



## **Tecpetrol Sociedad Anónima**

### **FINANCIAL STATEMENTS**

**At December 31, 2018**  
and for the year ended on December 31, 2018

Translation of a document originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

# **Tecpetrol Sociedad Anónima**

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## **TECPETROL SOCIEDAD ANONIMA**

To the Shareholders:

In compliance with the bylaws and related legislation, the members of the Board of Directors of the Company submit for the consideration of the Annual General Meeting of Shareholders the Annual Report, the Financial Statements for the 39th fiscal year that commenced on January 1, 2018 and ended on December 31, 2018. Such Financial Statements comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and related notes. Moreover, the independent auditor's report and the report issued by the Shareholders' Committee for Corporate Control, together with all additional information required pursuant to Section 12, Chapter 3, Title 4 of the regulations of the National Securities Commission for Argentina (hereinafter referred to as "CNV") are also submitted for consideration.

### **ANNUAL REPORT**

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

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

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

The Company has a strong presence in Vaca Muerta area (province of Neuquén), through unconventional exploitation concessions in the areas Fortín de Piedra and Punta Senillosa, and the exploration permission in Loma Ancha area. As a result of the merger with Americas Petrogas Argentina S.A. (hereinafter referred to as "APASA"), in the year under consideration, the Company incorporated joint operations in the unconventional hydrocarbon exploration and exploitation areas of Los Toldos and Loma Ranqueles.

In addition, the Company operates in conventional hydrocarbon areas in Los Bastos and Agua Salada (Neuquina basin), El Tordillo (Golfo San Jorge basin) and Aguaragüe (Noroeste basin), and has a non-operator role in the area of Ramos in Noroeste basin.

In August 2018, the Company obtained an exploration and potential exploitation permission over the area of Gran Bajo Oriental, which comprises 2,500 km<sup>2</sup> and is located in the province of Santa Cruz (Golfo San Jorge basin). Said permission is valid for an exploratory period of three years and may be extended. The incorporation of the above-mentioned field as an asset of Tecpetrol is in line with one of the pillars of its growth strategy, since it entails development and exploration opportunities in synergy with current operations of the Company.



At December 31, 2018, oil and gas proven reserves according to the Company's shareholding, reached 51.4 million m<sup>3</sup> of oil equivalent.

Hydrocarbon production during this year in the areas operated by Tecpetrol reached, on average, 2,434 m<sup>3</sup>/day of oil and 10,971 thousand m<sup>3</sup>/day of gas; 1,497 m<sup>3</sup>/d and 8,958 thousand m<sup>3</sup>/d of such production, respectively, correspond to the Company. These figures represent a 20% increase in oil production and a 160% increase in gas production, in comparison with last year. The increase is explained mainly by the development of Fortín de Piedra area.

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

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

Tecpetrol ranks sixth among production companies in terms of its own acreage in the Vaca Muerta wet gas window, and fifth in terms of total acreage. Tecpetrol S.A. has obtained an unconventional exploitation concession for the area of Fortín de Piedra located in the formation of Vaca Muerta (province of Neuquén), a world-class reservoir of high productivity in multi-fractured horizontal wells.

During 2017, given the new framework set by the agreement with oil unions, the announcement by the Government of the gas pricing incentive program, and the availability of qualified teams and workforce, the Company was encouraged to launch investment plans of major importance for the years 2017, 2018 and 2019 related to the first phase of the development in Fortín de Piedra area. Gas development from Vaca Muerta generates activity across the goods and services value chain associated with hydrocarbon production, and provides energy under competitive conditions, favoring the economic and industrial development of Argentina and contributing to energy self-sufficiency.

At December 31, 2018, investments in Fortín de Piedra exceeded USD 1,700 million. Gas production rose from 1.2 million m<sup>3</sup>/d (amount recorded at the beginning of the year) to more than 15 million m<sup>3</sup>/d (amount recorded as of the date of this Annual Report), turning it into in the main gas production field in the country as a result of an extraordinary teamwork of the different technical teams of Tecpetrol and more than 1,000 companies, most of which are Argentine small and medium enterprises. Fortín de Piedra contributed enormously to the increase in the gas production volume in Argentina during the year.

The main events occurred during the year are disclosed below:

- In Fortín de Piedra area, 51 wells were drilled (23 wells in a depth close to 5,000 meters, with horizontal branches of 2,000 meters, and 28 wells in a depth close to 5,500 meters, with branches of 2,500 meters). Six drilling rigs were used during most part of the year. In October, the Company set a record of 8 fractures in a well/day as a result of the continuous training of employees and contractors.



- In February 2018, the expansion of the gas dehydration plant in Fortín de Piedra was inaugurated, allowing for the processing of 6.5 million m<sup>3</sup>/day ready for transport and subsequent treatment for sale.
- In May 2018, the construction of a gas pipeline, with an extension of 58 km and capacity for 18 million m<sup>3</sup>/d, was completed, allowing the injection of Fortín de Piedra production into the main system of Transportadora de Gas del Norte S.A. and Transportadora de Gas del Sur S.A.
- In August 2018, the Central Production Facility (CPF) was inaugurated in Fortín de Piedra. Said CPF is intended for the treatment of up to 9.4 million m<sup>3</sup>/d. Besides, progress was made regarding the construction and startup of the system of transfer of fracture water, batteries and ducts.
- Progress was made regarding Loma Campana - Lago Pellegrini oil pipe, which will enable the transport of liquid production from Fortín de Piedra and other fields in Vaca Muerta to the facilities of Oleoductos del Valle S.A., and will be operating as from the first semester of this year. The 88-kilometer pipeline is being built together with YPF S.A. and will cost more than USD 80 million. The Office of the Secretary of Energy granted to YPF S.A. and Tecpetrol, through Resolution No. 18/2019, the concession for the transportation for the above-mentioned pipeline.
- In Loma Ancha area, an exploratory well of 1,500 meters with horizontal branch was concluded and started operations; also, in Punta Senillosa area, a tight gas well was concluded. In both cases, outcomes were satisfactory. In Loma Ranqueles, a horizontal branch exploratory well of 1,500 meters was drilled on top of vertical well LR.x-2, pending completion.
- In Agua Salada area (province of Río Negro) and pursuant to the commitments assumed in the extension of the concession, two extension wells were drilled in Jagüel del Moro and Loma Azul, one exploratory well was drilled in Puesto Pino and six repairs were completed in Aguada de los Indios Sur.
- In Aguaragüe (province of Salta), two development wells were drilled. In both cases, production surpassed expectations. Additionally, one exploratory well was drilled, but it turned out unsuccessful.
- Well drilling activities were resumed in El Tordillo and La Tapera-Puesto Quiroga areas (province of Chubut), after well readjustments carried out during the previous years as a result of the crisis in the international oil market. A drilling rig is being used and nine new wells satisfactorily started production as from February.
- In Los Toldos I Norte area (province of Neuquén), one 1,500-meter horizontal branch exploratory well was completed and started operations producing positive outcomes. In Los Toldos I Sur area, one 3,000-meter horizontal branch exploratory well was completed and started operations producing positive outcomes. At present, progress is being made regarding the drilling of two pads of three horizontal wells each, and in the construction of facilities for gas treatment and transportation.



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

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

It is the Company's priority to consolidate its growth by developing qualified and committed human resources with broad expertise in the different businesses in which the Company operates. Human resources training is a key element in Tecpetrol's culture. The Company has several training programs for contributors through which it promotes a continuous update and the incorporation of the best practices of the industry.

The mass development of unconventional gas in Fortín de Piedra, located in Vaca Muerta, helped Tecpetrol start the execution and implementation of its plans involving big technical, logistic and financial challenges. During this year, the Company continued consolidating its teams with commitment, technical soundness and management capacity: values fostered by the Company since the very beginning.

Besides, during the year, key training activities were conducted, such as the Tecpetrol University Induction Camp (TUIC) Program and the Leadership Program. Additionally, the technical lectures cycle continued, aiming at sharing industry-related topics with the staff.

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

Tecpetrol S.A's primary goal is to conduct its business protecting the physical integrity of its employees and third parties while achieving, in compliance with all applicable laws, an appropriate conservation of the environment and implementing the best practices to benefit the communities, the employees and the Company.

The Health, Safety, and Environment Policy of the Company (hereinafter referred to as "HSE") is based on leadership and commitment and it comprises prevention programs, accident and incident investigation, risk management, improvement plans and safety and environmental care initiatives, preventive observations, and inspections of operating activities, among many others.

The purpose of the HSE management system is to provide a minimum compulsory conduct framework for the management of every operating area in the Company, from the exploration stage to the decommissioning and restoration of assets throughout the whole value chain and the life cycle of each business. It is designed to help operations set and achieve performance and benefit goals for stakeholders through the management of risks and impacts associated to said activities; and introduce appropriate operational monitoring.

The results of indicators are monitored through an HSE dashboard, in which the Company can observe the evolution of accident rates, as well as the progress of the different proactive and prevention tools (preventive observations like STOP, field inspections, closing of investigations and compliance with the annual training program, among others.)



The standardization of rules and procedures continued during 2018. Several processes were implemented, such as, the Emergency Response Management Standard (in line with the international methodology of the Incident Command System), the Change Management Standard and the Procedure for the Use and Selection of Personal Protection Equipment. Moreover, the process for the procurement of drilling rigs was amended in order to increase previous health, safety and environment controls during the selection of vendors.

In Fortín de Piedra area, and together with the main contractors, the Company carried out the planning, implementation and monitoring of applicable safety tools, for the purposes of reducing accident risks during the development of the project. In addition, the following actions should be highlighted: preventive measures for simultaneous operations carried out in the fields were implemented, process risk analyses were conducted, safety reviews were performed before the commencement of operations in the facilities, and safety workshops were organized for first-line and second-line leadership positions.

The activities of the Company are subject to a great variety of laws and regulations related to the potential impact its operations might have on the environment, the elimination or remediation of contaminated soil and water with hazardous or toxic waste, specifications regarding gas emissions and waste disposal of industrial liquids and the effect of the environment on health and safety. The Company developed and will continue to develop activities to abide by all applicable regulations.

### **Community relations**

Tecpetrol actively collaborates with the communities close to the areas in which it operates, contributing to the sustainable development of the population and its institutions in the areas of education, health, sports, culture and social advancement. In this spirit, the Company carries out and supports community relation programs in low-income rural and urban areas, communities and schools near its fields, engaging both its staff and the local population in the development of such programs, and building up networks with public and private authorities and other entities. During the year under consideration, the social management plan involved several programs tending to encourage reading, literacy, the promotion of values and the integration of children and teenagers. The Company donated materials and equipment within the framework of the Technical Gene Program for technical schools, granted scholarships under the Merit-based Scholarship Program, developed a program for the cultural development of indigenous communities, as well as a program that complements school curriculum and includes sciences and film and photography festivals.



### III. OIL AND GAS MARKETS

#### Oil

During year 2018, 59% of crude oil production was sold to local market refineries, and the remaining 41% was exported to China and the United States of America.

During this year, oil prices in the domestic market were freely agreed upon among producers and refiners. Such prices were set up to a 15% below “Brent” crude oil price between April and October, because of the difficulty maintaining the USD value of fuels and the restrictions upon oil exports when there is demand from the domestic market. However, after the drop in crude oil international prices that took place as from October, domestic market prices were in line with international prices.

In September 2018, by means of Decree No. 793/2018, the President of Argentina imposed a tax on crude oil exports of 10.71% of the export price or \$4 for each USD exported, whichever is lower. Such tax of exports affects both revenues from exports and sales in the domestic market, since the latter are negotiated based on export parity.

On the other hand, during year 2018 the Company collected USD 0.9 million in relation to certain reimbursements requested pursuant to Law No. 23.018 for exports carried out from the port of Caleta Córdova in the province of Chubut during years 2015 and 2016; part of such reimbursements have not yet been collected.

#### Gas

In terms of the natural gas market, 42% of revenues in 2018 came from sales to industrial users, 37% from sales to electric power generators, 12% from sales to distribution service licensees, and 9% from sales to the compressed natural gas (CNG) station segment, regardless of the compensations received under Resolution No. 46-E/2017.

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

#### Incentive Programs

- In March 2017, the Ministry of Energy and Mining published Resolution No. 46-E/2017 through which it created a Program of Incentives to Investments in Natural Gas Production Developments from Unconventional Reservoirs, in order to promote investments in the production of hydrocarbons from unconventional reservoirs in Neuquina basin. In November 2017, the Ministry of Energy and Mining amended the Program by means of Resolution No. 419/2017. Subsequently, said Ministry approved





the adhesion of Tecpetrol S.A. to the aforementioned Program as from January 1, 2018, guaranteeing a price range of USD 7.5 - USD 6 from 2018 up to 2021.

Later on, the Office of the Secretary of Energy introduced a change of criteria regarding the assessment of the compensations provided for in Resolutions No. 46-E/2017 and 419/2017, restricting the amount of those payments to the production projections submitted by the Company upon request of adherence to the Program. This change of criteria would represent (if applied for the whole year) a lower income for a total amount of \$5,655 million.

On February 7, 2019, the Company filed an appeal against the resolutions issued by the Office of the Secretary of Energy, since it considers that the change of criteria adopted is contrary to the terms of the promotion regime created under Resolution MINEM 46-E/2017 and it flagrantly violates Section 17 of the National Constitution by affecting acquired rights of the Company previously acknowledged by the State.

- In January 2013, Resolution 1/13 of the Strategic Planning and Coordination Commission of the National Plan for Hydrocarbon Investments was published, creating the “Program to Promote the Surplus Injection of Natural Gas.” In November 2013, Resolution 60/13 of the same Commission extended the “Program for Companies with a Reduced Injection.” In March 2014, the adhesion of Tecpetrol S.A. to said program was approved. Although the Company received compensations for the first quarter of 2014, it did not receive compensations for subsequent quarters given that the average price of sales was higher than the price established. This situation was reversed towards the end of 2017; therefore, the corresponding steps have been taken to collect said payments. On February 19 the Office of the Secretary of Energy issued Resolution No 54/2019 partially abrogating Resolution No. 97/2018 issued by the Ministry of Energy and Mining, and providing for a new mechanism for the collection of all pending payments under the program.

#### Distributors

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



- Through Decree No. 1053/18 issued by the President of Argentina in November 2018, it was determined that the National State would exceptionally assume payment of the fluctuations in the exchange rate related to the gas prices paid by Distributors and the price included in all applicable fee charts between April 1, 2018 and March 31, 2019. Said decree also contemplates that payment is to be made in 30 consecutive and monthly instalments, payable as from October 2019. Operating aspects are still pending.
- Resolution No. 32/2019 issued by the Office of the Secretary of Energy, approved mechanisms for tender offers to supply natural gas to full-service users of public utilities providers of natural gas distribution by pipeline networks. Said mechanisms will be administered by Mercado Electrónico de Gas MEG S.A. and will supply the demand estimated for the period covering April 1, 2019 and March 31, 2020. Tecpetrol was awarded the contract to supply natural gas from Neuquina basin.

#### Electricity generation

- By means of Resolution No. 70/2018, the Office of the Secretary of Energy of the Ministry of Finance, authorized generating agents (Generators) operating in the Wholesale Electricity Market to get the necessary fuel to generate electric power, instead of provisioning through CMMESA. Under this scheme, some Generators started purchasing natural gas as from November 2018. This mechanism, together with the oversupply of natural gas during the summer season, encouraged Generators to purchase fuel at prices that were significantly lower than those obtained by CMMESA.

## **2 – STRUCTURE AND ORGANISATION OF THE COMPANY AND ITS ECONOMIC GROUP**

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

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

<b>Subsidiaries and other equity investments</b>	<b>Main line of business</b>	<b>Country</b>	<b>% 2018</b>	<b>% 2017</b>
Dapetrol S.A. (1)	Exploration, exploitation and sale of hydrocarbons.	Argentina	-	97.50
Oleoducto Loma Campana - Lago Pellegrini S.A. (2)	Construction and exploitation of an oil pipe in Argentina.	Argentina	15.00	-
Terminales Marítimas Patagónicas S.A.	Transport concessions of terminals Caleta Córdova and Caleta Olivia	Argentina	4.20	4.20



<b>Subsidiaries and other equity investments</b>	<b>Main line of business</b>	<b>Country</b>	<b>% 2018</b>	<b>% 2017</b>
Oleoducto del Valle S.A.	Transport concession from oil pipes to Allen and from Allen oil pipes to Puerto Rosales	Argentina	2.10	2.10
Tecpetrol del Perú S.A.C.	Exploration, exploitation and sale of hydrocarbons.	Peru	2.00	2.00
Tecpetrol Bloque 56 S.A.C.	Exploration, exploitation and sale of hydrocarbons.	Peru	2.00	2.00
Tecpetrol de México S.A. de C.V. (3)	Provision of services to the hydrocarbon industry	Mexico	-	1.77
Burgos Oil Services S.A. de C.V. (3)	Provision of services to the hydrocarbon industry	Mexico	0.948	0.937
Norpower S.A de C.V.	Provision of services to the hydrocarbon industry	Mexico	0.60	0.60
Tecpetrol Colombia S.A.S.	Exploration, exploitation and sale of hydrocarbons.	Colombia	0.1574	0.1574
Tecpetrol de Venezuela S.A.	Provision of services to the hydrocarbon industry	Venezuela	0.03	0.03
Pardaliservices S.A.	Provision of hydrocarbon exploration, evaluation and development services	Ecuador	0.0000054	0.0000054
Tecpeservices S.A.	Provision of design, engineering and construction services relating to works in oilfields or any other oil infrastructure.	Ecuador	0.0063	0.0063
Tecpecuador S.A.	Provision of services to the hydrocarbon industry	Ecuador	0.0000002	0.0000002

- (1) On February 27, 2018, the Shareholders of Dapetrol S.A. at an Extraordinary Meeting approved the early dissolution of such company, since on December 28, 2017, the company transferred ownership of its main asset, Oil Mine "José Segundo". The dissolution, winding-up and cancellation of the registration of Dapetrol S.A. were recorded with the Companies Controlling Office (Inspección General de Justicia, IGJ) on December 26, 2018.
- (2) On January 24, 2018, Tecpetrol S.A. and YPF S.A. created the company "Oleoducto Loma Campana - Lago Pellegrini S.A.". Tecpetrol S.A. owns 15% of the capital of such company, and YPF S.A., the remaining 85%. However, they exercise joint control over the company, since they appoint the same number of Directors and all decisions about relevant matters must be adopted unanimously, pursuant to the Shareholders' Agreement. The objective of the company is the construction and exploitation of an oil pipeline in Argentina.
- (3) In November 2018, the merger between Tecpetrol de México S.A. de C.V. and Burgos Oil Services S.A. de C.V (as the surviving company) became effective.



### **Merger with Americas Petrogas Argentina S.A.**

On March 9, 2018, the Directors of the Company approved a Merger Preliminary Commitment between Americas Petrogas Argentina S.A. (hereinafter referred to as "APASA") and Tecpetrol S.A. (both companies are directly controlled by Tecpetrol Internacional S.L.U.), whereby Tecpetrol S.A., as the continuing company, would acquire APASA, which will dissolve (but will not wind up), concentrating both entities in a single operating unit for the purposes of optimizing all administrative, functional, financial and operating structures, for the benefit of the continuing company and the economic group as a whole. On April 26, 2018, the Shareholders of both Companies at a General and Extraordinary Meeting approved by unanimous vote the merger of APASA (as the company to be absorbed by Tecpetrol S.A.) and ratified the terms of the Merger Preliminary Commitment, effective as from January 1, 2018. From such date onwards, Tecpetrol S.A. has unrestricted access to all business and financial information of APASA and participates in the decision-making process related to the business. Having served all notices as required by section 83, subsection 3 of Companies Law No. 19.550 (hereinafter referred to as "LGS") and without opposition from creditors within the statutory period, on June 1, 2018, Tecpetrol S.A. and APASA executed the final Merger Agreement through notarially-recorded instrument.

On July 20, 2018, the Board of Directors of the National Securities Commission for Argentina (hereinafter referred to as the "CNV") issued Resolution RESFC-2018-19615-APN-DIR#CNV, by means of which the merger with APASA was approved, together with the amendment of the by-laws of the Company due to the share capital increase; and all documents were referred to the IGJ. On August 14, 2018, the IGJ registered the merger, the by-laws amendment and the capital increase with the Companies Registration Office.

As a result of such merger with APASA, Tecpetrol S.A. mainly incorporates joint operations in unconventional hydrocarbon exploration and exploitation areas in the province of Neuquén (Los Toldos and Loma Ranqueles).

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

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

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

This section must be read together with the Summary of Information at December 31, 2018.

Year 2018 yielded profits for \$3,792.1 million compared with the loss of \$786.9 million recorded in 2017.

Net sales for the year ended 31 December, 2018 reached \$29,029.6 million, representing a 486% increase in comparison with 2017. It should be noted that Fortín de Piedra gas production contributed significantly to said increase. Gross margin also increased, mainly as a consequence of the development of Fortín de Piedra area, as well as the adjustments in operations and improvements in productivity and efficiency in El Tordillo area.



In December 2017, the Company issued negotiable obligations with a par value of USD 500 million accruing interest at a 4.875% fixed rate and maturing in December 2022. Funds obtained from the issuance of such negotiable obligations were used to invest in property, plant and equipment in Fortín de Piedra area. As of April 20, 2018, the Company administered all funds in accordance with the above-mentioned use.

During the year, the Company received funds from borrowings of banks and related companies in order to develop Fortín de Piedra area. These borrowings were obtained at market interest rates, considering comparable solvency, soundness, fund generation and risk characteristics.

Investments in property, plant and equipment (net of unpaid acquisitions at year-end) amounted to \$30,630.5 million, corresponding mainly to the development of Fortín de Piedra area.

#### **4 - ADDITIONAL INFORMATION**

In accordance with article 10 of the by-laws, the Management of the Company is vested in a Board of Directors comprised of a minimum of three and a maximum of five Regular Directors. At December 31, 2018 the Board consisted of five Regular Directors and three Alternate Directors appointed by the Shareholders at an Annual General Meeting held on April 26, 2018.

Decisions and policies, both strategic and administrative, are submitted to the Board of Directors for approval, including all decisions and policies related to investments and disinvestment in both industrial and financial assets. Operating decisions are adopted by the General Manager and his or her team of first-line executives who are responsible for different business areas.

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

In 2018, the members of the Board of Directors of the Company approved the Business Conduct Policy and an update of the Code of Conduct, aiming at the consolidation of a corporate conduct based on transparency, integrity, ethical behavior and compliance with the laws. The Company encourages the use of the Transparency Line to report situations violating the Code of Conduct.



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

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

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

The remuneration of all Directors and members of the Shareholders' Committee for Corporate Control is determined considering their responsibilities, time of service, competence, professional reputation and the value of their services in the market.

The remuneration of the managers consists of a fixed component and a variable component based upon performance; such remuneration is in line with market values.

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

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



## 5 - PROSPECTS

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

Because of the change of criteria regarding the compensation payments set forth in Resolution MINEM 46-E/2017, the Company is reassessing the development plan of Fortín de Piedra area for the purposes of readjusting cash flows to a new scenario, until the necessary conditions for resuming investments are given.

In El Tordillo area, wells will continue to be drilled in blocks C/H since they produced satisfactory outcomes in 2017. Besides, the Company will search similar prospects in other field zones and will continue analyzing the efficiency of the operation to optimize operation costs.

In Aguaragüe, two new wells are expected to be drilled in Campo Durán during 2019, in order to increase production and try to identify new reserves. Additionally, activities agreed upon with the authorities of the province of Salta under the framework of the transfer of work units from Río Colorado area, will be carried out. Such activities consist of the drilling of a development well in the formation of Tupambi or San Telmo, and the execution of a workover in order to verify the unconventional gas potential from the geological formation Los Monos.

Regarding sale prices, it is expected that for 2019 oil prices for the domestic market will be negotiated considering export and import parity prices for medianito crude and export parity prices in the case of escalante crude. Regarding natural gas, a reduction in prices is expected due to the oversupply during the summer season and a reduction in gas demand due to the use of renewables and the fact that nuclear power plants have resumed their activities.

The human resources strategy of the Company for the next year is to continue training teams in order to satisfy the needs of every business so as to comply with the objectives defined.



## **6 - DISTRIBUTION OF RESULTS**

Pursuant to the Income Statement for the year, there were net profits for \$3,790,753 thousand attributable to the Shareholders of the Company. The members of the Board of Directors suggest the Shareholders at a Meeting that \$74,800 thousand should be used to rebuild the legal reserve that was absorbed in previous years; \$145,111 thousand to set up the legal reserve for this year and the remaining sum shall be kept as Retained earnings.

A provision was made in the Financial Statements for the year ended on December 31, 2018, for \$4,575 thousand in respect of the estimated fees of the members of the Board of Directors and the members of the Shareholders' Committee for Corporate Control. Said fees must be approved, together with this Annual Report and the Financial Statements, by the Shareholders at a Meeting.

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

City of Buenos Aires, February 27, 2019.



## TECPETROL SOCIEDAD ANÓNIMA

### SUMMARY OF INFORMATION

In accordance with the regulations issued by the National Securities Commission for Argentina (Comisión Nacional de Valores, CNV), the Board of Directors of the Company has approved this summary of information for the twelve-month period which commenced on January 1, 2018 and ended on December 31, 2018.

#### **1. Activity of the Company**

Operating profits or losses of the Company are principally affected by production levels; sales prices; market demand for oil, gas and derivative products; fluctuations in operating costs; economic conditions in Argentina and government regulations.

#### Analysis of the fourth quarter of 2018

During the fourth quarter of 2018, net sales totaled \$10,861.2 million, representing an increase in relation to the same period of the previous year. Such increase was mainly caused by a significant rise in gas production accompanied by an increase in sales prices and by the effect of the exchange rate fluctuation of the Argentine peso ("ARS") with respect to the US dollar ("USD").

During the fourth quarter of 2018, gas production rose up to 1,345 million m<sup>3</sup>, representing an increase of 421% in relation to the fourth quarter of 2017, which was of 258 million m<sup>3</sup>. This increase in production levels is explained by the development of Fortín de Piedra area in Neuquina basin. In both periods, gas production was entirely sold to the domestic market.

Volumes of crude oil production reached 181 thousand m<sup>3</sup>; (40% from escalante crude oil and 60% from medanito crude oil), representing a 45% increase with respect to the fourth quarter of 2017. In the fourth quarter of 2018, 34% of crude oil production was destined for exports, part of which was made after year-end; whereas in the fourth quarter of 2017, production was entirely destined for the domestic market.

As regards gas net sales, they increased by \$7,284.0 million in relation to the fourth quarter of 2017, because of the production increase in Fortín de Piedra area.

Revenues from escalante crude oil sales increased by \$464.2 million, due to an increase in average sales prices and the exchange rate fluctuation of the ARS with respect to the USD, partially offset by a drop in production in Golfo San Jorge basin.

Revenues from medanito crude oil sales increased by \$1,446.2 million compared to the fourth quarter of 2017, mainly as a result of an increase in the production of the year, accompanied by an increase in sales prices and the effect of the exchange rate fluctuation of the ARS against the USD.

## TECPETROL SOCIEDAD ANÓNIMA

Operating costs totaled \$9,499.8 million in the fourth quarter of 2018, representing an increase of 581% compared to the amount recorded in the fourth quarter of 2017, that is, \$1,395.7 million. Said increase is mainly explained by: i) an increase in depreciation of property, plant and equipment due to the development of Fortín de Piedra area and the commencement of operations of treatment plants in said area; ii) an increase in maintenance operations and wells service costs; iii) royalties expenses related to an increase in production; and iv) the effect of the exchange rate fluctuation of the ARS against the USD.

Selling and administrative expenses during the fourth quarter of 2018 amounted to \$1,254.3 million, representing a 469% increase in comparison with an amount of \$220.5 million recorded in the fourth quarter of 2017. Such increase is mainly explained by higher storage and loading expenses, an increase in the allowance for doubtful accounts, and an increase in taxation due to the larger volume in operations, together with the effect of the exchange rate fluctuation of the ARS against the USD.

Net financial profits (losses) showed a loss of \$280.8 million in the fourth quarter of 2018, compared to the loss of \$141.0 million recorded in the fourth quarter of 2017. Such variation is mainly explained by the net loss generated by exchange differences (profit) due to the exchange rate fluctuation of the ARS against the USD, slightly offset by interest arising from borrowings.

During the fourth quarter of 2018, there were no profits or losses from discontinued operations, while in the fourth quarter of 2017, profits or losses from discontinued operations yielded a profit of \$84.2 million generated by the operations of Dapetrol S.A.

The net profit (loss) for the fourth quarter of 2018 was a profit of \$1,602.2 million, while in the fourth quarter of 2017 the Company recorded a net profit of \$133.2 million.

### Analysis of year 2018

In 2018, net sales totaled \$29,029.6 million, representing an increase in relation to 2017. Such increase was mainly caused by a significant rise in gas production, accompanied by an increase in sales prices and by the effect of the exchange rate fluctuation of the ARS with respect to the USD.

In 2018, gas production rose up to 3,381 million m<sup>3</sup>, representing an increase of 286% in relation to 2017, which was of 877 million m<sup>3</sup>. This increase in production levels is explained by the development of Fortín de Piedra area in Neuquina basin. In both years, gas production was entirely sold to the domestic market.

Volumes of crude oil production reached 560 thousand m<sup>3</sup>; (48% from escalante crude oil and 52% from medianito crude oil), representing a 35% increase with respect to 2017. During the year ended on December 31, 2018, 41% of crude oil production was destined for exports, part of which was made after year-end; whereas in 2017, 14% of the production was destined for the foreign market.

## TECPETROL SOCIEDAD ANÓNIMA

As regards gas net sales, they increased by \$19,665.4 million in relation to 2017, because of the production increase in Fortín de Piedra area.

Revenues from escalante crude oil sales increased by \$1,417.5 million, due to an increase in average sales prices and the exchange rate fluctuation of the ARS with respect to the USD, partially offset by a drop in production in Golfo San Jorge basin.

Revenues from medianito crude oil sales increased by \$2,701.3 million compared to 2017, mainly as a result of an increase in production, accompanied by an increase in sales prices and the effect of the exchange rate fluctuation of the ARS against the USD.

Operating costs totaled \$20,499.9 million in 2018, representing an increase of 348% compared to the amount recorded in 2017, that is, \$4,575.8 million. Said increase is mainly explained by: i) an increase in depreciation of property, plant and equipment due to the development of Fortín de Piedra area and the commencement of operations of treatment plants in said area; ii) greater labor costs, mainly because of a payroll increase; iii) royalties expenses related to an increase in production; iv) an increase in maintenance operations and wells service costs; and v) the effect of the exchange rate fluctuation of the ARS against the USD.

Selling and administrative expenses during 2018 amounted to \$2,878.4 million, representing a 200% increase in comparison with an amount of \$960.2 million recorded in 2017. Such increase is mainly explained by higher storage and loading expenses, an increase in the allowance for doubtful accounts, and an increase in taxation due to the larger volume in operations, together with the effect of the exchange rate fluctuation of the ARS against the USD.

Net financial profits (losses) resulted in a loss of \$3,837.0 million in 2018, compared to a loss of \$331.3 million in 2017. Such variation is explained by interest costs of a larger amount of borrowings and the net loss generated by exchange differences due to the exchange rate fluctuation of the ARS against the USD.

In 2018, discontinued operations yielded a profit of \$53.4 million generated by the operations of Dapetrol S.A.; whereas in 2017, discontinued operations produced a loss of \$108.4 million, mainly from the operations of Tecpetrol de Bolivia S.A. and Dapetrol S.A.

The net profit (loss) for the year 2018 was a profit of \$3,792.1 million, while in 2017, the Company recorded a net loss of \$786.9 million.

## TECPETROL SOCIEDAD ANÓNIMA

### Liquidity and cash flows

Net cash generated by operating activities in 2018 was \$3,506.3 million.

In 2018, the Company received funds from borrowings of banks and related companies. These borrowings were obtained at market interest rates, considering comparable solvency, soundness, fund generation and risk characteristics.

Moreover, in December 2017, the Company issued negotiable obligations with a par value of USD 500 million accruing interest at a 4.875% fixed rate and maturing on December 12, 2022. Funds obtained from the issuance of such negotiable obligations were used to invest in fixed assets in Fortín de Piedra area in Vaca Muerta formation, located in the province of Neuquén. As of April 20, 2018, the Company administered all funds in accordance with the above-mentioned use. On May 4, 2018, the members of the Board of Directors of the Company approved such use of the funds and complied with the requirements set forth in Section 25, Chapter V, Title II of CNV Regulations. The Parent Company, Tecpetrol Internacional S.L.U., unconditionally and irrevocably guarantees the negotiable obligations of the Company.

In March 2018, the Company received a USD 200 million loan from a pool of banks comprising Banco de Crédito del Perú S.A., BBVA Banco Continental, Citibank N.A. and J.P. Morgan Chase Bank N.A. This loan had been agreed upon on September 18, 2017 together with Tecpetrol del Perú S.A.C. and Tecpetrol Bloque 56 S.A.C. The agreed quarterly interest rate is LIBO rate plus 150 bps per year; repayment of the loan shall be performed in thirteen (13) consecutive and quarterly installments as from September 2019. The remaining terms and conditions are the ones regularly used for similar financing processes.

In July 2018, the Company received a loan for USD 200 million from its Parent Company, Tecpetrol Internacional S.L.U. The agreed quarterly interest rate is LIBOR 3M + 2.5% per year; repayment of the loan shall be performed in eight (8) equal and quarterly installments as from September 2019. The last installment is payable in June 2021. The remaining terms and conditions are the ones regularly used for similar financing processes.

On October 30, 2018, the Company arranged a credit line with its Parent Company, Tecpetrol Internacional S.L.U., for a maximum amount of USD 200 million. Principal will be paid in two equal installments payable on December 31, 2019 and December 31, 2020. Agreed interest rate is LIBOR 12M + 4.69% per year. Interest is payable on December 31 of each year. The first payment will be made on December 31, 2018. The remaining terms and conditions are the ones regularly used for similar financing processes. As of the date of issuance of these financial statements, the Company received USD 149 million from the above-mentioned loan; USD 85 million of said amount had been received as of December 31, 2018.

At December 31, 2018, the Company's borrowings totaled \$54,525.2 million and equity totaled \$15,732.6 million.

Investments in Property, plant and equipment during 2018 (net of unpaid acquisitions at year-end) amounted to \$30,630.5 million, corresponding mainly to the development of Fortín de Piedra area.

**TECPETROL SOCIEDAD ANÓNIMA**

**2. Structure of Financial Position** (comparative at December 31, 2017 and December 31, 2016 – amounts stated in thousands of pesos)

	<b>At December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Non-current assets	67,583,445	16,193,566	10,436,099
Current assets	16,142,735	11,010,955	1,932,941
<b>Total Assets</b>	<b>83,726,180</b>	<b>27,204,521</b>	<b>12,369,040</b>
Equity attributable to Owners of the Company	15,732,619	4,731,741	1,068,119
Non-controlling interest	-	2,117	(15,729)
<b>Total Equity</b>	<b>15,732,619</b>	<b>4,733,858</b>	<b>1,052,390</b>
Non-current liabilities	52,501,555	17,284,349	6,511,388
Current liabilities	15,492,006	5,186,314	4,805,262
<b>Total Liabilities</b>	<b>67,993,561</b>	<b>22,470,663</b>	<b>11,316,650</b>
<b>Total Equity and Liabilities</b>	<b>83,726,180</b>	<b>27,204,521</b>	<b>12,369,040</b>

**3. Structure of Income and Comprehensive Income** (comparative with the years ended on December 31, 2017 and December 31, 2016 – amounts stated in thousands of pesos)

	<b>Year ended on December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Operating profit (loss)	5,499,778	(517,073)	(87,876)
Net financial profit (loss)	(3,837,033)	(331,329)	(224,273)
Profit (loss) from investments in entities accounted for using the equity method	(2,034)	15,310	(3)
<b>Profit (loss) before taxes</b>	<b>1,660,711</b>	<b>(833,092)</b>	<b>(312,152)</b>
Income tax	2,077,970	154,599	48,031
<b>Profit (loss) from continuing operations</b>	<b>3,738,681</b>	<b>(678,493)</b>	<b>(264,121)</b>
Profit (loss) from discontinued operations	53,407	(108,447)	(303,698)
<b>Profit (loss) for the year</b>	<b>3,792,088</b>	<b>(786,940)</b>	<b>(567,819)</b>
<b>Statement of Comprehensive Income</b>			
(Profit) loss for the year	3,792,088	(786,940)	(567,819)
Other comprehensive income from continuing operations	6,384,087	651,426	385,720
Other comprehensive income from discontinued operations	(11,727)	126,059	(114,331)
<b>Comprehensive income for the year</b>	<b>10,164,448</b>	<b>(9,455)</b>	<b>(296,430)</b>

## TECPETROL SOCIEDAD ANÓNIMA

**4. Cash Flow Structure** (comparative with the years ended on December 31, 2017 and December 31, 2016 – amounts stated in thousands of pesos)

	Year ended on December 31,		
	2018	2017	2016
Cash generated by / (used in) operating activities	3,506,271	(394,732)	634,738
Cash used in investing activities	(30,555,774)	(7,214,302)	(1,923,960)
Cash generated by financing activities	16,413,663	14,922,909	1,674,126
Total cash (used) / generated during the year	<b>(10,635,840)</b>	<b>7,313,875</b>	<b>384,904</b>

**5. Statistical Data** (comparative with the years ended on December 31, 2017 and December 31, 2016 – amounts stated in thousands of m<sup>3</sup>)

	Year ended on December 31,		
	2018	2017	2016
<b>Production volume (*)</b>			
Total production in equivalent units	3,941	1,292	1,114
Oil production	560	415	515
Gas production	3,381	877	599
Domestic market	3,710	1,232	869
Exports	231	60	245

(\*) Caloric equivalence (1,000 m<sup>3</sup> gas = 1 m<sup>3</sup> oil)

**6. Indicators** (comparative at December 31, 2017 and December 31, 2016)

	At December 31,		
	2018	2017	2016
Liquidity	1.04	2.12	0.40
Solvency	0.23	0.21	0.09
Locked up capital	0.81	0.60	0.84
Profitability	0.37	(0.27)	(0.47)

Liquidity: Current assets/Current liabilities

Solvency: Total Equity/Total liabilities

Locked up capital: Non-current assets/Total assets

Profitability: Net profit (loss) for the year (other comprehensive income not included)/Average total Equity

## **TECPETROL SOCIEDAD ANÓNIMA**

### **7. Perspectives**

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

Because of the change of criteria regarding the compensation payments set forth in Resolution MINEM 46-E/2017, the Company is reassessing the development plan of Fortín de Piedra area for the purposes of readjusting cash flows to the new scenario, until the necessary conditions for resuming investments are given.

In El Tordillo area, wells will continue to be drilled in blocks C/H since they produced satisfactory outcomes in 2017. Besides, the Company will search similar prospects in other field zones and will continue analyzing the efficiency of the operation to optimize operating costs.

In Aguaragüe, two new wells are expected to be drilled in Campo Durán during 2019, in order to increase production and identify new reserves. Additionally, activities agreed upon with the authorities of the province of Salta under the framework of the transfer of work units from Río Colorado area, will be carried out. Such activities consist of the drilling of a development well in the formation of Tupambi or San Telmo, and the execution of a workover in order to verify the unconventional gas potential from the geological formation Los Monos.

Regarding sales prices, it is expected that for 2019 oil prices for the domestic market will be negotiated considering export and import parity prices for medanita crude oil and export parity prices in the case of escalante crude oil. Regarding natural gas, a reduction in prices is expected due to the oversupply during the summer season and a reduction in gas demand due to the use of renewables and the fact that nuclear power plants have resumed their activities.

The human resources strategy of the Company for the next year is to continue training teams in order to satisfy the needs of every business so as to comply with the objectives defined.

### **8. Additional information**

#### ***Early dissolution of Dapetrol S.A. (subsidiary company)***

After the sale of Oil Mine "José Segundo", main asset of Dapetrol S.A., which took place on December 28, 2017, the early dissolution of said company was approved by the Shareholders of Dapetrol S.A. at an Extraordinary Meeting on February 27, 2018. Consequently, Dapetrol S.A. has commenced winding up procedures. On October 8, 2018, the Shareholders at an Extraordinary Meeting approved the Special final liquidation financial statements at August 31, 2018; the winding up of the company and the plan for the distribution of balances and reimbursement of capital previously prepared by the Liquidator Board. Besides, they ordered the presentation of the relevant request in order to cancel the registration of the Company with the Companies Controlling Office (Inspección General de Justicia, IGJ) pursuant to Section 112 of Companies Law No. 19.550 (hereinafter referred to as "LGS").

## **TECPETROL SOCIEDAD ANÓNIMA**

### ***Merger with Americas Petrogas Argentina S.A.***

On March 9, 2018, the Directors of the Company approved a Merger Preliminary Commitment between Americas Petrogas Argentina S.A. (hereinafter referred to as "APASA") and Tecpetrol S.A. (both companies are directly controlled by Tecpetrol Internacional S.L.U.), whereby Tecpetrol S.A., as the continuing company, would acquire APASA, which will dissolve (but will not wind up), concentrating both entities in a single operating unit for the purposes of optimizing all administrative, functional, financial and operating structures, for the benefit of the continuing company and the economic group as a whole. On April 26, 2018, the Shareholders of both Companies at a General and Extraordinary Meeting approved by unanimous vote the merger of APASA (as the company to be absorbed by Tecpetrol S.A.) and ratified the terms of the Merger Preliminary Commitment, effective as from January 1, 2018. From such date onwards, Tecpetrol S.A. has unrestricted access to all business and financial information of APASA and participates in the decision-making process related to the business. Having served all notices as required by section 83, subsection 3 of LGS and without opposition from creditors within the statutory period, on June 1, 2018, Tecpetrol S.A. and APASA executed the final Merger Agreement through notarially-recorded instrument.

On July 20, 2018, the Board of Directors of the CNV issued Resolution RESFC-2018-19615-APN-DIR#CNV, by means of which the merger with APASA was approved, together with the amendment of the by-laws of the Company due to the share capital increase; and all documents were referred to the IGJ. On August 14, 2018, the IGJ registered the merger, the by-laws amendment and the capital increase with the Companies Registration Office.

As a result of such merger with APASA, Tecpetrol S.A. mainly incorporates joint operations in unconventional hydrocarbon exploration and exploitation areas in the province of Neuquén (Los Toldos and Loma Ranqueles).

City of Buenos Aires, February 27, 2019.



# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### LEGAL INFORMATION

<b>Legal domicile:</b>	Pasaje Della Paolera 299/297, 16th floor, city of Buenos Aires
<b>Reported fiscal year:</b>	No. 39
<b>Company's main line of business:</b>	Exploration, exploitation and development of hydrocarbon fields; transport, distribution, transformation, distillation and industrial use of hydrocarbons and by-products and hydrocarbons trade; electric power generation and commercialization through the construction, operation and exploitation in any manner of power plants and equipment for the generation, production, self-generation and/or co-generation of electric power.
<b>Registration dates with the Companies Registration Office:</b>	By-laws: registered under No. 247 of Book 94, Volume of Companies by Shares on June 19, 1981.  Amendments to by-laws: March 25, 1983; October 16, 1985, July 1, 1987; February 24, 1989; December 12, 1989; August 18, 1992; December 21, 1992; April 6, 1993; December 14, 1995; October 30, 1997; October 13, 2000; September 14, 2005; November 16, 2007; March 23, 2009; September 20, 2010; March 2, 2016; November 25, 2016; September 28, 2017 and August 14, 2018.
<b>Date of expiry of Company's by-laws:</b>	June 19, 2080.
<b>Correlative registration number with the Companies Controlling Office (Inspección General de Justicia, IGJ):</b>	802.207
<b>Name of Parent Company:</b>	Tecpetrol Internacional S.L.U.
<b>Legal domicile of Parent Company:</b>	Calle García de Paredes 94, 1st floor, apartment A, 28010 Madrid, Spain.
<b>Parent Company's main line of business:</b>	Investment.
<b>Equity interest held by Parent Company:</b>	95.99%
<b>Percentage of votes of Parent Company:</b>	98.1750%

Capital status (Note 2.8.b)	Type of shares	At December 31, 2018
		Total subscribed, paid-up and registered
	<b>Book entry shares</b>	<b>\$</b>
	Class A common shares of \$1 par value -1 vote per share	3,106,342,422
	Class B common shares of \$1 par value -5 votes per share	1,330,105,646
		<u>4,436,448,068</u>

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### INCOME STATEMENT

for the years ended on December 31, 2018 and December 31, 2017

(Amounts stated in thousands of pesos, unless otherwise specified)

	Notes	Year ended on December 31,	
		2018	2017
<b>Continuing operations</b>			
Net sales	7	29,029,576	4,956,251
Operating costs	8	(20,499,875)	(4,575,772)
<b>Gross margin</b>		<b>8,529,701</b>	<b>380,479</b>
Selling expenses	9	(1,425,260)	(98,482)
Administrative expenses	10	(1,453,125)	(861,686)
Exploration costs		(156,461)	(931)
Other operating income	12	33,020	76,422
Other operating expenses	12	(28,097)	(12,875)
<b>Operating profit (loss)</b>		<b>5,499,778</b>	<b>(517,073)</b>
Financial income	13	188,960	55,878
Financial costs	13	(1,642,778)	(247,408)
Other net financial loss	13	(2,383,215)	(139,799)
<b>Profit (loss) before profit (loss) from investments in entities accounted for using the equity method and income tax</b>		<b>1,662,745</b>	<b>(848,402)</b>
Profit (loss) from investments in entities accounted for using the equity method	16	(2,034)	15,310
<b>Profit (loss) before income tax</b>		<b>1,660,711</b>	<b>(833,092)</b>
Income tax	14	2,077,970	154,599
<b>Profit (loss) for the year from continuing operations</b>		<b>3,738,681</b>	<b>(678,493)</b>
<b>Discontinued operations</b>			
Profit (loss) for the year from discontinued operations	35	53,407	(108,447)
<b>Profit (loss) for the year</b>		<b>3,792,088</b>	<b>(786,940)</b>
<b>Profit (loss) attributable to:</b>			
Owners of the Parent Company		3,790,753	(785,121)
Non-controlling interest		1,335	(1,819)

The accompanying notes 1 to 36 form an integral part of these Financial Statements.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### STATEMENT OF COMPREHENSIVE INCOME

for the years ended on December 31, 2018 and December 31, 2017

(Amounts stated in thousands of pesos, unless otherwise specified)

	Notes	Year ended on December 31,	
		2018	2017
<b>Profit (loss) for the year</b>		<b>3,792,088</b>	<b>(786,940)</b>
<b>Other comprehensive income:</b>			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
<b>Continuing operations</b>			
Changes in the fair value of investments in equity instruments	18	-	56,238
Income tax related to components of other comprehensive income (i)		-	8,938
<b>Discontinued operations</b>			
Currency translation differences		(11,727)	126,059
<i>Items that will not be reclassified to profit or loss:</i>			
<b>Continuing operations</b>			
Currency translation differences - Tecpetrol S.A.		6,366,848	642,495
Changes in the fair value of investments in equity instruments	18	12,930	-
Remeasurement of post-employment benefit obligations	24	23,038	(74,994)
Income tax related to components of other comprehensive income (ii)		(18,729)	18,749
<b>Total other comprehensive income for the year</b>		<b>6,372,360</b>	<b>777,485</b>
<b>Total comprehensive income for the year</b>		<b>10,164,448</b>	<b>(9,455)</b>
<b>Comprehensive income attributable to:</b>			
Owners of the Parent Company		10,163,556	(10,319)
Non-controlling interest		892	864
		<b>10,164,448</b>	<b>(9,455)</b>
<b>Comprehensive income attributable to Owners of the Parent Company</b>			
Continuing operations		10,122,918	(27,270)
Discontinued operations		40,638	16,951
		<b>10,163,556</b>	<b>(10,319)</b>

(i) Generated by changes in the fair value of investments in equity instruments.

(ii) Generated by changes in the fair value of investments in equity instruments and remeasurement of post-employment benefit obligations.

The accompanying notes 1 to 36 form an integral part of these Financial Statements.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### STATEMENT OF FINANCIAL POSITION at December 31, 2018 and December 31, 2017

(Amounts stated in thousands of pesos, unless otherwise specified)

	Notes	December 31, 2018	December 31, 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment. Exploration, evaluation and development assets	15	62,487,893	15,376,138
Investments in equity instruments at fair value	18	679,904	317,549
Deferred tax asset	27	3,156,662	335,424
Other receivables and prepayments	19	744,673	85,245
Income tax credit		77,586	79,210
Trade receivables	20	436,727	-
<b>Total Non-current assets</b>		<b>67,583,445</b>	<b>16,193,566</b>
<b>Current assets</b>			
Inventories	21	847,572	255,961
Other receivables and prepayments	19	7,937,800	1,665,561
Trade receivables	20	6,890,068	622,647
Cash and cash equivalents	22	467,295	8,466,786
<b>Total Current assets</b>		<b>16,142,735</b>	<b>11,010,955</b>
<b>Total Assets</b>		<b>83,726,180</b>	<b>27,204,521</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	2.8.b	4,436,448	3,800,000
Capital contributions		897,941	897,941
Special reserve		1,017,867	435,751
Other reserves		7,421,212	1,048,409
Retained earnings		1,959,151	(1,450,360)
<b>Total equity attributable to the Owners of the Parent Company</b>		<b>15,732,619</b>	<b>4,731,741</b>
Non-controlling interest		-	2,117
<b>Total Equity</b>		<b>15,732,619</b>	<b>4,733,858</b>
<b>Non-current liabilities</b>			
Borrowings	23	49,484,103	15,545,770
Employee benefits programs	24	973,592	448,984
Provisions	25	2,041,809	1,289,072
Trade and other payables	26	2,051	523
<b>Total Non-current liabilities</b>		<b>52,501,555</b>	<b>17,284,349</b>
<b>Current liabilities</b>			
Borrowings	23	5,041,121	146,155
Employee benefits programs	24	72,077	30,916
Provisions	25	183,657	63,970
Trade and other payables	26	10,195,151	4,945,273
<b>Total Current liabilities</b>		<b>15,492,006</b>	<b>5,186,314</b>
<b>Total Liabilities</b>		<b>67,993,561</b>	<b>22,470,663</b>
<b>Total Equity and Liabilities</b>		<b>83,726,180</b>	<b>27,204,521</b>

The accompanying notes 1 to 36 form an integral part of these Financial Statements.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### STATEMENT OF CHANGES IN EQUITY

for the years ended on December 31, 2018 and December 31, 2017

(Amounts stated in thousands of pesos, unless otherwise specified)

	Attributable to the Owners of the Parent Company							Non-controlling interest	Total	
	Shareholders' contributions		Accumulated profits (losses)			Total	Non-controlling interest			Total
	Share capital	Capital contributions	Reserved earnings		Retained earnings					
			Subscribed capital (i)	Special reserve (ii)		Other reserves				
<b>Balances at December 31, 2017</b>	3,800,000	897,941	435,751	1,048,409	(1,450,360)	4,731,741	2,117	4,733,858		
Incorporation by merger (See Note 1)	636,448	-	582,116	-	(381,242)	837,322	-	837,322		
<b>Profit for the year</b>	-	-	-	-	3,790,753	3,790,753	1,335	3,792,088		
Currency translation differences	-	-	-	6,355,414	-	6,355,414	(293)	6,355,121		
Changes in the fair value of investments in equity instruments	-	-	-	12,930	-	12,930	-	12,930		
Remeasurement of post-employment benefit obligations	-	-	-	23,038	-	23,038	-	23,038		
Income tax related to components of other comprehensive income	-	-	-	(18,579)	-	(18,579)	(150)	(18,729)		
<b>Other comprehensive income for the year</b>	-	-	-	6,372,803	-	6,372,803	(443)	6,372,360		
<b>Total comprehensive income for the year</b>	-	-	-	6,372,803	3,790,753	10,163,556	892	10,164,448		
Paid dividends	-	-	-	-	-	-	(1,369)	(1,369)		
Effect from dissolution of subsidiary	-	-	-	-	-	-	(1,640)	(1,640)		
<b>Balances at December 31, 2018</b>	4,436,448	897,941	1,017,867	7,421,212	1,959,151	15,732,619	-	15,732,619		

(i) See Note 2.8.b.

(ii) Corresponds to General Resolution No. 609/12 of the CNV. (See Note 31 ii)

The accompanying notes 1 to 36 form an integral part of these Financial Statements.

# Tepetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### STATEMENT OF CHANGES IN EQUITY

for the years ended on December 31, 2018 and December 31, 2017 (Cont'd)

(Amounts stated in thousands of pesos, unless otherwise specified)

Notes	Attributable to the Owners of the Parent Company							Non-controlling interest	Total	
	Shareholders' contributions	Accumulated profits (losses)				Total	Non-controlling interest			Total
	Share capital	Capital contributions	Special reserve (i)	Reserved earnings	Other reserves					
<b>Balances at December 31, 2016</b>	1,024,000	-	435,751	273,607	(665,239)	1,068,119	(15,729)	1,052,390		
<b>Loss for the year</b>	-	-	-	-	(785,121)	(785,121)	(1,819)	(786,940)		
Currency translation differences	-	-	-	766,074	-	766,074	2,480	768,554		
18 Changes in the fair value of investments in equity instruments	-	-	-	56,035	-	56,035	203	56,238		
24 Remeasurement of post-employment benefit obligations	-	-	-	(74,994)	-	(74,994)	-	(74,994)		
27 Income tax related to components of other comprehensive income	-	-	-	27,687	-	27,687	-	27,687		
<b>Other comprehensive income for the year</b>	-	-	-	774,802	-	774,802	2,683	777,485		
<b>Total comprehensive income for the year</b>	-	-	-	774,802	(785,121)	(10,319)	864	(9,455)		
Effect from transfer of subsidiary's share interest (ii)	-	897,941	-	-	-	897,941	-	897,941		
Deconsolidation of non-controlling interest in subsidiaries	-	-	-	-	-	-	16,794	16,794		
Non-controlling interest increase	-	-	-	-	-	-	188	188		
Resolutions of the Extraordinary Shareholders' Meeting held on June 26, 2017:										
- Share capital increase	2,776,000	-	-	-	-	2,776,000	-	2,776,000		
<b>Balances at December 31, 2017</b>	<b>3,800,000</b>	<b>897,941</b>	<b>435,751</b>	<b>1,048,409</b>	<b>(1,450,360)</b>	<b>4,731,741</b>	<b>2,117</b>	<b>4,733,858</b>		

(i) Corresponds to General Resolution No. 609/12 of the CNV. (See Note 31 ii)

(ii) Corresponds to the effect of the transfer of share interest in Tepetrol de Bolivia S.A to Tepetrol Internacional S.L.U (See Note 35.)

The accompanying notes 1 to 36 form an integral part of these Financial Statements.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### CASH FLOW STATEMENT

for the years ended on December 31, 2018 and December 31, 2017

(Amounts stated in thousands of pesos, unless otherwise specified)

	Notes	Year ended on December 31,	
		2018	2017
<b>OPERATING ACTIVITIES</b>			
Profit (loss) for the year		3,792,088	(786,940)
Adjustments to profit (loss) for the year to reach operating cash flows	28	11,664,049	1,993,454
Changes in working capital	28	(11,649,970)	(879,304)
Others, including currency translation differences		(277,421)	(660,576)
Payment of employee benefits programs	24	(7,069)	(35,283)
Payment of income tax		(15,406)	(26,083)
<b>Cash generated by / (used in) operating activities</b>		<b>3,506,271</b>	<b>(394,732)</b>
<b>INVESTING ACTIVITIES</b>			
Payments of Investments in property, plant and equipment		(30,630,474)	(7,290,084)
Collection from the sale of Property, plant and equipment		12,142	44,221
Contributions to associates and joint ventures		(15)	(100)
Proceeds from the sale of equity in subsidiaries and associates		3,972	5,265
Collected dividends		58,601	26,396
<b>Cash used in investing activities</b>		<b>(30,555,774)</b>	<b>(7,214,302)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings	23	16,446,275	7,303,976
Issuance of negotiable obligations, after deducting issuance costs	23	-	8,700,599
Payment of borrowings	23	(29,603)	(3,080,646)
Non-controlling interest paid dividends		(1,369)	-
Effect from dissolution of subsidiary		(1,640)	-
Funds received from capital increases of the year		-	1,987,294
Funds received from capital increases of previous years		-	11,498
Non-controlling interest increase		-	188
<b>Cash generated by financing activities</b>		<b>16,413,663</b>	<b>14,922,909</b>
<b>(Decrease) / increase in cash and cash equivalents</b>		<b>(10,635,840)</b>	<b>7,313,875</b>
<b>Changes in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		8,466,786	216,288
(Decrease) / increase in cash and cash equivalents		(10,635,840)	7,313,875
Incorporation of cash and cash equivalents due to merger (see Note 1)		30,375	-
Deconsolidation of subsidiaries		-	(20,531)
Currency translation differences		2,605,974	957,154
<b>Cash and cash equivalents at year-end</b>		<b>467,295</b>	<b>8,466,786</b>
<b>At December 31,</b>			
		<b>2018</b>	<b>2017</b>
Cash and cash equivalents	22	467,295	8,466,786
<b>Cash and cash equivalents at year-end</b>		<b>467,295</b>	<b>8,466,786</b>
<b>Non-cash transactions</b>			
Unpaid Investments in property, plant and equipment at year-end		5,372,714	3,286,936
Debt capitalization with Parent Company		-	788,706
Contributions in kind from capital increases of previous years		-	274,798
Deconsolidation of borrowings due to the sale of subsidiaries		-	5,785,157

The accompanying notes 1 to 36 form an integral part of these Financial Statements.

# **Tecpetrol Sociedad Anónima**

## **Financial Statements at December 31, 2018**

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# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018

(Amounts stated in thousands of pesos, unless otherwise specified)

#### 1. General information

Tecpetrol S.A. (hereinafter referred to as the "Company") was incorporated on June 5, 1981 and its main activity consists in the exploration and exploitation of oil and gas in Argentina. Its legal domicile is Pasaje Della Paolera 299/297, 16th floor, city of Buenos Aires, Argentina.

The Company has an important presence in Vaca Muerta area, through (i) unconventional exploitation concessions in the areas of Fortín de Piedra and Punta Senillosa, which were granted in July 2016 for a period of 35 years and over which the Company holds all rights and obligations; and (ii) the exploration permission over Loma Ancha area. Moreover, as a result of the merger with Americas Petrogas Argentina S.A. (hereinafter referred to as "APASA"), in this year, the Company incorporated joint operations in unconventional hydrocarbon exploration and exploitation areas in the province of Neuquén (Los Toldos and Loma Ranqueles).

In addition, the Company operates in conventional hydrocarbon areas in Neuquina and Noroeste - San Jorge basins through joint operations (see Note 34) and holds all exploitation rights over the area Los Bastos in the province of Neuquén.

On August 21, 2018, the Company obtained an exploration (and potential exploitation) permission over the area Gran Bajo Oriental located in the province of Santa Cruz, for an exploratory period of three years, which may be extended one year. Such permission also allows the possibility of accessing a second exploratory period of three years, which may be extended four years.

The Financial Statements were approved for issuance by the members of the Board of Directors on February 27, 2019.

Reference to "Tecpetrol" in these Financial Statements includes Tecpetrol S.A. and its consolidated subsidiaries.

At December 31, 2018 and December 31, 2017, the Company has consolidated the operations of Dapetrol S.A., hereinafter referred to as "Dapetrol", whose main line of business was the exploration, discovery, exploitation and commercialization of gas and liquid hydrocarbons. The percentage of the shareholding upon equity and votes of such company was 97.50%. Profits (losses) of Dapetrol are disclosed as discontinued operations in the Income Statement and the Statement of Comprehensive Income (see Note 35).

Additionally, during the year ended on December 31, 2017, the Company presented the operations of Tecpetrol de Bolivia S.A. and GEA-GEO Energy Alternatives S.A. as discontinued operations. (See Note 35.)

#### *Early dissolution and cancellation of registration of Dapetrol*

On December 28, 2017, Dapetrol transferred control over its main asset, namely, Oil Mine "José Segundo". As a consequence, on February 27, 2018, the Shareholders of said company at an Extraordinary Meeting approved the early dissolution of the entity pursuant to Section 94, Subsection 1 of Companies Law No. 19.550 (hereinafter referred to as "LGS"), instructing the Board serving as Liquidator to realize all assets and discharge all liabilities.

On August 9, 2018, the members of the Liquidator Board of Dapetrol approved, subject to subsequent ratification by Shareholders, a plan for the distribution of balances and reimbursement of capital. On October 8, 2018, the Shareholders of Dapetrol at an Extraordinary Meeting approved the Special final liquidation Financial Statements at August 31, 2018; the winding up of the company and the plan for the distribution of balances and reimbursement of capital previously prepared by the Liquidator Board. The cancellation of the registration of Dapetrol was recorded with the IGJ on December 26, 2018 under no. 24,833 of Book 92 of Companies by Shares volume, pursuant to Section 112 of LGS.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### 1. General information (Cont'd)

Therefore, these Financial Statements at December 31, 2018 consolidate profits and losses, other comprehensive income, changes in equity and cash flows of Dapetrol for the eight-month period ended on August 31, 2018. At December 31, 2018, Dapetrol has no outstanding balances of accounts representing its financial position. There is no significant difference between consolidated and separate information for the year ended on December 31, 2018.

Comparative information at December 31, 2017 corresponds to the Consolidated Financial Statements at such date. Total assets and liabilities of Dapetrol amounted to \$95,370 and \$10,688, respectively.

#### *Merger with Americas Petrogas Argentina S.A.*

On March 9, 2018, the Directors of the Company approved a Merger Preliminary Commitment between APASA and Tecpetrol S.A. (both companies are directly controlled by Tecpetrol Internacional S.L.U.), whereby Tecpetrol S.A., as the continuing company, would acquire APASA, which will dissolve (but will not wind up), concentrating both entities in a single operating unit for the purposes of optimizing all administrative, functional, financial and operating structures, for the benefit of the continuing company and the economic group as a whole. On April 26, 2018, the Shareholders of both Companies at a General and Extraordinary Meeting approved by unanimous vote the merger of APASA (as the company to be absorbed by Tecpetrol S.A.) and ratified the terms of the Merger Preliminary Commitment, effective as from January 1, 2018. From such date onwards, Tecpetrol S.A. has unrestricted access to all business and financial information of APASA and participates in the decision-making process related to the business. Having served all notices as required by Section 83, Subsection 3 of LGS and without opposition from creditors within the statutory period, on June 1, 2018, Tecpetrol S.A. and APASA executed the Final Merger Agreement through notarially-recorded instrument.

On July 20, 2018, the Board of Directors of the National Securities Commission for Argentina (hereinafter referred to as the "CNV") issued Resolution RESFC-2018-19615-APN-DIR#CNV, by means of which the merger with APASA was approved, together with the amendment of the by-laws of the Company due to the share capital increase; and all documents were referred to the IGJ. On August 14, 2018, the IGJ registered the merger, the by-laws amendment and the capital increase with the Companies Registration Office.

These Financial Statements contemplate such merger.

### 2. Summary of significant accounting policies

The main accounting policies applied in the preparation of these Financial Statements are set out below:

#### 2.1 Basis for preparation

These Financial Statements of the Company and its subsidiaries were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), under a historical cost convention, modified by the revaluation of financial assets and liabilities at fair value.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.1 Basis for preparation (Cont'd)

The CNV, by means of General Resolution No. 622/13, has established the application of Technical Resolutions No. 26 and 29 issued by the Argentine Federation of Professional Councils in Economic Sciences (Federación Argentina de Consejos Profesionales de Ciencias Económicas, FACPCE) which adopt IFRS issued by the IASB, for entities included in the public offering regime under Law No. 17.811 and amendments, either due to their capital stock or negotiable obligations, or because they requested authorization to be included in such regime.

The Financial Statements are disclosed in thousands of Argentine pesos, unless otherwise stated.

Information corresponding to year ended on December 31, 2017 does not include the effect of the merger with APASA, since said merger is effective as from January 1, 2018 (see Note 1); therefore, figures comparability might be affected. APASA transactions during the year ended on December 31, 2017 would have represented an increase of 4.5% in net sales and a decrease of 21.4% in the profit (loss) for the year.

Pursuant to the IFRS, the preparation of these Financial Statements requires the management of the Company to make certain estimates that may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the income and expense figures for the reported years. Actual profits or losses might differ from these estimates.

If applicable, some figures from the Financial Statements for the year ended December 31, 2017 have been reclassified in order to present comparative information in respect of the current year.

#### 2.2 Basis for consolidation

##### (a) Subsidiaries

Subsidiaries are all the entities over which the Company exerts control, either directly or indirectly. The Company controls an entity when it is exposed to, or has rights to, the variable returns from its investment in the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated as from the date on which control is exercised by Tecpetrol and are no longer consolidated from the date on which such control ceases.

The Company applies the acquisition method to report business combinations. The cost of an acquisition is measured at the fair value of the assets acquired, the equity instruments issued and the obligations assumed as of the acquisition date. Acquisition related costs are reported as incurred. Identifiable assets acquired, and debts and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date. Any non-controlling interest in the acquiree is measured either at the fair value at the acquisition date or at the non-controlling interest proportionate share of the net assets acquired. The excess of the cost of acquisition and the amount of any non-controlling interest in the acquiree over the Company's shareholding in identifiable net assets is recorded as goodwill. If this amount is less than the fair value of the net assets acquired, the difference is recognized directly in the Income Statement.

Inter-company transactions and balances, and unrealized profits (losses) on transactions among subsidiaries are removed for consolidation purposes. As the functional currency of some subsidiaries is their respective local currency, some exchange differences profits or losses arising from inter-company transactions are generated. These are included under *Other net financial profit (loss)* in the Income Statement.

The accounting policies of the subsidiaries have been modified where necessary to ensure consistency with the accounting policies adopted by the Company.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.2 Basis for consolidation (Cont'd)

##### *(b) Associates*

Associates are all entities over which the Company has significant influence but not control; it is generally a shareholding of 20-50% of all voting rights. Investments in associates are initially recognized at cost, and subsequently valued according to the equity method.

Investments in associates are recognized as *Investments in entities accounted for using the equity method* in the Statement of Financial Position. Share of earnings and other comprehensive income of associates is reported as *Profits (losses) from investments in entities accounted for using the equity method* and *Other comprehensive income of investments in entities accounted for using the equity method* in the Income Statement and the Statement of Comprehensive Income, respectively.

Unrealized profits (losses) on transactions between Tecpetrol and its associates are removed to the extent of Tecpetrol's interest in such companies.

The accounting policies of associates have been modified when necessary to ensure consistency with the accounting policies adopted by the Company. Additionally the Company includes, where significant, subsequent operations when financial statements at different reporting dates are used to calculate the equity method of accounting.

Investments in associates, each of which is considered a Cash Generating Unit ("CGU"), are reviewed for impairment whenever events or changes in the circumstances indicate that the carrying value may not be recoverable; and, if appropriate, an impairment loss is recorded.

##### *(c) Participation in joint arrangements*

A joint arrangement is an agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activities require the unanimous consent of the parties involved.

Investments whereby two or more parties have joint control are classified as "*joint operations*" when the parties have rights over the assets and obligations in relation to the liabilities of the joint arrangement. Joint operations are consolidated line by line with Tecpetrol's investment.

Also, investments whereby two or more parties have joint control are classified as "*joint ventures*" when the parties have rights over the net assets of the arrangement and are registered according to the equity method, as described above. Investments classified as joint ventures are included as *Investments in entities accounted for using the equity method* in the Statement of Financial Position.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.2 Basis for consolidation (Cont'd)

##### *(c) Participation in joint arrangements (Cont'd)*

Accounting policies for joint operations and ventures have been modified where necessary to ensure consistency with the policies adopted by the Company.

The valuation of joint arrangements is reviewed for impairment whenever events or changes in the circumstances indicate that the carrying value may not be recoverable and, if appropriate, an impairment loss is recorded.

#### 2.3 Foreign currency translation and balances in foreign currency

##### *(a) Functional and presentation currency*

Items included in the Financial Statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The functional currency of the Company is the United States Dollar ("USD"), since this is the currency which best reflects the economic substance of the transactions. Sales and main drilling costs are negotiated, denominated and settled in USD or considering the fluctuations of the exchange rate in relation to the USD.

The presentation currency of the Financial Statements is the Argentine peso ("ARS").

##### *(b) Transactions in currency other than the functional currency*

Transactions carried out in currencies other than functional currency are translated into functional currency using the exchange rates in force at the dates of the transaction or valuation. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the Income Statement, except when deferred to Other comprehensive income as cash flow hedges. Translation differences on non-monetary financial assets and liabilities, such as investments in equity instruments at fair value are reported under Other comprehensive income. Share capital is translated at the exchange rate in force at the date of each capital contribution. The legal reserve is translated at the exchange rate in force at the date on which it is provided by the shareholders.

##### *(c) Currency translation of financial statements*

Financial statements prepared using the functional currency of the Company and all financial statements of Tecpetrol's subsidiaries whose functional currency is different from the presentation currency are translated into the presentation currency pursuant to the following:

- (i) assets and liabilities are translated at the closing exchange rate at each reporting date; profits and losses are translated at the average exchange rate of the year;
- (ii) resulting currency translation differences are reported under Other comprehensive income as currency translation differences. When a subsidiary is dissolved or disposed of, accumulated currency translation differences are reported as profit or loss upon sale or disposal.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.4 Property, plant and equipment. Exploration, evaluation and development assets

Exploration and exploitation rights over areas relating to proven reserves are capitalized.

Acquisition costs related to rights and concessions of probable and possible reserves are initially capitalized; then, if upon completion and evaluation, exploratory results are determined to be unsuccessful, such costs are charged to expense in the period in which the lack of reserves is definitively confirmed by studies, technical reports or additional drillings.

Exploration and evaluation costs are initially capitalized and accumulated on a field-by-field basis. In the case of exclusively exploratory areas, exploration and evaluation costs include geological studies and other costs directly attributable to this activity. Subsequently, if upon field commercial evaluation results are determined to be unsuccessful, these costs are charged to expense in the period in which the lack of reserves is definitively confirmed by studies and technical reports.

Drilling costs of exploratory wells are initially capitalized until it is confirmed that proven reserves are found that justify their commercial development. During this period, and subject to the existence of production associated to such exploratory wells, investment costs are reduced by the net profit (loss) of the sale of that production. If such proven reserves are not found, drilling costs are charged to expense in the period in which this determination is definitively confirmed. Occasionally, an exploratory well may determine the existence of reserves, but they might not be classified as proven reserves once the drilling is completed. In this case, these costs remain capitalized provided that the well has a sufficient quantity of reserves in order to justify its completion as a productive well and that the Company makes sufficient progress in assessing the economic and operational viability of the project.

No depreciation or amortization is charged during the exploration and evaluation phase.

Field development costs are capitalized as *Property, plant and equipment. Exploration, evaluation and development assets*. Said costs include the acquisition and installation of production facilities, development drilling costs and project-related engineering.

Wells drilled in productive fields for the purposes of developing proven reserves are considered development wells; wells which are neither development wells nor service wells are considered exploratory wells.

Work-overs carried out in wells intended to develop reserves and/or increase production are capitalized and depreciated on the basis of their estimated average useful life. Maintenance costs are charged to expense when incurred.

Asset retirement obligations costs are calculated pursuant to the guidelines detailed in Note 2.12.

From time to time, the Company re-evaluates the remaining useful lives of its assets, their residual value and the depreciation method; and adjusts them, if necessary.

Depreciation of wells, machinery, equipment and installations is calculated using the depletion method over the total proven developed reserves of each field as from the month production starts.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.4 Property, plant and equipment. Exploration, evaluation and development assets (Cont'd)

Depreciation of exploration and exploitation rights related to proven reserves is calculated using the depletion method over the total proven reserves of each field.

Depreciation of the remaining Property, plant and equipment is calculated using the straight line method by applying such annual rates as required to write-off their value at the end of their estimated useful lives, pursuant to the following detail:

- Vehicles up to 5 years
- Furniture and office equipment up to 5 years

Profits and losses resulting from sales are determined by comparing the purchase price and the carrying value of the asset at the date of sale, and are reported under *Other operating income/expenses*, as applicable, in the Income Statement.

The carrying value of both production and development areas assets and assets related to probable and possible reserves is reviewed for impairment whenever events or changes in the circumstances indicate that the carrying value may not be recoverable. Impairment losses are reported when the carrying amount of the assets is higher than their recoverable amount. The recoverable amount is the higher of the assets' fair value less direct costs of disposal and their value in use. The value in use is determined on the basis of net future cash flows expected to arise from the remaining commercial reserves.

Assets which have suffered impairment losses in previous years are reviewed at each reporting date in order to assess if the conditions which gave rise to the impairment loss have changed and, if appropriate, to reverse such impairment loss.

#### 2.5 Inventories

Hydrocarbon inventories, supplies and spare parts are valued either at cost, using the weighted average cost formula or at their net realization value, whichever is the lowest.

Upon each closing date, an analysis is carried out to assess recoverable amounts and, if appropriate, an allowance for impairment losses is recognized in the Income Statement.

#### 2.6 Trade and other receivables

Trade and other receivables are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, less allowances for doubtful accounts, if necessary. An allowance for doubtful accounts is established based upon expected credit losses and when there is objective evidence that the Company will not be able to collect trade and other receivables. In order to assess expected credit losses, the Company uses both forward-looking information and historical data. Periodically, the Company evaluates changes in credit risk considering the debtors' significant financial difficulties, the probability that the debtor will file for bankruptcy or will be subject to insolvency proceedings, and default or significant delays in payments; as well as significant changes in foreign market indicators and regulatory or economic conditions. To estimate expected credit losses, the Company groups trade receivables based upon common credit risk indicators and designates an expected bad debt rate according to a historical bad debt ratio adjusted to expected future economic conditions.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.6 Trade and other receivables (Cont'd)

The asset's carrying amount is reported net of allowances for impairment losses, if applicable. The allowance expense is recognized in the Income Statement under *Selling expenses*.

#### 2.7 Cash and cash equivalents

Cash and cash equivalents are carried at fair value or at historical cost, since the latter approximates the fair value. For the purposes of the Cash Flow Statement, cash and cash equivalents include cash in hand, bank deposits, highly liquid investments with original maturities of less than three months and which are readily convertible to cash, and current account overdrafts.

In the Statement of Financial Position, current account overdrafts are shown under *Borrowings* in current liabilities.

#### 2.8 Equity

##### (a) Equity components

The Statement of Changes in Equity includes share capital, capital contributions, the special reserve, other reserves, retained earnings and non-controlling interest.

##### (b) Share capital

On June 26, 2017, the Shareholders at an Extraordinary Meeting approved a capital raise of \$2,776,000, increasing the capital share up to \$3,800,000.

As mentioned in Note 1, on April 26, 2018, the Shareholders at an Annual and Extraordinary Meeting approved the merger with APASA effective as from January 1, 2018; therefore, the share capital of Tecpetrol S.A. reached \$4,436,448 (represented by 4,436,448,068 shares carrying a nominal value of \$1 each). On August 14, 2018, both the merger and the capital increase were registered with the Companies Registration Office.

At December 31, 2018 and December 31, 2017, the Company's subscribed capital amounted to \$4,436,448 and \$3,800,000, respectively; and was represented by 4,436,448,068 and 3,800,000,000 common shares carrying a nominal value of \$1 each.

##### (c) Distribution of dividends

Dividends distributed to the Company's shareholders are based on the Profit (loss) attributable to the Owners of the Parent Company. Distribution of dividends is recognized as a liability in the Financial Statements in the period in which those dividends are approved by the Shareholders at a Meeting.

There was no distribution of dividends in the years ended on December 31, 2018 and December 31, 2017.



# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.8 Equity (Cont'd)

##### (d) Capital contributions

General Resolution No. 562/09 of the CNV establishes that there are certain transactions carried out by an entity with its parent company that, depending on the economic aspect of the transaction, are similar to contributions or withdrawals of capital or profits, and therefore its effects must be directly recognized in Equity. When items with a credit balance are generated, they are treated as capital contributions and are disclosed in Equity in a separate account named "Capital Contributions."

##### (e) Legal reserve

In accordance with LGS, the Company's by-laws and CNV General Resolution No. 622/13, 5% of the net profit for the year less accumulated losses, if any, must be transferred to a legal reserve until such reserve equals 20% of the adjusted capital.

##### (f) Special reserve

CNV General Resolution No. 609/12 sets forth that the difference between the initial balance of retained earnings disclosed in the financial statements of the first year-end under IFRS implementation and the final balance of retained earnings at the end of the last year under the previous accounting standards then in force shall be allocated to a Special Reserve. Such reserve shall not be used for distribution (whether in cash or in kind) among shareholders or owners of the entity and shall only be used for capitalization purposes or to compensate potential negative balances under "Retained earnings." On April 26, 2018, the Shareholders at an Annual General Meeting approved the setting up of this reserve and the restrictions upon its use.

##### (g) Other reserves

Other reserves include the effect of foreign currency translation, changes in the fair value of available-for-sale financial assets, interest in other comprehensive income of investments in entities accounted for using the equity method, net actuarial profits (losses) generated by employee benefits programs and income tax related to components of other comprehensive income.

There follows the breakdown of Other reserves at December 31, 2018 and December 31, 2017:

	Currency translation reserve	Reserve for investments in equity instruments	Reserve for employee benefits programs	Total
<b>Balances at December 31, 2017</b>	1,032,775	59,355	(43,721)	1,048,409
Other comprehensive income for the year	6,355,414	12,930	23,038	6,391,382
Income tax related to components of other comprehensive income	-	(12,820)	(5,759)	(18,579)
<b>Balances at December 31, 2018</b>	<b>7,388,189</b>	<b>59,465</b>	<b>(26,442)</b>	<b>7,421,212</b>

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.8 Equity (Cont'd)

##### (g) Other reserves (Cont'd)

	Currency translation reserve	Reserve for available-for-sale financial assets	Reserve for employee benefits programs	Total
<b>Balances at December 31, 2016</b>	266,701	(5,618)	12,524	273,607
Other comprehensive income for the year	766,074	56,035	(74,994)	747,115
Income tax related to components of other comprehensive income	-	8,938	18,749	27,687
<b>Balances at December 31, 2017</b>	<b>1,032,775</b>	<b>59,355</b>	<b>(43,721)</b>	<b>1,048,409</b>

#### 2.9 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred; and subsequently, they are valued at amortized cost using the effective interest method.

Borrowings are classified as current liabilities unless Tecpetrol has an unconditional right to defer payments of debts for at least 12 months following the reporting date of the Financial Statements.

#### 2.10 Income tax and minimum notional income tax

The income tax expense for the year comprises current and deferred tax. Such tax is recognized in the Income Statement, except in those cases where income tax relates to items recognized under Other comprehensive income. In this case, income tax is directly reported under Other comprehensive income.

Current income tax expense is calculated according to all applicable taxation laws. Tecpetrol periodically evaluates its tax returns regarding situations where tax legislation is subject to certain interpretation and reports allowances when considered appropriate.

Deferred income tax is recognized applying the liability method on temporary differences arising between the tax base of assets and liabilities and their carrying values. The main temporary differences arise from the effect of the difference on functional currency, depreciation of property, plant and equipment, losses, allowances and provisions. Deferred assets and liabilities are measured at the tax rates that are expected to be in force in the period in which the related tax asset is realized or the liability is settled, based on rates and tax laws promulgated at year-end.

Tax losses are recognized as deferred assets provided that it is probable that future taxable income will be generated. At each closing date, Tecpetrol assesses unrecognized deferred assets and reports a previously unrecognized deferred asset to the extent that it is probable that future taxable income will allow the deferred asset to be recovered.

Deferred tax assets and liabilities are offset at the level of each legal entity when there is a legally enforceable right to offset current tax assets and liabilities, and when deferred income tax is levied by the same taxation authority.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.10 Income tax and minimum notional income tax (Cont'd)

Minimum notional income tax is levied on the potential income arising from certain productive assets at a 1% rate and is complementary to income tax, in such a way that the tax liability of the Company will equal the higher of the two. Legislation allows treating said tax as payment on account of the income tax surplus over minimum notional income tax. However; if in a given fiscal year, minimum notional income tax exceeds income tax, the surplus may be reported as a payment on account of the income tax surplus over the amount of minimum notional income tax which might exist in any of the next ten fiscal years. At December 31, 2018 and December 31, 2017, the Company reported a minimum notional income tax balance of \$40 million under Income tax credit.

Minimum notional income tax was abrogated by Section 76 of Law No. 27.260 for all fiscal years commencing on or after January 1, 2019.

#### 2.11 Employee benefits programs

##### *(a) Retirement benefit programs and other plans*

The Company offers ongoing benefit programs such as "unfunded defined benefits" and "other long-term benefits" that, under certain established conditions, are granted after retirement and during an employee's working life, and are recorded according to current accounting standards.

The liability provision for such benefits is recorded at the present value of the obligation at year-end, which is calculated at least once a year by independent actuaries using the "projected unit credit" method.

For unfunded defined benefits, actuarial profits and losses arising from past events adjustments and changes in actuarial assumptions are recognized under Other comprehensive income in the year in which they arise. Previous service costs are recognized immediately in the Income Statement.

Actuarial gains and losses related to other long-term benefits are recognized immediately in the Income Statement.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.11 Employee benefit programs (Cont'd)

##### *(b) Employee retention and long-term incentive program*

Tecpetrol International S.A. (indirect parent company of the Company) has an employee retention and long-term incentive program for certain executives of some subsidiaries. According to this program, the beneficiaries will be granted a number of equity units valued at carrying value per share of Tecpetrol International S.A. (excluding non-controlling interest). The units will be vested over a period of four years and the corresponding subsidiaries will redeem them after a certain period, which according to the terms of the plan granted, contemplates two different redemption periods: a) 10 years from the day they were granted; the employee shall have the right to request payment as from the seventh year onwards; b) 7 years from the day they were granted; or in both cases, when the employment relationship with the payor subsidiary ceases. Payment will be made at carrying value of Equity recorded per share attributable to the Shareholders of Tecpetrol International S.A. upon payment. The beneficiaries of this program will also receive cash payments equivalent to the dividend paid per share, each time Tecpetrol International S.A. pays cash dividends to its shareholders. Considering that the payment under the program is related to the carrying value of Tecpetrol International S.A. shares, the Company values the program as "Other long-term benefits", as required by IAS 19.

The total value of the units granted under this program to employees of the Company, considering both the number of units and the carrying value per share of Tecpetrol International S.A. amounts to USD 12 million and USD 9 million at December 31, 2018 and December 31, 2017, respectively. Pursuant to calculations carried out by independent actuaries, as of December 31, 2018 and December 31, 2017, the Company reported liabilities for \$497.4 million and \$191.6 million and an expense of \$108.1 million and \$58.5 million, respectively (see Note 24).

#### 2.12 Provisions

Provisions are recognized when a) the Company has a present obligation, whether legal or constructive, as a result of past events; b) it is highly probable that an outflow of resources will be required to settle the obligation; and c) the amount can be estimated reliably. Provisions are measured at the present value of the expenditures expected to be required to settle the obligations using an appropriate discount rate.

The provision for assets retirement obligations is calculated by establishing the present value of future costs related to the decommissioning and restoration of each area. When the liability is initially reported, the Company capitalizes these costs by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value during each period, and the initially capitalized cost is depreciated over the estimated useful life of the related asset, as detailed in Note 2.4. The Company periodically re-evaluates the future costs of asset retirement obligations, based upon changes in technology and variations in restoration costs necessary to protect the environment. The effects of these re-calculations are included in the Financial Statements in which they are determined and are disclosed as an adjustment to the provision and to *Property, plant and equipment. Exploration, evaluation and development assets.*

#### 2.13 Trade and other payables

Trade and other payables are recognized at fair value and subsequently re-measured at amortized cost, using the effective interest method. Trade and other payables are classified as current liabilities unless the Company has the right to defer settlement of the liability for at least 12 months following the reporting date of the Financial Statements.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.14 Revenue recognition

Revenues from contracts with customers comprise the fair value of the consideration received or receivable from the sale of goods and services to customers net of value-added tax, withholding taxes and discounts.

Revenues from hydrocarbon sales contracts with customers are recognized when the control of goods or services is transferred to the customer, at fair value of the consideration received or receivable. Performance obligations are discharged and control is transferred to customer upon delivery of hydrocarbons.

Revenues from contracts with customers for services mainly related to the sale of hydrocarbons are recognized over time. The related performance obligation is satisfied as such services are rendered.

Other revenues are recognized on an accrual basis.

#### 2.15 Incentives to production and/or investments

Incentives to production and/or investments created by the national government are recognized according to an accrual basis of accounting when the Company complies with all necessary requirements in order to receive said incentive and has a reasonable certainty that they will be collected.

Said incentives are disclosed under *Net sales* in the Income Statement.

#### 2.16 Operating costs

Operating costs are recognized in the Income Statement on an accrual basis of accounting.

#### 2.17 Financial instruments

Financial assets and liabilities are recognized and derecognized on their settlement date.

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when there is a legally enforceable right to offset such amounts, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies its non-derivative financial instruments into the following categories: at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. The classification depends on both the business model adopted by the Company to manage the financial instruments and the characteristics of their contractual cash flows.

##### *(a) Amortized cost*

Financial assets are valued at amortized cost if the following conditions are met: the business model of the company which owns such financial assets is to collect the contractual cash flows and, according to the contract terms, cash flows are on account of repayment of principal and interest and they occur on specified dates. Interest income are included in the Income Statement using the effective interest rate method.

Besides, financial liabilities are valued at amortized cost, except when they specifically satisfy certain requirements to be included under other category.

This category mainly includes cash, trade receivables and other receivables, borrowings and trade and other payables.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.17 Financial instruments (Cont'd)

##### *(b) Financial assets at fair value through other comprehensive income*

Financial assets are measured at fair value through other comprehensive income if the following conditions are met: i) the business model of the company which owns such financial assets is achieved by both collecting contractual cash flows and selling financial assets, and ii) according to the contract terms, cash flows are on account of repayment of principal and interest and they occur on specified dates.

This category includes investments in equity instruments, since the Company exercised the irrevocable option to disclose changes in the fair value under other comprehensive income as an item that will not be subsequently reclassified to profit or loss. Dividends resulting from these investments are recognized under profit or loss for the year.

The Company evaluates at each Financial Statements reporting date whether there are impairment indicators, and records, if necessary, an impairment charge as part of the changes in the fair value under Other comprehensive income.

##### *(c) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial instruments that do not fit any of the other categories.

This category mainly includes investments in financial debt instruments, fixed-income securities and mutual funds.

#### 2.18 Derivative financial instruments and hedging activities

Derivative financial instruments are recognized at their fair value. For the purposes of calculating the fair value of each instrument, specific tools are used, which are tested for consistency on a regular basis. Market indexes are used for all pricing operations. These include exchange rates, interest rates and other discount rates which mitigate the nature of the underlying risk.

The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument, and if so, on the nature of the item being hedged. Changes in the fair value of derivative financial instruments that are not designated as hedging instruments are immediately recognized in the Income Statement as *Other net financial profit (loss)*.

The fair value of a derivative financial instrument considered a hedging instrument is classified as a non-current asset or liability if the item being hedged has a maturity greater than 12 months; and as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months. Derivatives not considered hedging instruments are classified as current assets or liabilities.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 2.18 Derivative financial instruments and hedging activities (Cont'd)

##### *Cash flow hedges*

When a derivative financial instrument is designated as a hedging instrument, the Company documents the relationship between hedging instruments and hedged items at the inception of the transaction, as well as its objectives and the risk management strategy defined by the management for undertaking various hedge transactions.

Upon hedge inception and on an ongoing basis, the Company also assesses the effectiveness of the derivative financial instruments designated as hedge to offset cash flows of hedged items.

The effective portion of changes in the fair value of derivative financial instruments that are designated as cash flow hedges is recognized under Other comprehensive income. The profit or loss related to the ineffective portion is recognized immediately in the Income Statement under *Other net financial profit (loss)*.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative profit or loss previously reported under Other comprehensive income remains in Other comprehensive income and is reclassified to the Income Statement when the hedged transaction takes place. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in Other comprehensive income is immediately reclassified to the Income Statement.

#### 2.19 Segment information

The Company has identified the different oil and gas fields in which it participates as operating segments; such segments are added in two reportable segments: Neuquina and Noroeste - San Jorge basins. Each reportable segment is managed by an officer in charge, who is directly responsible for managing the operations in the oil fields of each basin.

The decision-making authority is the group of directors composed of the Chairman, the General Operations Director, the General Director of Business Development and the General Director of Corporate Areas, who hold periodical meetings with the officers in charge of the different areas in order to assess the performance of each oil field and allocate resources.

Neuquina basin includes Company operations in the following fields: Fortín de Piedra, Punta Senillosa, Loma Ancha, Los Bastos, Agua Salada and Los Toldos (I Norte, II Este and I Sur), where medianito crude oil and gas are produced. Additionally, it includes all exploratory activities developed in Loma Ranqueles area.

Noroeste - San Jorge basin includes Company operations in the following fields: Aguaragüe and Ramos in Salta, El Tordillo and La Tapera - Puesto Quiroga in Chubut and Lago Argentino in Santa Cruz. These are mature fields, with secondary and tertiary productions, mainly of escalante crude oil and gas. Moreover, as from August 2018, it includes exploratory activities developed in the area of Gran Bajo Oriental in the province of Santa Cruz.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 3. New accounting standards

(a) *New standards, interpretations and amendments to published standards effective as from fiscal year ended December 31, 2018:*

- *IFRS 9 "Financial instruments"*

IFRS 9 "Financial Instruments" was issued in July 2014; replaces IAS 39 "Financial Instruments"; introduces principles for the classification and measurement of financial instruments; and simplifies its valuation in three main categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. Additionally, it sets forth that an entity can make an irrevocable choice at initial recognition of investments in equity instruments not held for trading to disclose subsequent changes in the fair value under other comprehensive income. Should this be the case, changes in the fair value registered under other comprehensive income cannot be subsequently transferred to profit or loss for the period. Dividends resulting from these investments are recognized in profit or loss for the year.

Moreover, IFRS 9 simplifies the requirements related to hedge accounting effectiveness testing and introduces a new model for the impairment of financial assets, which requires the recognition of impairment provisions based upon expected credit losses rather than incurred credit losses.

The Company applied IFRS 9 as from January 1, 2018, exercising the irrevocable option to disclose changes in the fair value of investments in equity instruments under Other comprehensive income. At December 31, 2017, such investments were classified as *Available-for-sale financial assets*; and, as required in IAS 39, the effect of the changes in fair value under Other comprehensive income was exposed as an item that may be subsequently reclassified to profit or loss. Due to the implementation of IFRS 9, such investments are classified as investments *at fair value through other comprehensive income*; thus, maintaining the valuation criterion adopted at December 31, 2017, exposing changes in the fair value under Other comprehensive income as an item which will not be subsequently reclassified to profit or loss. As a result of IFRS 9 application, the accumulated sum of the reserve at December 31, 2017, which amounted to \$59 million will not be reclassified to profit or loss.

The application of IFRS 9 did not have a material impact on these Financial Statements. Comparative figures for previous fiscal years were not restated.

- *IFRS 15 "Revenue from contracts with customers"*

In May 2014, the IASB issued IFRS 15 "Revenue from contracts with customers", which sets forth principles of disclosure of information related to revenue recognition and requirements for the accounting of revenue arising from contracts with customers.

Revenues from contracts with customers comprise the fair value of the consideration received or receivable from the sale of goods and services to customers net of value-added tax, withholding taxes and discounts. Revenues from sales are recognized when the control of goods or services is transferred to the client, at fair value of the consideration received or receivable.



# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 3. New accounting standards (Cont'd.)

*(a) New standards, interpretations and amendments to published standards effective as from fiscal year ended December 31, 2018: (Cont'd)*

IFRS 15 introduces a five-step model framework for revenues recognition and valuation: i) identify the contract with a customer, ii) identify the performance obligations arising from the contract, iii) determine the transaction price, iv) allocate the transaction price to the performance obligations in the contract, and v) recognize revenues when the entity satisfies a performance obligation.

The Company prospectively applied IFRS 15 as from January 1, 2018, and such implementation caused no material impact on these Financial Statements.

The Management assessed the importance of other new standards, interpretations and amendments in force as from the current year and concluded that they are irrelevant for the Company.

*(b) New standards, interpretations and amendments to published standards not yet effective and not early adopted:*

##### - IFRS 16 "Leases"

In January 2016, the IASB issued IFRS 16 "Leases", which modifies the accounting of these operations, basically by removing the distinction between operating and financial leases. This modification will entail changes for most lease agreements both in assets recognition, given the right to use the leased item; and in liabilities, due to the payment of the lease. There is an optional exemption for short-term and low value leases. IFRS 16 is applicable to all years commencing on or after January 1, 2019.

The Management assessed the impact of the application of IFRS 16 on the Financial Statements and concluded it would generate assets and liabilities for \$1,562.4 million at January 1, 2019.

The Management assessed the importance of other new standards, interpretations and amendments not yet effective and concluded that they are irrelevant for the Company.

#### 4. Financial risk management

##### 4.1 Financial risk factors

Due to their activities, the Company and its subsidiaries are exposed to a series of financial risks, mainly related to market risks (including fluctuations in exchange rates, interest rates and prices), credit risk concentration, liquidity risk and capital risk.

The risk management program is focused on the unpredictability of financial markets and aims at minimizing the potential adverse effects on its financial performance.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 4.1 Financial risk factors (Cont'd)

##### (i) Exchange rate risk of foreign currency

The Company and its subsidiaries are exposed to fluctuations in exchange rates for those transactions conducted in a currency other than the functional currency. As the functional currency is the USD, the Company intends to reduce the risk related to fluctuations in the exchange rates of other currencies against the USD.

Exposure to fluctuations in foreign exchange rate is reviewed periodically. The Company intends to counteract the potentially negative impact of variations in the value of other currencies with respect to its functional currency, using derivative financial instruments, if necessary.

Exposure to the Argentine peso at December 31, 2018 and December 31, 2017, stated in thousands of USD, was \$258,393 (assets) and \$837 (liabilities), respectively.

Tecpetrol estimates that the impact of a favorable variation (depreciation of the Argentine peso against the USD) / unfavorable (revaluation of the Argentine peso against the USD) of 1% in the exchange rate would result in a profit / (loss) of USD 2.58 million and USD 0.01 million at December 31, 2018 and December 31, 2017, respectively.

##### (ii) Interest rate risk

Tecpetrol is exposed to cash flows risks generated by the volatility of the interest rate, mainly related to short-term investments and borrowings.

The table below shows the percentages of fixed interest rate and floating interest rate debt at the closing date of each year:

	December 31, 2018		December 31, 2017	
	Amount	Percentage	Amount	Percentage
Fixed rate	21,801,014	40%	10,768,474	69%
Floating rate	32,724,210	60%	4,923,451	31%

If interest rates on the accumulated nominal average of borrowings held during the year had been 50 basis points higher with all other variables remaining constant, net income would have been \$94.1 million less at December 31, 2018 (\$12.7 million less at December 31, 2017). Note 23 includes information concerning the interest rate applicable to main borrowings.

##### (iii) Credit risk concentration

Tecpetrol's financial assets which are potentially exposed to credit risk concentrations are mainly deposits in financial institutions, and trade and other receivables.

As regards deposits in financial institutions, the Company reduces its exposure to significant concentrations of credit risk maintaining its deposits and placing its cash investments with top-class financial institutions, either directly or through related companies which act as a financial agent.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 4.1 Financial risk factors (Cont'd)

##### (iii) Credit risk concentration (Cont'd)

With regard to trade receivables, the Company implements policies to ensure that products are sold to customers with an appropriate credit history, or, if not available, letters of credit. Tecpetrol actively monitors the credit history of its customers, determining individual credit lines which are reviewed periodically and identifying cases where insurance, credit letters or other instruments intended to mitigate credit risks are necessary. For the credit analysis, the Company uses internal information about the performance of its customers as well as external sources.

At December 31, 2018, trade receivables are guaranteed with credit insurance for \$1,683,318 and guarantees for \$339,003; whereas at December 31, 2017, credit insurance equaled \$178,218 and guarantees reached \$55,947.

At December 31, 2018, 34% of Tecpetrol's trade receivables arise from transactions with CAMMESA, whereas at December 31, 2017, 34% arose from transactions with YPF S.A. and 16% with CAMMESA.

Regarding other receivables, at December 31, 2018 and December 31, 2017, 37.3% and 12.3%, respectively, correspond to incentives granted by the national government.

##### (iv) Liquidity risk

The financial strategy seeks to maintain adequate financial resources and access to credit facilities to finance the operations of the Company. During the year, Tecpetrol used cash flows generated by its own operations as well as external financing and borrowings granted by related companies.

Tecpetrol has a conservative strategy as regards liquidity management, which consists in maintaining a substantial portion of its funds in cash, liquid funds and short-term investments with a maturity of not more than three months from the purchase date.

There follows a table representing an analysis of the Company's financial liabilities including contractual due dates:

	<b>Less than one year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>
<b>At December 31, 2018</b>			
Borrowings	5,041,121	24,072,380	25,411,723
Trade and other payables	8,931,674	-	-
Interest on borrowings not yet accrued	2,529,142	1,920,928	2,035,197
<b>Total</b>	<b>16,501,937</b>	<b>25,993,308</b>	<b>27,446,920</b>
	<b>Less than one year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>
<b>At December 31, 2017</b>			
Borrowings	146,155	73,646	15,472,124
Trade and other payables	4,735,518	-	-
Interest on borrowings not yet accrued	531,888	521,370	1,762,442
<b>Total</b>	<b>5,413,561</b>	<b>595,016</b>	<b>17,234,566</b>

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 4.1 Financial risk factors (Cont'd)

##### (v) Price risk

The Company is exposed to the variation in the international prices of crude oil, given that it exports part of its production and the sales price agreed in the domestic market is determined considering international values. A USD 1 variation in the reference price of the barrel of crude oil, with all other variables remaining constant, would imply an impact upon profits or losses of Tecpetrol of USD 1.9 million and USD 2.4 million at December 31, 2018 and December 31, 2017, respectively.

With regard to the turnover from gas sales, a variation of USD 0.1 per million of BTU, with all other variables remaining constant, would imply an impact upon profits or losses of Tecpetrol of USD 7.6 million and USD 1.8 million for the years ended on December 31, 2018 and December 31, 2017, respectively. It should be noted that the above-mentioned analysis does not consider revenues from net sales arising from incentives to production granted by the national government.

At December 31, 2018 and December 31, 2017, the Company does not have derivative financial instruments to mitigate price risk.

##### (vi) Capital risk

The Company seeks to maintain an adequate level of indebtedness over total equity considering the industry and the markets in which it operates. The annual debt/total equity ratio (where "debt" comprises all financial borrowings and "equity" is the aggregate of financial borrowings and equity) is 0.78 at December 31, 2018, compared with 0.77 at December 31, 2017. The Company is not obliged to comply with external capital requirements.

#### 4.2 Financial instruments by category

Financial instruments by category are disclosed below:

	At fair value through profit or loss	At amortized cost	At fair value through other comprehensive income	Total
<b>At December 31, 2018</b>				
<b>Assets</b>				
Investments in equity instruments at fair value	-	-	679,904	679,904
Other receivables	-	3,632,634	-	3,632,634
Trade receivables	-	7,326,795	-	7,326,795
Cash and cash equivalents	287,657	179,638	-	467,295
<b>Total</b>	<b>287,657</b>	<b>11,139,067</b>	<b>679,904</b>	<b>12,106,628</b>
		At amortized cost	Total	
<b>At December 31, 2018</b>				
<b>Liabilities</b>				
Borrowings		54,525,224	54,525,224	
Trade and other payables		8,931,674	8,931,674	
<b>Total</b>		<b>63,456,898</b>	<b>63,456,898</b>	

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 4.2 Financial instruments by category (Cont'd)

<b>At December 31, 2017</b>	<b>At fair value through profit or loss</b>	<b>At amortized cost</b>	<b>Available-for-sale</b>	<b>Total</b>
<b>Assets</b>				
Investments in equity instruments at fair value	-	-	317,549	317,549
Other receivables	-	385,783	-	385,783
Trade receivables	-	622,647	-	622,647
Cash and cash equivalents	22,012	8,444,774	-	8,466,786
<b>Total</b>	<b>22,012</b>	<b>9,453,204</b>	<b>317,549</b>	<b>9,792,765</b>

<b>At December 31, 2017</b>	<b>At amortized cost</b>	<b>Total</b>
<b>Liabilities</b>		
Borrowings	15,691,925	15,691,925
Trade and other payables	4,735,518	4,735,518
<b>Total</b>	<b>20,427,443</b>	<b>20,427,443</b>

#### 4.3 Fair value estimate

##### Fair value hierarchies

Financial instruments measured at fair value can be classified into any of the following hierarchical levels, depending on how the fair value is estimated:

Level 1 – Based on quoted prices in active markets for identical assets and liabilities. The fair value of financial instruments traded in active markets is based on the market quoted price at the end of the reporting year. A market is considered active when the quoted prices are available and such prices represent transactions regularly conducted between independent parties.

Level 2 – Based on market inputs (other than quoted market prices included within Level 1) that are observable for assets and liabilities, either directly (e.g. prices) or indirectly (e.g. derived from prices). For the estimates of fair value, the Company applies a series of methods and assumptions based on the market conditions existing at the presentation date of the Financial Statements. The fair value of financial instruments that are not traded in an active market is determined by means of standard valuation techniques which maximize the use of observable market inputs.

Level 3 – Based on information not observable in the market (for example, discounted cash flows).

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 4.3 Fair value estimate (Cont'd)

The following table presents the financial assets and liabilities measured at fair value by hierarchy level at December 31, 2018 and December 31, 2017:

<b>At December 31, 2018</b>	<b>Level 1</b>	<b>Level 3</b>
<b>Assets</b>		
Investments in equity instruments at fair value	-	679,904
Cash and cash equivalents	287,657	-
<b>Total</b>	<b>287,657</b>	<b>679,904</b>

  

<b>At December 31, 2017</b>	<b>Level 1</b>	<b>Level 3</b>
<b>Assets</b>		
Investments in equity instruments at fair value	-	317,549
Cash and cash equivalents	22,012	-
<b>Total</b>	<b>22,012</b>	<b>317,549</b>

There were no transfers among levels 1, 2 and 3 in the course of the year ended December 31, 2018.

#### Fair value estimate

For the purposes of estimating the fair value of cash equivalents, the Company generally uses the historical cost, as this one approximates the fair value.

The carrying value of cash, trade and other receivables and trade and other payables, less the allowance for impairment, if applicable, approximates their fair value.

Moreover, the fair value of current and non-current borrowings does not significantly differ from their carrying value at December 31, 2018 and December 31, 2017.

In all cases, the fair value was determined based upon discounted cash flows using the market rates and items are classified as Level 2, save for negotiable obligations whose fair value was determined based upon the quoted price (Level 1), which reached USD 92.50 and USD 99.94 for each USD 100 of nominal value, at December 31, 2018 and December 31, 2017, respectively.

#### **5. Critical accounting judgments and estimates**

In the preparation of the Financial Statements, the Company makes estimates and assumptions regarding future events. Estimates and judgments are constantly assessed and are based on the historical experience and other factors, including the expectations of future events considered reasonable according to the circumstances. Actual future profits or losses might differ from those estimates. There follows a detail of the most significant estimates and assumptions:

##### *(a) Hydrocarbon reserves (\*)*

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

(\*) Information not included in the Independent Auditor's Report on the Financial Statements.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 5. Critical accounting judgments and estimates (Cont'd)

##### (a) Hydrocarbon reserves (\*) (Cont'd)

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

Developed and undeveloped hydrocarbon proven reserves estimated at December 31, 2018 are disclosed below:

##### **Crude Oil**

Proven developed reserves: 3.13 million of m3

Undeveloped proven reserves: 3.39 million of m3

##### **Natural gas:**

Proven developed reserves: 14.67 billion of m3

Undeveloped proven reserves: 30.26 billion of m3

The above-mentioned reserves are made up of the proven reserves liable to be extracted. The estimates of our reserves were based upon the information provided by the engineers, geologists and geophysicists of the Company and certified by an independent auditor of reserves.

The estimates of reserves are based on technological and economic conditions in force at December 31, 2018, considering the economic assessment within the term of the concession agreement in order to determine the period for recoverability. Reserve estimates are adjusted at least on an annual basis or whenever changes in the aspects considered for their evaluation so justify it.

(\*) Information not included in the Independent Auditor's Report on the Financial Statements.

##### (b) Impairment of long-term assets

The assessment of the recoverability of long-term assets implies that the management uses a series of estimates and critical assumptions described in Note 17.

##### (c) Provision for asset retirement obligations

Obligations related to well decommissioning and restoration, after the completion of operations, led management to make estimates of long-term asset retirement obligations costs and of the remaining period up to decommission. Technology, costs and political, environmental and safety considerations constantly change, giving rise to possible differences between actual future costs and estimates.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 5. Critical accounting judgments and estimates (Cont'd)

##### (d) Contingencies

Tecpetrol is subject to various complaints, lawsuits and other legal proceedings which arise during the ordinary course of business. Liabilities related to said complaints, lawsuits and other legal proceedings cannot be accurately estimated. The Company analyzes the status of each contingency and assesses the potential financial exposure. If the related potential loss is considered probable and the amount can be reasonably estimated, a provision is recorded. The management estimates the amount of this provision based on the information available and the assumptions and methods that are considered appropriate. Such estimates are made mainly with the assistance of legal counsel. Estimates are periodically reviewed and adjusted, as the Company obtains additional information.

#### 6. Segment information

	Year ended on December 31, 2018			
	Neuquina basin	Noroeste - San Jorge basin	Others (i)	Total continuing operations
Net sales - Managerial Vision	24,991,453	4,380,445	7,155	29,379,053
Effect of hydrocarbon inventory valuation	(44,449)	(253,365)	-	(297,814)
Exploratory investments production	(51,663)	-	-	(51,663)
<b>Net sales - IFRS</b>				<b>29,029,576</b>
Oil and gas	24,895,341	4,118,764	-	29,014,105
Other services	-	8,316	7,155	15,471
<b>Net sales - IFRS</b>				<b>29,029,576</b>
<b>Operating profit (loss) - Managerial Vision</b>	<b>5,997,903</b>	<b>1,082,046</b>	<b>(113,466)</b>	<b>6,966,483</b>
Adjustment of hydrocarbon inventory valuation	(11,974)	78,647	-	66,673
Depreciation of exploratory investments	51,663	-	-	51,663
Other depreciation and impairment differences	(81,852)	(117,924)	6,896	(192,880)
Administrative expenses (*)				(1,392,161)
<b>Operating profit IFRS</b>				<b>5,499,778</b>
Depreciation and impairment of PPE (**) - Managerial Vision	(12,301,025)	(769,589)	(93,200)	(13,163,814)
Depreciation and impairment differences	(30,189)	(117,924)	6,896	(141,217)
<b>Depreciation and impairment of PPE - IFRS</b>				<b>(13,305,031)</b>
	<b>Neuquina basin</b>	<b>Noroeste - San Jorge basin</b>	<b>Others (i)</b>	<b>Total</b>
PPE - Managerial Vision	57,361,522	5,235,324	323,014	62,919,860
Accumulated depreciation and impairment differences				(431,967)
<b>PPE - IFRS</b>				<b>62,487,893</b>
Investments in PPE	31,943,427	700,464	72,361	32,716,252
<b>Investments in PPE</b>				<b>32,716,252</b>

(i) Corresponds to other activities of the Company not included under the defined operating segments.

(\*) Corresponds to expenses not allocated to operating profit (loss) of defined reportable segments.

(\*\*) PPE: Property, plant and equipment.



# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 6. Segment information (Cont'd)

	Year ended on December 31, 2017			
	Neuquina basin	Noroeste - San Jorge basin	Others (i)	Total continuing operations
Oil and gas	2,726,303	2,213,269	-	4,939,572
Other services	-	7,623	9,056	16,679
<b>Net sales - IFRS</b>				<b>4,956,251</b>
<b>Operating profit (loss) - Managerial Vision</b>	<b>375,524</b>	<b>(494,327)</b>	<b>245,973</b>	<b>127,170</b>
Depreciation and impairment differences	(9,821)	193,837	1,625	185,641
Administrative expenses (*)				(829,884)
<b>Operating loss IFRS</b>				<b>(517,073)</b>
Depreciation and impairment of PPE (**) - Managerial Vision	(1,156,629)	(850,166)	(54,114)	(2,060,909)
Depreciation and impairment differences	(9,821)	193,837	1,625	185,641
<b>Depreciation and impairment of PPE - IFRS</b>				<b>(1,875,268)</b>
	<b>Neuquina basin</b>	<b>Noroeste - San Jorge basin</b>	<b>Others (i)</b>	<b>Total</b>
PPE - Managerial Vision	12,301,328	3,004,988	153,947	15,460,263
Accumulated depreciation and impairment differences				(84,125)
<b>PPE - IFRS</b>				<b>15,376,138</b>
Investments in PPE	10,201,282	307,967	23,656	10,532,905
Investments in PPE - Tecpetrol de Bolivia S.A. and Dapetrol				44,115
<b>Investments in PPE</b>				<b>10,577,020</b>

(i) Corresponds to other activities of the Company not included under the defined operating segments.

(\*) Corresponds to expenses not allocated to operating profit (loss) of defined reportable segments.

(\*\*) PPE: Property, plant and equipment.

Depreciation and impairment differences mainly arise from the difference in acquisition costs resulting from the Property, plant and equipment valuation criteria adopted upon transition to IFRS; and from the different criteria of depreciation of seismic exploration, which is depreciated, under Managerial Vision, according to the straight line method in a four-year period; and, under IFRS, pursuant to the depletion method.

At December 31, 2018, net sales arose from the USA (6.09%) and China (2.56%), and the remaining percentage from Argentina; whereas at December 31, 2017 net sales came from China (6.43%) and the remaining percentage from Argentina. The designation of net sales is based upon customer location.

At December 31, 2018, the customer representing or surpassing 10% of the income from regular activities of the Company is CAMMESA (15.22%); whereas at December 31, 2017, they were: Y.P.F. SOCIEDAD ANONIMA (21.32%) and Shell C.A.P.S.A. (17.19%).

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 7. Net sales

	Year ended on December 31,	
	2018	2017
Gas (i)	22,460,047	2,794,633
Oil	6,554,200	2,435,409
Other services	15,471	16,679
	<b>29,029,718</b>	<b>5,246,721</b>
From discontinued operations	(142)	(290,470)
	<b>29,029,576</b>	<b>4,956,251</b>

(i) It includes \$5,085,042 due to incentives to investments in natural gas production developments from unconventional reservoirs obtained through Resolution No. 46E/2017 and amendments for the year ended on December 31, 2018 (see Note 32), and \$198,424 due to other incentives to natural gas injection obtained through Resolution No. 60/2013 for the year ended on December 31, 2017.

#### 8. Operating costs

	Year ended on December 31,	
	2018	2017
Inventories at the beginning of the year	255,961	271,129
Inventories incorporated due to merger	8,701	-
Purchases, uses and production costs	20,751,332	4,763,321
Inventories at year-end	(847,572)	(255,961)
Currency translation differences	331,498	35,999
<b>Costs of sales</b>	<b>20,499,920</b>	<b>4,814,488</b>
From discontinued operations	(45)	(238,716)
	<b>20,499,875</b>	<b>4,575,772</b>
Labor costs	1,117,740	448,524
Fees and services	272,746	156,020
Maintenance operations and wells service costs	2,370,968	1,204,797
Depreciation of property, plant and equipment	13,032,621	1,714,241
Impairment of property, plant and equipment	211,446	264,942
Treatment, storage and loading	180,847	121,476
Royalties and other taxes (i)	3,204,753	686,275
Other production costs	343,159	218,213
Stock uses and purchases	17,052	(51,167)
<b>Purchases, uses and production costs</b>	<b>20,751,332</b>	<b>4,763,321</b>

(i) Royalties are paid for the production of crude oil and natural gas ranging, in most areas, from 12% to 17% of said production, valued on the basis of the prices actually obtained in the commercialization of hydrocarbons in the area, less deductions provided for in the legislation for the treatment of the product to make it fit for delivery to third parties.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 9. Selling expenses

	Year ended on December 31,	
	2018	2017
Taxes	604,784	126,512
Storage and loading	609,223	72,237
Charge / (recovery) of allowance for doubtful accounts	206,262	(96,454)
Others	5,148	2,289
	<b>1,425,417</b>	<b>104,584</b>
From discontinued operations	(157)	(6,102)
	<b>1,425,260</b>	<b>98,482</b>

#### 10. Administrative expenses

	Year ended on December 31,	
	2018	2017
Labor costs	998,560	659,541
Fees and services	211,092	162,508
Depreciation of property, plant and equipment	60,964	31,802
Taxes	409,906	162,104
Office expenses	203,957	122,309
Reimbursement of expenses (*)	(430,378)	(264,455)
	<b>1,454,101</b>	<b>873,809</b>
From discontinued operations	(976)	(12,123)
	<b>1,453,125</b>	<b>861,686</b>

(\*) These are not liable to association or proration in connection with each line involved in the costs and/or expenses notes, but rather in connection with the tasks which constitute the function of the operator.

#### 11. Labor costs (included in operating costs and administrative expenses) (\*\*)

	Year ended on December 31,	
	2018	2017
Salaries, wages and other costs	1,629,749	858,088
Social security costs	300,027	149,282
Employee benefits programs (Note 24)	186,524	100,695
	<b>2,116,300</b>	<b>1,108,065</b>

(\*\*) It includes discontinued operations.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 12. Other operating profit (loss), net

	Year ended on December 31,	
	2018	2017
<i>Other operating income</i>		
Income from other sales	8,093	1,418
Income from the sale of property, plant and equipment	-	3,530
Reversal of provision for asset retirement obligations	16,769	97,415
Recovery of provision for legal claims and contingencies	1,168	11,023
Refunds	-	6,822
Other services	-	49,713
Others	8,092	870
	<b>34,122</b>	<b>170,791</b>
From discontinued operations	(1,102)	(94,369)
	<b>33,020</b>	<b>76,422</b>
<i>Other operating expenses</i>		
Loss from the sale and write-off of property, plant and equipment	(15,593)	-
Provision for legal claims and contingencies	(2,165)	(3,048)
Loss from the sale of José Segundo mine	-	(7,492)
Others	(11,125)	(9,944)
	<b>(28,883)</b>	<b>(20,484)</b>
From discontinued operations	786	7,609
	<b>(28,097)</b>	<b>(12,875)</b>

#### 13. Net financial profit (loss)

	Year ended on December 31,	
	2018	2017
Dividend income	58,601	26,396
Interest income	131,161	30,597
<b>Financial income</b>	<b>189,762</b>	<b>56,993</b>
Interest cost	(1,642,795)	(360,988)
<b>Financial costs</b>	<b>(1,642,795)</b>	<b>(360,988)</b>
Net profit (loss) from exchange differences - (Loss)	(2,375,448)	(136,927)
Other net financial loss	(7,977)	(6,245)
<b>Other net financial loss</b>	<b>(2,383,425)</b>	<b>(143,172)</b>
<b>Net financial profit (loss)</b>	<b>(3,836,458)</b>	<b>(447,167)</b>
From discontinued operations - (Profit) / Loss	(575)	115,838
	<b>(3,837,033)</b>	<b>(331,329)</b>

Each item included in this note differs from its respective line in the Income Statement, as it includes the profit / (loss) from discontinued operations.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 14. Taxes

	Year ended on December 31,	
	2018	2017
Current income tax - Loss	-	2,140
Deferred income tax - (Profit) (Note 27)	(2,278,209)	(156,739)
Special revaluation tax - Loss	200,239	-
	<b>(2,077,970)</b>	<b>(154,599)</b>

Income tax on Company's before-tax profit (loss) is different from the theoretical amount that would result from applying the effective tax rate, as explained below:

	Year ended on December 31,	
	2018	2017
<b>Profit (loss) before income tax at tax rate</b>	<b>498,213</b>	<b>(291,582)</b>
Profit from investments in entities accounted for using the equity method	610	552
Exchange and translation differences	992,801	146,137
Effect from changes in the tax rate	737,729	(8,783)
Effect from inflation adjustments and tax revaluation	(4,510,584)	-
Special revaluation tax - Loss	200,239	-
Non-taxable income, non-deductible expenses and others	3,022	(923)
<b>Profit (loss) from income tax for the year – (Profit)</b>	<b>(2,077,970)</b>	<b>(154,599)</b>

#### *Tax Reform in Argentina*

On December 28, 2017, the President promulgated Law No. 27.430; and on December 29, 2017, such Law was published in the Official Gazette. Among other topics, under Title I, Law No. 27.430 introduces several modifications to the income tax law, namely:

- Income tax rate: income tax rates for Argentine companies are reduced from 35% to 30% for all fiscal years commencing as from January 1, 2018 and until December 31, 2019; and to 25% for all fiscal years commencing on or after January 1, 2020.
- Tax levied upon dividends: an additional tax will be levied on dividends or profits distributed, among others, by Argentine companies or permanent entities to physical persons, undivided estates or foreign beneficiaries, pursuant to the following: (i) 7% dividend withholding tax for distributions of profits accrued for years commencing between January 1, 2018 and December 31, 2019; and (ii) 13% dividend withholding tax for distributions of profits accrued for years starting on or after January 1, 2020.

Dividends arising from benefits obtained up to the year prior to the one commenced on or after January 1, 2018 shall remain subject, for all beneficiaries, to the 35% withholding tax on the amount exceeding distributable accumulated profits which have not paid income tax.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 14. Taxes (Cont'd)

Under Title X, Chapter I; Law No. 27.430 also sets forth an Optional tax revaluation (hereinafter referred to as "Revaluation"). Pursuant to the new legislation, the companies might, at their option, reevaluate their assets located in the country that are affected by taxable income at December 31, 2017, applying a revaluation factor at construction or acquisition cost, according to the relevant date. Companies that elect to be included in this regime will be subject to a special tax which will depend upon the different rates applicable to the different assets: real estate not accounted for as Inventories – 8%; real estate accounted for as Inventories – 15%; other assets - 10%. Once Revaluation takes place, all assets included under the same item must be updated. The above-mentioned special tax will not be deductible when assessing income tax. Profits or losses originated by the Revaluation are not subject to either income tax or minimum notional income tax. The Executive Office regulated Title X, Chapter I of Law No. 27.430 and the Federal Administration of Public Revenue (Administración Federal de Ingresos Públicos, AFIP) issued the related regulations determining the operating aspects which will allow for the payment of the special tax. As of the date of issuance of these Financial Statements, the Company decided to exercise the Revaluation option and set up a provision of \$200.2 million as a special tax exposed under income tax in the Income Statement.

Moreover, Law No. 27.430 establishes that acquisitions of or investments in assets carried out during fiscal years commencing as from January 1, 2018, together with all assets included in the Revaluation process, shall be updated upon the base of percentage variation of Internal Basic Price Index Wholesale (Índice de Precios Internos al por Mayor, IPIM) as indicated by the Argentine National Institute of Statistics (Instituto Nacional de Estadística y Censos); situation which increases deductible depreciation and cost in the event of sale. In December 2018, Congress passed Law No. 27.468 whereby IPIM is replaced with the Consumer Price Index for the purposes of the tax update of revaluated assets at December 31, 2017 and of acquisitions of or investments in assets carried out in subsequent fiscal years.

On December 27, 2018, Decree No. 1.170/2018 was published in the Official Gazette. Such Decree amends Regulatory Decree No. 1.344/1998 on Income tax and amendments, and updates its content pursuant to the amendments introduced by the new Commercial and Civil Code and other legislation, such as Laws No. 27.260, 27.346 and 27.430.

# Tecpetrol Sociedad Anónima Financial Statements at December 31, 2018

## Notes to the Financial Statements at December 31, 2018 (Cont'd)

### 15. Property, plant and equipment. Exploration, evaluation and development assets

	Year ended on December 31, 2018						
	Development and production assets	Machinery and equipment	Asset retirement obligations	Exploration and evaluation	Work in progress (*)	Others	Total
<b>Cost</b>							
At the beginning of the year	18,484,528	3,720,908	543,157	357,149	9,787,997	759,172	33,652,911
Incorporation by merger	65,799	18,649	10,870	1,131,015	175,190	44,752	1,446,275
Currency translation differences	27,044,488	7,768,042	579,146	1,661,968	10,254,980	1,098,410	48,407,034
Additions	12,110	-	133,712	-	32,155,384	548,758	32,849,964
Transfers	23,625,339	18,343,571	-	1,066,174	(42,999,395)	(25,689)	-
Write-offs	(382,259)	(5,151)	(396,064)	(70,743)	(136,709)	(31,624)	(1,022,550)
At year-end	68,850,005	29,846,019	870,821	4,135,563	9,237,447	2,393,779	115,333,634
<b>Depreciation</b>							
At the beginning of the year	14,605,574	3,118,154	258,633	-	-	294,412	18,276,773
Incorporation by merger	-	11,189	-	-	-	-	11,189
Currency translation differences	16,855,171	3,777,715	293,928	-	-	334,974	21,261,788
Depreciation for the year	8,200,608	4,686,666	84,382	-	-	121,929	13,093,585
Impairment for the year	187,874	5,345	18,227	-	-	-	211,446
Write-offs	-	(3,773)	-	-	-	(5,267)	(9,040)
At year-end	39,849,227	11,595,296	655,170	-	-	746,048	52,845,741
<b>Residual value at December 31, 2018</b>	<b>29,000,778</b>	<b>18,250,723</b>	<b>215,651</b>	<b>4,135,563</b>	<b>9,237,447</b>	<b>1,647,731</b>	<b>62,487,893</b>

(\*) It includes \$159,787 from Works in progress related to exploratory investments at December 31, 2018.

## Tecpetrol Sociedad Anónima Financial Statements at December 31, 2018

Notes to the Financial Statements at December 31, 2018 (Cont'd)

### 15. Property, plant and equipment. Exploration, evaluation and development assets (Cont'd)

	Year ended December 31, 2017						
	Development and production assets	Machinery and equipment	Asset retirement obligations	Exploration and evaluation	Works in progress	Others	Total
<u>Cost</u>							
At the beginning of the year	15,248,818	5,243,721	480,913	736,327	1,397,149	519,809	23,626,737
Currency translation differences	2,622,081	523,736	86,204	49,103	823,586	101,541	4,206,251
Additions	-	-	147,248	-	10,365,799	211,221	10,724,268
Transfers	2,549,118	272,045	-	(428,281)	(2,489,863)	96,981	-
Write-offs	(221,822)	(74,189)	(36,669)	-	-	(16,923)	(349,603)
Deconsolidation of subsidiaries	(1,713,667)	(2,244,405)	(134,539)	-	(308,674)	(153,457)	(4,554,742)
At year-end	18,484,528	3,720,908	543,157	357,149	9,787,997	759,172	33,652,911
<u>Depreciation</u>							
At the beginning of the year	11,187,059	2,570,858	197,504	-	-	163,741	14,119,162
Currency translation differences	2,115,039	454,842	38,369	-	-	41,895	2,650,145
Depreciation for the year	1,439,913	187,070	55,456	-	-	63,604	1,746,043
Impairment for the year	226,903	27,001	11,038	-	-	-	264,942
Transfers	-	(34,940)	-	-	-	34,940	-
Write-offs	(190,433)	(30,952)	(33,339)	-	-	(9,768)	(264,492)
Deconsolidation of subsidiaries	(172,907)	(55,725)	(10,395)	-	-	-	(239,027)
At year-end	14,605,574	3,118,154	258,633	-	-	294,412	18,276,773
<b>Residual value at December 31, 2017</b>	<b>3,878,954</b>	<b>602,754</b>	<b>284,524</b>	<b>357,149</b>	<b>9,787,997</b>	<b>464,760</b>	<b>15,376,138</b>



# Tecpetrol Sociedad Anónima Financial Statements at December 31, 2018

## Notes to the Financial Statements at December 31, 2018 (Cont'd)

### 16. Investments in entities accounted for using the equity method

There follows a detail of investments in entities accounted for using the equity method:

#### *Investments in joint ventures*

Company	Main line of business	Common shares 1 vote	Country	Interest %		Latest financial information					
				Dec-18	Dec-17	December 31, 2018	December 31, 2017	Date	Share capital	Profit (loss) for the year	Equity
Oleoducto Loma Campana - Lago Pellegrini S.A.	Construction and exploitation of an oil pipe in Argentina.	15,000	Argentina	15%	-	(2,051)	-	12.31.2018	100	(13,560)	(13,676)
<b>Subtotal</b>						<b>(2,051)</b>	<b>-</b>				
Reclassification to Other non-current liabilities - Note 26						2,051	-				
<b>Total</b>						<b>-</b>	<b>-</b>				

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 16. Investments in entities accounted for using the equity method (Cont'd)

Profits and losses from investments in entities accounted for using the equity method as shown in the Income Statement are disclosed below:

	Year ended on December 31,	
	2018	2017
Loss from investments in joint ventures and associates	(2,034)	(60)
Profit from the sale of associates	-	15,370
	<b>(2,034)</b>	<b>15,310</b>

The evolution of investments in entities accounted for using the equity method is disclosed below:

#### *Investments in associates and joint ventures*

	Year ended on December 31,	
	2018	2017
At the beginning of the year	-	1,190
Currency translation differences	(32)	20
Loss from investments in associates and joint ventures	(2,034)	(60)
Additions/contributions	15	100
Reclassification to other non-current liabilities	2,051	-
Write-offs due to disposals of interest in associates	-	(1,250)
<b>At year-end</b>	<b>-</b>	<b>-</b>

#### *Investments in associates*

On February 22, 2017, Tecpetrol S.A. acquired from GEA-GEO Energy Alternatives S.A. a 20% interest in Parque Eólico Pampa S.A. for USD 75 thousand. On October 18, 2017, Tecpetrol S.A. sold its interest in Parque Eólico Pampa S.A. for USD 1,014 thousand, USD 50 thousand of which were collected on the execution date of the agreement and the remaining amount, subject to certain clauses, will be collected until January 2, 2020.

#### *Investments in joint ventures*

On January 24, 2018, Tecpetrol S.A and YPF S.A. set up the company "Oleoducto Loma Campana - Lago Pellegrini S.A.", whose objective is the construction and exploitation of an oil pipe for the transportation of crude oil production of partners and third parties, with entrance located at the crude oil treatment plant in Loma Campana area (province of Neuquén) and exit in the facilities of Oleoductos del Valle S.A. (province of Río Negro). Tecpetrol S.A. owns 15% of the capital of such company, and YPF S.A., the remaining 85%. However, they exercise joint control over Oleoducto Loma Campana - Lago Pellegrini S.A., since they appoint the same number of Directors and all decisions about relevant matters must be adopted unanimously, pursuant to the Shareholders' Agreement.

On January 31, 2019, by means of Resolution No. 18/2019, the Office of the Secretary of Energy granted YPF S.A. and Tecpetrol S.A, with a shareholding percentage of 85% and 15%, respectively, the concession of crude oil transportation for Oleoducto Loma Campana – Lago Pellegrini until August 2052. Operation and maintenance shall be in charge of Oleoductos del Valle S.A.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 16. Investments in entities accounted for using the equity method (Cont'd)

On February 8, 2019, YPF S.A. and Tecpetrol S.A. assigned to Oleoducto Loma Campana – Lago Pellegrini S.A. all rights and obligations related to the construction, operation and maintenance of the oil pipe, as well as the commercialization of the transportation capacity, over which they have rights under the above-mentioned concession.

#### 17. Impairment of long-term assets

The Company analyzes Property, plant and equipment. Exploration, evaluation and development assets for impairment periodically or when there are events or changes in the circumstances that indicate a potential evidence of impairment. This analysis is conducted in accordance with the criteria described in Note 2.4.

The recoverable value of each CGU (considering CGU as each area in which the Company has interest) is estimated by the Company as the higher of an asset's fair value less direct costs of disposal and value in use. The value in use is calculated based on the discounted cash flows, applying a discount rate based on the weighted average cost of capital (WACC), which considers the risks of the country where the CGU operates and its specific characteristics.

The determination of the discounted cash flows is based on projections approved by the Management and includes a set of sensitive estimates and assumptions, such as changes in hydrocarbons production levels, sales prices, curve of future prices of oil, inflation, exchange rates, costs and other cash expenditures, on the basis of the best estimate the Company foresees regarding its operations and available market information.

Cash flows derived from the different CGUs are usually projected for a period that covers the existence of commercially exploitable reserves and is limited to the existence of reserves for the term of the concession or contract.

During the year ended on December 31, 2018, the Company recognized impairment charges in production and development assets in the areas of Punta Senillosa (Neuquina basin segment) and Lago Argentino (Noroeste - San Jorge basin segment) for \$152.3 and \$59.1 million, respectively, mainly as a result of a drop in gas sales prices.

The recoverable value of the CGU Punta Senillosa at December 31, 2018 totaled \$777 million and was estimated based upon its value in use, applying a pre-tax discount rate of 13%. A variation of 100 basis points in the discount rate would have generated an increase (decrease) in the recoverable value of 1.5%; and a variation of USD 0.1 per million of BTU in the price of gas would generate an increase (decrease) in the recoverable value of 3.8%.

The recoverable value of CGU Lago Argentino, which amounted to \$60.5 million, was estimated based on its value in use, using a pre-tax discount rate of 13%. A variation of 100 basis points in the discount rate would have generated an increase (decrease) in the recoverable value of 0.5%; and a variation of USD 0.1 per million of BTU in the price of gas would generate an increase (decrease) in the recoverable value of 11%.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 17. Impairment of long-term assets (Cont'd)

In the second quarter of 2017, the Company recognized an impairment charge in production and development equipment and assets in El Tordillo area (Noroeste - San Jorge basin segment) for \$106.9 million, mainly caused by international oil prices which turned impracticable some activities because it is a mature field. Additionally, in the fourth quarter of 2017, the Company recognized an impairment charge in production and development assets and equipment in Punta Senillosa area (Neuquina basin segment) for \$158 million. During the year 2017, the Company carried out a drilling plan in such area in order to determine the potential of the field; the results evidenced that certain wells had a lower production than expected. Both impairment charges are recognized in Operating costs in the Income Statement at December 31, 2017.

#### 18. Investments in equity instruments at fair value

	December 31, 2018	December 31, 2017
Non-quoted investments	679,904	317,549

There follows the evolution of investments in equity instruments at fair value:

	Year ended on December 31,	
	2018	2017
At the beginning of the year	317,549	219,043
Currency translation differences	349,425	42,347
Changes in the fair value	12,930	56,238
Write-off due to deconsolidation of subsidiaries	-	(79)
<b>At year-end</b>	<b>679,904</b>	<b>317,549</b>

There follows a detail of the main investments in equity instruments at fair value:

Company	Country	Interest %		December 31, 2018	December 31, 2017
		Dec-18	Dec-17		
Tecpetrol del Perú S.A.C.	Peru	2.00	2.00	389,442	181,417
Tecpetrol Bloque 56 S.A.C.	Peru	2.00	2.00	150,757	62,199
Oleoducto del Valle S.A.	Argentina	2.10	2.10	96,192	47,583
Terminales Marítimas Patagónicas S.A. (*)	Argentina	4.20	4.20	28,323	14,011
Tecpetrol de México S.A. de C.V. (**)	Mexico	-	1.77	-	6,580
Burgos Oil Services S.A. de C.V. (**)	Mexico	0.9482	0.9370	10,254	2,434
Norpower S.A de C.V.	Mexico	0.60	0.60	3,316	2,146
Other investments				1,620	1,179
<b>Total</b>				<b>679,904</b>	<b>317,549</b>

(\*) In June 2018, the Company acquired from Dapetrol a 4.20% interest in Terminales Marítimas Patagónicas S.A.

(\*\*) In November 2018, the merger between Tecpetrol de México S.A. de C.V. and Burgos Oil Services S.A. de C.V (as the surviving company) became effective. The Company has a 0.9482% shareholding in Burgos Oil Services S.A. de C.V.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 18. Investments in equity instruments at fair value (Cont'd)

At December 31, 2018 and December 31, 2017, 18% and 19% of all investments in equity instruments at fair value, respectively, correspond to investments held in Argentine pesos. The remaining investments in equity instruments at fair value are held in USD.

The fair value of these investments is estimated on the basis of discounted cash flows, which includes a set of sensitive estimates and assumptions, such as changes in hydrocarbons production levels, sales price, curve of future prices of oil, inflation, exchange rates, collection of dividends, costs and other cash expenditures, on the basis of the best estimate the Company foresees regarding its operations and all available market information.

#### 19. Other receivables and prepayments

	December 31, 2018	December 31, 2017
<b>Non-current</b>		
Receivables	136,256	13,546
Tax credits	391,544	-
Expenses paid in advance	177,534	37,321
Employees loans and advances	39,339	34,378
	<b>744,673</b>	<b>85,245</b>
<b>Current</b>		
Receivables (i)	3,453,405	301,515
Expenses paid in advance	39,296	38,790
Tax credits	4,376,901	1,229,827
Employees loans and advances	31,899	28,571
Other receivables from related parties (Note 33)	109,124	87,664
	<b>8,010,625</b>	<b>1,686,367</b>
Allowance for doubtful accounts	(72,825)	(20,806)
	<b>7,937,800</b>	<b>1,665,561</b>

(i) It includes \$3,234,545 due to incentives to investments in natural gas production developments from unconventional reservoirs obtained through Resolution No. 46E/2017 and amendments for the year ended on December 31, 2018 (see Note 32), and \$215,552 due to other incentives to natural gas injection obtained through Resolution No. 60/2013 for the year ended on December 31, 2017.

There follows the evolution in the allowance for doubtful accounts:

	Year ended on December 31, 2018	2017
Balance at the beginning of the year	(20,806)	(33,029)
Incorporation by merger	(4,338)	-
Exchange and translation differences	221	3,649
Net additions	(51,803)	(1,775)
Uses	3,901	10,349
Balance at year-end	<b>(72,825)</b>	<b>(20,806)</b>

**Tecpetrol Sociedad Anónima**  
**Financial Statements at December 31, 2018**

**Notes to the Financial Statements at December 31, 2018 (Cont'd)**

**20. Trade receivables**

	December 31, 2018	December 31, 2017
<b>Non-current</b>		
Trade receivables	516,789	-
	<b>516,789</b>	-
Allowance for doubtful accounts	(80,062)	-
	<b>436,727</b>	-
<b>Current</b>		
Trade receivables	7,062,015	696,074
Trade receivables from related parties (Note 33)	75,936	7,767
	<b>7,137,951</b>	<b>703,841</b>
Allowance for doubtful accounts	(247,883)	(81,194)
	<b>6,890,068</b>	<b>622,647</b>

The following table shows the aging of trade receivables:

	Total	Not yet due	Past due	
			1-180 days	> 180 days
<b>At December 31, 2018</b>				
Trade receivables	7,654,740	6,554,008	942,606	158,126
Allowance for doubtful accounts	(327,945)	(84,229)	(85,590)	(158,126)
<b>Net value</b>	<b>7,326,795</b>	<b>6,469,779</b>	<b>857,016</b>	-
<b>At December 31, 2017</b>				
Trade receivables	703,841	602,980	19,667	81,194
Allowance for doubtful accounts	(81,194)	-	-	(81,194)
<b>Net value</b>	<b>622,647</b>	<b>602,980</b>	<b>19,667</b>	-

The evolution of the allowance for doubtful accounts is disclosed below:

	Year ended on December 31,	
	2018	2017
Balance at the beginning of the year	(81,194)	(152,500)
Exchange and translation differences	(87,341)	(23,600)
(Additions) / Recoveries, net	(159,410)	94,592
Uses	-	314
Balance at year-end	<b>(327,945)</b>	<b>(81,194)</b>

**21. Inventories**

	December 31, 2018	December 31, 2017
Hydrocarbons	406,609	119,667
Materials and spare parts	440,963	136,294
	<b>847,572</b>	<b>255,961</b>

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 22. Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash and banks	41,715	14,270
Mutual funds	287,657	22,012
Short-term deposits with related parties (Note 33)	137,923	8,430,504
	<b>467,295</b>	<b>8,466,786</b>

Mutual funds effective interest rate in ARS was, on average, of 37.3% and 17.1% at December 31, 2018 and December 31, 2017, respectively; whereas effective interest rate regarding short-term deposits in USD was, on average, of 1.6% and 1.4% at December 31, 2018 and December 31, 2017, respectively.

#### 23. Borrowings

	December 31, 2018	December 31, 2017
<b>Non-current</b>		
Bank borrowings	9,079,040	1,403,013
Borrowings from related parties (Note 33)	21,658,650	4,883,046
Negotiable obligations	18,746,413	9,259,711
	<b>49,484,103</b>	<b>15,545,770</b>
<b>Current</b>		
Bank borrowings	1,218,701	45,242
Borrowings from related parties (Note 33)	3,809,436	93,464
Negotiable obligations	12,984	7,449
	<b>5,041,121</b>	<b>146,155</b>

The Company must comply with certain obligations and must refrain from performing certain acts under the conditions set forth in the borrowing agreements and negotiable obligations. Such commitments have been fulfilled at December 31, 2018 and December 31, 2017.

There follows the evolution of borrowings:

	Year ended on December 31,	
	2018	2017
Balance at the beginning of the year	15,691,925	8,567,604
Incorporation by merger	498,007	-
Proceeds from borrowings and issuance of negotiable obligations	16,446,275	16,004,575
Payment of borrowings	(29,603)	(3,080,646)
Accrued interest	1,491,442	282,025
Paid interest	(1,627,705)	(111,742)
Reclassifications	(45,464)	-
Exchange differences	(57,587)	(30,086)
Currency translation differences	22,157,934	908,856
Debt capitalization and contributions in kind from capital increases	-	(1,063,504)
Deconsolidation of borrowings due to the sale of subsidiaries	-	(5,785,157)
<b>Balance at year-end</b>	<b>54,525,224</b>	<b>15,691,925</b>

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 23. Borrowings (Cont'd)

The main bank borrowings and borrowings from related parties are detailed below:

Lender	December 31, 2018	Interest rate	Contract's currency	Maturity date
Tecpetrol Internacional S.L.U.	12,252,501	Libor 12M +1.13%	USD	08/09/20
Tecpetrol Internacional S.L.U.	565,500	Libor 12M +1.16%	USD	08/28/20
Tecpetrol Internacional S.L.U.	1,432,600	Libor 12M +1.21%	USD	12/04/20
Tecpetrol Internacional S.L.U.	7,556,614	Libor 3M +2.5%	USD	06/11/21
Tecpetrol Internacional S.L.U.	3,204,500	Libor 12M + 4.69%	USD	12/31/20
Tecpetrol Servicios S.L.U	150,800	Libor 12M + 1.79%	USD	06/30/21
Tecpetrol Libertador B.V.	305,571	5.92%	USD	04/30/19 - 12/31/19
J.P. Morgan Chase Bank, Citibank and others	7,496,439	Libor 3M +1.50% between 3.5% and	USD	09/19/22
Banco Santander Río	1,896,710	4.25%	USD	07/03/20 - 11/07/22
Banco HSBC	574,447	3.50%	USD	07/20/20
Banco Provincia	264,887	3.50%	USD	11/23/20
Banco Provincia	65,258	BADLAR + 2.0%	ARS	11/15/20

Lender	December 31, 2017	Interest rate	Contract's currency	Maturity date
Tecpetrol Internacional S.L.U.	4,825,134	Libor 12M +1.13% between 2.19% and	USD	08/09/20
Tecpetrol Libertador B.V.	151,376	5.92% between 3.5% and	USD	04/30/18 - 12/31/19
Banco Santander Río	934,681	4.25%	USD	07/03/20 - 11/07/22
Banco HSBC	284,134	3.50%	USD	07/20/20
Banco Provincia	131,019	3.50%	USD	11/23/20
Banco Provincia	98,319	BADLAR + 2.0%	ARS	11/15/20

#### Negotiable obligations

On May 15, 2017 the Shareholders at an Annual General and Extraordinary Meeting decided to request the incorporation of Tecpetrol S.A. into the Public Offering Regime regulated by Law No. 26.831, as well as the issuance of a global program of simple Negotiable Obligations, non-convertible into shares, for up to a nominal amount of USD 1,000 million or its equivalent sum in any other currency (hereinafter referred to as the "Program").

On October 30, 2017, by means of CNV Resolution RESFC-2017-18994-APN-DIR#CNV, the CNV authorized the admission of the Company into the Public Offering Regime and the creation of the above-mentioned Program.

On December 12, 2017, the Company issued Class 1 Negotiable obligations for a nominal value of USD 500 million, with an issuance price of 100%, which bear interest at a fixed rate of 4.875% and whose maturity date is on December 12, 2022. Interest is payable semi-annually as from June 12, 2018. Capital will be paid upon maturity; and the Company has the right to redeem the Negotiable obligations with no premium, in whole or in part, at any time as from December 12, 2020. Funds obtained from the issuance of such negotiable obligations were used to invest in fixed assets in Fortín de Piedra area in Vaca Muerta formation, located in the province of Neuquén. As of April 20, 2018, the Company administered all funds in accordance with the above-mentioned use. On May 4, 2018, the members of the Board of Directors of the Company approved such use of the funds and complied with the requirements set forth in Section 25, Chapter V, Title II of CNV Regulations. The Parent Company, Tecpetrol Internacional S.L.U., unconditionally and irrevocably guarantees the negotiable obligations of the Company.



# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 23. Borrowings (Cont'd)

*Partially received loan with Parent Company*

On October 30, 2018, the Company arranged a credit line with its Parent Company, Tecpetrol Internacional S.L.U., for a maximum amount of USD 200 million. Principal will be paid in two equal installments payable on December 31, 2019 and December 31, 2020. Agreed interest rate is LIBOR 12M + 4.69% per year. Interest is payable on December 31 of each year. The first payment will be made on December 31, 2018. The remaining terms and conditions are the ones regularly used for similar financing processes. As of the date of issuance of these Financial Statements, the Company received USD 149 million from the credit line; USD 85 million of said amount had been received as of December 31, 2018.

#### 24. Employee benefits programs

The liability recognized in the Statement of Financial Position and the amounts disclosed in the Income Statement are detailed below:

	December 31, 2018	December 31, 2017
<b>Non-current</b>		
Pension programs and other plans (i)	548,263	288,270
Employee retention and long-term incentive program	425,329	160,714
	<b>973,592</b>	<b>448,984</b>
<b>Current</b>		
Employee retention and long-term incentive program	72,077	30,916
	<b>72,077</b>	<b>30,916</b>

(i) There are no enforceable debts as of December 31, 2018 and December 31, 2017.

	Year ended on December 31, 2018	2017
Pension programs and other plans	78,425	42,191
Employee retention and long-term incentive program	108,099	58,504
<b>Total included in Labor costs (Note 11)</b>	<b>186,524</b>	<b>100,695</b>

#### Pension programs and other plans:

The main actuarial assumptions for the benefit programs in force under "unfunded defined benefits" and "other long-term benefits" consider a discount rate of 7% and 5.7% average and a salary increase rate of 2% and 3%, respectively.

The amounts disclosed in the Income Statement are detailed below:

	Year ended on December 31, 2018	2017
Cost of services	32,133	13,225
Cost of interest	46,292	28,966
<b>Total</b>	<b>78,425</b>	<b>42,191</b>

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 24. Employee benefits programs (Cont'd)

The evolution of liabilities disclosed in the Statement of Financial Position is detailed below:

	Year ended on December 31,	
	2018	2017
Balance at the beginning of the year	288,270	183,712
Cost of services and interest	78,425	42,191
Net actuarial profits (losses)	(23,038)	74,994
Personnel transfers	8,777	-
Exchange differences	(72,619)	(14,335)
Currency translation differences	275,517	36,991
Payments made	(7,069)	(35,283)
<b>Balance at year-end</b>	<b>548,263</b>	<b>288,270</b>

At December 31, 2018, a 1% increase / (decrease) in the discount rate would have resulted in a (decrease) / increase in liabilities of (\$24.9) / \$27.7 million, respectively; while a 1% increase / (decrease) in the salary increase rate would have resulted in an increase / (decrease) of \$18.2 and (\$16.7) million, respectively. This sensitivity analysis is based on changes in each assumption at a time, keeping all the other variables constant. Nevertheless, in practice this is unlikely to occur, since changes in some assumptions should be correlated.

#### 25. Provisions

	December 31, 2018	December 31, 2017
<b>Non-current</b>		
Asset retirement obligations	1,840,707	1,162,590
Provision for other contingencies	201,102	126,482
	<b>2,041,809</b>	<b>1,289,072</b>
<b>Current</b>		
Asset retirement obligations	165,604	54,211
Provision for other contingencies	18,053	9,759
	<b>183,657</b>	<b>63,970</b>

The evolution of provisions is disclosed below:

#### *Asset retirement obligations*

	Year ended on December 31,	
	2018	2017
Balance at the beginning of the year	1,216,801	1,039,984
Incorporation by merger	50,117	-
Currency translation differences	1,335,629	188,534
(Recoveries) / additions, net	(543,941)	125,713
Uses	(52,295)	(204)
Write-off due to deconsolidation of subsidiaries	-	(137,226)
<b>Balance at year-end</b>	<b>2,006,311</b>	<b>1,216,801</b>

At December 31, 2018 and December 31, 2017, the provision for asset retirement obligation was estimated using inflation rates in USD ranging between 1.3% and 1.5%, and discount rates in USD ranging between 6.2% and 9.4%.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 25. Provisions (Cont'd)

##### *Other contingencies*

	Year ended on December 31,	
	2018	2017
Balance at the beginning of the year	136,241	106,910
Incorporation by merger	41,903	-
Exchange and translation differences (Recoveries) / additions, net	109,677	12,051
Uses	(47,103)	-
<b>Balance at year-end</b>	<b>219,155</b>	<b>136,241</b>

#### 26. Trade and other payables

	December 31, 2018	December 31, 2017
<b>Non-current</b>		
Investments in joint ventures with negative balance on equity (Note 16)	2,051	-
Tax payables	-	523
	<b>2,051</b>	<b>523</b>
<b>Current</b>		
Trade payables	7,123,426	3,878,299
Payables to related parties (Note 33)	1,799,234	851,916
Social security debts and other taxes	1,263,477	209,755
Other liabilities	9,014	5,303
	<b>10,195,151</b>	<b>4,945,273</b>

#### 27. Deferred income tax

There follows the evolution of deferred income tax:

	Year ended on December 31,	
	2018	2017
At the beginning of the year - Net deferred asset	335,424	104,832
Charged directly to Other comprehensive income	(12,714)	27,687
Profit for the year	2,278,209	156,739
Currency translation differences	555,743	46,166
<b>Balance at year-end - Net deferred asset</b>	<b>3,156,662</b>	<b>335,424</b>

**Tecpetrol Sociedad Anónima**  
**Financial Statements at December 31, 2018**

**Notes to the Financial Statements at December 31, 2018 (Cont'd)**

**27. Deferred tax (Cont'd)**

The evolution of the deferred tax assets and liabilities is detailed below:

Deferred tax liabilities	Property, plant and equipment	Others	Total
<b>At December 31, 2017</b>	<b>(624,486)</b>	<b>(92,306)</b>	<b>(716,792)</b>
Charged directly to Other comprehensive income	-	(6,953)	(6,953)
Profit (loss)	667,560	16,027	683,587
Currency translation differences	(1,927,069)	(108,627)	(2,035,696)
<b>At December 31, 2018</b>	<b>(1,883,995)</b>	<b>(191,859)</b>	<b>(2,075,854)</b>

Deferred tax assets	Provisions/ Allowances	Tax Losses	Others	Total
<b>At December 31, 2017</b>	<b>477,658</b>	<b>551,624</b>	<b>22,934</b>	<b>1,052,216</b>
Charged directly to Other comprehensive income	(5,761)	-	-	(5,761)
Profit (loss)	(467,463)	2,034,295	27,790	1,594,622
Currency translation differences	512,625	2,039,827	38,987	2,591,439
<b>At December 31, 2018</b>	<b>517,059</b>	<b>4,625,746</b>	<b>89,711</b>	<b>5,232,516</b>

Deferred tax liabilities	Property, plant and equipment	Others	Total
<b>At December 31, 2016</b>	<b>(385,695)</b>	<b>(117,429)</b>	<b>(503,124)</b>
Charged directly to Other comprehensive income	-	8,938	8,938
Profit (loss)	(151,164)	34,051	(117,113)
Currency translation differences	(87,627)	(17,866)	(105,493)
<b>At December 31, 2017</b>	<b>(624,486)</b>	<b>(92,306)</b>	<b>(716,792)</b>

Deferred tax assets	Provisions/ Allowances	Tax Losses	Others	Total
<b>At December 31, 2016</b>	<b>347,102</b>	<b>216,844</b>	<b>44,010</b>	<b>607,956</b>
Charged directly to Other comprehensive income	18,749	-	-	18,749
Profit (loss)	36,362	264,619	(27,129)	273,852
Currency translation differences	75,445	70,161	6,053	151,659
<b>At December 31, 2017</b>	<b>477,658</b>	<b>551,624</b>	<b>22,934</b>	<b>1,052,216</b>

The following amounts are disclosed in the Statement of Financial Position, after offsetting as described in Note 2.10:

	December 31, 2018	December 31, 2017
Deferred tax asset	3,156,662	335,424
	<b>3,156,662</b>	<b>335,424</b>

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 27. Deferred tax (Cont'd)

There follows the estimated term for reversal of deferred assets and liabilities:

	December 31, 2018	December 31, 2017
Deferred tax assets to be recovered in more than 12 months	4,625,746	551,624
Deferred tax liabilities to be settled in more than 12 months	(1,883,995)	(624,486)
Deferred tax assets to be recovered in less than 12 months	606,770	500,592
Deferred tax liabilities to be settled in less than 12 months	(191,859)	(92,306)

#### 28. Cash Flow Statement complementary information

Cash Flow Statement complementary information is disclosed below:

*Adjustments to profit (loss) for the year to reach operating cash flows*

	Year ended on December 31,	
	2018	2017
Depreciation of property, plant and equipment (Note 15)	13,093,585	1,746,043
Impairment of property, plant and equipment (Note 15)	211,446	264,942
Loss from the sale and write-off of property, plant and equipment	15,593	3,962
Exploration costs	137,381	931
Income tax (Note 14)	(2,077,970)	(154,599)
Accrued and unpaid interest	(136,263)	170,283
Dividend income (Note 13)	(58,601)	(26,396)
Provisions	290,320	(97,073)
Profit from the sale of equity interest in subsidiaries and associates	-	(15,394)
Loss from investments in entities accounted for using the equity method (Note 16)	2,034	60
Loss from employee benefits programs (Note 11)	186,524	100,695
	<b>11,664,049</b>	<b>1,993,454</b>

(\*) There is no significant difference between interest income and interest collected.

*Changes in working capital*

	Year ended on December 31,	
	2018	2017
Increase in Trade and other receivables	(13,792,908)	(1,345,706)
(Increase) / decrease in Inventories	(582,910)	15,168
Increase in Trade and other payables	2,725,848	451,234
	<b>(11,649,970)</b>	<b>(879,304)</b>

**Tecpetrol Sociedad Anónima**  
**Financial Statements at December 31, 2018**

**Notes to the Financial Statements at December 31, 2018 (Cont'd)**

**29. Assets and liabilities in currency other than Argentine pesos <sup>(1)</sup>**

Item	Type (2)	12.31.2018		12.31.2017	
		Amount in currency other than Argentine pesos (3)	Amount in local currency at 37.70 (4)	Amount in currency other than Argentine pesos (3)	Amount in local currency at 18.649 (4)
<b>ASSETS</b>					
<b>Non-current assets</b>					
Other receivables and prepayments	USD	7,214	271,958	2,684	50,062
<b>Current assets</b>					
Other receivables and prepayments	USD	4,712	177,637	5,913	110,268
Trade receivables	USD	85,973	3,241,173	24,417	455,348
Cash and cash equivalents	USD	3,681	138,775	452,367	8,436,192
<b>Total assets</b>			<b>3,829,543</b>		<b>9,051,870</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Borrowings	USD	1,311,768	49,453,656	830,172	15,481,889
Provisions	USD	48,825	1,840,707	62,341	1,162,590
<b>Current liabilities</b>					
Borrowings	USD	132,793	5,006,310	5,991	111,725
Provisions	USD	4,393	165,604	2,907	54,211
Trade and other payables	USD	186,901	7,046,165	245,778	4,583,510
<b>Total liabilities</b>			<b>63,512,442</b>		<b>21,393,925</b>

(1) This information is presented for the purposes of complying with the provisions of the CNV. Foreign currency is the currency which is different from the Company's presentation currency.

(2) USD = United States dollar.

(3) Amounts stated in thousands.

(4) USD quotation: Banco de la Nación Argentina exchange rate in force at December 31, 2018 and December 2017, respectively.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 30. Contingencies

Tecpetrol has contingent liabilities in respect of claims arising from the ordinary course of business. Moreover, there are certain interpretations of controlling authorities as to the calculation and payment of certain taxes that differ from the criterion applied by the Company.

Based on the Management's assessment and the opinion of the legal counsels, the Company does not anticipate incurring in any material expenses derived from contingent liabilities other than those provided for in these Financial Statements.

#### *Tecpetrol S.A. – Income tax assessment*

In September 2017, the National Supreme Court of Justice entered judgment in favor of Tecpetrol S.A. with all costs to be borne by AFIP; regarding a presumably incorrect use of profits (losses) accrued on certain crude oil derivatives for the fiscal years 2000 and 2001. This official income tax assessment carried out by AFIP amounted to \$9.6 million (plus interest and fines). AFIP filed an appeal against the judgment (favorable to the Company) issued by the National Appellate Court on Administrative and Tax Matters with the Argentine Supreme Court of Justice.

#### 31. Main investment commitments, guarantees and restrictions on the distribution of profits

##### (i) Investment commitments and guarantees

At December 31, 2018, the Company kept a guarantee for investment commitments in the area of Río Colorado for USD 0.57 million maturing upon conclusion of the first exploratory period. Through Resolution No. 044/18 issued by the Office of the Secretary of Energy of the province of Salta, pending work units were transferred from Río Colorado area to Aguaragüe area, where Tecpetrol is co-owner of exploration and exploitation rights. In February 2019, the Company entered into an agreement with the authorities of the province of Salta, whereby a tentative work schedule is set with regard to the execution of all transferred units. Such work schedule consists of the drilling of a development well in the formation of Tupambi or San Telmo, and the execution of a workover in order to verify the unconventional gas potential from the geological formation Los Monos. As of the date of issuance of these Financial Statements, the transfer of the guarantee of investment commitments to Aguaragüe area is still under process.

Moreover, there follows a detail of all commitments assumed by Tecpetrol S.A. through surety bonds:

- Guarantee of compliance with labor obligations of Tecpetrol Colombia S.A.S. in CPO6, CPO7 and CPO13 areas in Colombia for USD 0.21 million with maturity dates between October 2019 and July 2020 (phase II); and in CPO13 area in Colombia for USD 0.07 million (exploration and production phase) falling due between December 2022 and July 2023.
- Guarantee for the obligations in connection with environmental remediation liabilities in the area of Río Colorado for USD 0.7 million maturing at the end of the first exploration period.
- Guarantee for judicial counter-bond insurance policies in favor of National Trial Court on Commercial Matters No. 3 in relation to injunctive reliefs for USD 1.60 million.
- Guarantee, in favor of the Energy and Mining Ministry, of all obligations set forth under Section V, Subsection 3 of Exhibit to Resolution No. 6-E/2017 and amendments, for USD 151.19 million.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 31. Main investment commitments, guarantees and restrictions on the distribution of profits (Cont'd)

##### (i) Investment commitments and guarantees (Cont'd)

- Guarantee for compliance with the Regime for the Promotion of Investments in Capital Assets and Infrastructure Works over Fortín de Piedra area, pursuant to Law No. 26.360; Section 13, Subsection a) of Decree No. 726/2009 y related regulatory, amending and complementary rules, for an amount of USD 16.81 million.

- Guarantee in favor of the Energy Institute of the province of Santa Cruz for contract performance for the first exploratory phase in Gran Bajo Oriental for an amount of USD 13.56 million.

- Guarantee for offices lease and other commitments in favor of the Secretary of State of Energy of Río Negro, Customs Administration, Energy and Mining Ministry and the Trial Court on Labor Matters for Neuquén, for USD 0.34 and USD 0.03 million, respectively.

Furthermore, the Company has the following investment commitments in the areas where it operates:

Basin	Area	Pending investment commitments
Noroeste - San Jorge	Tordillo and La Tapera-Puesto Quiroga	<ul style="list-style-type: none"> <li>· Keeping drilling equipment active during 21 months until July 2021</li> <li>· Drilling of 2 P2/P3 wells until December 2021</li> <li>· Keeping 3 items of work-over equipment and 3 items of pulling (or work-over) equipment active until March 2019</li> </ul>
	Gran Bajo Oriental	<ul style="list-style-type: none"> <li>· Investments for USD 13.56 million to be made until 2021 (first exploratory period)</li> </ul>
	Aguaragüe	<ul style="list-style-type: none"> <li>· Drilling of 1 well (depending upon the results of current activities)</li> <li>· Drilling of a development well in the formation of Tupambi or San Telmo and execution of a workover in order to verify the unconventional gas potential from the geological formation Los Monos</li> </ul>
Neuquina	Agua Salada	<ul style="list-style-type: none"> <li>· Exploratory and development investments for USD 42.9 million to be made before 2025 consisting of the drilling of 2 exploratory wells, 7 extension wells, 5 work-overs, and facilities and asset retirement obligations</li> </ul>
	Fortín de Piedra	<ul style="list-style-type: none"> <li>· Investments for USD 86.17 million to be made until 2021 within the framework of Resolution 46/2017</li> </ul>
	Los Bastos	<ul style="list-style-type: none"> <li>· Exploratory investments for USD 9.6 million to be made until 2026 outside the exploitation area</li> </ul>
	Loma Ancha	<ul style="list-style-type: none"> <li>· Drilling of 1 exploratory well with horizontal branch of 1,500 meters minimum, to be drilled before December 31, 2020, and testing of such well during six months to be performed before June 30, 2021</li> </ul>
	Loma Ranqueles	<ul style="list-style-type: none"> <li>· Drilling of 1 exploratory well with horizontal branch of 1,500 meters to be drilled before June 2019, and testing of such well to be performed before June 2020</li> </ul>
	Los Toldos I Sur	<ul style="list-style-type: none"> <li>· Investments for USD 109.2 million to be made until 2022</li> </ul>



# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 31. Main investment commitments, guarantees and restrictions on the distribution of profits (Cont'd)

##### (ii) Restrictions on the distribution of profits

In accordance with LGS, the Company's by-laws and CNV General Resolution No. 622/13, 5% of the net profit for the year less accumulated losses, if any, must be transferred to a legal reserve until such reserve equals 20% of the adjusted capital.

CNV General Resolution No. 609/12 sets forth that the difference between the initial balance of retained earnings disclosed in the financial statements of the first year-end under IFRS implementation and the final balance of retained earnings at the end of the last fiscal year under the previous accounting standards then in force shall be allocated to a Special Reserve. Such reserve shall not be used for distribution (whether in cash or in kind) among shareholders or owners of the entity and shall only be used for capitalization purposes or to compensate potential negative balances under "Retained earnings." On April 26, 2018, the Shareholders at an Annual General Meeting approved the setting up of this reserve and the restrictions upon its use.

#### 32. Program of Incentives to Investments in Natural Gas Production Developments from Unconventional Reservoirs

On March 2, 2017, the Mining and Energy Ministry issued Resolution MINEM 46-E/2017, whereby it creates a Program of Incentives to Investments in Natural Gas Production Developments from Unconventional Reservoirs located in Neuquina basin (hereinafter referred to as the "Program").

For the purposes of participating in the Program and pursuant to all principles, objectives and guidelines established, Resolution MINEM No. 46-E/2017 set forth certain requirements, including, but not limited to, the presentation of an investment plan approved by the authorities of the province implementing the Program, initial production, an estimated production volume under the concession included during the term of the Program, a projection of the prices Tecpetrol S.A. will charge for natural gas from said exploitation concession, and a presentation of a measurement scheme for the production from said exploitation concession.

Subsequently, by means of Resolution MINEM No. 419-E/2017 dated November 1, 2017, some amendments were introduced to the Program aiming at: (i) including projects that already were in a development phase, but which required, in order to increase production, investments comparable to those made in projects in the early stages of their development phase, and (ii) avoiding market cost distortions arising from the assessment of the compensation based upon sales prices of each beneficiary company. In this respect, it was defined that the determination of the effective price assessment will be based on average prices in the market.

Finally, Resolution MINEM No. 447-E/2017 extended the Program created under Resolution MINEM No. 46-E/2017 in order to include the production of natural gas from unconventional reservoirs located in Austral basin.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### **32. Program of Incentives to Investments in Natural Gas Production Developments from Unconventional Reservoirs (Cont'd)**

For unconventional exploitation concessions whose adherence to the Program has been approved ("Included Concession"), the Program provided for the payment, by the State, over the whole natural gas production from such concession ("Included Production"), of an amount which equals the difference between the "Minimum Price", that is, the value of Included Production of natural gas from unconventional reservoirs, which is of USD 7.5 per million BTU for 2018, USD 7 per million BTU for 2019, USD 6.5 per million BTU for 2020 and USD 6 per million BTU for 2021, and the average price ("Effective Price") according to Resolution MINEM No. 419-E/2017 dated November 1, 2017. To this effect, and pursuant to the Program, member companies must report: (i) the total volume of natural gas from unconventional reservoirs and (ii) the prices of all sales of natural gas.

Within this compensation scheme, the Program provided for the possibility of member companies to choose a scheme of provisional monthly payments ("Provisional Payments") consisting of 85% (eighty-five percent) of the compensation to be received for the monthly Included Production, over the basis of production estimates submitted by the company for said month. These payments would be subsequently adjusted ("Payment Adjustments") considering final delivered volumes, certificates issued by independent auditors and definite prices reported to the authority of implementation. The Company adopted the abovementioned Provisional Payments scheme.

Moreover, member companies must report to the former Office of Hydrocarbon Resources any circumstance that substantially modifies projected values or any other submitted information affecting the payments.

After fulfilling all related requirements and obtaining approval of the investment plan by the Ministry of Energy, Public Services and Natural Resources of the province of Neuquén by means of Resolution No. 240/17; on August 23, 2017, the Company requested to participate in the Program to obtain an exploitation concession over Fortín de Piedra area.

Adherence of Tecpetrol S.A. to the Program, as beneficiary of the unconventional exploitation concession over Fortín de Piedra area, was approved by the then Secretary of Exploration and Production in charge of the Office of Hydrocarbon Resources through Resolution No. 2017-271-APN-SECRH#MEM dated November 3, 2017.

In relation to the production from January to July 2018 (all seven months included), the authority implementing the Program settled and paid to Tecpetrol S.A. the resulting compensations for the total of the production from the unconventional exploitation concession over Fortín de Piedra area (January to March 2018 - Provisional Payment and Payment Adjustment; and April to July 2018 - Provisional Payment so far).

Nevertheless, the Office of the Secretary of Energy settled Provisional Payments for August, September and October of 2018, but introduced a change of criteria regarding the assessment of the compensations provided for in Resolution No. MINEM E-46/2017. Said modification consisted in restricting the amount to be paid to the production projections submitted by the Company upon request of adherence to the Program. Such criterion has been retrospectively applied.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### **32. Program of Incentives to Investments in Natural Gas Production Developments from Unconventional Reservoirs (Cont'd)**

This change of criteria has a negative impact upon cash flows, therefore, the Company is reassessing the conditions under the Development Plan of Fortín de Piedra area for the purposes of readjusting cash flows to a new scenario and improving financial indicators.

On February 7, 2019, the Company filed an appeal against the resolutions issued by the Office of the Secretary of Energy that support the above-mentioned criterion, since it considers that the change of criteria adopted flagrantly violates Section 17 of the National Constitution by affecting acquired rights of the Company previously acknowledged by the State.

In such appeals, the Company claimed, among others things, that the contested issues were contrary to the terms of the promotion regime created under Resolution MINEM 46-E/2017 and the Company's acquired rights protected by said regime after adherence. Moreover, it was explained that the terms of the Program should be understood in the sense of avoiding any kind of restriction to the production of natural gas which is the subject matter of the compensations. Besides, the change of criteria implemented by the Government constitutes an unilateral and arbitrary modification of the legal framework under consideration and violates not only previous commitments assumed by the authority of implementation, but also acts carried out by such government. Additionally, concern was expressed regarding the contended issues arising from resolutions issued by the Office of the Secretary of Energy, including, cause, subject matter, purpose, misuse of power, procedure and issuance, among others. The Company reserved its right to claim interest and damages derived from the above-mentioned contended administrative acts.

In compliance with applicable accounting standards (see Note 2.15), the Company included in these Financial Statements those compensations that are highly likely to be paid by the Government according to the new assessment criterion used in the last payments made. This would represent a lower income for a total amount of \$5,655 million at December 31, 2018.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 33. Related-party balances and transactions

Tecpetrol S.A. is controlled by Tecpetrol Internacional S.L.U., which holds 95.99% of the Company's shares.

San Faustin S.A. ("San Faustin"), a *Société Anonyme* based in Luxembourg, controls the Company through its subsidiaries.

Rocca & Partners Stichting Administratiekantoor Aandelen San Faustin, a Dutch private foundation (Stichting) ("R&P STAK") holds enough voting shares in San Faustin to control it. No person neither any group of persons control R&P STAK.

*Main transactions with related parties (including discontinued operations):*

	<b>Year ended on December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Net sales</b>		
Other related companies	3,201,303	217,659
<b>Purchases of goods and services</b>		
Other related companies	(11,822,573)	(2,937,485)
<b>Reimbursement of expenses</b>		
Other related companies	141,506	79,017
<b>Other income / (expenses)</b>		
Other related companies	-	24
<b>Interest income</b>		
Other related companies	63,768	15,017
<b>Interest cost</b>		
Tecpetrol Internacional S.A.	-	(15,122)
Tecpetrol Internacional S.L.U.	(465,338)	(56,631)
Other related companies	(11,277)	(131,980)
	<u>(476,615)</u>	<u>(203,733)</u>

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 33. Related-party balances and transactions (Cont'd)

##### Balances with related parties

	December 31, 2018	December 31, 2017
<b>Other receivables from related parties (Note 19) (i):</b>		
Current - Tecpetrol Internacional S.L.U.	1,018	431
Current - Tecpetrol Internacional S.A.	163	-
Current - Oleoducto Loma Campana - Lago Pellegrini S.A.	66,328	-
Current - Other related companies	41,615	87,233
	<u>109,124</u>	<u>87,664</u>
<b>Trade receivables from related parties (Note 20):</b>		
Current - Other related companies	75,936	7,767
<b>Short-term deposits with related parties (Note 22):</b>		
Current - Other related companies	137,923	8,430,504
<b>Borrowings from related parties (Note 23):</b>		
Non-current - Tecpetrol Internacional S.L.U.	21,507,851	4,825,134
Non-current - Other related companies	150,799	57,912
	<u>21,658,650</u>	<u>4,883,046</u>
Current - Tecpetrol Internacional S.L.U.	3,503,864	-
Current - Other related companies	305,572	93,464
	<u>3,809,436</u>	<u>93,464</u>
<b>Trade and other payables with related parties (Note 26) (ii):</b>		
Current - Tecpetrol Internacional S.A.	618	263
Current - Other related companies	1,798,616	851,653
	<u>1,799,234</u>	<u>851,916</u>

(i) It mainly includes balances from reimbursement of expenses.

(ii) It mainly includes balances from purchases of materials.

##### Remuneration of Directors

The remuneration of Directors and first-line executives accrued during the years ended December 31, 2018 and December 31, 2017, amounts to \$150.9 million and \$75.4 million, respectively. Moreover, directors and first-line executives received 3,796 and 5,040 equity units representing a total amount of USD 0.8 and USD 1 million at December 31, 2018 and December 31, 2017, respectively, in relation to the employee retention and long-term incentive program mentioned in Note 2.11 (b).

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 34. Main joint operations

##### Joint operations

##### a) Areas operated by Tecpetrol

Name	Location	% at December 31, 2018	% at December 31, 2017	Expiration date of the concession
Aguaragüe	Salta	23.0	23.0	Nov-27
Agua Salada	Río Negro	70.0	70.0	Sep-25
El Tordillo	Chubut	52.1	52.1	Nov-27
La Tapera-Puesto Quiroga	Chubut	52.1	52.1	Aug-27
Lago Argentino (i)	Santa Cruz	74.6	74.6	Nov-33
Loma Ancha (ii)	Neuquén	95.0	95.0	Dec-21
Loma Ranqueles (iii)	Neuquén	65.0	-	May-20
Los Toldos (I Norte, II Este) (iii) (iv)	Neuquén	90.0	-	May-18

(i) Tecpetrol S.A. assumes 100% of the costs and investments pursuant to an agreement among private parties and Alianza Petrolera S.A. and a joint venture agreement between Fomento Minero de Santa Cruz S.E. and Alianza Petrolera S.A.

(ii) Tecpetrol S.A. assumes 100% of the costs and investments during the basic exploration period under an agreement with its partner Gas y Petróleo del Neuquén S.A.

(iii) Areas incorporated as a result of the merger with APASA. See Note 1.

(iv) As of the date of issuance of these Financial Statements the Company is negotiating with the government of Neuquén a one-year extension of the exploratory period over Los Toldos I Norte and II Este.

On June 29, 2018, after renouncing the exploitation concession over Medanito Sur area (incorporated as a result of the merger with APASA. See Note 1), the Company subscribed the document whereby it clears the area allowing the authorities of the province of La Pampa to take possession over it.

Additionally, on August 16, 2017, the Company entered into an agreement for the sale of its interest in joint operation Río Atuel to Petrolera El Trébol S.A. for USD 1.75 million. Tecpetrol S.A. was the operator and representative of the joint operation until September 26, 2017 (date on which the transaction became effective) and Petrolera El Trébol S.A. was appointed as the new joint venture's operator effective as from the execution date.

##### b) Areas operated by third parties

Name	Location	% at December 31, 2018	% at December 31, 2017	Expiration date of the concession
Ramos	Salta	25	25	Jan-26
Los Toldos I Sur (*)	Neuquén	10.0	-	Mar-52

(\*) Area incorporated as a result of the merger with APASA. See Note 1. The authorities of the province of Neuquén granted to the joint operation the exploitation concession over the area.

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 34. Main joint operations (Cont'd)

*Main joint operations – Assets and liabilities at the Company's percentage of interest*

Name	Assets		Liabilities	
	Dec-18	Dec-17	Dec-18	Dec-17
Aguaragüe	656,192	340,539	348,434	215,085
Agua Salada	785,665	299,238	448,511	266,254
Atuel Norte	48	349	63,479	31,489
El Tordillo	3,762,933	2,187,646	1,386,136	1,007,046
La Tapera – Puesto Quiroga	78,196	58,737	46,583	51,258
Ramos	178,791	96,907	198,268	41,696
Los Toldos (I Norte and II Este)	2,063,167	-	86,358	-
Los Toldos I Sur	159,388	-	5,369	-
Medanito Sur	1,826	-	65,238	-

#### 35. Discontinued operations

On April 6, 2017, the Company sold its interest in GEA-GEO Energy Alternatives S.A. to Techint Inversiones S.A.I.F. for USD 145 thousand. The profit from the sale was recognized under discontinued operations in the Income Statement at December 31, 2017.

On May 23, 2017, the Company sold its interest in Tecpetrol de Bolivia S.A. to its Parent Company Tecpetrol Internacional S.L.U. for USD 189 thousand. Through the above-mentioned subsidiary, the Company owned a 20% interest in Ipati and Aquío Blocks, in which it had a non-operator role. The proceeds from the sale of such interest were recorded in the Statement of Changes in Equity at December 31, 2017 under *Effect from transfer of subsidiary's share interest*, as it is a transaction conducted with the Parent Company.

As mentioned in Note 1, on December 28, 2017, Dapetrol transferred control over its main asset, namely, Oil Mine "José Segundo" for USD 491 thousand. Therefore, on October 8, 2018, the Shareholders of Dapetrol at an Extraordinary Meeting approved the winding up of the company and the plan for the distribution of balances and reimbursement of capital.

There follows a detail of profits (losses) classified as *Discontinued operations* in the Income Statement at December 31, 2018 and December 31, 2017 as well as net cash flows:

	Year ended on December 31,	
	2018	2017
Profit from discontinued operations of Dapetrol	53,407	55,748
Loss from discontinued operations of Tecpetrol de Bolivia S.A.	-	(164,159)
Loss from discontinued operations of GEA-GEO Energy Alternatives S.A.	-	(36)
<b>Profit (loss) from discontinued operations</b>	<b>53,407</b>	<b>(108,447)</b>

# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 35. Discontinued operations (Cont'd)

##### *Dapetrol*

	Year ended on December 31,	
	2018	2017
Net sales	142	43,656
Operating costs	(45)	(60,995)
<b>Gross margin</b>	<b>97</b>	<b>(17,339)</b>
Other operating profit (loss)	(817)	80,847
Net financial profit (loss)	575	(7,760)
<b>Profit (loss) from discontinued operations</b>	<b>(145)</b>	<b>55,748</b>
Effect of currency translation for the year	41,825	-
Reclassification of accumulated translation differences	11,727	-
<b>Profit for the year from discontinued operations</b>	<b>53,407</b>	<b>55,748</b>

##### *Net cash flows*

	Year ended on December 31,	
	2018	2017
Cash used in operating activities	(1,944)	(28,475)
Cash generated by investment activities	20,254	3,370
Cash (used in) / generated by financing activities	(120,345)	7,500

##### *GEA-GEO Energy Alternatives S.A.*

	Year ended on December 31,	
	2018	2017
Other net loss	-	(129)
Profit from the sale of equity interest in a subsidiary	-	24
<b>Loss from discontinued operations</b>	<b>-</b>	<b>(105)</b>
Effect of currency translation for the year	-	67
Reclassification of accumulated translation differences	-	2
<b>Loss for the year from discontinued operations</b>	<b>-</b>	<b>(36)</b>

##### *Net cash flows*

	Year ended on December 31,	
	2018	2017
Cash used in operating activities	-	(33)
Cash generated by investment activities	-	1,156



# Tecpetrol Sociedad Anónima

## Financial Statements at December 31, 2018

### Notes to the Financial Statements at December 31, 2018 (Cont'd)

#### 35. Discontinued operations (Cont'd)

*Tecpetrol de Bolivia S.A.*

	Year ended on December 31,	
	2018	2017
Net sales	-	246,814
Operating costs	-	(177,721)
<b>Gross margin</b>	-	<b>69,093</b>
Other operating loss	-	(12,302)
Net financial loss	-	(108,007)
<b>Loss from discontinued operations</b>	-	<b>(51,216)</b>
Effect of currency translation for the year	-	8,274
Reclassification of accumulated translation differences	-	(121,217)
<b>Loss for the year from discontinued operations</b>	-	<b>(164,159)</b>
Effect from transfer of subsidiary's share interest	-	897,941

*Net cash flows*

	Year ended on December 31,	
	2018	2017
Cash generated by operating activities	-	72
Cash used in investing activities	-	(38,542)
Cash generated by financing activities	-	36,672

#### 36. Subsequent events

No events, situations or circumstances have taken place as from December 31, 2018 other than the ones mentioned in the notes to these Financial Statements, which are not publicly known, and affect or might significantly affect the economic and financial position of the Company.



Free translation from the original in Spanish for publication in Argentina

## INDEPENDENT AUDITORS' REPORT

To the Shareholders, President and Directors of  
Tecpetrol Sociedad Anónima  
Legal address: Pasaje Della Paolera 297/299 - 16<sup>th</sup> floor  
Autonomous City of Buenos Aires  
Tax Code No. 30-59266547-2

### Introduction

We have audited the accompanying financial statements of Tecpetrol Sociedad Anónima (hereinafter, "the Company"), which comprise the statement of financial position at December 31, 2018, the statements of income, of comprehensive income, of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The balances and other information corresponding to the year 2017 are an integral part of the financial statements mentioned above; therefore, they must be considered in connection with these financial statements.

### Board's responsibility

The Board of Directors of the Company is responsible for the preparation and reasonable presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the Argentine Federation of Professional Councils in Economic Sciences (FACPCE, for its Spanish acronym) as professional accounting standards and incorporated into the regulations of the National Securities Commission (CNV, for its Spanish acronym), as adopted by the International Accounting Standards Board (IASB). Further, the Board of Directors is responsible for the existence of internal control that it deems necessary to prepare financial statements free from material misstatements due to errors or irregularities.

### Auditors' responsibility

Our responsibility is to express an opinion on the accompanying financial statements based on our audit. We performed our audit in accordance with International Auditing Standards (IAS) as adopted by the FACPCE through Technical Pronouncement No. 32 and its respective Adoption Memoranda. Those standards require that we comply with ethical requirements, and that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements.

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An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements due to fraud or error. When performing this risk assessment, the auditor must consider the internal control system relevant to the preparation and fair presentation of the financial statements of the Company in order to design the audit procedures that are appropriate in the circumstances, but not with the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements mentioned in the first paragraph of this report, present fairly, in all material respects, the financial position of Tecpetrol Sociedad Anónima at December 31, 2018, the comprehensive income and cash flows for the year then ended, in accordance with the International Financial Reporting Standards.

### **Report on compliance with current regulations**

In accordance with current regulations, we report, regarding Tecpetrol Sociedad Anónima, that:

- a) the financial statements of Tecpetrol Sociedad Anónima are transcribed into the "Inventory and Balance Sheet" book and, as regards those matters that are within our competence, comply with the provisions of the General Companies Law and pertinent resolutions of the National Securities Commission;
- b) the financial statements of Tecpetrol Sociedad Anónima arise from accounting records kept in all formal respects in conformity with legal regulations, which maintain the security and integrity conditions based on which they were opportunely authorized by its regulatory agency;
- c) we have read the Summary of Information and the supplementary information presented with the financial statements in accordance with article 12, Chapter III, Title IV of the regulation of the National Securities Commission, on which, as regards those matters that are within our competence, we have no observations to make;

d) as of December 31, 2018, the debt of Tecpetrol Sociedad Anónima accrued in favor of the Argentine Integrated Social Security System arising from the Company's accounting records amounted to \$ 47,501,694, none of which was claimable at that date;

e) in accordance with article 21, paragraph b) Chapter III, Section VI, Title II of the regulation of the National Securities Commission, we report that the total fees for auditing and related services invoiced to the Company for the year ended December 31, 2018 account for:

- e.1) 100 % of the total fees for services invoiced to the Company for all concepts in that year;
- e.2) 54 % of the total fees for audits and related services invoiced to the Company, its parent companies, subsidiaries and related parties in that year;
- e.3) 54 % of the total fees for services invoiced to the Company, its parent companies, subsidiaries and related parties for all concepts in that year;

f) we have applied the anti-money laundering and financing of terrorism procedures for Tecpetrol Sociedad Anónima comprised in the professional standards issued by the Professional Council in Economic Sciences of the Autonomous City of Buenos Aires.

Autonomous City of Buenos Aires, February 27, 2019

PRICE WATERHOUSE & CO. S.R.L.

by \_\_\_\_\_ (Partner)

Alejandro J. Rosa