YPF SOCIEDAD ANONIMA
Form 6-K
February 03, 2009
Table of Contents

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of February, 2009

Commission File Number: 001-12102

YPF Sociedad Anónima

(Exact name of registrant as specified in its charter)

Av. Pte. R.S. Peña 777 8th Floor

1354 Buenos Aires, Argentina

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file

annual reports under cover of Form 20-F or Form 40-F:

Form 20-F __X__ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K

in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ______ No __X__

Indicate by check mark if the registrant is submitting the Form 6-K

in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ______ No __X__

Indicate by check mark whether by furnishing the information

contained in this Form, the Registrant is also thereby furnishing the information to the Commission

pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ______ No __X__

If Yes is marked, indicate below the file number assigned to the registrant

in connection with Rule 12g3-2(b): N/A

Table of Contents

This Form 6-K is incorporated by reference into the registration statements on Form F-3 filed by YPF Sociedad Anónima with the Securities and Exchange Comission (File Nos. 333-149313 and 333-149486).

Table of Contents

YPF Sociedad Anónima

TABLE OF CONTENTS

Table of Contents

ITEM 1. UPDATE OF SELECTED FINANCIAL AND OPERATING DATA

The following tables present our selected financial and operating data. You should read this information in conjunction with our audited consolidated financial statements included in our amended Annual Report on Form 20-F/A for the year ended December 31, 2007, as filed on October 20, 2008 (the 2007 20-F), our unaudited financial statements for the six-month periods ended June 30, 2008 and 2007, included as Item 5.A in this report, our unaudited financial statements for the nine-month periods ended September 30, 2008 and 2007, included as Item 5.B in this report, and their respective notes, as well as the information under Update of Management s Discussion and Analysis of Financial Condition and Results of Operations in this report. All financial data included in this report as of September 30, 2008 and for the nine-month periods ended September 30, 2008 and 2007 and as of June 30, 2008 and for the six-month periods ended June 30, 2008 and 2007 are unaudited. Results for the nine-month period ended September 30, 2008 and the six-month period ended June 30, 2008 are not necessarily indicative of results to be expected for the full year 2008 or any other period.

The financial data as of December 31, 2007, 2006 and 2005 and for the years then ended are derived from our audited consolidated financial statements included in our 2007 20-F (the Audited Consolidated Financial Statements). The financial data as of June 30, 2008 and for the six-month periods ended June 30, 2008 and 2007 are derived from our unaudited financial statements for the six-month periods ended June 30, 2008 and 2007, included as item 5.A in this report (the Unaudited First Semester Financial Statements). The financial data as of September 30, 2008 and for the nine-month periods ended September 30, 2008 and 2007 are derived from our unaudited financial statements for the nine-month periods ended September 30, 2008 and 2007, included as Item 5.B in this report (the Unaudited Nine-Month Financial Statements). The Unaudited First Semester Financial Statements and the Unaudited Nine-Month Financial Statements reflect all adjustments which, in the opinion of our management, are necessary to present the financial statements for such periods on a consistent basis with the Audited Consolidated Financial Statements. Our Unaudited First Semester Financial Statements and Unaudited Nine-Month Financial Statements have been prepared in accordance with generally accepted accounting principles in Argentina, which we refer to as Argentine GAAP and which differ in certain significant respects from generally accepted accounting principles in the United States, which we refer to as U.S. GAAP. Notes 6, 7 and 8 to our Unaudited First Semester Financial Statements provide a description of the significant differences between Argentine GAAP and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of net income for the six-month periods ended June 30, 2008 and 2007 and shareholders equity as of June 30, 2008 and December 31, 2007. Our Unaudited Nine-Month Financial Statements have not been reconciled to U.S. GAAP.

In this report, except as otherwise specified, references to $, U.S.$ and dollars are to U.S. dollars, and references to Ps. and pesos are to Argentine pesos. Solely for the convenience of the reader, peso amounts as of and for the nine-month period ended September 30, 2008 and as of and for the six-month period ended June 30, 2008 have been translated into U.S. dollars at the exchange rate quoted by the Argentine Central Bank (*Banco Central de la República Argentina,* or Central Bank) on September 30, 2008 of Ps.3.14 to U.S. $1.00, unless otherwise specified. The U.S. dollar equivalent information should not be construed to imply that the peso amounts represent, or could have been or could be converted into U.S. dollars at such rates or any other rate. See Item 3. Key Information Exchange Rates in our 2007 20-F.

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

Table of Contents

	As of and for Nine-Month Period Ended September 30,		
	2008 (in millions of U.S.$, except for per share and per ADS data)	2008 (in millions of pesos, except for per share and per ADS data)	2007
Consolidated Income Statement Data:			
Argentine GAAP(1)			
Net sales(2)(3)	8,345	26,204	20,869
Gross profit	2,710	8,509	6,952
Administrative expenses	(225)	(707)	(561)
Selling expenses	(549)	(1,724)	(1,541)
Exploration expenses	(139)	(435)	(356)
Operating income	1,797	5,643	4,494
Income on long-term investments	26	82	38
Other expenses, net	(100)	(313)	(171)
Interest expenses	(104)	(328)	(216)
Other financial income (expenses) and holding gains (losses), net	188	591	615
Reversal of impairment of other current assets			69
Income before income tax	1,807	5,675	4,829
Income tax	(728)	(2,287)	(1,849)
Net income	1,079	3,388	2,980
Earnings per share and per ADS(4)		8.61	7.58
Dividends per share and per ADS(4) (in pesos)	n.a.	17.26	6.00
Dividends per share and per ADS(4)(5) (in U.S. dollars)	n.a.	5.45	1.93
Other Consolidated Financial Data:			
Argentine GAAP(1)			
Fixed assets depreciation	1,050	3,297	3,105
Cash used in fixed asset acquisitions	1,475	4,631	4,076
Current liquidity (Current assets divided by current liabilities)	n.a.	1.034	1.696
Solvency (Net worth divided by total liabilities)	n.a.	1.389	2.230
Capital Immobilization (Non-current assets divided by total assets)	n.a.	0.725	0.720
Non-GAAP			
EBITDA(6)	2,929	9,196	7,891
EBITDA margin(7)	35%	35%	38%

	As of September 30, 2008	
	(in millions of U.S.$)	(in millions of pesos)
Consolidated Balance Sheet Data:		
Argentine GAAP(1)		
Cash	46	146
Working capital	113	354
Total assets	12,405	38,953
Total debt(8)	1,159	3,640
Shareholders equity(9)	7,212	22,645

2

Table of Contents

	As of and for Six-Month Period Ended June 30,		
	2008 (in millions of U.S.$, except for per share and per ADS data)	2008 (in millions of pesos, except for per share and per ADS data)	2007
Consolidated Income Statement Data:			
Argentine GAAP(1)			
Net sales(2)(3)	5,237	16,443	13,099
Gross profit	1,765	5,542	4,800
Administrative expenses	(137)	(429)	(361)
Selling expenses	(351)	(1,102)	(992)
Exploration expenses	(69)	(218)	(247)
Operating income	1,208	3,793	3,200
Income on long-term investments	21	67	29
Other expenses, net	(77)	(241)	(18)
Interest expenses	(60)	(189)	(145)
Other financial income (expenses) and holding gains (losses), net	146	459	319
Reversal of impairment of other current assets			69
Income before income tax	1,239	3,889	3,454
Income tax	(521)	(1,635)	(1,310)
Net income	718	2,254	2,144
Earnings per share and per ADS(4)	1.82	5.73	5.45
Dividends per share and per ADS(4) (in pesos)	n.a.	17.26	6.00
Dividends per share and per ADS(4)(5) (in U.S. dollars)	n.a.	5.45	1.93
U.S. GAAP			
Operating income	884	2,777	2,742
Net income	479	1,504	1,915
Earnings per share and per ADS(4) (in pesos)	1.22	3.82	4.87
Other Consolidated Financial Data:			
Argentine GAAP(1)			
Fixed assets depreciation	652	2,046	2,012
Cash used in fixed asset acquisitions	897	2,816	2,529
Current liquidity (Current assets divided by current liabilities)	n.a.	0.902	1.554
Solvency (Net worth divided by total liabilities)	n.a.	1.410	2.111
Capital Immobilization (Non-current assets divided by total assets)	n.a.	0.763	0.718
Non-GAAP			
EBITDA(6)	1,926	6,049	5,451
EBITDA margin(7)	37%	37%	42%

	As of June 30, 2008	
	(in millions of U.S.$)	(in millions of pesos)
Consolidated Balance Sheet Data:		
Argentine GAAP(1)		
Cash	33	105
Working capital	(301)	(944)
Total assets	11,708	36,764
Total debt(8)	1,036	3,252
Shareholders equity(9)	6,851	21,511
U.S. GAAP		
Total assets	12,029	37,771
Shareholders equity(9)	7,339	23,043

(1)

The financial statements reflect the effect of changes in the purchasing power of money by the application of the method for inflation adjustment into constant Argentine pesos set forth in Technical Resolution No. 6 of the Argentine Federation of Professional Councils in Economic Sciences (F.A.C.P.C.E.) and taking into consideration General Resolution No. 441 of the National Securities Commission (CNV), which established the discontinuation of the inflation adjustment of financial statements into constant Argentine pesos as from March 1, 2003. See Note 1 to the Unaudited First Semester Financial Statements and the individual financial statements included in our Unaudited Nine-Month Financial Statements.

Table of Contents

(2) Includes Ps.1,245 million for the nine-month period ended September 30, 2008 and Ps.999 million for the nine-month period ended September 30, 2007 corresponding to the proportional consolidation of the net sales of investees jointly controlled by us and third parties. Includes Ps.903 million for the six-month period ended June 30, 2008 and Ps.647 million for the six-month period ended June 30, 2007 corresponding to the proportional consolidation of the net sales of investees jointly controlled by us and third parties.

(3) Net sales are net to us after payment of a fuel transfer tax, turnover tax and customs duties on hydrocarbon exports. Royalties with respect to our production are accounted for as a cost of production and are not deducted in determining net sales. See Note 2(f) to the Unaudited First Semester Financial Statements and the Unaudited Nine-Month Financial Statements.

(4) Information has been calculated based on outstanding capital stock of 393,312,793 shares. Each ADS represents one Class D Share. There were no differences between basic and diluted earnings per share and ADS for any of the periods disclosed.

(5) Amounts expressed in U.S. dollars are based on the exchange rate as of the date of payment. For periods in which more than one dividend payment was made, the amounts expressed in U.S. dollars are based on exchange rates at the date of each payment.

(6) EBITDA is calculated by excluding interest gains on assets, interest losses on liabilities, income tax and depreciation of fixed assets from our net income. For a reconciliation of EBITDA to net income, see EBITDA reconciliation.

(7) EBITDA margin is calculated by dividing EBITDA by our net sales.

(8) Total debt under Argentine GAAP includes nominal amounts of long-term debt of Ps.674 million as of September 30, 2008 and Ps.650 million as of June 30, 2008.

(9) Our subscribed capital as of September 30, 2008 and June 30, 2008 was represented by 393,312,793 shares of common stock and divided into four classes of shares, with a par value of Ps.10 and one vote per share. These shares are fully subscribed, paid-in and authorized for stock exchange listing.

EBITDA reconciliation

EBITDA is calculated by excluding interest gains on assets, interest losses on liabilities, income tax and depreciation of fixed assets from our net income. Our management believes that EBITDA is meaningful for investors because it is one of the principal measures used by our management to compare our results and efficiency with those of other similar companies in the oil and gas industry, excluding the effect on comparability of variations in depreciation and amortization resulting from differences in the maturity of their oil and gas assets. EBITDA is also a measure commonly reported and widely used by analysts, investors and other interested parties in the oil and gas industry. EBITDA is not a measure of financial performance under Argentine GAAP or U.S. GAAP and may not be comparable to similarly titled measures used by other companies. EBITDA should not be considered an alternative to operating income as an indicator of our operating performance, or an alternative to cash flows from operating activities as a measure of our liquidity.

The following table presents, for each of the periods indicated, our EBITDA reconciled to our net income under Argentine GAAP.

	For the Nine-Month Period Ended September 30,	
	2008	**2007**
	(in millions of pesos)	
Net income	3,388	2,980
Interest gains on assets	(104)	(259)
Interest losses on liabilities	328	216
Depreciation of fixed assets	3,297	3,105
Income tax	2,287	1,849
EBITDA	9,196	7,891

	For the Six-Month Period Ended June 30,	
	2008	**2007**
	(in millions of pesos)	
Net income	2,254	2,144
Interest gains on assets	(75)	(160)
Interest losses on liabilities	189	145
Depreciation of fixed assets	2,046	2,012
Income tax	1,635	1,310

EBITDA	6,049	5,451

4

Table of Contents

Production and other operating data

The following tables present certain of our production and other operating data as of or for the nine-month and six-month periods indicated.

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Average daily production for the period		
Oil (mbbl)	308	335
Gas (mmcf)	1,696	1,743
Total (mboe)	610	644
Refining capacity		
Capacity (mbbl/d)(1)	320	320

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Average daily production for the period		
Oil (mbbl)	307	335
Gas (mmcf)	1,653	1,743
Total (mboe)	601	645
Refining capacity		
Capacity (mbbl/d)(1)	320	320

(1) Excluding Refinor, which has a refining capacity of 26 mbbl/d and in which we have a 50% interest.

Table of Contents

ITEM 2. UPDATE OF MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our Unaudited First Semester Financial Statements and our Unaudited Nine-Month Financial Statements.

Overview

We are Argentina s leading energy company, operating a fully integrated oil and gas chain with leading market positions across the domestic upstream and downstream segments. Our upstream operations consist of the exploration, development and production of crude oil, natural gas and liquefied petroleum gas. Our downstream operations include the refining, marketing, transportation and distribution of oil and a wide range of petroleum products, petroleum derivatives, petrochemicals, liquefied petroleum gas and bio-fuels. Additionally, we are active in the gas separation and natural gas distribution sectors both directly and through our investments in several affiliated companies. In the nine-month period ended September 30, 2008, we had consolidated net sales of Ps.26,204 million (U.S.$8,345 million) and consolidated net income of Ps.3,388 million (U.S.$1,079 million).

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

Since 1999, we have been controlled by Repsol YPF, an integrated oil and gas company headquartered in Spain with global operations. Repsol YPF owned approximately 99% of our capital stock from 2000 until February 21, 2008, when Petersen Energía purchased 58,603,606 of our ADSs, representing 14.9% of our capital stock, from Repsol YPF for U.S.$2,235 million. In addition, Repsol YPF also granted options to Enrique Eskenazi, Sebastián Eskenazi, Ezequiel Eskenazi Storey and Matías Eskenazi Storey, shareholders of Petersen Energía, or to companies that are, directly or indirectly, wholly-controlled by any of them (the Option Beneficiaries) to purchase up to an additional 10.1% of our outstanding capital stock within four years. On May 20, 2008, Petersen Energía Inversora S.A. (PEISA) exercised an option to purchase shares representing 0.1% of our capital stock. Additionally, PEISA launched a tender offer to purchase all of the shares of YPF that were not already owned by them at a price of U.S.$ 49.45 per share or ADS. Repsol, pursuant to its first option agreement with Petersen Energía, had stated that it would not tender YPF shares to PEISA. The offer period commenced on September 11, 2008 and expired on October 20, 2008. A total of 461,868 shares, representing approximately 0.117% of our total shares outstanding, have been tendered.

Upstream Operations

We operate more than 70 oil and gas fields in Argentina, accounting for approximately 42% of the country s total production of crude oil, excluding natural gas liquids, and approximately 42% of its total natural gas production, including natural gas liquids, in 2007, and approximately 41% and 42% of total crude oil and natural gas production, respectively, in the nine-month period ended September 30, 2008, according to information provided by the Secretariat of Energy.

We had proved reserves, as estimated as of December 31, 2007, of approximately 623 mmbbl of oil and 3,708 bcf of gas, representing aggregate reserves of 1,283 mmboe.

In 2007, we produced 120 mmbbl of oil (329 mbbl/d) and 635 bcf of gas (1,740 mmcf/d) and, in the nine-month period ended September 30, 2008, we produced 84 mmbbl of oil (308 mbbl/d) and 463 bcf of gas (1,696 mmcf/d).

Downstream Operations

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

Table of Contents

Our retail distribution network for automotive petroleum products as of June 30, 2008 consisted of 1,663 YPF-branded service stations, which we estimate represented approximately 31.0% of all service stations in Argentina.

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

Presentation of Financial Information

We prepare our Unaudited First Semester Financial Statements in accordance with Argentine GAAP, which differ in certain significant respects from U.S. GAAP. Notes 6, 7 and 8 to the Unaudited First Semester Financial Statements provide a summary of the effect of these significant differences on net income and shareholders equity under Argentine GAAP and U.S. GAAP.

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

Under Argentine GAAP, we currently are not required to record the effects of inflation in our financial statements. However, because Argentina experienced a high rate of inflation in 2002, with the wholesale price index increasing by approximately 118%, we were required by Decree No. 1269/2002 and CNV Resolution No. 415/2002 to remeasure our financial statements in constant pesos in accordance with Argentine GAAP. On March 25, 2003, Decree No. 664/2003 rescinded the requirement that financial statements be prepared in constant currency, effective for financial periods on or after March 1, 2003. According to the Argentine statistics and census agency (*Instituto Nacional de Estadísticas y Censos*, or INDEC), the wholesale price index increased 7.9% in 2004, 10.6% in 2005, 7.1% in 2006, 14.4% in 2007, and, based on preliminary data, 8.8% in the nine-month period ended September 30, 2008. As a result, our results of operations and financial position may not be directly comparable from period to period. We cannot assure you that in the future we will not be again required to record the effects of inflation in our financial statements (including those covered by the financial statements included in this report) in constant pesos. See Critical Accounting Policies U.S. GAAP Reconciliation for an explanation of how the effect of inflation is treated under U.S. GAAP.

Additionally, certain oil and gas disclosures as of December 31, 2007 are included in the Audited Consolidated Financial Statements included in our 2007 20-F under the heading Supplemental information on oil and gas producing activities (unaudited).

Segment Reporting

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

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

Table of Contents

Summarized Income Statement

	For the Nine-Month Period Ended September 30, 2008	2007
	(in millions of pesos)	
Net sales	26,204	20,869
Cost of sales	(17,695)	(13,917)
Gross profit	8,509	6,952
Administrative expenses	(707)	(561)
Selling expenses	(1,724)	(1,541)
Exploration expenses	(435)	(356)
Operating income	5,643	4,494
Income on long-term investments	82	38
Other expenses, net	(313)	(171)
Financial income, net and holding gains	263	399
Reversal of impairment of other assets		69
Net income before income tax	5,675	4,829
Income tax	(2,287)	(1,849)
Net income	3,388	2,980

	For the Six-Month Period Ended June 30, 2008	2007
	(in millions of pesos)	
Net sales	16,443	13,099
Cost of sales	(10,901)	(8,299)
Gross profit	5,542	4,800
Administrative expenses	(429)	(361)
Selling expenses	(1,102)	(992)
Exploration expenses	(218)	(247)
Operating income	3,793	3,200
Income on long-term investments	67	29
Other expenses, net	(241)	(18)
Financial income, net and holding gains	270	174
Income from sale of long-term investments		
Reversal of impairment of other assets		69
Net income before income tax	3,889	3,454
Income tax	(1,635)	(1,310)
Net income	2,254	2,144

Factors Affecting Our Operations

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

- the volume of crude oil, oil byproducts and natural gas we produce and sell;

domestic price limitations;

export restrictions and domestic supply requirements;

international prices of crude oil and oil products;

our capital expenditures;

inflation and cost increases;

domestic market demand for hydrocarbon products;

- operational risks;
- taxes, including export taxes;
- capital controls;
- the Argentine peso/U.S. dollar exchange rate;
- dependence on the infrastructure and logistics network used to deliver our products;
- laws and regulations affecting our operations; and
- interest rates.

Our margins and, prior to 2008, our consolidated operating profits have recently trended downwards. This has principally been the result of: production declines and increased asset depreciation principally due to the increasing maturity of our oil and gas fields; increases in other operating costs, due in part to higher domestic demand and local market supply obligations (which required us to purchase certain hydrocarbon inputs from third parties); inflation and higher labor costs; and limitations on our ability to offset those increased costs due to, among other things, domestic limitations on the prices at which we sell gas and refined products. Notwithstanding the improvement in trends in the first half of 2008, given the recent deterioration in Argentine and global economic conditions and the impact of such conditions on our export prices and, in some cases, domestic prices of certain of our products, we cannot guarantee that such improved trends in our margins and operating income will continue in future periods.

Our operating income in the nine-month period ended September 30, 2008 increased 25.6% compared to the corresponding period in 2007, mainly as a result of increases in our average domestic diesel and gasoline prices, and increased volumes of those products sold, which more than offset significant increases in the cost of our production that were driven by upward price pressures in the Argentine economy, a decline in our production caused by labor strikes in our Southern operations, purchases of crude oil from third parties in order to maintain our level of refining activity, the continuing maturity of our fields, and higher export taxes and declining export volumes driven by requirements to satisfy domestic demand at prices which are substantially lower than international market prices before export taxes.

Macroeconomic conditions

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

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

Strong economic growth in the world s developed economies and favorable raw material pricing from 2003 through the first half of 2008 paved the way for Argentina s economic recovery. Real GDP grew by 8.7% in 2003, 9.0% in 2004, 9.2% in 2005, 8.5% in 2006 and 8.7% in 2007. Real GDP continued to grow in the first half of 2008, though at a slower rate. According to preliminary data from the Argentine Central Bank, real GDP grew by 6.0% in 2008, while in 2009 GDP is expected to grow at a slower rate of approximately 4%. While additional downside risks exist, the government has stated that it is prepared to intervene in an attempt to neutralize them.

Table of Contents

Public finances both at national and provincial levels recorded a consolidated primary surplus of approximately 5.5% of GDP in 2004, 4.5% in 2005, 3.5% in 2006 and 3.2% in 2007.

The annual wholesale price index, according to the INDEC, increased by 2% in 2003, 7.9% in 2004, 10.6% in 2005, 7.1% in 2006, 14.4% in 2007 and, based on preliminary data, 8.8% in the nine-month period ended September 30, 2008. According to a recent report published by the International Monetary Fund (IMF), however, most private sector analysts believe that actual inflation is considerably higher than reflected in official data. The government s main strategy to fight increasing inflation has been the establishment of agreed price controls with private companies.

With its economic recovery well under way, in 2005, Argentina successfully completed the restructuring of a substantial portion of its bond indebtedness and cancelled all of its debt with the IMF. The country is working to renegotiate the remaining portion of its external public debt and to resolve the claims brought before international courts by foreign companies affected during the crisis of the years 2001-2002. Before the outbreak of the current global financial crisis, the Argentine government had announced that it would repay U.S.$6,700 million in Paris Club debt, and that it would negotiate with certain government bondholders who had not accepted the previous debt restructuring proposal. Though the government has recently announced that it still intends to resolve these pending claims, the schedule of negotiation and any payments to be made by the Argentine government is currently uncertain.

After years of strong growth, the world economy is slowing quickly, and, according to the IMF, is now entering a major downturn in the face of the most significant shock to mature financial markets since the 1930s. The world s major advanced economies are already in or close to recession, while growth in emerging economies has weakened significantly. Since the second half of 2007, the global financial system has experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility and general widening of credit spreads. In September 2008, global financial markets deteriorated sharply following the bankruptcy filing by Lehman Brothers Holdings Inc. in the United States. In the days that followed, it became apparent that a number of other major financial institutions, including some of the world s largest, were experiencing significant difficulties.

Intensifying solvency concerns have led numerous global financial institutions, especially in the United States and Europe, to seek additional capital. In response, U.S. and European authorities have taken extraordinary measures aimed at stabilizing markets. Central banks around the world have coordinated efforts to increase liquidity in the financial markets by taking measures such as increasing the amounts they lend directly to financial institutions, lowering interest rates and significantly increasing temporary reciprocal currency arrangements (or swap lines). In an attempt to prevent the failure of the financial system, the U.S. and European governments have intervened on an unprecedented scale.

Many emerging economies are currently still expected to grow in 2008 and 2009, albeit at substantially slower rates than recent years. The global economic situation remains highly uncertain, with low investor confidence and relatively scarce credit. Looking ahead, financial conditions are likely to remain very difficult, restraining global growth prospects. According to outlooks published by the IMF, output is forecast to contract in advanced economies in 2009, the first such fall in the post-war period. In emerging economies, growth is projected to slow considerably, though it is currently still expected to reach 3.3% in 2009. Downward revisions in the IMF s projections have varied considerably across regions. Among the most affected are commodity exporting countries, given that commodity price projections have been marked down sharply, and countries with acute external financing and liquidity problems.

Weakening global demand is currently continuing to depress commodity prices. Oil prices have declined by over 70 percent since their peak of over U.S.$145 per barrel (WTI) in July 2008, reflecting the major downturn in the global economy, the strengthening of the U.S. dollar, and the financial crisis, despite the decision by the Organization of Petroleum Exporting Countries (OPEC) to reduce production. In line with market developments, the IMF s baseline petroleum price projection for 2009 has been revised down to U.S.$50 a barrel, although in December 2008 and January 2009, oil (WTI) has traded in a range of between approximately U.S.$35 and U.S.$50 a barrel.

Latin American economies are facing an awkward combination of slowing activity, more difficult external conditions, and inflation that continues to be high. After four years of strong output growth, the pace eased in most economies of the region during the first half of 2008, largely because of moderating exports. Overall, GDP growth is projected to come down from 5.5% in 2007 to 4.5% in 2008 and 1.1% in 2009. External positions (current account balances) are generally robust, although the turbulence in the global economy may erode the cushions that have been built up over the past few years. The region s current account balance is expected to move to deficit in 2008 and 2009, after being in surplus since 2003, but the deficit is expected to remain quite low according to the IMF.

Table of Contents

In Argentina, higher WTI market prices (and the higher prices of refined products) have resulted in the highest increase in petroleum import prices in the last decade, according to information published by the Argentine Central Bank. Argentine domestic fuel prices have increased in the nine-month period ended September 30, 2008, compared to the same period in 2007, but have not kept pace with either increases or decreases in international market prices for petroleum products due to regulatory constraints. See Differences between Argentine and international prices for hydrocarbon products.

Countries that are net importers of hydrocarbon fuels, such as Argentina, could also suffer slower economic growth and deteriorating internal and external fiscal accounts as a result of the increased costs of import subsidies if international prices of oil products increase, as imports are increasingly required to satisfy domestic demand.

During the first half of 2008, conflicts in certain sectors of the Argentine economy, including blockades by agricultural producers in response to an export tax increase and strikes by oil workers, have affected the development and productivity of these and related sectors. Even though economic growth continued in the first half of 2008, it showed signs of weakening, mainly in the second quarter of 2008, as a result of decreasing consumption, according to the Argentine Central Bank.

Total exports from Argentina increased by 40% to U.S.$54,906 million in the nine-month period ended September 30, 2008, compared to the same period of the prior year, mainly driven by higher average prices, while imports increased by 39% in the same period due mainly to increases in the volume and prices of imported assets, particularly capital assets, fuels and lubricants and passenger vehicles. According to preliminary INDEC data, in the first nine months of 2008, the Argentine trade balance continued to post a surplus, reaching U.S.$ 10,228 million, a 62.5% increase compared to the same period of 2007.

According to INDEC, the unemployment rate corresponding to the third quarter of 2008 showed that 7.8% of the active population was unemployed, 0.3 percentage points higher than the 7.5% rate in the fourth quarter of 2007, and is expected to increase slightly during 2009 according to the Argentine Central Bank. During the first half of 2008, salary pressures in the Argentine economy have resulted in wage hikes of approximately 20% (YoY) in nominal terms in several sectors, according to the Argentine Central Bank.

The Argentine Central Bank reserves were at U.S.$46 billion at the end of 2007, and the peso/dollar buying exchange rate increased to Ps.3.15 per dollar, a 2.9% (YoY) nominal depreciation. The real exchange rate of the Argentine peso against a basket of currencies, measured using INDEC s inflation rate based on the consumer price index, showed a 10% real depreciation throughout 2007. The Argentine Central Bank continued its policy of accumulating international reserves and maintaining a competitive exchange rate during 2008. As of September 30, 2008, Argentine Central Bank reserves reached U.S.$47.1 billion. The exchange rate of the Argentine peso against the U.S dollar as of September 30, 2008 was Ps.3.14/ U.S.$1.00**.**

Government fiscal revenues increased by 33% (YoY in nominal terms) in 2007 and extraordinary revenues of Ps.7,814 million were generated as a result of pension reform, but an even higher rise in public expenditures (46%) led to a reduction in the national primary fiscal surplus from 3.5% of GDP in 2006 to 3.2% of GDP, in 2007. According to the Argentine Central Bank, fiscal revenues continued to increase in the third quarter of 2008 at similar rates to the ones of the first half of 2008 (40% YoY in nominal terms) driven mainly by export taxes, increased value added tax (VAT), and social security collections, while primary government expenditures increased by nearly 30%. According to the Argentine Central Bank, the national primary fiscal surplus is expected to increase to 3.27% of GDP for 2009.

In November 2008, the Argentine National Congress passed Law No. 26,425, pursuant to which the administration of the private pension system, first set up in 1994, was transferred to the ANSES (the National Social Security Administration), which will now manage the portfolios previously held by the private pension funds.

According to the Argentine Central Bank, Argentina s expected increase in public expenditures in 2009 could be financed through alternative sources of financing and various liability-management strategies in the event that external credit remains scarce in the current global economic environment.

In relation to public debt, two issues remain pending: (i) a portion of the defaulted debt that was not included in the 2005 debt swap (the so-called Paris Club), which the Argentine government recently announced it would repay, and (ii) certain government bondholders have not accepted the government s debt restructuring proposal. Standard & Poor s (S&P) recently downgraded Argentina s credit rating one notch to B- while Moody s has maintained its credit watch of Argentina as stable since August 2008.

Table of Contents

According to the Argentine Central Bank, the Argentine economy is expected to grow at a slightly higher pace than the economies of other countries in South America, though at a slower pace than that of recent years. However, we cannot predict the evolution of future macroeconomic events, or the effect that they are likely to have on our business, financial condition and results of operations. See Item 3. Key Information Risks Relating to Argentina in our 2007 20-F.

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

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

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

(1) Includes total domestic market deliveries.
(2) Includes domestic market sales.
Sources: Argentine Secretariat of Energy and Ente Nacional Regulador del Gas (ENARGAS)

Policy and regulatory developments in Argentina

The Argentine oil and gas industry is currently subject to: (i) certain governmental policies and regulations that have resulted in: domestic prices that are substantially lower than prevailing international market prices; (ii) export restrictions; (iii) domestic supply requirements that oblige us from time to time to divert supplies from the export or industrial markets in order to meet domestic consumer demand; and (iv) increasingly higher export duties on the volumes of hydrocarbons allowed to be exported. These governmental pricing limitations, export controls and tax policies have been implemented in an effort to satisfy increasing domestic market demand at prices below international market prices. As discussed in Item 3. Key Information Risk Factors of our 2007 20-F and elsewhere in this report, actions by the Argentine government have had and will continue to have a significant effect on Argentine companies, including us.

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

Price limitations. In order to support economic growth, the Argentine government has sought to limit increases in hydrocarbons prices through a number of policies and measures. As a result, Argentina s domestic hydrocarbon prices have not increased at the pace of international and regional prices, as described in Differences between Argentine and international prices for hydrocarbon products.

Table of Contents

Export restrictions. Since 2004, the Argentine government has prioritized domestic demand and adopted policies and regulations restricting the export of certain hydrocarbon products. These restrictions have impacted our export sales as described in Declining export volumes.

Export duties. Since the economic crisis in 2002, the Argentine government has imposed export taxes on certain hydrocarbon products. These taxes have increased substantially in the following years as international prices have surged.

Domestic supply requirements. The Argentine government has at times issued regulatory orders requiring producers to inject natural gas in excess of contractual commitments and supply other hydrocarbon products to the domestic market. As a result, we have had to limit our exports. In addition, we have imported diesel in order to satisfy domestic demand, which has increased our operating costs, as described in Increasing cost of sales.

Energy Substitution Program. The Argentine Secretariat of Energy, by Resolution SE No. 459/07 of July 12, 2007, created the Energy Substitution Program (*Programa de Energía Total*), which is designed to mitigate shortages of natural gas and electricity by encouraging industrial users to substitute natural gas and electricity during the Argentine winter with imported diesel, fuel oil and LPG subsidized by the government. Decree No. 2014/2008 of the Department of Federal Planning, Public Investment and Services extended the Energy Substitution Program until December 31, 2009, and Rule No. 30/08 of the Sub-Secretary of Coordination and Control, issued on April 1, 2008, approved the general plans for implementation of the Energy Substitution Program. See Item 4. Information on the Company Regulatory Framework and Relationship with the Argentine Government Market Regulation Refined Products in our 2007 20-F. Under this program, we and other companies import diesel, fuel oil and LPG that we then sell to industrial users in Argentina at the prevailing domestic natural gas prices, with the difference refunded to us by the Argentine government. As a result, this program has the effect of increasing our net sales and volumes sold, but is operating income-neutral since we do not earn any margin on products sold under this program.

Gas Plus. The Argentine Secretariat of Energy, by Resolution SE No. 24/08 of March 13, 2008, created the Gas Plus program to encourage the production of natural gas from newly discovered reserves, new fields and tight gas, among other sources. Natural gas produced under the Gas Plus program will not be subject to the prices set forth in the Agreement 2007-2011 regarding the supply of natural gas to the domestic market during the period 2007 through 2011. See Item 4. Information on the Company Regulatory Framework and Relationship with the Argentine Government Market Regulation Natural Gas in our 2007 20-F.

Refining and Petroleum Plus Programs. Decree No. 2014/2008 of the Department of Federal Planning, Public Investment and Services of November 25, 2008, created the Refining Plus and the Petroleum Plus programs to encourage (a) the production of diesel fuel and gasoline and (b) the production of crude oil and the increase of reserves through new investments in exploration and operation. The Argentine Secretariat of Energy, by Resolution SE No. 1312/2008 of December 1, 2008, approved the programs. The programs entitle refining companies that undertake the construction of a new refinery or the expansion of their refining and/or conversion capacity and production companies which increase their production and reserves within the scope of the program to receive export duty credits to be applied to exports of products within the scope of Resolution No. 394/2007 and Resolution No. 127/2008 (Annex) issued by the Department of Economy and Production. In order to be eligible for the benefits of both programs, companies plans must be approved by the Argentine Secretariat of Energy.

Declining export volumes

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

Table of Contents

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

	Nine-Month Period Ended September 30,	
	2008	2007
	Units Sold	
Oil (mcm)	310	348
Natural gas (mmcm)	350	1,204
Diesel (mcm)	101	99
Gasoline (mcm)	716	1,084
Fuel oil (mtn)	739	833
Petrochemicals (mtn)	393	498

	Six-Month Period Ended June 30,		Year Ended December 31,		
	2008	2007	2007	2006	2005
Product	Units Sold				
Oil (mcm)	257	231	425	874	1,776
Natural gas (mmcm)	285	1,126	1,358	3,090	3,071
Diesel (mcm)	91	75	133	149	327
Gasoline (mcm)	508	696	1,272	1,695	2,385
Fuel oil (mtn)	558	633	1,187	903	696
Petrochemicals (mtn)	247	351	689	700	749

Due to the decreased export product volumes indicated above and increasing export duties, the portion of our net sales accounted for by exports decreased steadily between 2005 and 2008. In the nine-month period ended September 30, 2008, our exports accounted for 21.8% of our consolidated net sales, compared to 29.6% in the same period of the prior year. Exports accounted for 25.3%, 31.8%, 28.9%, 33.7% and 37.7% of our consolidated net sales in the six-month periods ended June 30, 2008 and 2007, and in 2007, 2006 and 2005, respectively.

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

Differences between Argentine and international prices for hydrocarbon products

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

	For the Nine-Month Period Ended September 30, 2008	
	Peso	U.S.$(1)
Natural gas(2)(3)	197	63
Diesel(4)	1,414	450
Gasoline products(5)	1,334	425

	For the Six-Month Period Ended June 30, 2008	
	Peso	U.S.$(1)
Natural gas(2)(3)	231	74
Diesel(4)	1,182	379
Gasoline products(5)	1,124	361

(1) Amounts translated from Argentine pesos at the average exchange rate for the period.
(2) Per thousand cubic meters.
(3) Reflects the average of residential prices (which are generally lower than prices to other segments) and industrial prices.
(4) Per cubic meter. Does not include sales by Refinor, in which we have a 50% interest and which is proportionally consolidated in our consolidated financial statements.
(5) Per cubic meter. Does not include sales by Refinor, in which we have a 50% interest, and which is proportionally consolidated in our consolidated financial statements. The average price shown for each period is the volume-weighted average price of the various grades of gasoline products sold by us in the domestic market during such period.

The previously mentioned disparity between the prices at which hydrocarbon products are sold in Argentina and the prevailing international prices for such products has been mainly due to limitations on our ability to pass increases in international prices of crude oil and hydrocarbon fuels and adverse exchange rate movements through to domestic prices or to increase local prices of natural gas (in particular for residential customers), gasoline and diesel. Accordingly, in a framework of increasing international prices, and notwithstanding our leading market position, domestic liquid fuel prices could remain well below the level consistent with international prices.

For example the price at which Bolivia exports natural gas to Argentina (which is purchased by ENARSA) was approximately U.S.$6/mmBtu in the fourth quarter of 2007 (and increased to approximately U.S.$9/mmBtu in the third quarter of 2008), while the price at which we purchase natural gas from ENARSA was approximately U.S.$1.84/mmBtu in the third quarter of 2008 and our average sales price in the nine-month period ended September 30, 2008 for such gas in Argentina was approximately U.S.$1.90/mmBtu.

In addition, pursuant to Resolution 599/2007 of the Secretariat of Energy dated June 14, 2007 (see Item 4. Information on the Company Regulatory Framework and Relationship with the Argentine Government Market Regulation Natural gas in our 2007 20-F), the Argentine government and gas producers, including us, entered into an agreement for the supply of certain volumes of gas to each segment of the domestic market during the period 2007 through 2011. Under this agreement, we have supplied a total volume of 2,674 million cubic meters of gas from August through December 2007 (representing 34% of our total gas volume sales for the same period) to domestic residential and small commercial consumers at a price of approximately Ps.0.50/mmBtu for that period.

Relative maturity of our oil and gas assets

Argentina s oil and gas fields are mature and, as a result, our reserves and production are declining as reserves are depleted. Because we mainly have concessions for mature oil and gas fields that are undergoing natural production declines, it is difficult to replace our proved reserves from other categories of reserves. In 2007, our estimated proved oil reserves and oil production declined by 8.38% and 4.76%, respectively, over the preceding year, while our estimated proved gas reserves and gas production declined by 7.65% and 2.46%, respectively, over the same period. As a result, in an effort to maintain our high refinery utilization rates and because of regulatory requirements to supply certain hydrocarbon products to the domestic market, we purchased crude oil and natural gas from third parties. In 2007 and 2006, our crude production, substantially all of which was destined to our refineries, represented approximately 83% and 90%, respectively, of the total crude oil processed by our refineries. In the six-month period ended June 30, 2008, it represented 77%, a 6% decline from the full year 2007, due mainly to a strike that affected our operations in

Table of Contents

the South of Argentina and caused our production to decrease by approximately 3.4 mmbbl. As adjusted for the lost production resulting from the strike, we believe our crude oil production would have represented approximately 82% of the crude processed by our refineries. In 2007 and 2006, our natural gas production represented approximately 99% and 93%, respectively, of our total natural gas deliveries, while in the six-month period ended June 30, 2008, almost 100% of such deliveries were satisfied by our production. We expect our oil and gas proved reserves and production rates to continue their decline. See Item 4. Information on the Company Exploration and Development Activities Reserves in our 2007 20-F for more information on our proved reserves.

Increasing cost of sales

Our cost of sales accounted for 67.5% and 66.7% of our consolidated net sales in the nine-month periods ended September 30, 2008 and 2007, respectively, 66.3% and 63.4% of our consolidated net sales in the six-month periods ended June 30, 2008 and 2007, respectively, and 65.3%, 61.7% and 49.2% of our consolidated net sales in 2007, 2006 and 2005, respectively. Our cost of sales increased significantly between 2005 and September 2008, mainly as a result of: increased purchases of crude oil from third parties, driven by our efforts to maintain our high refinery utilization rates in light of our declining production; increased purchases of natural gas and diesel from third parties to fulfill our domestic supply requirements and avoid penalties under certain delivery contracts; higher labor costs; higher costs related to the renegotiation of certain service contracts; and inflation. Due to prevailing Argentine price limitations, we were unable to pass many of these cost increases to our customers in the form of higher hydrocarbon product prices.

Critical Accounting Policies

U.S. GAAP reconciliation

The difference between our net income under Argentine GAAP and our net income under U.S. GAAP for the six-month periods ended June 30, 2008 and 2007 is primarily due to the remeasurement into functional currency and translation into reporting currency, the elimination of the inflation adjustment into Argentine constant pesos, the effects of the reorganization of entities under common control, the impairment of long-lived assets, capitalization of financial expenses, accounting for assets retirement obligations, proportional consolidation of investments in jointly controlled companies, and the consolidation of variable interest entities.

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

Under U.S. GAAP, a definition of the functional currency is required which may differ from the reporting currency. Management has determined, for us and certain of our subsidiaries and investees, the U.S. dollar to be the functional currency in accordance with Statement of Financial Accounting Standards (SFAS) No. 52. Therefore, we have re-measured into U.S. dollars our Unaudited First Semester Financial Statements as of June 30, 2008 and 2007, in each case prepared in accordance with Argentine GAAP by applying the procedures specified in SFAS No. 52. The objective of the re-measurement process is to produce the same results that would have been reported if the accounting records had been kept in the functional currency. Accordingly, monetary assets and liabilities are re-measured at the balance sheet date (current) exchange rate. Amounts carried at prices in past transactions are re-measured at the exchange rates in effect when the transactions occurred. Revenues and expenses are re-measured on a monthly basis at the average rates of exchange in effect during the period, except for consumption of non-monetary assets, which are re-measured at the rates of exchange in effect when the respective assets were acquired. Translation gains and losses on monetary assets and liabilities arising from the re-measurement are included in the determination of net income (loss) in the period such gains and losses arise. For certain of our subsidiaries and investees, we have determined the Argentine peso as the functional currency. Translation adjustments resulting from the process of translating the financial statements of the mentioned subsidiaries into U.S. dollars are not included in determining net income and are reported in other comprehensive income (OCI), as a component of shareholders equity.

The amounts obtained from the re-measurement process referred to above are translated into Argentine pesos under the provisions of SFAS No. 52. Assets and liabilities are translated at the current selling exchange rate of Ps.3.03 to U.S.$1.00, as of June 30, 2008. Revenues, expenses, gains and losses reported in the income statement are translated at the exchange rate existing at the time of each transaction or, if appropriate, at the weighted average of the exchange rates during the period. Translation effects of exchange rate changes are included as a cumulative translation adjustment in shareholders equity. For the six-month periods ended June 30, 2008 and 2007, the re-measurement into functional currency and the translation into reporting currency decreased net income determined according to Argentine GAAP by Ps.1,091 million and Ps.641 million, respectively.

Table of Contents

Under Argentine GAAP, we have proportionally consolidated, net of intercompany transactions, assets, liabilities, net sales, cost and expenses of investees in which joint control is held. Under U.S. GAAP these investees are accounted for by the equity method. The proportional consolidation mentioned above generated an increase of Ps.530 million in total assets and total liabilities as of June 30, 2008, and an increase of Ps.903 million and Ps.647 million in net sales and Ps.498 million and Ps.331 million in operating income for the six-month periods ended June 30, 2008 and 2007, respectively.

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

Under U.S. GAAP, for proved oil and gas properties, we perform the impairment test on an individual field basis. Other long-lived assets are aggregated, so that the discrete cash flows produced by each group of assets may be separately analyzed. Each asset is tested following the guidelines of SFAS No. 144, Accounting for the Impairment of Long Lived Assets, by comparing the net book value of such an asset with the expected undiscounted cash flow. Impairment losses are measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. When market values are not available, we estimate them using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the assets. There were no impairment charges under U.S. GAAP for the six-month periods ended June 30, 2008 and 2007. The adjusted book value after impairment under U.S. GAAP results in lower depreciation of Ps. 74 million and Ps. 85 million for the six-month periods ended June 30, 2008 and 2007, respectively. Additionally, the reconciliation adjustment of Ps.16 million for the six-month period ended June 30, 2007 includes a loss of Ps.69 million for the elimination of the reversal of an impairment charge made under Argentine GAAP, which is not allowed under U.S. GAAP.

Under U.S. GAAP, only interest expense on qualifying assets must be capitalized, regardless of the asset s construction period. Under Argentine GAAP, for those assets that necessarily take a substantial period of time to get ready for its intended use, borrowing costs (including interest and exchange differences) should be capitalized. Accordingly, borrowing costs for those assets whose construction period exceeds one year have been capitalized, provided that such capitalization does not exceed the amount of financial expense recorded in that period or year.

Under U.S. GAAP, SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement cost. The standard applies to the legal obligation associated with the retirement of long-lived assets that results from the acquisition, construction, development and normal use of the asset. Accounting for Assets Retirement Obligations, requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The asset retirement obligations liability is built up in cash flow layers, with each layer being discounted using the discount rate as of the date that the layer was created. Remeasurement of the entire obligation using current discount rates is not permitted. Each cash flow layer is added to the carrying amount of the associated asset. This additional carrying amount is then depreciated over the life of the asset. The liability is increased due to the passage of time based on the time value of money (accretion expense) until the obligation is settled. Argentine GAAP is similar to SFAS No. 143, except for a change in the discount rate is treated as a change in estimates, so the entire liability must be recalculated using the current discount rate, being the change added or reduced from the related asset.

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

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

Table of Contents

Through May 2008, we had operations with one variable interest entity (VIE), which was created in order to structure our future deliveries of oil (FOS transaction). Additionally, through September 2005, we had operations with a VIE related to another FOS transaction, which was settled in advance. For a further description refer to Transactions with unconsolidated variable interest entities below.

YPF Holdings has a non-contributory defined-benefit pension plan and postretirement and postemployment benefits. Under U.S. GAAP, the Company fully recognized the underfunded status of defined-benefit pension and postretirement plans as a liability in the financial statements reducing the Company s shareholders equity through the accumulated OCI account. Under Argentine GAAP, unrecognized actuarial losses are not considered in the amount of the net liability. For a more detailed discussion of the most significant differences between Argentine GAAP and U.S. GAAP, please refer to Note 6(f) to the Unaudited First Semester Financial Statements.

Principal Income Statement Line Items

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

Net sales

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

Cost of sales

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

	For the Nine-Month Period Ended September 30,		For the Six-Month Period Ended June 30,	
	2008	2007	2008	2007
	(in millions of pesos)			
Inventories at beginning of year	2,573	1,697	2,573	1,697
Purchases for the period	6,706	4,902	3,924	2,568
Production costs(1)	11,411	9,499	7,135	6,072
Holding gains on inventories	390	313	123	119
Inventories at end of period	(3,385)	(2,494)	(2,854)	(2,157)
Cost of sales	17,695	13,917	10,901	8,299

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

	For the Nine-Month Period Ended September 30,		For the Six-Month Period Ended June 30,	
	2008	2007	2008	2007
	(in millions of pesos)			
Salaries and social security taxes	757	617	485	395
Fees and compensation for services	155	117	98	67
Other personnel expenses	245	199	158	124
Taxes, charges and contributions	208	165	139	111
Royalties and easements	1,730	1,465	1,138	981
Insurance	86	78	55	48
Rental of real estate and equipment	294	243	189	154
Depreciation of fixed assets	3,162	2,992	1,970	1,939
Industrial inputs, consumable material and supplies	432	408	279	302

Operation services and other service contracts	814	428	526	279
Preservation, repair and maintenance	1,689	1,201	917	766
Contractual commitments	160	478	156	232
Transportation, products and charges	693	579	448	369
Fuel, gas, energy and miscellaneous	986	529	577	305
Total	11,411	9,499	7,135	6,072

Table of Contents

Other expenses, net

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

Financial income/(expense), net and holding gains

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

Taxes

The statutory corporate income tax rate in Argentina was 35% during each of the periods presented in this report. Our effective tax rates for the periods discussed in this report exceed the Argentine corporate income tax rate mainly due to the non-deductibility of the amortization of the effect of inflation indexation on fixed assets, offset in part by income on non-consolidated long-term investments (which is included in our consolidated financial statements net of corporate income tax as payable by investees) and tax-free income from the sale of hydrocarbons produced in Tierra del Fuego. See Note 2(f) to the Unaudited First Semester Financial Statements and the Unaudited Nine-Month Financial Statements.

Consolidated results of operations for the nine-month periods ended September 30, 2008 and 2007

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

	Nine-Month Period Ended September 30,	
	2008	2007
	(percentage of net sales)	
Net sales	100.0%	100.0%
Cost of sales	(67.5)	(66.7)
Gross profit	32.5	33.3
Administrative expenses	(2.7)	(2.7)
Selling expenses	(6.6)	(7.4)
Exploration expenses	(1.7)	(1.7)
Operating income	21.5	21.5

The tables below present, for the periods indicated, volume and price data with respect to our consolidated sales of our principal products in the domestic and export markets, respectively. The data presented below does not include sales by Compañía Mega S.A. (Mega), Refinor or Profertil, jointly-controlled companies in which we have 38%, 50% and 50% interests, respectively, and which are proportionally consolidated in our consolidated financial statements. Mega, Refinor and Profertil contributed, after consolidation adjustments, 1.13%, 1.22% and 2.40%, respectively, of our consolidated net sales for the nine-month period ended September 30, 2008 and 1.55%, 1.53% and 1.71%, respectively, of our consolidated net sales for the nine-month period ended September 30, 2007.

Domestic Market	Nine-month period ended September 30,			
	2008		2007	
Product	Units sold	Average price per unit(1) (in pesos)	Units sold	Average price per unit(1) (in pesos)
Natural gas	12,225 mmcm	219/mcm	12,873 mmcm	150/mcm
Diesel	6,185 mcm	1,279/m3	6,185 mcm	974/m3
Gasoline	2,209 mcm	1,199/m3	1,961 mcm	932/m3
Fuel oil (2)	916 mtn	1,740/ton	708 mtn	1,275/ton

Petrochemicals	509 mtn	2,133/ton	498 mtn	1,461/ton

(1) Average prices shown are net of applicable domestic fuel transfer taxes payable by consumers.
(2) For the period ended September 30, 2008, includes sales under the Energy Substitution Program amounting to 298 mtn.

Table of Contents

Export Markets	Nine-month period ended September 30,			
	2008		2007	
Product	Units sold	Average price per unit(1) (in pesos)	Units sold	Average price per unit(1) (in pesos)
Natural gas (2)	350 mmcm	2,127/mcm	1,204 mmcm	235/mcm
Diesel	101 mcm	2,906/m3	99 mcm	1,650/m3
Gasoline	716 mcm	2,577/m3	1,084 mcm	1,645/m3
Fuel oil	739 mtn	1,787/ton	833 mtn	1,014/ton
Petrochemicals	393 mtn	2,772/ton	498 mtn	2,148/ton

(1) Average prices shown are gross of applicable export withholding taxes payable by us, and, as a result, may not be indicative of amounts recorded by us as net sales.
(2) Average price is based on natural gas actually delivered and does not include fixed charges collected pursuant to certain delivery contracts. The average price in 2008 includes export withholding taxes transferred by us to our export clients.

Net sales

Net sales in the nine-month period ended September 30, 2008 were Ps.26,204 million, representing an 25.6% increase compared to Ps.20,869 million in the six-month period ended September 30, 2007. This increase was primarily attributable to increases in domestic prices for diesel and gasoline as well as in sales volumes of those products in the domestic market.

For further information on our net sales for the periods discussed above, see Results of operations by business segment for the nine-month periods ended September 30, 2008 and 2007.

Cost of sales

Cost of sales in the nine-month period ended September 30, 2008 was Ps.17,695 million compared to Ps.13,917 million in the same period ended in 2007, representing a 27.1% increase, which was mainly attributable to the increase in the total volume of crude oil purchases from third parties, which was necessary to offset our lower crude oil production and maintain the pace of our refinery operations in order to meet the growing domestic demand of refined products. Cost of sales as a percentage of net sales increased to 67.5% in the 2008 period, compared to 66.7% in the same period in 2007. Increased volumes of crude oil purchases adversely affect our margins because we lose the margin earned on our internal exploration and production activities. In addition, we experienced general increases in costs, mainly in preservation, repair and maintenance, increased asset depreciation, derived from the higher asset value subject to depreciation given the investments performed by us; increased exploration costs which were mainly related to unsuccessful exploration activities during 2008 in comparison with the same period for 2007, and operation services and other service contracts, driven mainly by upward price and wage pressure, and transportation, products and charges, driven mainly by the increase in our domestic sales. Salaries and social security also increased more than 20%, at pace with general price increases in the broader economy.

Selling expenses

Our selling expenses were Ps.1,724 million in the nine-month period ended September 30, 2008 compared to Ps.1,541 million in the nine-month period ended September 30, 2007, representing an increase of 11.9%, mainly attributable to the increase in the amount we paid in tax on debits and credits on bank accounts, due to the higher amounts involved in these transactions in the first nine months of 2008. The cost of transportation to our distribution network also increased, in this case driven mainly by our higher domestic sales.

Operating income

Operating income in the nine-month period ended September 30, 2008 was Ps.5,643 million compared to Ps.4,494 million in the nine-month period ended September 30, 2007, representing an increase of 25.6%. Operating income increased primarily due to the previously mentioned increases in domestic prices, partially offset by our higher cost of sales.

Our operating margins (operating income divided by net sales) were 21.5% in the nine-month periods ended September 30, 2008 and 2007.

Other expenses, net

Other expenses, net increased to Ps.313 million in the nine-month period ended September 30, 2008 from Ps.171 million in the same period of 2007, mainly as a result of increased reserves for lawsuits, due mainly to our reassessment of certain environmental obligations based on new information that became available during the nine-month period ended September 30, 2008. See Note 2(h) to our Unaudited Nine-Month Financial Statements.

Financial income (expense), net and holding gains

In the nine-month period ended September 30, 2008, financial income (expense), net and holding gains, were Ps.263 million, compared to Ps.399 million in the nine-month period ended September 30, 2007. These lower financial income, net and holding gains were attributable to a decrease in interest income, and an increase in interest expenses, partially offset by higher holding gains on inventories from stock revaluation.

Taxes

Income tax expense in the nine-month period ended September 30, 2008 increased 23.7% to Ps.2,287 million from Ps.1,849 million in the six-month period ended September 30, 2007. The effective income tax rates for the nine-month period ended September 30, 2008 and the nine-month period ended September 30, 2007 were 40% and 38%, respectively, compared to the statutory income tax rate of 35%. The higher effective income tax rate is mainly attributable to higher losses recognized by YPF Holdings and the 100% impairment of the deferred tax assets generated as a result of such losses due to our recovery assesments.

Net income

Net income for the nine-month period ended September 30, 2008 was Ps.3,388 million, compared to Ps.2,980 million in the same period in 2007, an increase of 13.7%. This increase is mainly attributable to our 25.6% increase in operating income, which was partially offset by the increase in other expenses, net, and higher income tax.

Results of operations by business segment for the nine-month periods ended September 30, 2008 and 2007

The following table sets forth net sales and operating income for each of our lines of business for the nine-month periods ended September 30, 2008 and 2007:

	For the Nine-Month Period Ended September 30,	
	2008	2007
	(in millions of pesos)	
Net sales(1)		
Exploration and production(2)		
To unrelated parties	3,131	2,310
To related parties	737	495
Intersegment sales and fees(3)	9,024	9,770
Total exploration and production	12,892	12,575
Refining and marketing(4)		
To unrelated parties	18,830	14,599
To related parties	1,334	1,511
Intersegment sales and fees	920	1,405
Total refining and marketing	21,084	17,515

Chemical		
To unrelated parties	2,049	1,855
Intersegment sales and fees	858	599
Total Chemical	2,907	2,454
Corporate and other		
To unrelated parties	123	99
Intersegment sales and fees	392	262
Total Corporate and others	515	361
Less intersegment sales and fees	(11,194)	(12,036)

Table of Contents

	For the Nine-Month Period Ended September 30,	
	2008	2007
	(in millions of pesos)	
Total net sales(5)	26,204	20,869
Operating income (Loss)		
Exploration and production	2,493	3, 550
Refining and marketing	2,886	1,008
Chemical	927	379
Corporate and other	(538)	(480)
Consolidation adjustments	(125)	37
Total operating income	5,643	4,494

(1) Net sales are net to us after payment of a fuel transfer tax, turnover tax and customs duties on exports. Royalties with respect to our production are accounted for as a cost of production and are not deducted in determining net sales.
(2) Includes exploration and production operations in Argentina and the United States.
(3) Intersegment sales of crude oil to Refining and Marketing are recorded at transfer prices that reflect our estimate of Argentine market prices.
(4) Includes LPG activities.
(5) Total net sales include export sales of Ps.5,711 million and Ps.6,176 million for the nine-month periods ended September 30, 2008, and 2007, respectively.

Exploration and production

Exploration and Production net sales in the nine-month period ended September 30, 2008 were Ps. 12,892, representing a 2.5% increase from Ps. 12,575 million in the nine-month period ended September 30, 2007. The volume of crude oil sales decreased by 6.3% in the nine-month period ended September 30, 2008, mainly due to a strike which affected our operations in the South of Argentina. The increase in average international crude oil prices (of approximately 71% between periods) was not significantly reflected in local market prices, due to the imposition in November 2007 of higher export tax rates, pursuant to Resolution No. 349/07. Export volumes of natural gas declined approximately 71% in the 2008 period compared to the same period in 2007, due to the priority we are required to give to fulfilling domestic demand. This decrease in exports was more than offset by a 46% increase in the average price of natural gas sold in the domestic market, driven mainly by a partial recovery in prices for the non-residential segments of the market.

Exploration and Production operating income declined 29.8% to Ps. 2,493 million in the nine-month period ended September 30, 2008 from Ps. 3,550 million in the nine-month period ended September 30, 2007 due to operating expenses increases outpacing the 2.5% increase in Exploration and Production net sales. Operating expenses increased 15.0%, primarily due to: the effect of cost increases in the wider economy; increases in oil and gas royalties, considering the higher oil and gas prices required to be used as a basis for calculation, as well as in the annual surface fee that is based on acreage of each block and which are payable to the provinces in which the hydrocarbon fields are located or, in the case of offshore and certain other fields, to the Argentine federal government, and which increased almost eightfold in the nine-month period ended September 30, 2008 compared to the same period in the prior year; increased asset depreciation, derived from the higher asset value subject to depreciation given the investments performed by us; and increased exploration costs which were mainly related to unsuccessful exploration activities during 2008 in comparison with the same period for 2007.

Average oil production during the nine-month period ended September 30, 2008 decreased 5.8% to 308 thousand barrels per day from 327 thousand barrels per day in the same period in 2007. Natural gas production in the nine-month period ended September 30, 2008 decreased 4.7% to 1,696 million cubic feet per day from 1,779 million cubic feet per day in the same period in 2007. These declines were the consequences of a strike which affected our operations in the South of Argentina and the natural decline in the production curve resulting from the continuing overall maturity of our fields.

Refining and marketing

Net sales in the nine-month period ended September 30, 2008 were Ps.21,084 million, 20.4% higher than the Ps.17,515 million in net sales recorded in the nine-month period ended September 30, 2007. This increase was mainly attributable to increases in the average domestic prices of diesel and gasoline. Domestic diesel average prices increased by approximately 31%, while domestic

gasoline volumes and average prices increased approximately 12.6% and 28.6%, respectively. The increases were offset in part by the priority given to the fulfillment of domestic gasoline demand, which resulted in a 34% decrease in the volume of gasoline exported, the segment s principal export product sold in the international market, where prices (net of export taxes) were on average slightly higher than in Argentina during the nine-month period ended September 30, 2008, despite the higher export taxes assessed by the Argentine government, which eroded our margins from export sales compared to the first nine months of 2007.

Operating profit increased to Ps.2,886 million in the nine-month period ended September 30, 2008 from Ps.1,008 million in the same period in 2007. This increase was due to improved margins resulting from the above-mentioned increases in net sales driven by higher prices for diesel and gasoline in Argentina described above and partially offset by an increase in the cost of crude oil purchased from third parties. Additionally, a 24.6% increase in refining costs, primarily in maintenance, energy and industrial inputs, was driven partly by maintenance works which took place in our La Plata and Luján de Cuyo Refineries, and partly by inflation. Refining cost per barrel, which we calculate as the segment s cost of sales for the period less crude oil purchase costs and depreciation of fixed assets, divided by the number of barrels produced during the period, was Ps.12.55 in the nine-month period ended September 30, 2008 compared to Ps.10.07 in the nine-month period ended September 30, 2007.

Refinery output in the nine-month period ended September 30, 2008, including 50% of Refinor s output (we own 50% of Refinor), reached 331 thousand barrels per day, representing a utilization rate of almost 100% of the existing processing capacity.

Chemical

Net sales in the nine-month period ended September 30, 2008 increased by 18.5% to Ps.2,907 million from Ps.2,454 million in the nine-month period ended September 30, 2007, while operating income in the nine-month period ended September 30, 2008 increased 144.6% to Ps. 927 million from Ps. 379 million in the nine-month period ended September 30, 2007. These increases were attributable mainly to higher operating income of Profertil, in which we have a 50% interest, attributable to increases in the sales of urea and other fertilizers, as well as an increase in the average prices of these products. Additionally, the increase in the operating income of our petrochemical operations was driven by an increase in prices for most of the segment s products, especially methanol.

Consolidated results of operations for the six-month periods ended June 30, 2008 and 2007

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

	Six-Month Period Ended June 30,	
	2008	**2007**
	(percentage of net sales)	
Net sales	100.0%	100.0%
Cost of sales	(66.3)	(63.4)
Gross profit	33.7	36.6
Administrative expenses	(2.6)	(2.8)
Selling expenses	(6.7)	(7.6)
Exploration expenses	(1.3)	(1.8)
Operating income	23.1	24.4

The tables below present, for the periods indicated, volume and price data with respect to our consolidated sales of our principal products in the domestic and export markets, respectively. The data presented below does not include sales by Compañía Mega S.A. (Mega), Refinor or Profertil, jointly-controlled companies in which we have 38%, 50% and 50% interests, respectively, and which are proportionally consolidated in our consolidated financial statements. Mega, Refinor and Profertil contributed, after consolidation adjustments, 1.37%, 1.38% and 2.75%, respectively, of our consolidated net sales for the six-month period ended June 30, 2008 and 1.63%, 1.49% and 1.82%, respectively, of our consolidated net sales for the six-month period ended June 30, 2007.

Domestic Market	Six-Month Period Ended June 30,			
	2008		2007	
Product	Units sold	Average price per unit(1) (in pesos)	Units sold	Average price per unit(1) (in pesos)
Natural gas	7,939 mmcm	231/mcm	8,194 mmcm	160/mcm

Table of Contents

Domestic Market	Six-Month Period Ended June 30,			
	2008		2007	
Product	Units sold	Average price per unit(1)	Units sold	Average price per unit(1)
Diesel	4,032 mcm	1,182/m3	3,936 mcm	925/m3
Gasoline	1,414 mcm	1,124/m3	1,262 mcm	911/m3
Fuel oil (2)	510 mtn	1,373/ton	206 mtn	891/ton
Petrochemicals	336 mtn	2,094/ton	320 mtn	1,408/ton

(1) Average prices shown are net of applicable domestic fuel transfer taxes payable by consumers.
(2) For the period ended June 30, 2008, includes sales under the Energy Substitution Program amounting to 104 mtn.

Export Markets	Six-Month Period Ended June 30,			
	2008		2007	
Product	Units sold	Average price per unit(1) (in pesos)	Units sold	Average price per unit(1) (in pesos)
Natural gas (2)	285 mmcm	731/mcm	1,126 mmcm	350/mcm
Diesel	91 mcm	2,789/m3	75 mcm	1,650/m3
Gasoline	508 mcm	2,473/m3	696 mcm	1,645/m3
Fuel oil	558 mtn	1,720/ton	633 mtn	1,014/ton
Petrochemicals	247 mtn	2,645/ton	351 mtn	2,148/ton

(1) Average prices shown are gross of applicable export withholding taxes payable by us, and, as a result, may not be indicative of amounts recorded by us as net sales.
(2) Average price is based on natural gas actually delivered and does not include fixed charges collected pursuant to certain delivery contracts.

Net sales

Net sales in the six-month period ended June 30, 2008 were Ps.16,443 million, representing an 25.5% increase compared to Ps.13,099 million in the six-month period ended June 30, 2007. This increase was primarily attributable to increases in domestic prices for diesel and gasoline as well as in sales volumes of those products in the domestic market. As a result, our domestic sales increased 37.6% to Ps.12,288 million in the six-month period ended June 30, 2008 from Ps.8,927 million in the same period in 2007. Export sales, despite an increase in international prices of substantially all of our exported products, declined by 0.4% to Ps.4,155 million in the six-month period ended June 30, 2008 from Ps.4,172 million in the same period in 2007, driven mainly by the increase in the export tax withholding rates applicable to petrochemical and refined products. Our export sales in both periods were made mainly to the United States, Brazil and Chile.

For further information on our net sales for the periods discussed above, see Results of operations by business segment for the six-month periods ended June 30, 2008 and 2007.

Cost of sales

Cost of sales in the six-month period ended June 30, 2008 was Ps.10,901 million compared to Ps.8,299 million in the six-month period ended June 30, 2007, representing a 31.3% increase, which was mainly attributable to the increase in the total volume of crude oil purchases from third parties, which was necessary to offset our lower crude oil production and maintain the pace of our refinery operations in order to meet the growing domestic demand of refined products. Cost of sales as a percentage of net sales increased to 66.3% in the 2008 period, compared to 63.4% in the same period in 2007. Increased volumes of crude oil purchases adversely affect our margins because we lose the margin earned on our internal exploration and production activities. In addition, we experienced general increases in costs, mainly in preservation, repair and maintenance, and operation services and other service contracts, driven mainly by upward price and wage pressure, and transportation, products and charges, driven mainly by the increase in our domestic sales. Salaries and social security also increased more than 20%, at pace with general price increases in the broader economy.

Selling expenses

Our selling expenses were Ps.1,102 million in the six-month period ended June 30, 2008 compared to Ps.992 million in the six-month period ended June 30, 2007, representing an increase of 11.1%, mainly attributable to the increase in the amount we paid in

Table of Contents

tax on debits and credits on bank accounts, due to the higher amounts involved in these transactions in the first half of 2008. The cost of transportation to our distribution network also increased, in this case driven mainly by our higher domestic sales.

Operating income

Operating income in the six-month period ended June 30, 2008 was Ps.3,793 million compared to Ps.3,200 million in the six-month period ended June 30, 2007, representing an increase of 18.5%. Operating income increased primarily due to the previously mentioned increases in domestic prices, partially offset by our higher cost of sales.

Our operating margins (operating income divided by net sales) were 23.1% and 24.4% in the six-month periods ended June 30, 2008 and 2007, respectively.

Other expenses, net

Other expenses, net increased to Ps.241 million in the six-month period ended June 30, 2008 from Ps.18 million in the six-month period ended June 30, 2007, mainly as a result of increased reserves for lawsuits, due mainly to our reassessment of certain environmental obligations based on new information that became available during the six-month period ended June 30, 2008. See Note 3(i) to our Unaudited First Semester Financial Statements.

Financial income (expense), net and holding gains

In the six-month period ended June 30, 2008, financial income (expense), net and holding gains, increased to Ps.270 million from Ps.174 million in the six-month period ended June 30, 2007. This increase is attributable to positive exchange differences resulting from the depreciation of the U.S. dollar against the Argentine peso, as our outstanding debt is denominated in U.S. dollars, as well as higher holding gains on inventories from stock revaluation. These financial income, net and holding gains were partially offset by a decrease in interest income, and an increase in interest expenses.

Taxes

Income tax expense in the six-month period ended June 30, 2008 increased 24.8% to Ps.1,635 million from Ps.1,310 million in the six-month period ended June 30, 2007. The effective income tax rates for the six-month period ended June 30, 2008 and the six-month period ended June 30, 2008 were 42% and 38%, respectively, compared to the statutory income tax rate of 35%. The higher effective income tax rate is mainly attributable to higher losses recognized by YPF Holdings and the 100% impairment of the deferred tax assets generated as a result of such losses due to our recovery assesments.

Net income

Net income for the six-month period ended June 30, 2008 was Ps.2,254 million, compared to Ps.2,144 million in the same period in 2007, an increase of 5.1%. This increase is mainly attributable to our 18.5% increase in operating income, which was partially offset by the increase in other expenses, net, and higher income tax.

Results of operations by business segment for the six-month periods ended June 30, 2008 and 2007

The following table sets forth net sales and operating income for each of our lines of business for the six-month periods ended June 30, 2008 and 2007:

	For the Six-Month Period Ended June 30,	
	2008	2007
	(in millions of pesos)	
Net sales(1)		
Exploration and production(2)		
To unrelated parties	2,198	1,607

To related parties	523	331
Intersegment sales and fees(3)	5,715	6,057
Total exploration and production	8,436	7,995
Refining and marketing(4)		
To unrelated parties	11,279	8,885
To related parties	973	1,007

Table of Contents

	For the Six-Month Period Ended June 30,	
	2008	**2007**
	(in millions of pesos)	
Intersegment sales and fees	571	880
Total refining and marketing	12,823	10,772
Chemical		
To unrelated parties	1,349	1,213
Intersegment sales and fees	542	418
Total Chemical	1,891	1,631
Corporate and other		
To unrelated parties	121	56
Intersegment sales and fees	203	169
Total Corporate and others	324	225
Less intersegment sales and fees	(7,031)	(7,524)
Total net sales(5)	16,443	13,099
Operating income (Loss)		
Exploration and production	2,010	2,155
Refining and marketing	1,525	1,087
Chemical	658	321
Corporate and other	(328)	(301)
Consolidation adjustments	(72)	(62)
Total operating income	3,793	3,200

(1) Net sales are net to us after payment of a fuel transfer tax, turnover tax and customs duties on exports. Royalties with respect to our production are accounted for as a cost of production and are not deducted in determining net sales.
(2) Includes exploration and production operations in Argentina and the United States.
(3) Intersegment sales of crude oil to Refining and Marketing are recorded at transfer prices that reflect our estimate of Argentine market prices.
(4) Includes LPG activities.
(5) Total net sales include export sales of Ps.4,155 million and Ps.4,172 million for the six-month periods ended June 30, 2008, and 2007, respectively.

Exploration and production

Exploration and Production net sales in the six-month period ended June 30, 2008 were Ps. 8,436, representing a 5.5% increase from Ps. 7,995 million in the six-month period ended June 30, 2007. The volume of crude oil sales decreased by 9.9% in the six-month period ended June 30, 2008, mainly due to a strike which affected our operations in the South of Argentina. The increase in average international crude oil prices (of approximately 80% between periods) was not significantly reflected in local market prices, due to the imposition in November 2007 of higher export tax rates, pursuant to Resolution No. 349/07. Export volumes of natural gas declined approximately 75% in the 2008 period compared to the same period in 2007, due to the priority we are required to give to fulfilling domestic demand. This decrease in exports was more than offset by a 42% increase in the average price of natural gas sold in the domestic market, driven mainly by a partial recovery in prices for the non-residential segments of the market.

Exploration and Production operating income declined 6.7% to Ps. 2,010 million in the six-month period ended June 30, 2008 from Ps. 2,155 million in the six-month period ended June 30, 2007 due to operating expenses increases outpacing the 5.5% increase in Exploration and Production net sales. Operating expenses increased 10.0%, primarily due to the effect of cost increases in the wider economy, increases in oil and gas royalties, considering the higher oil and gas prices required to be used as a basis for calculation, as well as in the annual surface fee that is based on acreage of each block and which are payable to the provinces in which the hydrocarbon fields are located or, in the case of offshore and certain other fields, to the Argentine federal government, and which increased almost eightfold in the six-month period ended June 30, 2008 compared to the same period in the prior year.

Average oil production during the six-month period ended June 30, 2008 decreased 8.3% to 307 thousand barrels per day from 335 thousand barrels per day in the same period in 2007. Natural gas production in the six-month period ended June 30, 2008 decreased 5.0% to 1,653 million cubic feet per day from 1,743 million cubic feet per day in the same period in 2007. These declines were the consequences of a strike which affected our operations in the South of Argentina and the natural decline in the production curve resulting from the continuing overall maturity of our fields.

Table of Contents

Refining and marketing

Net sales in the six-month period ended June 30, 2008 were Ps.12,823 million, 19.0% higher than the Ps.10,772 million in net sales recorded in the six-month period ended June 30, 2007. This increase was mainly attributable to increases in the volumes sold in the domestic market and in the average domestic prices of diesel and gasoline. Domestic diesel volumes and average prices increased by approximately 2% and 28%, respectively, while domestic gasoline volumes and average prices increased approximately 12% and 22%, respectively. The increases were offset in part by the priority given to the fulfillment of domestic gasoline demand, which resulted in a 27% decrease in the volume of gasoline exported, the segment s principal export product sold in the international market, where prices (net of export taxes) were on average slightly higher than in Argentina during the six-month period ended June 30, 2008, despite the higher export taxes assessed by the Argentine government, which eroded our margins from export sales compared to the first half of 2007.

Operating profit increased by 40.3% to Ps.1,525 million in the six-month period ended June 30, 2008 from Ps.1,087 million in the same period in 2007. This increase was due to improved margins resulting from the above-mentioned increases in net sales driven by higher prices for diesel and gasoline in Argentina described above and partially offset by an increase in the cost of crude oil purchased from third parties. Additionally, an 18.5% increase in refining costs, primarily in maintenance, energy and industrial inputs, was driven partly by maintenance works which took place in our La Plata and Luján de Cuyo Refineries, and partly by inflation. Refining cost per barrel, which we calculate as the segment s cost of sales for the period less crude oil purchase costs and depreciation of fixed assets, divided by the number of barrels produced during the period, was Ps.11.78 in the six-month period ended June 30, 2008 compared to Ps.9.79 in the six-month period ended June 30, 2007.

Refinery output in the six-month period ended June 30, 2008, including 50% of Refinor s output (we own 50% of Refinor), reached 334 thousand barrels per day, representing a utilization rate of almost 100% of the existing processing capacity.

Chemical

Net sales in the six-month period ended June 30, 2008 increased by 15.9% to Ps.1,891 million from Ps.1,631 million in the six-month period ended June 30, 2007, while operating income in the six-month period ended June 30, 2008 increased 105.0% to Ps. 658 million from Ps. 321 million in the six-month period ended June 30, 2007. These increases were attributable mainly to higher operating income of Profertil, in which we have a 50% interest, attributable to increases in the sales of urea and other fertilizers, as well as an increase in the average prices of these products. Additionally, the increase in the operating income of our petrochemical operations was driven by an increase in prices for most of the segment s products, especially methanol and fertilizers, and was only partially offset by higher production costs and the effects of the higher export taxes pursuant to Resolution No. 394/07.

Liquidity and Capital Resources

Financial condition

Total debt outstanding, net of cash, as of September 30, 2008 was U.S.$1,113 million (Ps.3,494 million) consisting of short-term debt (including the current portion of long-term debt) of U.S.$898 million (Ps.2,820 million) and long-term debt of U.S.$215 million (Ps.674 million). As of September 30, 2008, a major part of our debt was denominated in U.S. dollars (see Note 2(g) to the Unaudited Nine-Month Financial Statements.) The use of derivatives is detailed in Quantitative and Qualitative Disclosure about Market Risk.

Since September 2001, we have repurchased certain of our publicly-traded bonds in open market transactions on an arms-length basis. As of September 30, 2008, we had repurchased approximately U.S.$159 million of our outstanding bonds. We may from time to time make additional purchases of, or affect other transactions relating to, our publicly-traded bonds if in our own judgment the market conditions are attractive.

The following tables set forth our consolidated cash flow information for the periods indicated.

	For the Nine-Month Period Ended September 30,	
	2008	**2007**
	(in millions of pesos)	
Net cash flows provided by operating activities	8,879	6,142
Net cash flows used in investing activities	(4,622)	(4,089)

27

Table of Contents

	For the Nine-Month Period Ended September 30, 2008	2007
	(in millions of pesos)	
Net cash flows used in financing activities	(4,141)	(2,747)
Net increase/(decrease) in cash and equivalents	116	(694)
Cash and equivalents at the beginning of period	847	1,087
Cash and equivalents at the end of period	963	393

Net proceeds from outstanding loans were Ps.2,648 million in the nine-month period ended September 30, 2008. Net cash flow provided by operating activities was Ps.8,879 million in the nine-month period ended September 30, 2008, compared to Ps.6,142 million in the nine-month period ended September 30, 2007, mainly as a result of a 25.6% increase in operating income and the collection of loans granted by us to related parties.

The principal uses of cash in investing and financing activities in the nine-month period ended September 30, 2008 included Ps.4,631 million in fixed asset acquisitions relating mainly to drilling activities in our Exploration and Production business unit, and Ps.6,789 million in dividend payments.

Our current financing policy is to use cash flows provided by operating activities and debt to fund both our investing and operating activities.

In addition, Repsol YPF and Petersen Energía have agreed in the shareholders agreement entered into by them in connection with the Petersen Transaction to effect the adoption of a dividend policy under which we would distribute 90% of our net income as dividends, starting with our net income for 2007. They have also agreed to vote in favor of requiring us to distribute a dividend of U.S.$850 million in addition to the amount resulting from the distribution of our net income mentioned in the preceding sentence, with payments in 2008 and 2009. We distributed dividends in the amounts of Ps.4,232 million and Ps.2,557 million in February and May 2008, respectively. See Item 8. Financial Information Dividends Policy and Item 7. Major Shareholders and Related Party Transactions Shareholders Agreement in our 2007 20-F. Additionally, we paid dividends in the amount of Ps. 2,498 million in November 2008.

The shareholders meeting held on January 8, 2008 approved a notes program for an amount up to U.S.$1 billion, which was also approved by the CNV in September 2008. The proceeds of any offerings under this program must be used exclusively to invest in fixed assets and working capital in Argentina.

The following table sets forth our commitments for the periods indicated below with regard to the principal amount of our debt as of September 30, 2008, plus accrued but unpaid interest through September 30, 2008:

	Expected Maturity Date						
	Total	Less than 1 year	1 2 years	2 3 years	3 4 years	4 5 years	More than 5 years
	(in millions of pesos)						
Debt	3,640	2,966	313	157			204

Transactions with unconsolidated variable interest entities

Since 1996, we had entered into three forward oil sale agreements, which we refer to as the FOS transactions in this report. These agreements were entered into in order to obtain cash to fund operations in advance of the actual sale and delivery of oil. Under these transactions, we were advanced U.S.$381 million in 1996, U.S.$300 million in 1998 and U.S.$383 million in 2001, against future deliveries of oil. Our obligations under the FOS transactions were recorded as liabilities in the consolidated balance sheet and were taken to income as the physical deliveries were made over the term of the contracts. As of September 30, 2008, the obligations under the respective contracts have been fully complied with and there remain no further obligations to deliver crude oil under the above agreements.

As described in Update of Legal Proceedings in this report, on March 8, 2004, the Argentine tax authorities formally communicated to us their view that the FOS transactions should have been treated as financial transactions carried out in Argentina and, as such, should have been subject to the relevant tax withholdings. We have presented our defense rejecting the claim and are currently arguing our position.

28

Table of Contents

Covenants in our indebtedness

Our financial debt generally contains customary covenants for contracts of this nature, including negative pledge, material adverse change and cross-default clauses, as well as customary acceleration provisions.

With respect to financial debt totaling Ps. 3,640 million (U.S.$1,159 million), including accrued interest (long- and short-term debt, including overdrafts) as of September 30, 2008, we have agreed, among other things and subject to certain exceptions, not to establish liens or charges on our assets. In the event of a payment default, the creditors may declare due and immediately payable the principal and accrued interest on amounts owed to them. Upon an event of default with respect to other matters, in the case of outstanding negotiable obligations amounting to Ps.532 million (U.S.$169 million) (included in the figure above), the trustee may declare due and immediately payable the principal and accrued interest on amounts owed if required by the holders of at least 25% of the total principal of the outstanding obligations.

Almost all of our total outstanding financial debt is subject to cross-default provisions. These provisions generally may be triggered if an event of default occurs with respect to the payment of principal amount or interest on debts equal to or exceeding U.S.$20 million. As a result of these cross-default provisions, a default on our part or the part of any of our consolidated subsidiaries covered by such provisions could result in a substantial portion of our debt being declared in default or accelerated. None of our debt or the debt of our consolidated subsidiaries is currently in default.

Credit rating

As of December 31, 2008, FITCH Argentina Calificadora de Riesgo S.A. s international Rating for our foreign currency denominated debt was BB-, and FITCH s rating for our domestic currency denominated debt was BB. FITCH s National Rating is AAA for our Negotiable Obligation Programs. FITCH has a stable outlook on all of our ratings.

Standard & Poor s International Ratings LLC, Sucursal Argentina maintains its rating for our foreign currency denominated debt at BB, and has recently changed our domestic currency denominated debt from BB+ to BB, and has a negative outlook on both ratings. Additionally, Standard & Poor s National Rating is AAA for our Negotiable Obligation Programs.

Finally, Moody s Investors Service maintains a Baa2 rating for our global local currency obligations and a Ba2 rating for our foreign currency bonds. In both cases, Moody s outlook is negative.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization.

We do not have any ratings downgrade triggers that would accelerate the maturity dates of our debt or trigger any other contractual obligation on our part. However, a downgrade in our credit rating could have a material adverse effect on the cost of renewing existing credit facilities, or obtaining access to new ones in the future. In the past, our main sources of liquidity have been our cash flows from operations, bank financings, issuances of debt securities and the proceeds from our divestment plan. Any future downgrades will not preclude us from using any of our existing credit lines.

Guarantees provided

As of September 30, 2008, we had signed guarantees in relation to the financing activities of Pluspetrol Energy S.A., Central Dock Sud S.A. and Inversora Dock Sud S.A. which outstanding amounts were approximately U.S.$17 million, U.S.$21 million and Ps.5 million, respectively. The corresponding loans mature in 2011, 2013 and 2009, respectively.

Capital investments and expenditures

The table below sets forth our capital expenditures and investments by activity for the nine-month periods ended September 30, 2008 and 2007.

Table of Contents

	Nine-Month Period Ended September 30, 2008 (in millions of pesos)	(%)	2007 (in millions of pesos)	(%)
Capital Expenditures and Investments				
Exploration and Production	3,786	79	3,555	82
Refining and Marketing	603	13	528	12
Chemical	94	2	79	2
Corporate and other	313	6	170	4
Total	4,796	100%	4,332	100%

Off-Balance Sheet Arrangements

We have entered into certain off-balance sheet arrangements, as described in Guarantees provided above.

Qualitative and Quantitative Disclosure About Market Risk

The following quantitative and qualitative information is provided about financial instruments to which we are a party as of September 30, 2008, and from which we may incur future gains or losses from changes in market, interest rates or foreign exchange rates. We do not enter into derivative or other financial instruments for trading purposes.

This discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors including those set forth in Item 3. Key Information Risk Factors in our 2007 20-F.

Foreign currency exposure

We generally follow a policy of not hedging our debt obligations in U.S. dollars due to the fact that, in 1991, the Argentine government instituted a set of economic reforms known as the Convertibility Plan, the centerpiece of which was a fixed one-to-one rate of exchange between the Argentine peso and the U.S. dollar. Although in view of the Argentine economic crisis the Argentine authorities implemented a number of monetary and exchange control measures, including the abolishment of the Convertibility Law, we have still not hedged our U.S. dollar debt obligations to date. In addition, our costs and receipts denominated in currencies other than the Argentine peso, including the U.S. dollar, often do not match. As a result, we are currently exposed to risks associated with changes in foreign currency exchange rates. See Item 3. Key Information Risks Relating to Argentina We may be exposed to fluctuations in foreign exchange rates in our 2007 20-F.

The table below provides information about our assets and liabilities denominated in currency other than pesos (principally U.S. dollars) that may be sensitive to changes in foreign exchange rates, as of September 30, 2008.

	Expected Maturity Date: Less than 1 year	1-3 years	3-5 years	More than 5 years and undetermined	Total
	(in millions of U.S. dollars)				
Assets	1,503		38	52	1,593
Accounts payable	963	213	204	470	1,850
Debt	763			215	978
Other Liabilities	102	10	10	423(1)	545

(1) Includes U.S.$400 million corresponding to reserves with undetermined maturity.

Interest rate exposure

Our objective in borrowing under fixed rate debt is to satisfy capital requirements that minimize our exposure to interest rate fluctuations. To realize our objectives, we have borrowed under fixed rate debt instruments, based on the availability of capital and prevailing market conditions.

Table of Contents

The table below provides information about our assets and liabilities as of September 30, 2008 that may be sensitive to changes in interest rates.

	Expected Maturity Date (in millions of pesos)							
	Less than 1 year	1 2 years	2 3 years	3 4 years	4 5 years	More than 5 years	Total	Fair Value
Assets								
Fixed rate								
Other Receivables (Related parties)	81	98					179	179
Interest rate	6.63%							
Variable rate								
Other Receivables (Related parties)	802						802	802
Interest rate	Libor + 0.2%							
Liabilities								
Fixed rate								
YPF s Negotiable Obligations	317					204	521	536
Interest rate	9.13%					10%		
Related Parties	80	314	156				550	503
Interest rate	5.0% - 13.5%	4.77%	4.77%					
Other Short-term debt	2,417						2,417	2,417
Interest rate	3.37% - 19%							
Variable rate								
Other Short-term debt	118						118	118
Interest rate	12% - 18%							

ITEM 3. UPDATE OF LEGAL PROCEEDINGS

Argentina

The Privatization Law provides that the Argentine State shall be responsible, and shall hold us harmless, for any liabilities, obligations or other commitments existing as of December 31, 1990 that were not acknowledged as such in the financial statements of Yacimientos Petrolíferos Fiscales Sociedad del Estado as of that date arising out of any transactions or events that had occurred as of that date, provided that any such liability, obligation or other commitment is established or verified by a final decision of a competent judicial authority. In certain lawsuits related to events or acts that took place before December 31, 1990, we have been required to advance the payment of amounts established in certain judicial decisions, and have subsequently been reimbursed or are currently in the process of requesting reimbursement from the Argentine government of all material amounts in such cases. We are required to keep the Argentine government apprised of any claim against us arising from the obligations assumed by the Argentine government. We believe we have the right to be reimbursed for all such payments by the Argentine government pursuant to the above-mentioned indemnity, which payments in any event have to date not been material. This indemnity also covers fees and expenses of lawyers and technical consultants subject, in the case of our lawyers and consultants, to the requirement that such fees and expenses not be contingent upon the amounts in dispute.

Reserved, probable contingencies

In the ordinary course of our business, we are a party to various actions, including approximately 1,905 labor lawsuits as of September 30, 2008, for which provisions of Ps.46 million have been made.

A reserve totaling Ps.1,907 million as of September 30, 2008 has been established to provide for contingencies which are probable and can be reasonably estimated. In the opinion of our management, in consultation with our external counsel, the amount reserved reflects the best estimation, based on the information available as of the date of this report, of the probable outcome of the mentioned contingencies. The most significant legal proceedings and claims reserved are described in the following paragraphs.

31

CNDC anti-competitive activity disputes. On March 22, 1999, we were notified of Resolution No. 189/99 from the former Department of Industry, Commerce and Mining of Argentina, which imposed a fine on us of Ps.109 million, stated Argentine pesos as of that date, based on the interpretation that we had purportedly abused our dominant position in the bulk LPG market due to the existence of different prices between the exports of LPG and the sales to the domestic market from 1993 through 1997. In July 2002, the Argentine Supreme Court confirmed the fine, and we made the claimed payment. Additionally, Resolution No. 189/99 provided for the commencement of an investigation in order to prove whether the penalized behavior continued from October 1997 to March 1999. On December 19, 2003, the CNDC completed its investigation and charged us with abuse of dominant market position during this period. On January 20, 2004, we answered the notification by (i) claiming the application of the statutes of limitations and alleging the existence of defects in the imputation procedure (absence of majority in the resolution that decided the imputation and prejudgment by its signers); (ii) arguing the absence of abuse of dominant position; and (iii) offering the corresponding evidence.

Given that the Argentine Supreme Court has previously established under Law No. 22,262 that the statute of limitations for administrative infractions is two years, we believe that our defense based on the statute of limitations is solid. Since the imputed conduct occurred before September 29, 1999, which is the effective date of the new law, we believe that the law applicable to the proceeding is Law No. 22,262 instead of the new Antitrust Protection Law (No. 25,156). We filed appeals with the National Economic Criminal Court: (i) on July 29, 2003, in view of the rejection by the CNDC of the motion to overturn the resolution that ordered the opening of the preliminary investigations without deciding in advance on the statute of limitations defense claimed by us; and (ii) on February 4, 2004, in view of the rejection by the CNDC of the motion to overturn the resolution that ordered the charge because of a lack of majority and prejudgment. On April 13, 2004, the National Court of Appeals in Criminal Economic Matters sustained the appeal filed by us on the grounds of lack of majority of the CNDC in passing the objected resolution. On August 31, 2004, we appealed the resolution passed by the CNDC that rejected our statute of limitations defense. The CNDC accepted the appeal and referred the proceedings to Chamber II of the National Court of Appeals in Federal Civil and Commercial Matters, which subsequently referred the proceeding to Room B of the National Court of Appeals in Criminal Economic Matters. On March 3, 2006, the CNDC decided on the evidence that we shall produce during this proceeding. During August and September 2007, hearings involving the testimony of witnesses proposed by us took place. Despite the arguments expressed by us, the above-mentioned circumstances make evident that, preliminarily, the CNDC rejects the defenses filed by us and that the CNDC is reluctant to modify the doctrine provided by Resolution No. 189/99. On August 12, 2008, Room B of the National Court of Appeals in Criminal Economic Matters rejected our statute of limitations argument. We have appealed this decision.

Alleged defaults under natural gas supply contracts Innergy, et al. Since 2004, the Secretariat of Energy and the Undersecretariat of Fuels, through Rule No. 27/04, Resolutions No. 265/04, 659/04, 752/05, 1329/06 and 599/07, have on various occasions instructed us to supply certain quantities of natural gas to the Argentine domestic market, in each case notwithstanding the lack of a contractual commitment on our part to do so. In addition, the Argentine government has, at various times since 2004, imposed direct volume limitations on natural gas exports in different ways. As a result of these measures, from 2004 to the present, we have been forced in many instances to partially or fully suspend natural gas export deliveries that are contemplated by our contracts with export customers.

We appealed these measures, but, pending favorable final resolution of such appeals, we have been obliged to comply in order to avoid greater losses to us and our export customers that could be occasioned by the revocation of our export permits or other penalties. We informed our natural gas export customers of our position that these governmental measures constitute an event of *force majeure* that releases us from any contractual or extra-contractual liability deriving from the failure to deliver the agreed upon volumes of gas. Some of our customers have rejected our position and three of them have sought damages and/or penalties for breach of supply commitments under a contractual deliver or pay clause, which claims have been rejected by us.

Innergy Soluciones Energéticas S.A. (Innergy) has filed an arbitral claim against us based on its deliver or pay clause, seeking U.S.$87.7 million in damages as of August 2007, plus interest (as calculated by Innergy on September 17, 2007). This amount increases as Innergy invoices deliver or pay amounts to us on a monthly basis, beginning in September 2007, for partially missed deliveries. In addition to our claim of *force majeure*, we have counterclaimed against Innergy for contract termination based upon the statutory hardship exemption set forth in Article 1198 of the Argentine Civil Code, in light of recent substantial increases in Argentine export duties on natural gas that make our cost of delivering natural gas to Innergy significantly higher than the price to be paid to us by Innergy for such deliveries. After Innergy filed its Reply and Counterclaim Response on December 5, 2008, the parties have agreed on a settlement to their dispute. The settlement will include those disputes that arose during the arbitration process. The definition of the terms and the execution of the settlement agreement is currently pending.

We are also currently in pre-arbitral settlement discussions with the other two clients that have sought damages from us under the deliver-or-pay clause, Electroandina S.A. and Empresa Eléctrica del Norte Grande S.A. These companies have claimed damages through November 2006 in a total amount of approximately U.S.$41 million and, from December 2006 through September 2007, for an additional total amount of U.S.$52 million. We have opposed such claims.

Additionally, on June 25, 2008, AES Uruguaiana Emprendimientos S.A claimed damages in a total amount of U.S.$28.1 million for missed deliveries of natural gas volumes during the period September 16, 2007 through June 25, 2008. On July 16, 2008, AES Uruguaiana Emprendimientos S.A. also claimed damages in a total amount of U.S.$2.7 million for missed deliveries of natural gas volumes during the period January 18, 2006 through December 1, 2006. We have contested both of these claims. Both parties have suspended the fulfillment of their obligations under the contract.

Alleged defaults under natural gas supply contracts Central Puerto. Central Puerto S.A. (Central Puerto) has made claims against us for cutbacks in natural gas supply pursuant to its contracts. We have formally denied such breach, based on the fact that, pending the restructuring of such contracts, we are not obligated to confirm nominations of natural gas during certain periods of the year. On March 15, 2007, Central Puerto notified us of the commencement of pre-arbitral negotiations in relation to the agreements for the supply of its plants located in Buenos Aires and Loma de La Lata, province of Neuquén. On May 29, 2007, we and Central Puerto entered into a Termination and Dispute Resolution Agreement regarding the principles of agreement for the supply of Central Puerto s plant located in Loma de La Lata. On June 6, 2007, Central Puerto notified us of its decision to submit the controversy regarding the agreement for the supply of natural gas to its plants located in Buenos Aires (the Buenos Aires Gas Supply Agreement) to arbitration under the rules of the International Chamber of Commerce. On June 21, 2007, we appointed our arbitrator and notified Central Puerto of our decision to submit to arbitration the controversy regarding the amounts due by Central Puerto under the Buenos Aires Gas Supply Agreement. On July 23, 2007, Central Puerto filed an arbitral claim for: (i) our specific performance of the Buenos Aires Gas Supply Agreement by continuing to deliver volumes of natural gas of up to 3,400,000 m3/day, the applicable maximum daily requirement under the contract, to Central Puerto s plants located in Buenos Aires; (ii) our payment of deliver or pay amounts for failure to deliver natural gas (totaling 1,920 mmcm through December 3, 2007), without specifying the amount claimed; and (iii) acknowledgement of Central Puerto s right to make-up natural gas volumes. On September 24, 2007, we answered Central Puerto s claim and filed counterclaims asking the tribunal for: (i) a declaration of the termination of the contract; or (ii) as a subsidiary claim in case the tribunal rejects the request for termination of the contract, the restructuring of the contract under the Civil Law principles of *Teoría de la Imprevisión* (hardship provision) and *Sacrificio Compartido* (both-parties-effort) and (iii) payment by Central Puerto of *take or pay* amounts owed by Central Puerto for certain amounts produced but not taken between 2002 and 2004. On December 3, 2007, Central Puerto submitted a presentation requesting that the tribunal reject all of our claims. On February 11, 2008, a hearing took place among the members of the arbitral tribunal and the parties at which a document setting forth procedures for the arbitration was agreed upon and signed by the parties. In that document, Central Puerto indicated that it could not quantify its damages until its experts had completed their work. We estimated our damages to be approximately U.S.$11 million plus interest, adjusted for inflation (pursuant to the Stabilization Reference Coefficient or CER), though we also indicated that this amount could change based on the results of work being performed by our experts. On April 29, 2008, the tribunal issued an order setting a schedule for the next phase of the arbitration. On October 1, 2008, the parties produced their evidence before the tribunal. On October 16, 2008, the parties suspended procedural terms for 30 days. On December 5, 2008, the Court issued Procedural Order N° 19, which ordered the initiation of the evidence production period.

La Plata refinery environmental disputes. On June 29, 1999, a group of three neighbors of the La Plata Refinery filed claims for the remediation of alleged environmental damages in the peripheral water channels of the refinery, investments related to contamination and compensation for alleged health and property damages as a consequence of environmental pollution caused by YPF prior to and after privatization. We notified the executive branch of the Argentine government that there is a chance that the tribunal may find us responsible for the damages. In such event, due to the indemnity provided by Law No. 24,145 and in accordance with that law, we shall be allowed to request reimbursement of the expenses for liabilities existing on or prior to January 1, 1991 (before privatization) from the Argentine government.

On December 27, 2002, a group of 264 claimants who resided near the La Plata Refinery requested compensation for alleged quality of life deterioration and environmental damages purportedly caused by the operation of the La Plata Refinery. The amount claimed is approximately Ps.58.8 million. We filed a writ answering the complaint. There are three similar additional claims raised by three groups of 120, 343, and 126 neighbors, respectively. The first group has made a claim for compensation of Ps.16.4 million, the

Table of Contents

second group has made a claim for compensation of Ps.43.5 million and the third one has made a claim of Ps. 15.1 million, in addition to a request for environmental cleanup. As of September 30, 2008, we had established a reserve of Ps.24 million with respect to these personal and property claims.

On December 17, 1999, a group of 37 claimants who resided near La Plata Refinery, demanded the specific performance by us of different works, installation of equipment, technology and execution of work necessary to stop any environmental damage, as well as compensation for health damages alleged to be the consequence of gaseous emissions produced by the refinery, currently under monitoring.

We have been informally notified that the Secretariat of Environmental Policy of the Province of Buenos Aires has brought criminal proceedings against us on the grounds of the purported worsening of the water quality problems in the Western Channel adjacent to La Plata Refinery, potential health damages (on account of the existence of volatile particles and/or hydrocarbon suspension), non-fulfillment of a remediation schedule of canals, and the existence of allegedly clandestine disposal sites. On September 25, 2008, the Federal Court in Criminal matters decided not to make any formal accusations and dismissed the proceedings.

AFIP tax claims. On January 31, 2003, we received a claim from the Federal Administration of Public Revenue (*Administración Federal de Ingresos Públicos*, or AFIP), stating that the forward oil sale agreements entered into by us (see Updated Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Transactions with unconsolidated variable interest entities) should have been subject to an income tax withholding. On March 8, 2004, the AFIP formally communicated to us the claim for approximately Ps.45 million plus interest and fines. Additionally, on June 24, 2004, we received a new formal claim from the AFIP, asserting that the services related to these contracts should have been taxed with the Value Added Tax. Management believes, based upon the opinion of its external counsel, that the claim is without merit since those advances were received under crude oil export commitments. Consequently, during 2004, we presented our defense to the AFIP, rejecting the claims and arguing our position. However, on December 28, 2004, we received formal communication of a resolution from the AFIP confirming its original position in both claims for the period 1997 to 2001. We have appealed such resolution in the National Fiscal Court. In 2006, we conditionally paid the amounts corresponding to periods that followed those included in the claim by the AFIP (2002 and subsequent periods) and filed reimbursement summary proceedings so as to avoid facing interest payments or a fine. On March 14, 2008 the AFIP notified us of the rejection of the reimbursement previously mentioned. That decision has been appealed to the National Fiscal Court.

In addition, we have received several other claims from the AFIP and from the provincial and municipal fiscal authorities, which are not individually significant.

Sale of Electricidad Argentina S.A. and Empresa Distribuidora y Comercializadora Norte S.A. to EDF. In July 2002, EDF Internacional S.A. (EDF), initiated an international arbitration proceeding under the Arbitration Regulations of the International Chamber of Commerce against us, among others, seeking payment from us of U.S.$69 million which was afterward increased to U.S.$103.2 million. EDF claims that under a Stock Purchase Agreement dated March 30, 2001 among Endesa Internacional S.A. and Astra Compañía Argentina de Petróleo S.A. (which was subsequently merged into YPF), as sellers, and EDF, as purchaser, with respect to shares of Electricidad Argentina S.A. and Empresa Distribuidora y Comercializadora Norte S.A. (Edenor), EDF is entitled to an adjustment in the purchase price it paid due to changes in the exchange rate of the Argentine peso that EDF asserts to have occurred prior to December 31, 2001. Our position is that the change in the exchange rate did not occur prior to January 2002, and, therefore, EDF is not entitled to the purchase price adjustment. We have filed a counterclaim against EDF in the amount of U.S.$13.85 million as a purchase price adjustment. We believe that EDF s claim is without merit. The arbitral award dated October 22, 2007 accepted the claim against us awarding damages against us in the amount of U.S.$40 million and also accepted our counterclaim against EDF in the amount of U.S.$11.1 million. Consequently, the amount payable by us should the award become final is U.S.$28.9 million plus costs and interest. We have challenged the award by filing an extraordinary appeal before the Federal Supreme Court and an appeal before the Federal Appellate Court on Commercial Matters. In April 2008 the Federal Appellate Court on Commercial Matters suspended the effects of the arbitral award pending its appeal.

Furthermore, EDF is seeking the enforcement of the arbitral award before a court in Delaware, in the United States. We responded to the complaint by seeking its dismissal on the basis that the arbitral award has been suspended by an Argentine court and, consequently, the Delaware complaint is not permitted under Article 5 of the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. EDF is also seeking the enforcement of the arbitral award before a court in Paris, France.

Table of Contents

Quilmes claims. Citizens claiming to be residents living near Quilmes, in the province of Buenos Aires, have filed a lawsuit in which they have requested the remediation of environmental damages and the payment of Ps.47 million plus interest as compensation for alleged personal damages. The plaintiffs base their claim mainly on a fuel leak that occurred in 1988 in a poliduct running from La Plata to Dock Sud that was operated by Yacimientos Petrolíferos Fiscales Sociedad del Estado. The leaked fuel became perceptible in November 2002, resulting in remediation that is now being performed by us in the affected area, supervised by the environmental authority of the province of Buenos Aires. We have requested an extension of the time to answer the complaint to allow us time to evaluate certain documents submitted to the court by the plaintiffs. We have also notified the Argentine government that we will implead it at the time we answer the complaint in order to request that it indemnify us against any liability and hold us harmless in connection with this lawsuit, as provided by Law. No. 24,145. The Argentine government, through an administrative decision, has denied any responsibility to indemnify us for this matter, and we have sued the Argentine government to obtain a judicial award declaring this administrative decision null and void. There are 25 other judicial claims that have been brought against us based on similar allegations, amounting to approximately Ps. 3.5 million. In these cases, we believe that the Argentine government will contest its obligation to indemnify and hold us harmless by claiming that the alleged damages were not caused by the 1988 leak. Additionally, we are aware of the existence of other actions brought against us that have not yet been served and which are based on similar allegations.

Non-reserved, possible contingencies

In addition to the probable contingencies described in the preceding paragraphs, we have received several labor, civil, commercial and environmental claims which had not been reserved since management, based on the evidence available to date and upon the opinion of our external counsel, have considered them to be possible contingencies. The most significant of such contingencies are described below.

Capital control-related proceedings. On December 9, 2002, we filed a declaratory judgment action (*Acción Declarativa de Certeza*) before an Argentine federal court requesting clarification as to the uncertainty generated by opinions and statements of several organizations providing official advice that the right of the hydrocarbon industry to freely dispose of up to 70% of foreign currency proceeds from exports of hydrocarbons products and byproducts, as provided by Executive Decree No. 1,589/89, had been implicitly abolished by the new exchange regime established by Executive Decree No. 1,606/01. On December 9, 2002, a federal judge issued an injunction ordering the Argentine government, the Central Bank and the Ministry of the Economy to refrain from interfering with our access to and use of 70% of the foreign exchange proceeds from our hydrocarbon exports. Following the enactment of Decree No. 2,703/02 in December 2002, we expanded the scope of the declaratory judgment action before the federal court to clear any doubts and uncertainty arising after the enactment of this decree. See Item 4 Information on the Company Regulatory Framework and Relationship with the Argentine Government Repatriation of Foreign Currency in our 2007 20-F. On December 1, 2003, the National Administrative Court of Appeals decided that the issuance of Decree No. 2,703 in 2002, which allows companies in the oil and gas sector to keep abroad up to 70% of the export proceeds, rendered the injunction unnecessary. Nevertheless, the Court of Appeals decision was silent with respect to the availability of the exemption to convert proceeds from export operations carried out by oil and gas companies into domestic currency prior to the issuance of Decree 2,703. On December 15, 2003, we filed a motion for clarification asking the court to clarify whether the exemption was available to oil and gas companies during the period between the issuance of Decree No. 1,606/01 and the issuance of Decree No. 2,703/02. On February 6, 2004, the Court of Appeals dismissed our motion for clarification, indicating that the regulations included in Decree No. 2,703/02 were sufficiently clear, and confirmed the lifting of the injunction that prohibited the Central Bank and the Ministry of Economy from interfering with our access to foreign exchange proceeds, as described above. On February 19, 2004, we filed an extraordinary appeal before the Supreme Court against the dismissal of the motion for clarification by the Court of Appeals and requested the restatement of the injunction against the Central Bank and the Ministry of Economy. The Federal Court of Appeals dismissed the extraordinary appeal. Taking into account the fact that there is a new special system in place allowing for the free disposal of up to 70% of the foreign currency proceeds from the exports of crude oil and its derivatives, it was deemed advisable to abandon the suit as a procedural strategy. If the Central Bank were to reassert and prevail before the courts in the argument that the exemption allowing oil and gas companies to keep up to 70% of export proceeds abroad during the period between the issuance of Decree No. 1,606/01 and the issuance of Decree No. 2,703/02 was not available, we could be subject to material penalties.

On October 12, 2007, we were notified of the initiation of an administrative summary proceeding for alleged late repatriation of foreign currency proceeds, and the failure to repatriate the remaining 70%, in connection with some hydrocarbon export transactions made in 2002 (during the period between the issuance of Decree No. 1,606/01 and the issuance of Decree No. 2,703/02). In this administrative summary proceeding, charges were brought against us in the amount of U.S.$1.6 million, and it has been advised that the conduct of a bank that handled other of our export transactions made in 2002 be investigated, which could give rise to the initiation of further proceedings. Administrative summary proceedings have already been brought against the bank. Nevertheless, a

Table of Contents

final and unchallenged judicial judgment recently issued by a First Instance Court in Criminal Economic Matters in a similar administrative summary proceeding against a different company for alleged violation of the criminal exchange law (lack of repatriation of 70% of foreign currency proceeds) regarding export transactions made in 2002 resolved the matter in favor of that company based on well-founded arguments that were not challenged by the prosecutor. In addition, the Office of the General Prosecutor of Argentina recently issued an opinion in similar administrative summary proceedings involving another oil company stating that no criminal law violations existed in that case due to the lack of willful misconduct and the existence of differing regulations that created uncertainty as to the scope of certain obligations, and stating that the proceeding should be dismissed.

CNDC investigation. On November 17, 2003, CNDC requested explanations, within the framework of an official investigation pursuant to Art. 29 of the Antitrust Act, from a group of almost 30 natural gas production companies, including us, with respect to the following items: (i) the inclusion of clauses purportedly restraining trade in natural gas purchase/sale contracts and (ii) gas imports from Bolivia, in particular (a) expired contracts signed by YPF, when it was state-owned, and YPFB (the Bolivian state-owned oil company), under which YPF allegedly sold Bolivian gas in Argentina at prices below the purchase price; and (b) the unsuccessful attempts in 2001 by Duke and Distribuidora de Gas del Centro to import gas into Argentina from Bolivia. On January 12, 2004, we submitted explanations in accordance with Art. 29 of the Antitrust Act, contending that no antitrust violations had been committed and that there had been no price discrimination between natural gas sales in the Argentine market and the export market. On January 20, 2006, we received a notification of resolution dated December 2, 2005, whereby the CNDC (i) rejected the *non bis in idem* petition filed by us, on the grounds that ENARGAS was not empowered to resolve the issue when ENARGAS Resolution No. 1,289 was enacted; and (ii) ordered that the preliminary opening of the proceedings be undertaken pursuant to the provisions of Section 30 of Act 25,156. On January 15, 2007, CNDC charged us and eight other producers with violations of Act 25,156. We have contested the complaint on the basis that no violation of the Act took place and that the charges are barred by the applicable statute of limitations, and have presented evidence in support of our position. On June 22, 2007, without acknowledging any conduct in violation of the Antitrust Act, we filed with the CNDC a commitment according to Article 36 of the Antitrust Act requesting that the CNDC approve the commitment, suspend the investigation and dismiss the proceedings. We are still awaiting a formal response. On December 14, 2007, the CNDC elevated the investigation to the Court of Appeals.

The CNDC has commenced proceedings to investigate us for using a clause in bulk LPG supply contracts that it believes prevents buyers from reselling the product to third parties and therefore restricts competition in a manner detrimental to the general economic interest. We have asserted that the contracts do not contain a prohibition against resale to third parties and have offered evidence in support of our position. On April 12, 2007, we presented to the CNDC, without acknowledging any conduct in violation of the Antitrust Act, a commitment consistent with Article 36 of the Antitrust Act not to include such clauses in future bulk LPG supply contracts, among other things, and requested that the CNDC terminate the proceedings. We are still awaiting a formal response. On November 5, 2008, the Secretariat of Domestic Commerce approved the commitment formulated by YPF, ordered us to communicate and publish the commitment for one day in the Oficial Gazette and in two other newspapers (Clarín and La Nación) and suspended the proceedings for three years. We have already complied with the aforementioned notification and publication requirements.

Noroeste basin reserves review. The effectiveness after certain specific dates of natural gas export authorizations (related to production in the Noroeste basin) granted to us pursuant to Resolution SE Nos. 165/99, 576/99, 629/99 and 168/00, issued by the Secretariat of Energy, is subject to an analysis by the Secretariat of Energy to determine whether sufficient additional natural gas reserves have been discovered or developed by us in the Noroeste basin. The result of this ongoing review is uncertain and may have an adverse impact upon the execution of the export gas sales agreements related to such export authorizations, and may imply significant costs and liabilities for us. We have submitted to the Secretariat of Energy documentation in order to allow for the continuation of the authorized exports in accordance with Resolutions SE No. 629/1999, 565/1999, and 576/1999 (the Export Permits) from the Noroeste basin. These Export Permits relate to the long-term natural gas export contracts with Gas Atacama Generación, Edelnor and Electroandina (collectively, the Clients), involving volumes of 900,000 m^3/day, 600,000 m^3