Legal Proceedings—Argentina—Neuquén royalty disputes.”

Furthermore, pursuant to Sections 57 and 58 of the Hydrocarbons Law, holders of exploration permits and production concessions must pay an annual surface fee that is based on acreage of each block and which varies depending on the phase of the operation, i.e., exploration or production, and in the case of the former, depending on the relevant period of the exploration permit. Executive Decree No. 1,454/07, dated October 17, 2007, which significantly increased the amount of exploration and production surface fees expressed in Argentine pesos that are payable to the provinces in which the hydrocarbon fields are located or, in the case of offshore and certain other fields, to the Argentine government. In all cases, the surface fee increased by at least eight times, although the effect of this increase is not material to us due to the relatively low sums involved. For example, in 2007 we paid a total of approximately Ps.33 million in surface fees. In 2008, we expect to pay approximately Ps.90 million in such fees pursuant to Sections 57 and 58 of the Hydrocarbons Law, due to the application of the recent increases for a full year.

Exploration permits and production or transportation concessions may be terminated upon any of the following events:

- failure to pay annual surface taxes within three months of the due date;
- failure to pay royalties within three months of the due date;
- substantial and unjustifiable failure to comply with specified production, conservation, investment, work or other obligations;
- repeated failure to provide information to, or facilitate inspection by, authorities or to utilize adequate technology in operations;
- in the case of exploration permits, failure to apply for a production concession within 30 days of determining the existence of commercially exploitable quantities of hydrocarbons;

- bankruptcy of the permit or concession holder;
- death or end of legal existence of the permit or concession holder; or
- failure to transport hydrocarbons for third parties on a non-discriminatory basis or repeated violation of the authorized tariffs for such transportation.

The Hydrocarbons Law further provides that a cure period, of a duration to be determined by the Secretariat of Energy and/or the competent provincial authorities, must be provided to the defaulting concessionaire prior to the termination.

When a production concession expires or terminates, all oil and gas wells, operating and maintenance equipment and facilities automatically revert to the province where the reservoir is located or to the Argentine government in the case of reservoirs under federal jurisdiction (i.e., located on the continental shelf or beyond 12 nautical miles offshore), without compensation to the holder of the concession.

Substantially all of our production concessions expire in 2017. The granting of an extension is an unregulated process and normally involves lengthy negotiations between the applicant and the relevant government. Although the Hydrocarbons Law provides that applications must be submitted at least six months prior to the concession expiration date, it is industry practice to commence the process far earlier, typically as soon as the technical and economic feasibility of new investment projects beyond the concession term become apparent.

On March 16, 2006, the Secretariat of Energy issued Resolution S.E. No. 324/06 establishing that holders of exploration permits and hydrocarbon concessions must file with such agency details of their proved reserves existing in each of their areas, certified by an external reserves auditor, each year. Holders of hydrocarbon concessions that export hydrocarbons are obliged to certify their oil and gas proved reserves. The aforementioned certification only has the meaning established by Resolution S.E. No. 324/06, according to which it is not to be interpreted as a certification of oil and gas reserves under the SEC rules. See “Item 4. Information on the Company—Exploration and Production—Reserves”.

Security Zones Legislation

Argentine law restricts the ability of non-Argentine companies to own real estate, oil concessions or mineral rights located within, or with respect to areas defined as, security zones (principally border areas). Prior approval of the Argentine government is required:

- for non-Argentine shareholders to acquire control of us; or
- if and when the majority of our shares belong to non-Argentine shareholders, such as is currently the case, for any additional acquisition of real estate, mineral rights, oil or other Argentine government concessions located within, or with respect to, security zones.

Because approval of Class A shareholders is required for a change in our control under our bylaws, and approval of the executive branch of the Argentine government or provincial governments is required for the grant or transfer of hydrocarbon permits and concessions, we believe that possible additional requirements under the security zone legislation will not have a significant impact on our operations.

Natural Gas Transportation and Distribution

In June 1992, the Natural Gas Law was passed, providing for the privatization of Gas del Estado and the deregulation of the price of natural gas. To effect the privatization of Gas del Estado, the five main trunk lines of the gas transmission system were divided into two systems principally on a geographical basis (the northern and the southern trunk pipeline systems). This was designed to give both systems access to gas sources and to the main centers of demand in and around Buenos Aires. These systems were transferred into two new transportation companies. The Gas del Estado distribution system was divided into eight regional distribution companies, including two distribution companies serving the greater Buenos Aires area. Shares of each of the transportation and distribution companies were sold to consortiums of private bidders. Likewise, in 1997, a distribution license for the provinces of Chaco, Formosa,

Entre Ríos, Corrientes and Misiones was granted to private bidders.

The regulatory structure for the natural gas industry creates an open-access system, under which gas producers, such as us, will have open access to future available capacity on transmission and distribution systems on a non-discriminatory basis.

Cross-border gas pipelines were built to interconnect Argentina, Chile, Brazil and Uruguay, and producers such as us are currently exporting natural gas to the Chilean and Brazilian markets, to the extent permitted by the Argentine government. During the last several years the Argentine authorities have adopted a number of measures restricting exports of natural gas from Argentina, including issuing domestic supply instruction pursuant to Resolutions Nos. 659 and 752 (which require exporters to supply natural gas to the Argentine domestic market), issuing express instructions to suspend exports, suspending processing of natural gas and adopting restrictions on natural gas exports imposed through transportation companies and/or emergency committees created to address crisis situations. See “ Market Regulation Natural gas export restrictions and domestic supply preferences.”

Transportation of Liquid Hydrocarbons

The Hydrocarbons Law permits the executive branch of the Argentine government to award 35-year concessions for the transportation of oil, gas and petroleum products following submission of competitive bids. Pursuant to Law No. 26,197, the relevant provincial governments have the same powers. Holders of production concessions are entitled to receive a transportation concession for the oil, gas and petroleum products that they produce. The term of a transportation concession may be extended for an additional ten-year term upon application to the executive branch. The holder of a transportation concession has the right to:

- transport oil, gas and petroleum products; and
- construct and operate oil, gas and products pipelines, storage facilities, pump stations, compressor plants, roads, railways and other facilities and equipment necessary for the efficient operation of a pipeline system.

The holder of a transportation concession is obligated to transport hydrocarbons for third parties on a non-discriminatory basis for a fee. This obligation, however, applies to producers of oil or gas only to the extent that the concession holder has surplus capacity available and is expressly subordinated to the transportation requirements of the holder of the concession. Transportation tariffs are subject to approval by the Secretariat of Energy for oil and petroleum pipelines and by the Argentine natural gas regulatory authority ENARGAS (Ente Nacional Regulador del Gas) for gas pipelines. Upon expiration of a transportation concession, the pipelines and related facilities automatically revert to the Argentine government without payment to the holder. The Privatization Law granted us a 35-year transportation concession with respect to the pipelines operated by Yacimientos Petrolíferos Fiscales S.A. at the time. Gas pipelines and distribution systems sold in connection with the privatization of Gas del Estado are subject to a different regime under the Natural Gas Law.

Additionally, pursuant to Law No. 26,197, all transportation concessions located entirely within a province’s jurisdiction and not directly connected to any export pipeline are to be transferred to such province. The executive branch retains the power to regulate and enforce all transportation concessions located within two or more provinces and all transportation concessions directly connected to export pipelines.

Refining

Crude oil refining activities conducted by oil producers or others are subject to the prior registration of oil companies in the registry maintained by the Secretariat of Energy and compliance with safety and environmental regulations, as well as to provincial environmental legislation and municipal health and safety inspections. In January 2008, the Secretariat of Domestic Commerce issued Resolution No. 14/2008, whereby the refining companies were instructed to optimize their production in order to obtain maximum volumes according to their capacity.

Market Regulation

Overview

Under the Hydrocarbons Law and the Oil Deregulation Decrees, holders of production concessions, such as us, have the right to produce and own the oil and gas they extract and are allowed to dispose of such production in the domestic or export markets, in each case subject to the conditions described below.

The Hydrocarbons Law authorizes the executive branch of the Argentine government to regulate the Argentine oil and gas markets and prohibits the export of crude oil during any period in which the executive branch finds

domestic production to be insufficient to satisfy domestic demand. If the executive branch restricts the export of crude oil and petroleum products or the free disposition of natural gas, the Oil Deregulation Decrees provide that producers, refiners and exporters shall receive a price:

- in the case of crude oil and petroleum products, not lower than that of imported crude oil and petroleum products of similar quality; and
- in the case of natural gas, not less than 35% of the international price per cubic meter of Arabian light oil, 34° API.

Furthermore, the Oil Deregulation Decrees expressly required the executive branch to give twelve months' notice of any future export restrictions. Notwithstanding the above provisions, certain subsequently-enacted Resolutions (Resolution S.E. 1679/04, Resolution S.E. 532/04 and Resolution of the Ministry of Economy and Production 394/07) have modified the aforementioned price mechanism, resulting, in certain cases, in prices to producers below the levels described above.

Refined products

In April 2002, the Argentine government and the main oil companies, including us, reached an agreement on a subsidy provided by the Argentine government to public bus transportation companies. The Agreement on Stability of Supply of Diesel Fuel (Convenio de Estabilidad de Suministro de Gas Oil) was approved by Executive Decree No. 652/02 and assured the transportation companies their necessary supply of diesel fuel at a fixed price of Ps.0.75 per liter from April 22, 2002 to July 31, 2002. Additionally, it established that the oil companies are to be compensated for the difference between the fixed price and the market price through export duty credits. This agreement was extended through August 31, 2002. Through new price-stabilization agreements, the subsidy was extended through June 30, 2005 and the fixed price was increased up to Ps.0.82 per liter. After June 25, 2005, the price paid by transporters was reduced to Ps.0.42 for local public transportation and to Ps.0.62 for the rest of public transportation. On November 11, 2007, the price paid by transporters was increased to Ps.0.45 per liter, and on January 11, 2008, it was increased to Ps.0.50 per liter, the price for the rest of public transportation remaining at Ps.0.62. In March 2008, Executive Decree No. 449/2008 empowered the Chief of Cabinet to sign annual agreements extending the diesel fuel subsidy to transportation companies for the fiscal year 2008 and instructed such official to incorporate the necessary modifications in order to extend the possibility to compensate with export duty credits on all hydrocarbon products currently exported and in defect thereof, in cash. As of the date of this annual report, such annual agreement for the fiscal year 2008 is under negotiation.

The Secretariat of Energy has issued a series of resolutions affecting the fuel market. For example, Resolution S.E. No. 1,102/04 created the Registry of Liquid Fuels Supply Points, Self Consumption, Storage, Distributors and Bulk Sellers of Fuels and Hydrocarbons, and of Compressed Natural Gas; Resolution S.E. No. 1,104/04 created a bulk sales price information module as an integral part of the federal fuel information system, as well as a mechanism for communication of volumes sold by fuel manufacturers and by sellers; Resolution S.E. No. 1,834/05 compels service stations and/or supply point operators and/or self consumption of liquid fuels and hydrocarbons who have requested supply, and have not been supplied, to communicate such situation to the Secretariat of Energy; and Resolution S.E. No. 1,879/05 established that refining companies registered by the Secretariat of Energy, who are parties to contracts that create any degree of exclusivity between the refining company and the fuel seller, shall assure continuous, reliable, regular and non-discriminatory supply to its counterparties, giving the right to the seller to obtain the product from a different source, and thereupon, charging any applicable overcosts to the refining company.

Disposition S.S.C. No. 157/06 of the Undersecretariat of Fuels provides that fuel sellers who are parties to contracts that create any degree of exclusivity between the refining company and the fuel seller, and which for any reason are

seeking to terminate such contract, shall report the termination in advance with the Undersecretariat of Fuels in order to inform the Secretary of Domestic Commerce of the situation. In that case, the Secretary of Domestic Commerce is to: (i) issue a statement regarding the validity of the termination of the contract and (ii) use all necessary means to allow the fuel seller terminating the contract to execute another agreement with a refining company and/or fuel broker in order to guarantee its fuel supply.

Resolution S.E. No. 1,679/04 reinstated the registry of diesel fuel and crude oil export transactions created by Executive Decree No. 645/2002, and mandated that producers, sellers, refining companies and any other market agent that wishes to export diesel fuel or crude oil to register such transaction and to demonstrate that domestic demand has been satisfied and that they have offered the product to be exported to the domestic market. In addition,

Resolution S.E. No. 1338/06 added other petroleum products to the registration regime created by Executive Decree No. 645/2002, including gasoline, fuel oil and its derivatives, aviation fuel, coke coal, asphalts, certain petrochemicals and certain lubricants. Resolution No. 715/2007 of the Secretariat of Energy empowered the National Refining and Marketing Director to determine the amounts of diesel fuel to be imported by each company, in specific periods of the year, to compensate exports of products included under the regime of Resolution No. 1679/04; the fulfillment of this obligation to import diesel fuel is necessary to obtain authorization to export the products included under Decree No. 645/2002 (crude, fuel oil, diesel fuel, coke coal and gasoline, among others). In addition, Resolution No. 25/06 of the Secretariat of Domestic Commerce, issued within the framework of Law No. 20, 680, imposes on each Argentine refining company the obligation to supply all reasonable diesel fuel demand, by supplying certain minimum volumes (established pursuant to the resolution) to their usual customers, mainly service station operators and distributors.

Resolution SE No. 459/07, of July 12, 2007, created the “Energy Substitution Program,” which is intended to mitigate gas and electricity shortages. This program encourages industrial users to substitute natural gas and electricity use with diesel, fuel oil and LPG. The Argentine government allocated approximately U.S.\$310 million in 2007 in subsidies to fund the gap between the price of natural gas and electricity on the one hand, and the price of the substitute fuel on the other hand.

Resolution SE No. 121/2008 extended until December 31, 2008 the Energy Substitution Program and Rule No. 30/2008, issued by the Sub-secretary of Coordination and Control on April 1, 2008, approved the following general plans for implementation of the Energy Substitution Program:

1) General Plan for the Supply of Gaseous Fuels, including:

(i) a plan for the supply of regasified liquefied natural gas (LNG), which provides for the construction, maintenance, management and administration of a system for the regasification of LNG and the supply of natural gas to the Argentine market, and empowers ENARSA, directly or through third parties, to take all necessary actions, including the purchase of the LNG, for such purpose; and

(ii) a plan for the supply of propane, which provides for the management of a system to acquire and deliver propane to be injected into the natural gas distribution network of the province of Buenos Aires, and empowers ENARSA, directly or through third parties, to take all necessary actions, including the purchase of propane, for such purpose.

2) General Plan for the Supply Liquid Fuels, including:

(i) a plan designed to guarantee that demand for liquid fuel in the Argentine market is met. For such purpose, ENARSA, directly or through third parties, is empowered to buy and sell liquid fuels.

(ii) a plan to encourage and subsidize replacement of natural gas and/or electric power consumption with the use of alternative fuels in productive activities. ENARSA, directly or through third parties, is empowered to manage the mechanisms for the supply of liquid fuels to replace the natural gas.

Natural gas

In January 2004, Executive Decree No. 180/04 (i) created the Mercado Electrónico del Gas (MEG) for the trade of daily spot sales of gas and a secondary market of transportation and distribution services and (ii) established information duties for buyers and sellers of natural gas in relation to their respective commercial operations, required as a condition to be authorized to inject into and transport through the transportation system any volume of natural gas (further regulated by Resolution No. 1,146/04 issued on November 9, 2004 and Resolution No. 882/05 issued by the Secretariat of Energy). According to Executive Decree No. 180/04, all daily spot sales of natural gas must be traded

within the MEG.

In January 2004, Executive Decree No. 181/04 authorized the Secretariat of Energy to negotiate with natural gas producers a pricing mechanism for natural gas supplied to industries and electric generation companies. On April 2, 2004, the Secretariat of Energy and gas producers signed an agreement which was ratified by Resolution

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No. 208/04 issued by the Ministry of Federal Planning, Public Investment and Services. The aim of the agreement was to implement a scheme for the normalization of natural gas prices following the 2001 crisis. The main aspects of the agreement were: (i) initial price adjustments applied exclusively to gas supplied by producers to industrial users, new direct consumers and electricity generators (to the extent that electricity was destined for the domestic market); (ii) prices were adjusted as of May 10, 2004; and (iii) the Secretariat of Energy would implement a progressive scheme for the normalization of the price of natural gas destined to residential end-users and small commercial users, which was never implemented. This agreement expired on December 31, 2006.

On June 14, 2007, Resolution No. 599/07 of the Secretariat of Energy approved a proposal of agreement with natural gas producers regarding the supply of natural gas to the domestic market during the period 2007 through 2011 (the “Propuesta de Acuerdo,” or “Agreement 2007-2011”), giving such producers a five-business-day term to enter into the Agreement 2007-2011. If within that term, the Agreement 2007-2011 was not executed by a sufficient number of producers to make it viable, the Secretariat of Energy would disregard the Agreement and enact the Procedures for Complementary Supply of the Internal Market 2007-2011 (Procedimientos de Abastecimiento Complementario al Mercado Interno 2007-2011) (not described in Resolution No. 599/07). We executed the agreement taking into account that natural gas exports and certain domestic sales of producers that do not enter into the Agreement 2007-2011 are to be called upon first in order to satisfy domestic demand, before the export sales of the producers that have signed the Agreement 2007-2011 are affected. While producers are authorized to withdraw from the Agreement 2007-2011 under its terms, if they do so such producers will be treated as any producer that has not entered into the Agreement 2007-2011 in the first place.

The purpose of the Agreement 2007-2011 is to guarantee the supply of the domestic market demand at the levels registered in 2006, plus the growth in demand by residential and small commercial customers (the “agreed demand levels”). Producers that have entered into the Agreement 2007-2011 would commit to supply a part of the agreed demand levels according to certain shares determined for each producer based upon its share of production for the 36 months prior to April 2004. For this period, our share of production was approximately 36.5%, or 36.8 mmcm/d (or 1,300 mmcf/d), which in 2007 represented approximately 72% of our production and was sold at an average price of U.S.\$1.52 per mmBtu (or approximately U.S.\$55 per cubic meter). The Agreement 2007-2011 also provides guidelines for the terms of supply agreements for each market segment, and certain pricing limitations for each market segment of the agreed demand levels. In order to guarantee any domestic market demand of natural gas in excess of the agreed demand levels, Resolution S.E. No. 599/07 maintains the effectiveness of the Resolutions that implemented the curtailment of natural gas export commitments and the re-routing of such natural gas volumes to certain sectors of the domestic market. See “ Natural gas export restrictions and domestic supply priorities.” The Resolution also states that the Agreement 2007-2011 does not prevent the possible suspension or termination of export permits.

We were compelled to execute the Agreement 2007-2011, among other reasons, in order to mitigate our potential damages. Producers failing to sign the Agreement 2007-2011 could be penalized and subject to other unfavorable measures by regulatory authorities. However, we expressly stated that the execution of the Agreement 2007-2011 did not entail any recognition by us of the validity of the terms and conditions of the various Resolutions of the Secretariat of Energy establishing programs for the curtailment or re-routing of exports to satisfy domestic demand. We challenged Resolution No. 599/07 and stated that we signed the Agreement 2007-2011 taking into account the potential consequences of not doing so. While the challenge is pending, we are complying with the terms of the Agreement.

The Argentine Secretariat of Energy, by its Resolution S.E. No. 459/07 of July 12, 2007, created the “Energy Substitution Program,” which was designed to mitigate shortages of gas and electricity during the Argentine winter of 2007. The program encouraged industrial users to substitute natural gas and electricity use with diesel, fuel oil and LPG. In connection with the program, the Argentine government allocated approximately U.S.\$310 million to compensate for the higher cost of the substitute fuels.

The Argentine Secretariat created, by its Resolution No. 24/2008 issued on March 13, 2008, a program named “GAS PLUS” to encourage natural gas production resulting from new reserves discoveries, new fields and tight gas, among other factors. The natural gas produced under the GAS PLUS program will not be subject to Agreement 2007-2011 and will not be subject to the price conditions established under such Agreement.

Natural gas export restrictions and domestic supply priorities

In March 2004, the Secretariat of Energy issued Resolution S.E. No. 265/04 adopting measures intended to ensure the adequate supply of natural gas to the domestic market and regulate its consequences on electricity wholesale prices. Among the measures adopted were:

- the suspension of all exports of surpluses of natural gas;
- the suspension of automatic approvals of requests to export natural gas;
- the suspension of all applications for new authorizations to export natural gas filed or to be filed before the Secretariat of Energy; and
- authorizing the Undersecretariat of Fuels to create a rationalization plan of gas exports and transportation capacity.

In March 2004, the Undersecretariat of Fuels, pursuant to the authority given to it under Resolution S.E. No. 265/04, issued Regulation S.S.C. No. 27/04 establishing a rationalization plan of gas exports and transportation capacity. Among other things, Regulation No. 27/04 established a limit on natural gas export authorizations, which, absent an express authorization by the Undersecretariat of Fuels, may not be executed for volumes exceeding exports registered during 2003.

In June 2004, the Secretariat of Energy issued Resolution S.E. No. 659/04, which established a new program to assure natural gas supply to the domestic market (which substitutes for the program created by Regulation No. S.S.C. 27/04). Under Resolution S.E. No. 659/04 (amended by Resolution S.E. No. 1,681/04), natural gas exports may be restricted due to shortages of natural gas in the domestic market, because exporting producers may be required to supply additional volumes of natural gas to the domestic market beyond those that they are contractually committed to supply. The export of natural gas under current export permits is conditioned on the fulfillment of additional supply requirements imposed on exporting producers by governmental authorities.

This program was further amended and supplemented by Resolution S.E. No. 752/05 issued by the Secretariat of Energy in May 2005, which further reduced the ability of producers to export natural gas, and created a mechanism under which the Secretariat of Energy may require exporting producers to supply additional volumes to domestic consumers during a seasonal period (Permanent Additional Supply), which volumes of natural gas are also not committed by the exporting producers. Based on the provisions of Rule No. 27/04, Resolution S.E. No. 659/04 and Resolution S.E. No. 752/05, the Secretariat of Energy and/or the Undersecretariat of Fuels have instructed us to re-direct natural gas export volumes to the internal market, thereby affecting natural gas export commitments. We have challenged the validity of the aforementioned regulations and resolutions, and has invoked the occurrence of a force majeure event under the corresponding natural gas export purchase and sale agreements. The counterparties to such agreements have rejected our position. See "Item 8. Financial Information Legal Proceedings."

Resolution S.E. No. 752/05 also establishes (i) a special market, open and anonymous, for compressed natural gas stations to purchase natural gas under regulated commercial conditions, with the demand being ensured by the Secretariat of Energy through Permanent Additional Supply required of exporting producers, and (ii) a mechanism of standardized irrevocable offers for electric power generators and industrial and commercial consumers to obtain supply of natural gas, with the demand being ensured by the Secretariat of Energy through the issuance of the Permanent Additional Supply mentioned above.

Pursuant to the standardized irrevocable offers procedure mentioned above, which operates at the MEG, any direct consumer may bid for a term gas purchase at the export average gas price net of withholdings by basin. The volume necessary to satisfy the standardized irrevocable offers which have not been satisfied will be required as a Permanent Additional Supply only until the end of the seasonal period during which the unsatisfied requests should be made (October–April or May–September). Such Additional Supply will be requested from the producers that export gas and that inject the natural gas from the basins that are able to supply those unsatisfied irrevocable offers. Resolution of the Secretariat of Energy S.E. No. 1886/2006, published on January 4, 2007, extended the term of

effectiveness of this mechanism of standardized irrevocable offers until 2016, and empowered the Undersecretariat of Fuels to suspend its effectiveness subject to the satisfaction of internal demand of natural gas achieved by means of regulations, agreements or due to the discovery of reserves.

By means of Resolution S.E. No. 1329/06, later supplemented by Note SSC No. 1011/07, the Secretariat of Energy forced producers to give first priority in their injections of natural gas into the gas pipelines to certain preferential consumers and obligates transportation companies to guarantee these priorities through the allocation of transportation capacity. In general, these regulations subordinate all exports of natural gas to the prior delivery of natural gas volumes that are sufficient to satisfy domestic market demand.

Also, beginning during the severe Argentine winter in 2007 and continuing thereafter, we and most of gas producers as well as the transportation companies received instructions from the government to cut off all exports to zero, except for certain volumes addressed to satisfy Chilean residential consumptions and other specific consumptions.

Liquefied petroleum gas

Law No. 26,020 enacted on March 9, 2005 sets forth the regulatory framework for the industry and commercialization of LPG. This law regulates the activities of production, bottling, transportation, storage, distribution, and commercialization of LPG in Argentina and declares such activities to be of public interest. Among other things, the law:

- creates the registry of LPG bottlers, obliging LPG bottlers to register the bottles of their property;
 - protects the trademarks of LPG bottlers;
- creates a reference price system, pursuant to which, the Secretariat of Energy shall periodically publish reference prices for LPG sold in bottles of 45 kilograms or less;
- required the Secretariat of Energy to comply with the following tasks: (i) create LPG transfer mechanisms, in order to guarantee access to the product to all the agents of the supply chain; (ii) establish mechanisms for the stabilization of LPG prices charged to local LPG bottlers; and (iii) together with the Antitrust Agency, make an analysis of the composition of the LPG market and its behavior, in order to establish limitations on the concentration of the market in each phase, or limitations to the vertical integration throughout the chain of the LPG industry. Such limitations must include affiliates, subsidiaries and controlled companies; and
 - grants open access to LPG storage facilities.

The Secretariat of Energy established, through several subsequent resolutions, reference prices applicable to sales of LPG bottles of less than 45 kilograms, and to sales of bulk LPG exclusively to LPG bottlers. Also, the Secretariat of Energy approved the method for calculating the LPG export parity to be updated monthly by the Undersecretariat of Fuels. The Secretariat of Energy in 2007 increased the LPG volumes to be sold to bottlers at the reference prices set forth in the above-mentioned resolutions.

Rule 168/04 requires companies intending to export LPG to first obtain an authorization from the Secretariat of Energy. Companies seeking to export LPG must first demonstrate that the local demand is satisfied or that an offer to sell LPG to local demand has been made and rejected.

Argentine Environmental Regulations

The enactment of Articles 41 and 43 in the National Constitution, as amended in 1994, as well as new federal, provincial and municipal legislation, has strengthened the legal framework dealing with damage to the environment. Legislative and government agencies have become more vigilant in enforcing the laws and regulations regarding the environment, increasing sanctions for environmental violations.

Under the amended Articles 41 and 43 of the National Constitution, all Argentine inhabitants have both the right to an undamaged environment and a duty to protect it. The primary obligation of any person held liable for environmental damage is to rectify such damage according to and within the scope of applicable law. The federal government sets forth the minimum standards for the protection of the environment and the provinces and municipalities establish specific standards and implementing regulations.

Federal, provincial and municipal laws and regulations relating to environmental quality in Argentina affect our operations. These laws and regulations set standards for certain aspects of environmental quality, provide for penalties and other liabilities for the violation of such standards, and establish remedial obligations in certain circumstances.

In general, we are subject to the requirements of the following federal environmental regulations (including the regulations issued thereunder):

- National Constitution (Articles 41 and 43);
- Law No. 25,675 on National Environmental Policy;
- Law No. 25,612 on Integrated Management of Industrial and Service Industry Waste;
 - Law No. 24,051 on Hazardous Waste;
 - Law No. 20,284 on Clean Air;
- Law No. 25,688 on Environmental Management of Waters;
- Law No. 25,670 on the Management and Elimination of Polychlorinated Biphenyls;
 - Criminal Code; and
- Civil Code, which sets forth the general rules of tort law.

These laws address environmental issues, including limits on the discharge of waste associated with oil and gas operations, investigation and cleanup of hazardous substances, workplace safety and health, natural resource damages claims and toxic tort liabilities. Furthermore, these laws typically require compliance with associated regulations and permits and provide for the imposition of penalties in case of non-compliance.

In addition, we are subject to various other provincial and municipal regulations, including those relating to gas venting, oil spills and well abandonment, among other matters.

By Resolution No. 404/94, the Secretariat of Energy amended Resolution No. 419/93, and created the Registry of Independent Professionals and Safety Auditing Companies (Registro de Profesionales Independientes y Empresas Auditoras de Seguridad), which may act with respect to areas of hydrocarbons storage, oil refineries, gas stations, fuel commercialization plants and plants for fractionation of LPG in containers or cylinders. The Resolution provides that external audits of oil refineries, gas stations and all fuel storage plants must be carried out by professionals registered in the Registry. Domestic fuel manufacturing companies and companies that sell fuels are prohibited from supplying these products to any station failing to comply with its obligations. Penalties for failure to perform the audits and remedial or safety tasks include the disqualification of plants or gas stations. In addition, a set of obligations is established in relation to underground fuel storage systems, including a mechanism for instant notification in cases of loss or suspicion of loss from the storage facilities.

On July 19, 2001, the Secretariat of Environmental Policy of the province of Buenos Aires issued Resolution No. 1037/01 ordering us to clean up certain areas adjacent to the La Plata refinery. The resolution was appealed through an administrative procedure which has not yet been resolved. Nevertheless, we have commenced certain works in order to identify potential technical solutions for the treatment of the historical contamination, while reserving that the remediation must be made by the parties responsible for the environmental damage. Under current

law, the Argentine government has the obligation to indemnify us against any liability and hold us harmless for events and claims arising prior to January 1, 1991, according to Law No. 22,145.

During 2005, the Secretariat of Energy, by means of Resolution No. 785/05, created the National Program of Hydrocarbons Warehousing Aerial Tank Loss Control, a measure aimed at reducing and correcting environmental pollution caused by hydrocarbons warehousing-aerial tanks. We have commenced the development and implementation of a technical and environmental audit plan as required by this Resolution.

The above description of the material Argentine environmental regulations is only a summary and does not purport to be a comprehensive description of the Argentine environmental regulatory framework. The summary is based upon Argentine regulations related to environmental issues as in effect on the date of this annual report, and such regulations are subject to change.

U.S. Environmental Regulations

In addition, federal, state and local laws and regulations relating to health, safety and environmental quality in the United States, where YPF Holdings Inc. (“YPF Holdings”) operates, affect the operations of this subsidiary. YPF Holdings’ U.S. operations, conducted primarily through Maxus Energy Corporation (“Maxus”), are subject to the requirements of the following U.S. environmental laws:

- Safe Drinking Water Act;
- Clean Water Act;
- Oil Pollution Act;
- Clean Air Act;
- Resource Conservation and Recovery Act;
- National Environmental Policy Act;
- Occupational Safety and Health Act;
- Comprehensive Environmental Response, Compensation and Liability Act; and
- various other federal, state and local laws.

These laws and regulations set various standards for many aspects of health, safety and environmental quality (including limits on discharges associated with oil and gas operations), provide for fines and criminal penalties and other consequences (including limits on operations and loss of applicable permits) for the violation of such standards, establish procedures affecting siting of facilities and other operations, and in certain circumstances impose obligations concerning reporting, investigation and remediation, as well as liability for natural resource damages and toxic tort claims.

Taxation

Holders of exploration permits and production concessions are subject to federal, provincial and municipal taxes and regular customs duties on imports. The Hydrocarbons Law grants such holders a legal guarantee against new taxes

and certain tax increases at the provincial and municipal levels.

Pursuant to Sections 57 and 58 of the Federal Hydrocarbons Law, holders of exploration permits and production concessions must pay an annual surface fee that is based on acreage of each block and which varies depending on the phase of the operation, i.e., exploration or production, and in the case of the former, depending on the relevant period of the exploration permit. On October 17, 2007, the Official Gazette published Executive Decree No. 1,454/07, which significantly increased the amount of exploration and production surface fees expressed in

Argentine pesos that are payable to the different jurisdictions where the hydrocarbon fields are located. See “—Exploration and Production.”

In addition, “net profit” (as defined in the Hydrocarbons Law) of holders of permits or concessions accruing from activity as such holders might be subject to the application of a special 55% income tax. This tax has never been applied. Each permit or concession granted to an entity other than us has provided that the holder thereof is subject instead to the general Argentine tax regime, and a decree of the executive branch of the Argentine government provides that we are also subject to the general Argentine tax regime.

Following the introduction of market prices for downstream petroleum products in connection with the deregulation of the petroleum industry, Law No. 23,966 established a volume-based tax on transfers of certain types of fuel, replacing the prior regime, which was based on the regulated price. Law No. 25,745, modified, effective as of August 2003, the mechanism for calculating the tax, replacing the old fixed value per liter according to the type of fuel for a percentage to apply to the sales price, maintaining the old fixed value as the minimum tax.

Dividends distributed by us to our shareholders, regardless of their country of residence, are exempt from income tax in Argentina. However, dividends distributed in excess of the accumulated earnings, determined according to the provisions of the Argentine Income Tax Law by the end of the fiscal year prior to the year when the dividends are distributed, shall be subject to a 35% tax on such excess. The tax must be withheld by the distributing company.

Holding of our shares by individuals resident in Argentina or abroad and corporations, any type of legal entity, enterprise, permanent establishment, estate or resident abroad shall be subject to personal assets tax on the holdings by December 31st every year. The tax basis shall be the percentage net equity of each shareholder, and the tax rate is 0.5%. We shall act as a substitute obligor and pay the tax. It shall be entitled to recover the amount paid even withholding and/or foreclosing the assets that generated the tax liability.

Export taxes

In 2002, the Argentine government began to impose customs duties on the export of hydrocarbons. Export tax rates were increased on crude oil 20%, on butane, methane and LPG to 20% and gasoline and diesel fuel to 5%. In May 2004, Resolution No. 337/04 of the Ministry of Economy and Production increased export duties on crude oil to 25%. These export tax rates were increased again in 2004, when the Ministry of Economy and Production issued Resolution No. 532/04, establishing a progressive scheme of export duties for crude oil, with rates ranging from 25% to 45%, depending on the quotation of the WTI reference price at the time of the exportation. In addition, in May 2004, pursuant to Resolution No. 645/04 of the Ministry of Economy and Production, an export duty on natural gas and natural gas liquids was established at a rate of 20%. The export duty on natural gas was increased again in July 2006, when the Ministry of Economy and Production increased the rate to 45% and instructed the Customs General Administration to apply the price fixed by the Framework Agreement between Argentina and Bolivia (approximately U.S.\$6/mmBtu in December 2007) as the base price to which to apply the new tax rate, irrespective of the actual sales price. In addition, on October 10, 2006, the Ministry of Economy and Production imposed prevalent export duties on exports from the Tierra del Fuego province, which were previously exempted from taxes. Moreover, in May 2007 the Ministry of Economy and Production increased to 25% the export duty on butane, propane and LPG. There can be no assurances as to future levels of export taxes.

Resolution No. 394/07 of the Ministry of Economy and Production, effective as of November 16, 2007, increased export duties on Argentine oil exports (as defined by the regulator) on crude oil and other crude derivatives products. The new regime provides that when the international price exceeds the reference price, which is fixed at U.S.\$60.9/barrel, the producer shall be allowed to collect U.S.\$42/barrel, with the remainder being withheld by the Argentine government as an export tax. If the international price of Argentine oil exports (as defined by the regulator)

is under the reference price but over U.S.\$45/barrel, a 45% withholding rate will apply. If such price is under U.S.\$45/barrel, the applicable export tax is to be determined within 90 business days.

Resolution No. 127/2008 of the Ministry of Economy and Production increased export duties applicable to natural gas exports from 45% to 100%, mandating a valuation basis for the calculation of the duty as the highest

price established in any contract of any Argentine importer for the import of gas (including the reference price set by the Framework Agreement between Argentina and Bolivia mentioned above). Resolution No. 127/2008 provides with respect to LPG products (including butane, propane and blends thereof) that if the international price of the relevant LPG product, as notified daily by the Secretariat of Energy, is under the reference price established for such product in the Resolution (U.S.\$338/m³ for propane, U.S.\$393/m³ for butane and U.S.\$363/m³ for blends of the two), the applicable export duty for such product will be 45%. If the international price exceeds the reference price, the producer shall be allowed to collect the maximum amount established by the Resolution for the relevant product (U.S.\$223/m³ for propane, U.S.\$271/m³ for butane and U.S.\$250/m³ for blends of the two), with the remainder being withheld by the Argentine government as an export tax.

In addition, the calculation procedure described above also applies to other petroleum products and lubricants based upon different withholding rates, reference prices and prices allowed to producers. See “—Market Regulation.”

Antitrust Agreement

On June 16, 1999, the Argentine Ministry of Economy and Public Works delivered a letter to Repsol YPF setting forth a series of obligations that Repsol YPF was required to assume after the acquisition of the majority of our share capital.

Repsol YPF met all of the requirements upon execution of the asset swap agreement entered into with Petrobras in December 2001.

Repsol YPF believes that the acquisition of YPF will not be subject to further antitrust scrutiny in Argentina under existing law. However, the Ministry has not stated that there will be no further antitrust scrutiny and no assurances can be given that Repsol YPF will not be required to accept additional undertakings or other measures intended to address any perceived anti-competitive effects of the YPF acquisition.

Repatriation of Foreign Currency

Executive Decree No. 1,589/89, relating to the deregulation of the upstream oil industry, allows us and other companies engaged in oil and gas production activities in Argentina to freely sell and dispose of the hydrocarbons they produce. Additionally, under Decree No. 1,589/89, we and other oil producers are entitled to keep out of Argentina up to 70% of foreign currency proceeds they receive from crude oil and gas export sales, but are required to repatriate the remaining 30% through the exchange markets of Argentina.

In July 2002, Argentina’s Attorney General issued an opinion (Dictamen No. 235) which would have effectively required us to liquidate 100% of our export receivables in Argentina, instead of the 30% provided in Decree No. 1,589/89. The Attorney General’s opinion was based on the assumption that Decree No. 1,589/89 had been superseded by other decrees (Decree No. 530/91 and 1,606/01) issued by the government. Subsequent to this opinion, however, the government issued Decree No. 1,912/02 ordering the Central Bank to apply the 70%/30% regime set out in Decree No. 1,589/89. Nevertheless, on December 5, 2002, representatives of the Central Bank of Argentina, responding formally to an inquiry from the Argentine Bankers Association, stated that the Central Bank would apply the Attorney General’s opinion. On December 9, 2002, we filed a declaratory judgment action (*acción declarativa de certeza*) before a federal court requesting the judge to clarify the uncertainty generated by the opinion and statements of the Attorney General and the Central Bank of Argentina, and requesting confirmation of our right to freely dispose of up to 70% of our export receivables. On December 9, 2002, the federal judge issued an injunction ordering the Argentine government, the Central Bank and the Ministry of the Economy to refrain from interfering with our access to and use of 70% of the foreign exchange proceeds from our exports. This decision was appealed by the Central Bank and the Ministry of Economy and Production.

On December 27, 2002, the government issued Decree No. 2,703/02, effective as of January 1, 2003, setting forth a minimum repatriation limit of 30% with respect to proceeds from the export of hydrocarbons and byproducts, with the remaining portion freely disposable. However, when referring to the minimum repatriation limit of 30%, the decree only mentions the foreign exchange proceeds from freely disposable exports of crude oil and its

byproducts. Although the recitals and the first part of Section 1 of Decree No. 2,703/02 mention natural gas and LPG as covered by this regime, there are no express references to natural gas or LPG in the rest of Section 1. However, taking into account the rights granted by Decree No. 1,589/89, we apply this regime to the export of crude oil, LPG and natural gas. It is worth noting that the recitals of Decree No. 2,703/02 restate the interpretation maintained by the Attorney General in the sense that Decree No. 1,589/89 has been repealed by Decree No. 530/91 and No. 1,606/01. This interpretation prompted the filing of the above-mentioned declaratory judgment action. Moreover, since Decree No. 2,703/02 is effective as from January 1, 2003, and, in light of the Attorney General's opinion, it is unclear whether hydrocarbon exporters would be required to repatriate the total amount of their 2002 export proceeds or whether the existing hydrocarbons regulatory framework will prevail, we have expanded the object of the declaratory judgment action before the federal court to request that the judge expressly state that Decree No. 530/91 did not abrogate Decree No. 1,589/89 and, thus, that the right of free disposal of export receivables was effective between the issuance of Decree No. 1,606/01 and Decree 2,703/02. On December 1, 2003, the National Administrative Court of Appeals decided that the issuance of Decree No. 2,703/02, which allows companies in the oil and gas sector to keep abroad up to 70% of the export proceeds, rendered the injunction unnecessary. On December 15, 2003, we filed a motion for clarification asking the court to clarify whether the exemption was available to oil and gas companies during the period between the issuance of Decree No. 1,606/01 and the issuance of Decree 2,703/02. On February 6, 2004, the Court of Appeals dismissed our motion for clarification, indicating that the regulations included in Decree 2,703/02 were sufficiently clear, and confirmed the lifting of the injunction that prohibited the Central Bank and the Ministry of Economy and Production from interfering with our access to foreign exchange proceeds, as described above. On February 19, 2004, we filed an extraordinary appeal before the Supreme Court challenging the December 1, 2003 decision of the Court of Appeals and requesting the restatement of the injunction against the Central Bank and the Ministry of Economy and Production. The Federal Court of Appeals dismissed the extraordinary appeal. Taking into account the fact that there is a new special system in place allowing for the free disposal of up to 70% of the foreign currency proceeds from the exports of crude oil and its derivatives, it was deemed advisable to abandon the suit as a procedural strategy.

On October 12, 2007, we were notified of the initiation of an administrative summary proceeding for alleged late repatriation of foreign currency proceeds, and lack of repatriation of the remaining 70%, in connection with some hydrocarbon export transactions made in 2002. In this administrative summary proceeding, charges were brought against us in the amount of U.S.\$1.6 million, and the tribunal has advised that the conduct of a bank that handled other of our export transactions made in 2002 be investigated, which could give rise to the initiation of further proceedings. Nevertheless, a judicial judgment recently issued by a First Instance Court in Criminal Economic Matters in a similar administrative summary proceeding against a different company for an alleged violation of the criminal exchange law (lack of repatriation of 70% of foreign currency proceeds) regarding export transactions made in 2002 resolved the matter in favor of that company based on legal arguments that were not challenged by the prosecutor. See "Item 8. Financial Information—Legal Proceedings—Argentina."

ITEM 4A. Unresolved Staff Comments.

We do not have any unresolved staff comments.

ITEM 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements as of December 31, 2007, 2006 and 2005 and for the years then ended (the “Audited Consolidated Financial Statements”).

Overview

We are Argentina’s leading energy company, operating a fully integrated oil and gas chain with leading market positions across the domestic upstream and downstream segments. Our upstream operations consist of the exploration, development and production of crude oil, natural gas and liquefied petroleum gas. Our downstream operations include the refining, marketing, transportation and distribution of oil and a wide range of petroleum products, petroleum derivatives, petrochemicals, liquid petroleum gas and bio-fuels. Additionally, we are active in the gas separation and natural gas distribution sectors both directly and through our investments in several affiliated companies. In 2007, we had consolidated net sales of Ps.29,104 million (U.S.\$9,239 million) and consolidated net income of Ps.4,086 million (U.S.\$1,297 million).

Most of our predecessors were state-owned companies with operations dating back to the 1920s. In November 1992, the Argentine government enacted the Privatization Law (Law No. 24,145), which established the procedures for our privatization. In accordance with the Privatization Law, in July 1993, we completed a worldwide offering of 160 million Class D shares that had previously been owned by the Argentine government. As a result of that offering and other transactions, the Argentine government’s ownership interest in our capital stock was reduced from 100% to approximately 20% by the end of 1993.

Since 1999, we have been controlled by Repsol YPF, an integrated oil and gas company headquartered in Spain with global operations. Repsol YPF owned approximately 99% of our capital stock from 2000 until February 21, 2008, when Petersen Energía purchased 58,603,606 of our ADSs, representing 14.9% of our capital stock, from Repsol YPF for U.S.\$2,235 million. In addition, Repsol YPF also granted certain affiliates of Petersen Energía options to purchase up to an additional 10.1% of our outstanding capital stock within four years. See “Item 7. Major Shareholders and Related Party Transactions.” We believe that Petersen Energía’s participation in our capital stock and management will strengthen our Argentine ties and expertise.

Upstream Operations

- We operate more than 70 oil and gas fields in Argentina, accounting for approximately 42% of the country’s total production of crude oil, excluding natural gas liquids, and approximately 42% of its total natural gas production, including natural gas liquids, in 2007, according to the Argentine Secretariat of Energy.
- We had proved reserves, as estimated as of December 31, 2007, of approximately 623 mmbbl of oil and 3,708 bcf of gas, representing aggregate reserves of 1,283 mmboe.
 - In 2007, we produced 120 mmbbl of oil (329 mbbbl/d) and 635 bcf of gas (1,740 mmcf/d).

Downstream Operations

- We are Argentina’s leading refiner with operations conducted at three wholly owned refineries with combined annual refining capacity of approximately 116 mmbbl (319.5 mbbbl/d). We also have a 50% interest in Refinor, a jointly controlled entity operated by Petrobras Energía S.A., which has a refining capacity of 26.1 mbbbl/d.

- Our retail distribution network for automotive petroleum products as of December 31, 2007 consisted of 1,692 YPF-branded service stations, which we believe represented approximately 31.1% of all service stations in Argentina.

- We are a leading petrochemical producer in Argentina and in the Southern Cone of Latin America, with operations conducted through our Ensenada plant. In addition, Profertil, a company that we jointly control, is a leading producer of urea in the Southern Cone.

Presentation of Financial Information

We prepare our audited consolidated financial statements in accordance with Argentine GAAP, which differ in certain significant respects from U.S. GAAP. Notes 13, 14 and 15 to the Audited Consolidated Financial Statements provide a summary of the effect of these significant differences on net income and shareholders' equity under Argentine GAAP and U.S. GAAP.

We fully consolidate the results of subsidiaries in which we have a sufficient number of voting shares to control corporate decisions and proportionally consolidate the results of companies that we control jointly. The financial information corresponding to Refinor and Profertil, both jointly controlled entities, includes the last financial information approved by those companies, which in each case corresponds to a date and period ending three months prior to the date of our consolidated financial statements; however, such information, if material, is adjusted according to applicable accounting principles to reflect these companies' results as of the date of the issuance of our consolidated financial statements.

Under Argentine GAAP, we currently are not required to record the effects of inflation in our financial statements. However, because Argentina experienced a high rate of inflation in 2002, with the wholesale price index increasing by approximately 118%, we were required by Decree No. 1269/2002 and CNV Resolution No. 415/2002 to remeasure our financial statements in constant pesos in accordance with Argentine GAAP. On March 25, 2003, Decree No. 664/2003 rescinded the requirement that financial statements be prepared in constant currency, effective for financial periods on or after March 1, 2003. According to the Argentine statistics and census agency (Instituto Nacional de Estadísticas y Censos, or "INDEC"), the wholesale price index increased 7.9% in 2004, 10.6% in 2005, 7.1% in 2006 and 14.4% in 2007. As a result, our results of operations and financial position may not be directly comparable from period to period. We cannot assure you that in the future we will not be again required to record the effects of inflation in our financial statements (including those covered by the financial statements included in this annual report) in constant pesos, which may affect the comparability of our results of operations and financial position to those recorded in prior periods. See "—Critical Accounting Policies—U.S. GAAP Reconciliation" for an explanation of how the effect of inflation is treated under U.S. GAAP.

Additionally, certain oil and gas disclosures are included in this annual report under the heading "Supplemental information on oil and gas producing activities (unaudited)."

Segment Reporting

We organize our business into the following four segments: (i) exploration and production, which includes exploration and production activities, natural gas and crude oil purchases, sales of natural gas, and to a lesser extent crude oil, to third parties and intersegment sales of crude oil, natural gas and its byproducts and to a lesser extent electric power generation ("Exploration and Production"); (ii) the production, transport and marketing of crude oil that we sell to third parties and of refined products that we sell to third parties and other segments of our business ("Refining and Marketing"); (iii) the production, transport and marketing of petrochemical products ("Chemical"); and (iv) other activities not falling into the previously described categories ("Corporate and Other"), principally including corporate administration costs and assets, construction activities and environmental remediation activities related to YPF Holdings Inc.

Sales between business segments are made at internal transfer prices established by us, which generally seek to approximate market prices.

Summarized Income Statement

	For the Year Ended December 31,		
	2007	2006	2005
Net sales	29,104	25,635	22,901
Cost of sales	(19,000)	(15,821)	(11,258)
Gross profit	10,104	9,814	11,643
Administrative expenses	(805)	(674)	(552)
Selling expenses	(2,120)	(1,797)	(1,650)
Exploration expenses	(522)	(460)	(280)
Operating income	6,657	6,883	9,161
Income on long-term investments	34	183	39
Other expenses, net	(439)	(204)	(545)
Financial income, net and holding gains	518	454	102
Income from sale of long-term investments	5	11	15
Impairment of other assets	69	(69)	—
Net income before income tax	6,844	7,258	8,772
Income tax	(2,758)	(2,801)	(3,410)
Net income	4,086	4,457	5,362

Factors Affecting Our Operations

Our operations are affected by a number of factors, including:

- the volume of crude oil, oil byproducts and natural gas we produce and sell;
 - domestic price limitations;
 - export restrictions and domestic supply requirements;
 - international prices of crude oil and oil products;
 - our capital expenditures;
 - inflation and cost increases;
 - domestic market demand for hydrocarbon products;
 - operational risks;
 - taxes, including export taxes;
 - capital controls;
 - the Argentine peso/U.S. dollar exchange rate;
- dependence on the infrastructure and logistics network used to deliver our products;

- laws and regulations affecting our operations; and
- interest rates.

Our consolidated operating profits and margins have recently trended downwards. This has principally been the result of: production declines and increased asset depreciation principally due to the increasing maturity of our oil and gas fields; increases in other operating costs, due in part to higher domestic demand and local market supply

obligations (which required us to purchase certain hydrocarbon inputs from third parties); inflation and higher labor costs; and limitations on our ability to offset those increased costs due to, among other things, domestic limitations on the prices at which we sell gas and refined products.

Our operating income in 2007 decreased 3.3% compared with 2006 mainly as a result of: our continuing decline in production, principally as a result of the maturity of our fields; increased export taxes; increased depreciation of fixed assets as a result of increased assets subject to depreciation (principally exploration and production assets that entered into production) and also considering the decline in our proved reserves and increasing domestic fuel demand, which, as a result of regulatory requirements, obliged us to decrease exports and import certain products (such as diesel) in order to satisfy domestic demand at substantially lower prices. Domestic prices for diesel, for example, in January 2008, were approximately U.S.\$250/cubic meter lower, after tax refunds, than international market prices, ensuring a loss on diesel imports that are used to satisfy domestic diesel demand.

Our operating income in 2006 decreased 24.9% compared to 2005 mainly as a result of: our decline in production, which led us to purchase more crude oil from third parties in order to maintain our pace of refining activity; increased depreciation of fixed assets resulting from declines in our proved reserves; the imposition of higher export taxes on most refined products; significant increases in imports of diesel at international market prices in order to satisfy domestic demand at substantially lower prices; and limitations on the prices at which we sell gas and refined products in the domestic market.

Macroeconomic conditions

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth and high variable levels of inflation. Inflation reached its peak in the late 1980s and early 1990s. The annual inflation rate as measured by the consumer price index was approximately 388% in 1988, 4,924% in 1989 and 1,344% in 1990. Due to inflationary pressures prior to the 1990s, the Argentine currency was devalued repeatedly and macroeconomic instability led to broad fluctuations in the real exchange rate of the Argentine currency relative to the U.S. dollar. To address these pressures, past Argentine governments implemented various plans and utilized a number of exchange rate systems.

With the enactment of the Convertibility Law in 1991, inflation declined progressively and the Argentine economy enjoyed seven years of growth. In the fourth quarter of 1998, adverse international financial conditions caused the Argentine economy to enter into a recession and GDP to decrease in real terms by 3.4% in 1999, 0.8% in 2000 and 4.4% in 2001. By the end of 2001, Argentina suffered a profound deterioration in social and economic conditions, accompanied by high political and economic instability. The restrictions on the withdrawal of bank deposits, the imposition of exchange controls, the suspension of the payment of Argentina's public debt and the abrogation of the peso's one-to-one peg to the dollar (with the consequent depreciation of the peso against the dollar) caused a decline in economic activity. Real GDP declined by 10.9% in 2002, annual inflation rose to 41%, the exchange rate continued to be highly volatile, and the unemployment rate rose to more than 20%. The political and economic instability not only curtailed commercial and financial activities in Argentina but also severely restricted the country's access to international financing.

Strong economic growth in the world's developed economies and favorable raw material pricing from 2003 through 2007 paved the way for Argentina's economic recovery. Real GDP grew by 8.7% in 2003, 9.0% in 2004, 9.2% in 2005, 8.5% in 2006 and 8.7%, based on preliminary data, in 2007. Public finances both at national and provincial levels recorded a consolidated primary surplus of approximately 5.5% of GDP in 2004, 4.5% in 2005, 3.5% in 2006 and 3.2%, based on preliminary data, in 2007. Argentina has also maintained a trade surplus, which from 2003 to 2007 averaged approximately 7% of GDP.

The annual wholesale price index, according to the INDEC, increased by 2% in 2003, 7.9% in 2004, 10.6% in 2005, 7.1% in 2006 and 14.4% in 2007. According to a recent report published by the International Monetary Fund, however, most private sector analysts believe that actual inflation is considerably higher than reflected in official data. The government's main strategy to fight increasing inflation has been the establishment of agreed price controls with private companies.

With its economic recovery well under way, in 2005, Argentina successfully completed the restructuring of a substantial portion of its bond indebtedness and cancelled all of its debt with the International Monetary Fund (“IMF”). The country is actively working to renegotiate the remaining portion of its external public debt and to resolve the claims brought before international courts by foreign companies affected during the crisis.

Global macroeconomic conditions have a direct effect on economic conditions in Argentina and, in particular, on Argentine domestic energy consumption trends. Global economic growth remained solid during the first half of 2007, but the downside risks and uncertainty surrounding growth prospects have recently increased. Latin America continued to expand vigorously, driven by strong commodity prices and growing domestic demand. However, there are some signs that the improved fundamentals may erode if certain regulatory policies are not strengthened. Fiscal and external surpluses are forecast to weaken in many countries, and inflation has been rising, exacerbated by rising international food prices, as output has come closer to potential.

According to the IMF, world output is expected to expand by 4.8% in 2008. The global economy is being supported by the expansion in emerging market countries. In particular, the economies of the leading emerging Asian countries, China and India, are expected to grow by approximately 10% and 8.5%, respectively, in 2008. United States growth is projected at 1.9% in 2008, reflecting the continuing housing correction and the negative impact on confidence of the recent financial turmoil. The rate of expansion is expected to slow to 2.1% and 1.7% in the euro area and Japan, respectively. The U.S. dollar has continued to depreciate against the euro and a broad range of other currencies, including those of emerging market countries. The exchange market pressures in emerging economies have generally been reflected in exchange rate appreciation, rapid accumulation of international reserves and strong domestic credit growth.

Worldwide oil prices continued to increase during 2007 and 2008 to date, reaching over U.S.\$110 per barrel (WTI) in April 2008, driven by strong demand, the decrease in the United States’ reserves, the decrease in the value of the U.S. dollar, and social and political conflicts in producing areas.

Within the above-mentioned international and regional context, the economic growth rate of Argentina remained strong during 2007. Preliminary data show that real GDP increased 8.7% compared with 2006, driven by fixed investment and private consumption.

Total exports from Argentina increased by 20% year over year (YoY) to U.S.\$55,933 million in 2007, mainly driven by an increase in exports of agricultural products, while imports increased by 31% in the same period due to higher growth in consumption and investment. The trade surplus decreased by 9.4%, falling from U.S.\$12,306 million in 2006 to U.S.\$11,154 million in 2007.

The unemployment rate continued to fall, consistent with economic growth. The data corresponding to the fourth quarter of 2007 showed that 7.5% of the active population was unemployed, 1.2 percentage points lower than the 8.7% rate in the prior year. Average real wages of the economy increased by 13% (YoY) between December 2006 and December 2007, according to the INDEC’s inflation rate based on the consumer price index (8.5%).

The Central Bank continued its policy of accumulating international reserves and maintaining a competitive exchange rate during 2007. Central Bank reserves were at U.S.\$46 billion at the end of the year, and the peso/dollar buying exchange rate increased to Ps.3.15 per dollar, a 2.9% (YoY) nominal depreciation. The real exchange rate of the Argentine peso against a basket of currencies, measured using the INDEC’S inflation rate based on the consumer price index showed a 10% real depreciation throughout the year.

Government fiscal revenues increased by 33% (YoY) in 2007 and extraordinary revenues of Ps.7,814 million were generated as a result of pension reform, but an even higher rise in public expenditures (46%) led to a reduction in the

national primary fiscal surplus from 3.5% of GDP in 2006 to 3.2% of GDP, based on preliminary data, in 2007. In relation to public debt, two issues are still pending: (i) a portion of the defaulted debt that was not included in the 2005 debt swap (the so-called "Paris Club") has not yet been resolved and (ii) certain government bondholders have not accepted the government's debt restructuring proposal.

The Argentine economy has begun 2008 with favorable prospects in terms of economic growth, but with concerns over inflation, energy supply and the international economic context in the near future. However, we cannot predict the evolution of future macroeconomic events, or the effect that they are likely to have on our business, financial condition and results of operations. See “Item 3. Key Information—Risk Factors—Risks Relating to Argentina.”

Energy consumption in Argentina has increased significantly since 2003, driven in part by price limitations that have kept Argentine energy prices substantially below international prices. Continued growth in demand and a particularly harsh winter in 2007 have recently led to fuel shortages and power outages, prompting the Argentine government to take additional measures to assure domestic supply. At the same time, growth in the production of certain hydrocarbon products has slowed, and in the case of crude oil production has recently declined, due to Argentina’s maturing oil and gas fields. As a result of this increasing demand and actions taken by the Argentine regulatory authorities to prioritize domestic supply, exported volumes of hydrocarbon products, especially natural gas, declined steadily over this period. At the same time, Argentina has increased hydrocarbon imports.

The table below shows Argentina’s total sales, production, exports and imports of crude oil, natural gas, diesel and gasoline products for the periods indicated.

	Year ended December 31,		
	2007	2006	2005
Crude Oil in Argentina			
Production (mmbbl)	234.7	240.7	243.0
Exports (mmbbl)	20.8	32.0	54.6
Imports (mmbbl)	0.3	0.6	1.6
Natural Gas in Argentina			
Sales (mmcm)(1)	38,532.0	36,362.0	34,685.0
Production (mmcm)	51,007.0	51,779.0	51,573.0
Exports (mmcm)	1,245.0	2,487.0	6,600.1
Imports (mmcm)	1,239.5	1,428.5	1,610.5
Diesel in Argentina			
Sales (mcm)(2)	14,754.9	13,903.4	13,074.4
Production (mcm)	12,915.6	12,570.3	11,673.4
Exports (mcm)	46.6	108.8	276.4
Imports (mcm)	847.1	446.9	678.7
Gasoline in Argentina			
Sales (mcm)(2)	5,285.6	4,608.4	4,028.6
Production (mcm)	5,965.2	5,889.3	6,043.1
Exports (mcm)	1,400.9	1,732.0	2,955.2
Imports (mcm)	23.0	33.2	14.1

(1) Includes total domestic market deliveries.

(2) Includes domestic market sales.

Sources: Argentine Secretariat of Energy and Ente Nacional Regulador del Gas (ENARGAS)

Policy and regulatory developments in Argentina

The Argentine oil and gas industry is currently subject to certain governmental policies and regulations that have resulted in: domestic prices that are substantially lower than prevailing international market prices; export restrictions; domestic supply requirements that oblige us from time to time to divert supplies from the export or industrial markets in order to meet domestic consumer demand; and increasingly higher export duties on the

volumes of hydrocarbons allowed to be exported. See “Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government.” These governmental pricing limitations, export controls and tax policies have been implemented in an effort to satisfy increasing domestic market demand at prices below international market prices. As discussed in “Item 3. Key Information—Risk Factors” and elsewhere in this annual report, actions by the Argentine government have had and will continue to have a significant effect on Argentine companies, including us.

Policy and regulatory developments relating to the oil and gas industry in Argentina include, among others:

- Price limitations. In order to support economic growth, the Argentine government has sought to limit increases in hydrocarbons prices through a number of policies and measures. As a result, Argentina’s domestic hydrocarbon prices have not increased at the pace of international and regional prices, as described in “—Differences between Argentine and international prices for hydrocarbon products.”
- Export restrictions. Since 2004, the Argentine government has prioritized domestic demand and adopted policies and regulations restricting the export of certain hydrocarbon products. These restrictions have impacted our export sales as described in “—Declining export volumes.”
- Export duties. Since the economic crisis in 2002, the Argentine government has imposed export taxes on certain hydrocarbon products. These taxes have increased substantially in the following years as international prices have surged. For a description of the most recent export duties on hydrocarbon exports, see “—International oil and gas prices and Argentine export taxes.”
- Domestic supply requirements. The Argentine government has at times issued regulatory orders requiring producers to inject natural gas in excess of contractual commitments and supply other hydrocarbon products to the domestic market. As a result, we have had to limit our exports. In addition, we have imported diesel in order to satisfy domestic demand, which has increased our operating costs, as described in “—Increasing cost of sales.”
- Energy Substitution Program. The Argentine Secretariat of Energy, by Resolution SE No. 459/07 of July 12, 2007, created the “Energy Substitution Program” (Programa de Energía Total), which is designed to mitigate shortages of natural gas and electricity by encouraging industrial users to substitute natural gas and electricity during the Argentine winter with imported diesel, fuel oil and LPG subsidized by the government. See “Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—Market Regulation—Refined Products.” Under this program, we and other companies import diesel, fuel oil and LPG that we then sell to industrial users in Argentina at the prevailing domestic natural gas prices, with the difference refunded to us by the Argentine government. As a result, this program has the effect of increasing our net sales and volumes sold, but is operating income-neutral since we do not earn any margin on products sold under this program.

Declining export volumes

The exported volumes of many of our hydrocarbon products have declined significantly in recent years, driven mainly by increasing domestic demand and export restrictions, as well as by declines in production. This shift from exports to domestic sales has impacted our results of operations as the prices for hydrocarbons in the domestic market have, due to price limitations, generally not kept pace with international and regional prices.

The table below presents, for the periods indicated, the exported volumes of certain of our principal hydrocarbon products.

Year Ended
December 31,

Product	2007	2006	2005
		(units sold)	
Oil (mcm)	425	874	1,776
Natural gas (mmcm)	1,358	3,090	3,071

Product	Year Ended December 31,		
	2007	2006	2005
	(units sold)		
Diesel (mcm)	133	149	327
Gasoline (mcm)	1,272	1,695	2,385
Fuel oil (mtn)	1,187	903	696
Petrochemicals (mtn)	689	700	749

Due to the decreased export product volumes indicated above and increasing export duties, the portion of our net sales accounted for by exports decreased steadily between 2005 and 2007. Exports accounted for 28.9%, 33.7% and 37.7% of our consolidated net sales in 2007, 2006 and 2005, respectively.

The Argentine government's current policy is not to allow any exports of natural gas other than to the residential sector in certain other countries. In addition, the Argentine government requires companies intending to export crude oil, diesel and LPG to obtain prior authorization from the Secretariat of Energy by demonstrating that local demand for those products has been satisfied. Since 2005, because domestic diesel production has generally not been sufficient to satisfy Argentine consumption needs, exports of diesel have been substantially restricted.

International oil and gas prices and Argentine export taxes

Since the economic crisis in 2002, in order to prioritize domestic demand, the Argentine government has imposed export taxes on certain hydrocarbon products. These taxes have increased substantially in the following years as international prices have surged. For a description of these taxes, see "Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—Taxation." These export taxes have significantly affected the profitability of hydrocarbon exportation. They have also contributed to a shift away from exports and towards domestic sales, as described in "—Declining export volumes," and reduced the export parity prices.

The average export sales price per barrel of oil realized by us from Argentina was U.S.\$51.67 in 2007, U.S.\$53.11 in 2006 and U.S.\$41.31 in 2005. The average export price per barrel of WTI was U.S.\$72.23, U.S.\$66.18 and U.S.\$56.58 in 2007, 2006 and 2005, respectively.

On November 16, 2007, the Ministry of Economy and Production published Resolution 394/07, modifying the duties on exports of crude oil and other crude oil derivative products. The new regime provides that when the WTI international price exceeds the reference price, which is fixed at U.S.\$60.9/barrel, the producer shall be allowed to collect U.S.\$42/barrel, with the remainder being withheld by the Argentine government as an export tax. If the WTI international price is under the reference price but over U.S.\$45/barrel, a 45% withholding rate will apply. If such price is under U.S.\$45/barrel, the applicable export tax is to be determined within a term of 90 business days. The withholding rate determined as indicated above also currently applies to diesel, gasoline and other crude derivative products. In addition, the calculation procedure described above also applies to other petroleum products and lubricants based upon different withholding rates, reference prices and prices allowed to producers. See "Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—Market Regulation."

Resolution 534/06 of the Ministry of Economy and Production increased the tax on natural gas export sales to 45% and required the Customs General Administration to apply this tax rate to the price for natural gas set by the Framework Agreement between Argentina and Bolivia (approximately U.S.\$6/mmBtu in December 2007), irrespective of the actual price of such natural gas export sales. Because we entered into certain long-term natural gas

supply contracts several years ago, our average natural gas export prices are generally substantially lower than the price set by the Framework Agreement between Argentina and Bolivia, although higher than the price at which we purchase gas from ENARSA (approximately U.S. \$1.8/mmBtu in December 2007).

In addition, in the first quarter of 2008, Resolution No. 127/2008 of the Ministry of Economy and Production increased export duties applicable to natural gas exports from 45% to 100%, mandating a valuation basis for the

calculation of the duty as the highest price established in any contract of any Argentine importer for the import of gas, abandoning the previously applicable reference price set by the Framework Agreement between Argentina and Bolivia mentioned above. Resolution No. 127/2008 provides with respect to LPG products (including butane, propane and blends thereof) that if the international price of the relevant LPG product, as notified daily by the Secretariat of Energy, is under the reference price established for such product in the Resolution (U.S.\$338/m³ for propane, U.S.\$393/m³ for butane and U.S.\$363/m³ for blends of the two), the applicable export duty for such product will be 45%. If the international price exceeds the reference price, the producer shall be allowed to collect the maximum amount established by the Resolution for the relevant product (U.S.\$223/m³ for propane, U.S.\$271/m³ for butane and U.S.\$250/m³ for blends of the two), with the remainder being withheld by the Argentine government as an export tax.

Taxes for a number of other hydrocarbon products have also increased in recent months. See “Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—Taxation.”

Certain of these recent export tax increases were not yet in effect in 2007 or were not in effect during the entire year. As a result, the effects of these export taxes are not fully reflected in our financial information included in this annual report. While some parts of these Resolutions have yet to be definitively interpreted, we expect these recent export tax increases to continue to adversely affect our export net sales and margins in future financial periods, especially with respect to any exports of natural gas, diesel, gasoline and petrochemical products. We exported 1,358 mmcm of natural gas, 133 mcm of diesel, 1,273 mcm of gasoline and 689 mtn of petrochemical products in 2007, and our exports accounted for 28.9% of our consolidated net sales in this period.

Differences between Argentine and international prices for hydrocarbon products

In recent years, domestic prices for our products have fallen significantly below international prices as a result of regulatory policies that have resulted in limitations on our ability to increase domestic prices sufficiently to keep pace with international market prices. The following table sets forth the average prices at which we sold our principal products in the domestic market (net of taxes passed through to consumers, such as value added and fuel transfer taxes) for the periods indicated:

	For the Year Ended					
	2007		December 31,		2005	
	Peso	U.S. \$(1)	Peso	U.S. \$(1)	Peso	U.S. \$(1)
Natural gas(2)(3)	171	54	156	51	127	44
Diesel(4)(5)	1,060	337	862	282	839	289
Gasoline products(6)	978	310	887	291	879	302

(1) Amounts translated from Argentine pesos at the average exchange rate for the period.

(2) Per thousand cubic meters.

(3) Reflects the average of residential prices (which are generally lower than prices to other segments) and industrial prices.

(4) Per cubic meter. Does not include sales by Refinor, in which we have a 50% interest and which is proportionally consolidated in our consolidated financial statements.

(5) Our average price for diesel in 2007 was positively affected by sales at import parity prices under the Energy Substitution Program. Such sales accounted for 59 mcm of our total of 8,352 mcm of diesel sold in the domestic

market during this period.

- (6) Per cubic meter. Does not include sales by Refinor, in which we have a 50% interest, and which is proportionally consolidated in our consolidated financial statements. The average price shown for each period is the volume-weighted average price of the various grades of gasoline products sold by us in the domestic market during such period.

The disparity between the prices at which hydrocarbon products are sold in Argentina and the prevailing international prices for such products has been mainly due to limitations on our ability to pass increases in international prices of crude oil and hydrocarbon fuels and adverse exchange rate movements through to domestic

prices or to increase local prices of natural gas (in particular for residential customers), gasoline and diesel. In a framework of increasing international prices, and notwithstanding our leading market position, domestic liquid fuel prices are still well below the level consistent with export/import parity prices.

For example, in January 2008, diesel import prices were approximately U.S.\$700/cubic meter, while the average domestic sales prices were approximately U.S.\$350/cubic meter before government subsidies. In addition, the price at which Bolivia exports natural gas to Argentina (which is purchased by ENARSA) was approximately U.S.\$6/mmBtu in December 2007 (approximately U.S.\$6.98/mmBtu in March 2008), while the price at which we purchase natural gas from ENARSA was approximately U.S.\$1.8/mmBtu and our average sales price for such gas in Argentina was approximately U.S.\$2.29/mmBtu.

In addition, pursuant to Resolution 599/2007 of the Secretariat of Energy dated June 14, 2007 (see “Item 4. Information on the Company—Regulatory Framework and Relationship with the Argentine Government—Market Regulation—Natural gas”), the Argentine government and gas producers, including us, entered into an agreement for the supply of certain volumes of gas to each segment of the domestic market during the period 2007 through 2011. Under this agreement, we have supplied a total volume of 2,674 million cubic meters of gas from August through December 2007 (representing 34% of our total gas volume sales for the same period) to domestic residential and small commercial consumers at a price of approximately Ps.0.50/mmBtu for that period.

Relative maturity of our oil and gas assets

Argentina’s oil and gas fields are mature and, as a result, our reserves and production are declining as reserves are depleted. Because we mainly have concessions for mature oil and gas fields that are undergoing natural production declines, it is difficult to replace our proved reserves from other categories of reserves. In 2007, our estimated proved oil reserves and oil production declined by 8.38% and 4.76%, respectively, over the preceding year, while our estimated proved gas reserves and gas production declined by 7.65% and 2.46%, respectively, over the same period. As a result, in an effort to maintain our high refinery utilization rates and because of regulatory requirements to supply certain hydrocarbon products to the domestic market, we purchased crude oil and natural gas from third parties. In 2007 and 2006, our crude production, substantially all of which was destined to our refineries, represented approximately 83% and 90%, respectively, of the total crude oil processed by our refineries, and in 2007 and 2006, our natural gas production represented approximately 99% and 93%, respectively, of our total natural gas sales. We expect our oil and gas proved reserves and production rates to continue their decline. See “Item 4. Information on the Company—Exploration and Production—Reserves” for more information on our proved reserves.

We are currently developing a plan to increase our recovery factors. This plan, known by its Spanish acronym “PLADA,” includes comprehensive reviews of each field, including its development strategy, to identify opportunities in the light of new technologies. We have also become increasingly active in exploratory offshore drilling projects, as well as onshore fields through extended reach wells to find gas. We have budgeted approximately U.S.\$2 billion in total capital expenditures for 2008, a significant portion of which will be dedicated to our exploration and production activities. While our oil and gas reserves have recently declined, we increased our investment in recovery technology and exploration in 2007 and, based on our current expectations of increased prices, expect to continue to do so in the future, with the goal of improving our recovery factors. Many of our fields have characteristics similar to mature fields in other regions (including the United States) that have achieved substantially higher reserve recovery factors through the application of new technologies similar to those we are currently studying. We cannot assure you, however, that we will be able to improve our recovery factors. In addition, the financial viability of these investments and reserve recovery efforts generally will depend on the prevailing economic and regulatory conditions in Argentina.

Increasing cost of sales

Our cost of sales accounted for 65.3%, 61.7% and 49.2% of our consolidated net sales in 2007, 2006 and 2005, respectively. Our cost of sales increased significantly between 2005 and 2007, mainly as a result of: increased purchases of crude oil from third parties, driven by our efforts to maintain our high refinery utilization rates in light of our declining production; increased purchases of natural gas and diesel from third parties to fulfill our domestic

supply requirements and avoid penalties under certain delivery contracts; higher labor costs; higher costs related to the renegotiation of certain service contracts; and inflation. Due to prevailing Argentine price limitations, we were unable to pass many of these cost increases to our customers in the form of higher hydrocarbon product prices.

Seasonality

Historically, our results have been subject to seasonal fluctuations during the year, particularly as a result of greater natural gas sales during the winter. After the 2002 devaluation and as a consequence of the natural gas price freeze imposed by the Argentine government, the use of this fuel has diversified, generating an increase in its long-term demand throughout the year. However, sales of natural gas are still typically much higher in the winter to the residential sector of the Argentine domestic market, the prices for which are significantly lower than other sectors of the Argentine market.

Critical Accounting Policies

Our accounting policies are described in Notes 1 and 2 to the Audited Consolidated Financial Statements. Argentine GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosures of contingent assets and liabilities in our financial statements. Actual results could differ from those estimates. We consider the following policies to be most critical in understanding the judgments that are involved in preparing our financial statements and the uncertainties that could impact our results of operations, financial condition and cash flows.

Functional currency

We have determined the U.S. dollar as our functional currency in accordance with the Statement of Financial Accounting Standards (“SFAS”) 52. For U.S. GAAP reconciliation purposes, financial statements are re-measured into U.S. dollars and the assets and liabilities are translated into Argentine pesos (“reporting currency”) at the exchange rate prevailing at year end and revenues, expenses, gains and losses are translated at the exchange rate existing at the time of each transaction, or, if appropriate, at a weighted average of the exchange rates during the year.

In determining the functional currency, we make judgments based on the collective economic indicators affecting us. The economic indicators we review include the currency in which cash flows are denominated, how sales prices are determined, the sales markets in which we operate, how our operating costs are derived, how financing is obtained and the level of intra-group transactions with Repsol YPF, our controlling shareholder. A significant change in the facts and circumstances over the long-term relating to the collective economic indicators discussed above would result in our reassessing the functional currency.

The determination of the functional currency to be applied to a business for accounting purposes is a decision that impacts, among other things, the reported results of operations, the exchange income or losses recorded and the translation differences arising from the conversion of its financial statements from the functional currency to the company’s reporting currency.

Oil and gas reserves

The estimation of oil and gas reserves is an integral part of the decision-making process about oil and gas assets, such as whether development should proceed or enhanced recovery methods should be implemented. As further explained below, oil and gas reserve quantities are used for calculating depreciation of the related oil and gas assets using the unit-of-production rates and also for evaluating the impairment of our investments in upstream assets.

At YPF, all the assumptions made and the basis for the technical calculations used in the estimates regarding oil and gas proved reserves are based on the guides and definitions established by Rule 4-10(a) of Regulation S-X promulgated by the SEC.

See “Item 4. Information on the Company—Exploration and Production—Reserves” for a detailed discussion on reserves estimates internal control and audits.

We follow the “successful effort” method of accounting for our oil and gas exploration and production operations. Accordingly, exploratory costs, excluding the costs of exploratory wells, have been charged to expense as incurred. Costs of drilling exploratory wells, including stratigraphic test wells, have been capitalized pending determination as to whether the wells have found proved reserves that justify commercial development. If such reserves were not found, the mentioned costs are charged to expenses. Occasionally, however, an exploratory well may be determined to have found oil and gas reserves, but classification of those reserves as proved cannot be made when drilling is completed. In those cases, the cost of drilling the exploratory well continues to be capitalized if the well has found a sufficient quantity of reserves to justify its completion as a producing well and the enterprise is making sufficient progress assessing the reserves and the economic and operating viability of the project. If any of the mentioned conditions are not met, the cost of drilling exploratory wells is charged to expenses.

Intangible drilling costs applicable to productive wells and to developmental dry holes, as well as tangible equipment costs related to the development of oil and gas reserves, have been capitalized.

The capitalized costs related to producing activities, including tangible and intangible costs, have been depreciated by field on the unit-of-production basis by applying the ratio of produced oil and gas to estimated recoverable proved and developed oil and gas reserves.

The capitalized costs related to acquisitions of properties with proved reserves have been depreciated by field on the unit-of-production basis by applying the ratio of produced oil and gas to proved oil and gas reserves.

Revisions of crude oil and natural gas proved reserves are considered prospectively in calculating depreciation.

Foreign unproved properties have been valued at costs translated as detailed in Note 1 to the Audited Consolidated Financial Statements. Capitalized costs related to unproved properties are reviewed periodically by management to ensure that their carrying value does not exceed their estimated recoverable value.

Impairment of long-lived assets

We assess the recoverability of our held-for-use assets on a business segment basis for Argentine GAAP purposes. With respect to operations that are held as pending sale or disposal, our policy is to record these assets at amounts that do not exceed net realizable value.

For Argentine GAAP, held-for-use properties, grouped by business segment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An asset would be impaired if the discounted cash flows were less than its carrying value.

The impairment of oil and gas producing properties is calculated as the difference between the market value or, if appropriate, the discounted estimated future cash flows from its proved reserves and unproved reserves, adjusted for risks related to such reserves, in each field owned at the year end with the net book value of the assets relating thereto. Expected future cash flows from the sale or production of reserves are calculated considering crude oil prices based on a combination of market forward quotes and standard long-term projections. The discounted values of cash flows are determined using a reasonable and supportable discount rate based on standard WACC-CAPM (weighted average cost of capital—capital asset pricing model) assumptions including, if appropriate, a risk premium related to this type of asset. The estimated cash flows are based on future levels of production, the future commodity prices, lifting and development costs, estimates of future expenditures necessary with respect to undeveloped oil and gas reserves, field decline rates, market demand and supply, economic regulatory conditions and other factors.

The impairment of assets corresponding to our Refining and Marketing and Chemical business segments is calculated as the difference between the discounted estimated future cash flows from the use of those assets and the net book value of the assets related thereto. The discounted values of cash flows are determined using a discount rate we believe to be reasonable and supportable based on standard WACC-CAPM (weighted average cost of capital—capital asset pricing model) assumptions including, if appropriate, a risk premium related to the type of asset. The estimated cash flows are based on future levels of production, the future

estimated prices of our products and costs, other estimates of future expenditures, estimated useful life of the respective asset, market demand and supply, economic regulatory conditions and other factors for each business segment.

Charges for impairment are recognized in our results from time to time as a result of, among other factors, adverse changes in the recoverable reserves from oil and natural gas fields, and changes in economic regulatory conditions. If proved reserves estimates were revised downward, net income could be negatively affected by higher impairment charges on the property's book value.

Therefore, our management must make reasonable and supportable assumptions and estimates with respect to: (i) the market value of reserves, (ii) oil fields' production profiles and future production of refined and chemical products, (iii) future investments, taxes and costs, (iv) risk factors for unproved reserves which are measured based on the profile and potential of each specific exploration and production asset, (v) future capital expenditures and useful life for properties corresponding to our Refining and Marketing and Chemical business segments, and (vi) future prices, among other factors. As such, any change in the variables used to prepare such assumptions and estimates may have a significant effect on the impairment tests relating to investments in areas with oil and gas reserves.

Impact of oil and gas reserves and prices on testing for impairment

Proved oil and gas properties held and used by us are reviewed for impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable. Impairments are measured by the amount by which the carrying value exceeds its fair value.

We perform asset valuation analyses on an ongoing basis as a part of our asset management program. In general, we do not view temporarily low oil prices as a triggering event for conducting the impairment tests. Accordingly, any impairment tests that we perform make use of our long-term price assumptions for the crude oil and natural gas markets and petroleum products.

Depreciation of oil and gas producing properties

Volumes produced and asset costs are known, while proved reserves have a high probability of recoverability and are based on estimates that are subject to some variability. The impact of changes in estimated proved reserves is treated prospectively by depreciating the remaining book value of the assets over the future expected proved production, affecting the following year's net income. In 2007, 2006 and 2005 we recorded depreciation of fixed assets associated with hydrocarbon reserves amounting to Ps. 3,564 million, Ps.3,223 million and Ps.2,180 million, respectively.

Asset retirement obligations

Future costs related to hydrocarbon wells abandonment obligations are capitalized along with the related assets, and are depreciated using the unit-of-production method. As compensation, a liability is recognized for this concept at the same estimated value of the discounted payable amounts. Future estimated retirement obligations and removal costs are based on management's best estimate of the time that the event will occur and the assertion of costs to be incurred upon the retirement or removal of the asset. Asset removal technologies and costs, as well as political, environmental, safety and other requirements and public expectations, are frequently changing. Consequently, the timing and future cost of dismantling and abandonment are subject to significant modification. As such, any change in variables used to prepare such assumptions and estimates can have, as a consequence, a significant effect on the liability and the related capitalized asset and future charges related to the retirement obligations. Future obligations are reviewed at the end of each fiscal year upon consideration of the current costs incurred in abandonment obligations on a field-by-field basis or other external available information if abandonment obligations were not performed. Due to the number of the

wells in operation and/or not abandoned and the complexity with respect to different geographic areas where the wells are located, the current costs incurred in plugging are extrapolated to the wells pending abandonment. Management believes that current plugging costs incurred are the best source of information at the end of each fiscal year to estimate asset retirement obligations.

Environmental liabilities, litigation and other contingencies

Environmental liabilities are recorded when environmental assessments and/or remediation are probable, material and can be reasonably estimated. Such estimates are based on either detailed feasibility studies of remediation approach and cost for individual sites, or on our estimate of costs to be incurred based on historical experience and available information for the stage of assessment and/or remediation of each site. As additional information becomes available regarding each site or as environmental standards change, we revise our estimate of costs to be incurred in environmental assessment and/or remediation.

Reserves are established to cover litigation and other contingencies, including counsel fees and judicial expenses, which are probable and can be reasonably estimated. The final costs arising from litigation and other contingencies may vary from our estimates due to changes in laws or differing interpretations of laws, the issuance of court decisions or other opinions and final assessments on the amount of claims. Changes in the facts or circumstances related to these types of contingencies, as well as the future outcome of these disputes, can have, as a consequence, a significant effect on the reserves for litigation and other contingencies recorded.

Reserves totaling Ps.2,319 million, Ps.1,952 million and Ps.1,561 million as of December 31, 2007, 2006 and 2005, respectively, have been established in connection with contingencies which were probable and could be reasonably estimated as of those dates.

U.S. GAAP reconciliation

The recurrent difference between our net income under Argentine GAAP and our net income under U.S. GAAP for the years ended December 31, 2007, 2006 and 2005 is primarily due to the remeasurement into functional currency and translation into reporting currency, the elimination of the remeasurement into Argentine constant pesos, the effects of the reorganization of entities under common control, the impairment of long-lived assets, capitalization of financial expenses, accounting for assets retirement obligations, proportional consolidation of investments in jointly controlled companies, and the consolidation of variable interest entities.

Under Argentine GAAP, financial statements are presented in constant Argentine pesos (“reporting currency”). Foreign currency transactions are recorded in Argentine pesos by applying to the foreign currency amount the exchange rate between the reporting and the foreign currency at the date of the transaction. Exchange rate differences arising on monetary items in foreign currency are recognized in the income statement of the period.

Under U.S. GAAP, a definition of the functional currency is required which may differ from the reporting currency. Management has determined, for us and certain of our subsidiaries and investees, the U.S. dollar to be the functional currency in accordance with Statement of Financial Accounting Standards No.52 “Foreign Currency Translation” (“SFAS No. 52”). Therefore, we have re-measured into U.S. dollars the Audited Consolidated Financial Statements as of December 31, 2007, 2006 and 2005, in each case prepared in accordance with Argentine GAAP by applying the procedures specified in SFAS No. 52. The objective of the re-measurement process is to produce the same results that would have been reported if the accounting records had been kept in the functional currency. Accordingly, monetary assets and liabilities are re-measured at the balance sheet date (current) exchange rate. Amounts carried at prices in past transactions are re-measured at the exchange rates in effect when the transactions occurred. Revenues and expenses are re-measured on a monthly basis at the average rates of exchange in effect during the period, except for consumption of non-monetary assets, which are re-measured at the rates of exchange in effect when the respective assets were acquired. Translation gains and losses on monetary assets and liabilities arising from the re-measurement are included in the determination of net income (loss) in the period such gains and losses arise. For certain of our subsidiaries and investees, we have determined the Argentine peso as the functional currency. Translation adjustments resulting from the process of translating the financial statements of the mentioned subsidiaries into U.S. dollars are not

included in determining net income and are reported in other comprehensive income, as a component of shareholders' equity.

The amounts obtained from the re-measurement process referred to above are translated into Argentine pesos under the provisions of SFAS No. 52. Assets and liabilities are translated at the current selling exchange rate of Ps.3.15, Ps.3.06 and Ps.3.03 to U.S.\$1, as of December 31, 2007, 2006 and 2005, respectively. Revenues, expenses,

gains and losses reported in the income statement are translated at the exchange rate existing at the time of each transaction or, if appropriate, at the weighted average of the exchange rates during the period. Translation effects of exchange rate changes are included as a cumulative translation adjustment in shareholders' equity. For the years ended December 31, 2007, 2006 and 2005, the re-measurement into functional currency and the translation into reporting currency decreased net income determined according to Argentine GAAP by Ps.1,513 million, Ps.2,065 million and Ps.1,479 million, respectively.

Under Argentine GAAP, we have proportionally consolidated, net of intercompany transactions, assets, liabilities, net revenues, cost and expenses of investees in which joint control is held. Under U.S. GAAP, these investees are accounted for by the equity method. The proportional consolidation mentioned above generated an increase of Ps.486 million, Ps.446 million and Ps.381 million in total assets and total liabilities as of December 31, 2007, 2006 and 2005, respectively, and an increase of Ps.1,350 million, Ps.1,451 million and Ps.1,216 million in net sales and Ps.690 million, Ps.774 million and Ps.681 million in operating income for the years ended December 31, 2007, 2006 and 2005, respectively.

Under Argentine GAAP, in order to perform the recoverability test, long-lived assets are grouped with other assets at business segment level, and they would be impaired if the discounted cash flows, considered at business segment level, were less than its carrying value. With respect to assets that were held pending sale or disposal, our policy was to record these assets on an individual basis at amounts that did not exceed net realizable value.

Under U.S. GAAP, for proved oil and gas properties, we perform the impairment review on an individual field basis. Other long-lived assets are aggregated, so that the individual cash flows produced by each group of assets may be separately analyzed. Each asset is tested following the guidelines of SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets," by comparing the net book value of such an asset with the expected cash flow. Impairment losses are measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. When fair values are not available, we estimate fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the assets. The accumulated adjustments under U.S. GAAP of the impairment provisions as of December 31, 2007, 2006 and 2005 were Ps.554 million, Ps.491 million and Ps.611 million, respectively, mainly corresponding to our Exploration and Production segment. Impairment charges under U.S. GAAP amounted to Ps.111 million, Ps.80 million and Ps.2 million for the years ended December 31, 2007, 2006 and 2005, respectively. In 2007, the impairment recorded was mainly the result of a decrease in oil and gas reserves affecting certain long-lived assets of our Exploration and Production business segment. In 2006, the impairment recorded was mainly the result of the downward revision in reserves made by us in December 2006, as well as to certain non-strategic Exploration and Production areas that were available for sale at that time, and accordingly were valued at fair value less cost to sell. The impairment recorded in 2005 was mainly the result of the downward revision in reserves made by us in December 2005. See "Item 4. Information on the Company—Exploration and Production." The impairment reversal of Ps.69 million for the year ended December 31, 2007 and impairment charge of Ps.69 million for the year ended December 31, 2006 discussed in Note 2(c) to the Audited Consolidated Financial Statements were eliminated for U.S. GAAP purposes.

The adjusted basis after impairment resulted in lower depreciation under U.S. GAAP Ps.132 million, Ps.137 million and Ps.170 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Under U.S. GAAP, only interest expense on qualifying assets must be capitalized, regardless of the asset's construction period. Under Argentine GAAP, for those assets that necessarily take a substantial period of time to get ready for its intended use, borrowing costs (including interest and exchange differences) should be capitalized.

SFAS No. 143, Accounting for Assets Retirement Obligations, requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of fair value can be

made. The asset retirement obligations liability is built up in cash flow layers, with each layer being discounted using the discount rate as of the date that the layer was created. Remeasurement of the entire obligation using current discount rates is not permitted. Each cash flow layer is added to the carrying amount of the associated asset. This additional carrying amount is then depreciated over the life of the asset. The liability is increased due to the passage of time based on the time value of money (“accretion expense”) until the obligation is settled. Argentine

GAAP is similar to SFAS No. 143, except a change in the discount rate is treated as a change in estimates, so the entire liability must be recalculated using the current discount rate, being the change added or reduced from the related asset.

Under U.S. GAAP, results on reorganization of entities under common control are eliminated and related accounts receivables are considered as a capital (dividend) transaction. Under Argentine GAAP, results on reorganization of entities under common control and accounts receivables are recognized in the statement of income and the balance sheet, respectively.

FIN No. 46R, Consolidation of Variable Interest Entities (“FIN 46R”), clarifies the application of Accounting Research Bulletin No. 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The interpretations explain how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. These interpretations require existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Under Argentine GAAP, consolidation is based on the control of corporate decisions through shareholding (Note 1 to the Audited Consolidated Financial Statements).

As of December 31, 2007, we had operations with one variable interest entity (“VIE”), which has been created in order to structure our future deliveries of oil (“FOS”). Additionally, up to September 2005, we had operations with a VIE related to another FOS transaction, which was settled in advance. For a further description refer to “—Transactions with unconsolidated variable interest entities” below.

The effects before taxes of such consolidation as of December 31, 2007, 2006 and 2005 were (i) an increase in loans by Ps.68 million, Ps.186 million and Ps.297 million, respectively, (ii) an increase in current assets by Ps.24 million, Ps.19 million and Ps.18 million, respectively, (iii) the elimination of net advances from crude oil purchasers from balance sheets by Ps.9 million, Ps.103 million and Ps.196 million respectively, and (iv) a decrease in shareholders’ equity by Ps.35 million, Ps.65 million and Ps.83 million, respectively.

YPF Holdings has non-contributory defined-benefit pension plans and postretirement and postemployment benefits. On December 31, 2006, under U.S. GAAP the Company adopted SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132 (R).” Under provisions of SFAS No. 158, the Company fully recognized the underfunded status of defined-benefit pension and postretirement plans as a liability in the financial statements, reducing the Company’s shareholders’ equity through the accumulated OCI account. Unrecognized gains and losses are recognized in the income statement during the expected average remaining working lives of the employees participating in the plans and the life expectancy of retired employees. Under Argentine GAAP, the benefits related to the plans were valued at net present value and accrued based on the years of active service of employees. The net liability for defined-benefits plans is the amount resulting from the sum of: the present value of the obligations, net of the fair value of the plan assets and net of the unrecognized actuarial losses generated since December 31, 2003. These unrecognized actuarial losses and gains are recognized in the statement of income during the expected average remaining working lives of the employees participating in the plans and the life expectancy of retired employees. Unrecognized actuarial losses are not considered in the amount of the net liability. For a more detailed discussion of the most significant differences between Argentine GAAP and U.S. GAAP, please refer to Notes 13, 14 and 15 to the Audited Consolidated Financial Statements.

Principal Income Statement Line Items

The following is a brief description of the principal line items of our income statement.

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Net sales

Net sales include primarily our consolidated sales of unrefined and refined fuel and chemical products net of the payment of applicable fuel transfer taxes, turnover taxes and custom duties on exports. Royalties with respect to our production are accounted for as a cost of production and are not deducted in determining net sales.

Cost of sales

The following table presents, for each of the years indicated, a breakdown of our consolidated cost of sales by category:

	For the Year Ended December 31,		
	2007	2006	2005
	(in millions of pesos)		
Inventories at beginning of year	1,697	1,315	1,134
Purchases for the period	6,637	4,351	2,755
Production costs(1)	12,788	11,458	8,440
Holding gains on inventories	451	394	244
Inventories at end of period	(2,573)	(1,697)	(1,315)
Cost of sales	19,000	15,821	11,258

(1) The table below presents, for each of the years indicated, a breakdown of our consolidated production costs by category:

	For the Year Ended December 31,		
	2007	2006	2005
	(in millions of pesos)		
Salaries and social security taxes	824	649	492
Fees and compensation for services	174	114	63
Other personnel expenses	283	215	158
Taxes, charges and contributions	226	191	158
Royalties and easements	1,989	2,095	1,745
Insurance	106	102	73
Rental of real estate and equipment	331	258	212
Depreciation of fixed assets	3,989	3,598	2,563
Industrial inputs, consumable material and supplies	535	485	564
Operation services and other service contracts	535	566	315
Preservation, repair and maintenance	1,674	1,329	948
Contractual commitments	596	519	131
Transportation, products and charges	790	622	521
Fuel, gas, energy and miscellaneous	736	715	497
Total	12,788	11,458	8,440

Other expenses, net

Other expenses principally include reserves for pending lawsuits and other claims, provisions for environmental remediation and provisions for defined benefit pension plans and other post-retirement benefits.

Finance income/(expense), net and holding gains

Finance income/(expense), net and holding gains consist of the net of gains and losses on interest paid and interest earned, currency exchange differences and the periodic revaluation of inventories.

Taxes

The statutory corporate income tax rate in Argentina was 35% during each of the periods presented in this annual report. Our effective tax rates for the periods discussed in this annual report exceed the Argentine corporate income tax rate mainly due to the non-deductibility of the amortization of the effect of inflation indexation on fixed assets, offset in part by income on non-consolidated long-term investments (which is included in our consolidated financial statements net of corporate income tax as payable by investees) and tax-free income from the sale of hydrocarbons produced in Tierra del Fuego. See Note 3(k) to the Audited Consolidated Financial Statements.

Results of Operations

Consolidated results of operations for the years ended December 31, 2007, 2006 and 2005

The following table sets forth certain financial information as a percentage of net sales for the years indicated.

	Year Ended December 31,		
	2007	2006	2005
	(percentage of net sales)		
Net sales	100.0%	100.0%	100.0%
Cost of sales	(65.3)	(61.7)	(49.2)
Gross profit	34.7	38.3	50.8
Administrative expenses	(2.8)	(2.6)	(2.4)
Selling expenses	(7.3)	(7.0)	(7.2)
Exploration expenses	(1.8)	(1.8)	(1.2)
Operating income	22.9	26.9	40.0

The tables below present, for the years indicated, volume and price data with respect to our consolidated sales of our principal products in the domestic and export markets, respectively. The data presented below does not include sales by Compañía Mega S.A. ("Mega"), Refinor or Profertil, jointly controlled companies in which we have 38%, 50% and 50% interests, respectively, and which are proportionally consolidated in our consolidated financial statements. Mega contributed, after consolidation adjustments, 1.6%, 1.6% and 1.6%, respectively, of our consolidated net sales for 2007, 2006 and 2005. Refinor contributed, after consolidation adjustments, 1.5%, 2.0% and 1.9%, respectively, of our consolidated net sales for 2007, 2006 and 2005. Profertil contributed, after consolidation adjustments, 1.5%, 2.1% and 1.8%, respectively, of our consolidated net sales for 2007, 2006 and 2005.

Domestic Market	Year Ended December 31,					
	2007		2006		2005	
Product	Units sold	Average price per unit(1) (in pesos)	Units sold	Average price per unit(1) (in pesos)	Units sold	Average price per unit(1) (in pesos)
Natural gas	16,771 mmcm	171/mcm	16,686 mmcm	156/mcm	17,609 mmcm	127/mcm
Diesel (2)	8,352 mcm	1,060/m3	7,757 mcm	862/m3	6,959 mcm	839/m3
Gasoline	2,691 mcm	978/m3	2,246 mcm	887/m3	1,854 mcm	879/m3
Fuel oil (3)	910 mtn	961/ton	458 mtn	939/ton	283 mtn	817/ton

Petrochemicals	754 mtn	1,510/ton	606 mtn	1,390/ton	595 mtn	1,187/ton
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(1) Average prices shown are net of applicable domestic fuel transfer taxes payable by consumers.

(2) Includes 59 mcm sold under the Energy Substitution Program in 2007.

(3) Includes 220 mtn sold under the Energy Substitution Program in 2007.

Export Markets Product	2007		Year Ended December 31, 2006		2005	
	Units sold	Average price per unit(1) (in pesos)	Units sold	Average price per unit(1) (in pesos)	Units sold	Average price per unit(1) (in pesos)
Natural gas	1,358 mmcm	354/mcm	3,090 mmcm	280/mcm	3,071 mmcm	196/mcm
Diesel	133 mcm	1,883/m3	149 mcm	1,686/m3	327 mcm	1,321/m3
Gasoline	1,273 mcm	1,746/m3	1,695 mcm	1,481/m3	2,385 mcm	1,220/m3
Fuel oil	1,187 mtn	1,175/ton	903 mtn	967/ton	696 mtn	818/ton
Petrochemicals(2)	689 mtn	2,249/ton	700 mtn	2,010/ton	749 mtn	1,497/ton

(1) Average prices shown are gross of applicable export withholding taxes payable by us, and, as a result, may not be indicative of amounts recorded by us as net sales. See “—Factors Affecting Our Operations—International oil and gas prices and Argentine export taxes” for more information on the export tax withholding rates applicable to our principal products.

(2) Includes exports of refined paraffinic.

Net sales

Net sales in 2007 were Ps.29,104 million, representing a 13.5% increase compared to Ps.25,635 million in 2006. This increase was primarily attributable to greater sales volumes of diesel, gasoline, fuel oil and petrochemicals in the domestic market (which increased 7.7%, 19.8%, 98.7% and 24.4%, respectively), as well as to significant increases in average domestic diesel, gasoline and fuel oil prices (which increased 23.0%, 10.3% and 2.3%, respectively). As a result, our domestic sales increased 21.9% to Ps.20,704 million in 2007 from Ps.16,986 million in 2006. In addition, diesel and fuel oil sold under the Energy Substitution Program also contributed to the increase in sales. Export sales declined by 2.9% to Ps.8,400 million in 2007 from Ps.8,649 million in 2006, driven by declines in the exported volumes of natural gas, gasoline and crude oil (which decreased 56.1%, 24.9% and 51.4%, respectively), partially offset by an increase in international gasoline prices. Our export sales in both periods were made mainly to the United States, Brazil and Chile.

Net sales for 2006 were Ps.25,635 million, representing an 11.9% increase from Ps.22,901 million in 2005. This increase was primarily attributable to the greater volume of domestic sales of diesel (which increased 11.5%) and gasoline products (which increased 21%), slight increases in the average domestic prices of these products, as well as a 16% increase in the average domestic price of natural gas attributable to the significantly increased portion of sales to industrial segments of the Argentine market, which more than offset a 5% decrease in the domestic volume of natural gas sold. As a result, domestic market sales increased 19.1% to Ps.16,986 million in 2006 from Ps.14,257 million in 2005. Exports were Ps.8,649 million in 2006 compared to Ps.8,644 million in 2005.

For further information on our net sales for the periods discussed above, see “—Results of operations by business segment for the years ended December 31, 2007, 2006 and 2005.”

Cost of sales

Cost of sales in 2007 was Ps.19,000 million, compared to Ps.15,821 million in 2006, representing a 20.0% increase, which was mainly attributable to a 45% increase in the volume of crude oil purchased from third parties, driven by our efforts to maintain our high refinery utilization rates notwithstanding our declining production, as well as to an increase in the volume of other products purchased from third parties. In addition, depreciation of fixed assets increased 10.9%, mainly as a result of increased asset values attributable to (i) higher capitalized well abandonment obligations at the end of 2006, according to the new estimates performed as of that time based on new information concerning future costs associated with those activities, which began to be depreciated in 2007 based on the unit of production method and (ii) increased assets (principally related to our Exploration and Production business segment) subject to depreciation in 2007. Salaries and social security taxes, maintenance costs, contract services and certain other production costs also increased, driven mainly by inflation and the renegotiation of certain labor and service contracts. Our contractual commitments contributed Ps.77 million to the increase in cost of sales,

principally due to an increase in penalties recorded for contractual liabilities (including in connection with certain export contracts) to Ps.596 million in 2007 from Ps.519 million in 2006.

Cost of sales in 2006 was Ps.15,821 million compared to Ps.11,258 million in 2005, representing a 40.5% increase, which was mainly attributable to a 21% increase in average crude oil prices and a 147% increase in crude oil volume purchased from third parties, partly in response to our declining production, to maintain the operating pace of our refineries, and a 44% increase in average natural gas prices and a 7% increase in the volume of natural gas imports to meet domestic demand, as well as sharply increasing depreciation of fixed assets due to a reduced base of proved reserves when computing depreciation rates. Additionally, maintenance costs and contract services increased, we incurred penalties resulting from our inability to deliver natural gas pursuant to our contractual commitments (for further information, see “Item 8. Financial Information—Legal Proceedings”), and royalties increased due to WTI price increases.

Selling expenses

Our selling expenses were Ps.2,120 million in 2007, Ps.1,797 million in 2006 and Ps.1,650 million in 2005, representing an increase of 18.0% from 2006 to 2007 and an increase of 8.9% from 2005 to 2006.

Operating income

Operating income in 2007 was Ps.6,657 million, compared to Ps.6,883 million in 2006, representing a decrease of 3.3%. Operating income decreased primarily due to the increased purchases of crude oil and diesel from third parties described above, as well as increased depreciation of fixed assets and other expenses.

Operating income in 2006 was Ps.6,883 million compared to Ps.9,161 million in 2005, representing a decrease of 24.9%. Operating income decreased primarily due to the previously mentioned increase in expenses (higher crude oil and natural gas purchases and increased depreciation of fixed assets, maintenance costs and contract services, among others) that were not offset by corresponding increases in domestic prices, which increased at a substantially slower pace compared to international prices.

Our operating margins (operating income dividend by net sales) were 22.9%, 26.9% and 40.0% in 2007, 2006 and 2005, respectively. Increased volumes of crude oil purchases in 2007 and 2006 adversely affected our margins because we lost the margin earned on our internal exploration and production activities.

Other expenses, net

Other expenses, net increased 115.2% to Ps.439 million in 2007 from Ps.204 million in 2006, mainly as a result of increased reserves for lawsuits, due mainly to new developments in our existing lawsuits and our reassessment of certain environmental obligations. See Note 3(j) to our Audited Consolidated Financial Statements.

Other expenses, net decreased 62.6% to Ps.204 million in 2006 from Ps.545 million in 2005, mainly as a result of reduced insurance premiums attributable to the non-recurrence in 2006 of payments made in 2005 attributable to the termination of our membership in OIL Insurance Ltd., an industry insurance pool, and a variety of other factors. The principal expenses during 2006 derived from provisions for lawsuits, environmental remediation and other contingencies. See Note 3 to the Audited Consolidated Financial Statements.

Financial income (expense), net and holding gains

In 2007, financial income (expense), net and holding gains increased 14.1% to Ps.518 million from Ps.454 million in 2006. This increase was attributable principally to higher positive exchange rate differences on our net non-peso denominated financial assets, as well as to holding gains on inventories from stock revaluation for increasing production costs compared with the prior period. These positive results were offset in part by higher financial expense attributable to increased accruals related to our well abandonment obligations resulting from an increase in such obligations.

In 2006, financial income, net and holding gains increased 345% to Ps.454 million from Ps.102 million in 2005. This increase was attributable to a sharp rise in holding gains on inventories due to stock revaluation for increasing production costs. In addition, income from short-term investment increased and interest expense from liabilities decreased.

Taxes

Income tax expense in 2007 decreased 1.5% to Ps.2,758 million from Ps.2,801 million in 2006. The effective income tax rates for 2007 and 2006 were 40.3% and 38.6%, respectively, compared to the statutory income tax rate of 35%. Our effective tax rates exceed the Argentine corporate income tax rate mainly due to the non-deductibility of the amortization of the effect of inflation indexation on fixed assets, which is not deductible from income tax under prevailing Argentine tax legislation. See Note 3(k) to the Audited Consolidated Financial Statements.

Income tax expense during 2006 decreased 17.9% to Ps.2,801 million from Ps.3,410 million in 2005. The effective income tax rates for 2006 and 2005 were 38.59% and 38.87%, respectively, compared to the statutory income tax rate of 35%.

Net income

Net income for 2007 was Ps.4,086 million, compared to Ps.4,457 million in 2006, a decrease of 8.3%. This decrease is mainly attributable to the 3.3% decline in operating income and the increase in other expenses, net described above.

Net income for the year ended December 31, 2006 was Ps.4,457 million, compared to Ps.5,362 million in 2005, a decrease of 16.9%. This decrease is mainly attributable to the 24.9% decline in operating income, partially offset by lower other expenses, net and improved financial income, net.

Results of operations by business segment for the years ended December 31, 2007, 2006 and 2005

The following table sets forth net sales and operating income for each of our lines of business for the years ended December 31, 2007, 2006 and 2005:

	For the Year Ended December 31,		
	2007	2006	2005
	(in millions of pesos)		
Net sales(1)			
Exploration and production(2)			
To unrelated parties	3,288	3,076	2,910
To related parties	724	774	626
Intersegment sales and fees(3)	14,056	14,033	11,659
Total exploration and production	18,068	17,883	15,195