YPF SOCIEDAD ANONIMA
Form 20-F
June 27, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

Commission file number: 1-12102

YPF Sociedad Anónima

(Exact name of registrant as specified in its charter)

Republic of Argentina

(Jurisdiction of incorporation or organization)

Avenida Pte. R. Sáenz Peña 777

C1035AAC Ciudad Autónoma de Buenos Aires, Argentina

(011-5411) 4329-2000

(Address of principal executive offices)

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

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing one Class D Share, par value 10 pesos per share	New York Stock Exchange
Class D Shares	New York Stock Exchange*
7 3/4% Notes due 2007	New York Stock Exchange

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

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

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

The number of outstanding shares of each class of stock of YPF Sociedad Anónima as of December 31, 2006 was:

Class A Shares	3,764
Class B Shares	7,624
Class C Shares	1,475,704
Class D Shares	391,825,701
	393,312,793

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

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

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

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

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

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CONVERSION TABLE

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

1 barrel = 42 U.S. gallons

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

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

1 kilometer = 0.63 miles

1 million Btu = 252 termies

1 cubic meter of gas = 35.3147 cubic feet of gas

1 cubic meter of gas = 10 termies

1000 acres = approximately 4 square kilometers

References

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

Disclosure of Certain Information

In this annual report, references to Consolidated Financial Statements are to YPF s audited consolidated balance sheets as of December 31, 2006, 2005 and 2004, and YPF s audited consolidated statements of income for the three years ended December 31, 2006, 2005 and 2004.

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

- for the subsidiaries that were consolidated using the global integration method at the date or for the periods indicated, 100% of the assets, liabilities and results of operations of such subsidiaries without excluding minority interests, and

- for those subsidiaries whose results were consolidated using the proportional integration method, a pro rata amount of the assets, liabilities and results of operations for such subsidiaries at the date or for the periods indicated. For information regarding consolidation, see Note 1 to the Consolidated Financial Statements.

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

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Forward-Looking Statements

This annual report, including any documents incorporated by reference, contains statements that YPF believes constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include statements regarding the intent, belief or current expectations of YPF and its management, including statements with respect to trends affecting YPF s financial condition, financial ratios, results of operations, business, strategy, geographic concentration, production volume and reserves, as well as YPF s plans with respect to capital expenditures business strategy, geographic concentration, cost savings, investments and dividends payout policies. These statements are not guaranty of future performance and are subject to material risks, uncertainties, changes and other factors which may be beyond YPF s control or may be difficult to predict. Accordingly, YPF s future financial condition, financial ratios, results of operations, business, strategy, geographic concentration, production volumes, reserves, capital expenditures, cost savings, investments and dividend payout policies could differ materially from those expressed or implied in any such forward-looking statements. Such factors include, but are not limited to, currency fluctuations, the price of petroleum products, the ability to realize cost reductions and operating efficiencies without unduly disrupting business operations, replacement of hydrocarbon reserves, environmental, regulatory and legal considerations and general economic and business conditions, as well as those factors described in the filings made by YPF and its affiliates with the Securities and Exchange Commission, in particular, those described in Item 3. Key Information Risk Factors below and Item 5. Operating and Financial Review and Prospects. YPF does not undertake to publicly update or revise these forward-looking statements even if experience or future changes make it clear that the projected results or condition expressed or implied therein will not be realized.

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OIL AND GAS TERMS

Oil and gas reserves definitions used in this Annual Report on Form 20-F are in accordance with the reserves definitions of Rule 4-10(a) (1)-(17) of Regulations S-X of the SEC.

The definitions of Reserves Estimate, Reserves Audit and Reserves Review as given below and used hereunder are not terms defined under U.S. Securities and Exchange Commission (SEC) Rules or Regulations and are terms used by YPF in this Annual Report on Form 20-F as defined herein and consequently such definitions may be defined and used differently by other companies.

For the purpose of this Annual Report on Form 20-F, any reserves estimate, or any independent reserves audit or any reserves review invoked hereunder, are in accordance with the oil and gas reserves definitions of Rule 4-10(a) (1)-(17) of Regulations S-X of the SEC.

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

Acreage **:** The total area, expressed in acres or km2, over which YPF has interests in exploration or production. Net acreage is YPF s interest in the relevant exploration or production area.

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

Condensate **:** Light hydrocarbon substances produced with natural gas which condense into liquid at normal temperatures and pressures associated with surface production equipment.

Crude oil **:** Crude oil with respect to YPF s production and reserves includes condensate and natural gas liquids (NGL).

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

Gas **:** Natural gas.

Hydrocarbons **:** Crude oil and natural gas.

Oil and Gas producing activities ***:*** Such activities include:

- The search for crude oil, including condensate and natural gas liquids, or natural gas (oil and gas) in their natural states and original locations.

- The acquisition of property rights or properties for the purpose of further exploration and/or for the purpose of removing the oil or gas from existing reservoirs on those properties.

- The construction, drilling and production activities necessary to retrieve oil and gas from its natural reservoirs, and the acquisition, construction, installation, and maintenance of field gathering and storage systems including lifting the oil and gas to the surface and gathering, treating, field processing (as in the case of processing gas to extract liquid hydrocarbons) and field storage. For purposes of this section, the oil and gas production function shall normally be regarded as terminating at the outlet valve of the lease or field storage tank; if unusual physical or operational circumstances exist, it may be appropriate to regard the production function as terminating at the first point at which oil, gas or gas liquids are delivered to a main pipeline, a common carrier, a refinery, or a marine terminal.

Oil and gas producing activities do not include:

The transporting, refining and marketing of oil and gas;

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Activities relating to the production of natural resources other than oil and gas;

The production of geothermal steam or the extraction of hydrocarbons as a by-product of the production of geothermal steam or associated geothermal resources as defined in the Geothermal Steam Act of 1970; or

The extraction of hydrocarbons from shale, tar sands or coal.

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

Reservoirs are considered proved if economic productibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

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

Estimates of proved reserves do not include the following: (a) oil that may become available from known reservoirs but is classified separately as indicated additional reserves ; (b) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (c) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and (d) crude oil, natural gas, and natural gas liquids, that may be recovered from oil sales, coal, gilsonite and other such sources.

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

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

Reserves Audit **:** The process carried out by an independent qualified reserves engineering firm that results in reasonable assurance, in the form of an opinion, that the reserves information has in all material respects been determined and presented according to the applicable principles and definitions, and is, therefore, free of material misstatement. Such procedures include extensive review and critical assessment of systems, controls, and approvals for estimating reserves, followed by tests and re-evaluations designed to ensure those systems, controls and approvals were appropriately applied. The main product of this external reserves audit is an opinion letter that includes the auditor s findings, conformance or not with the applicable principles, definitions and procedures for estimating reserves.

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

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

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

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

Reviews do not require examination of the detailed documentation that supports the reserves information, unless this information does not appear to be plausible. A reserves review, due to the limited nature of the investigation involved, does not provide the level of assurance provided by a reserves estimate, nor a reserves audit. Though reserves reviews can be done for specific applications, they are not a substitute for an audit, nor an estimate.

Surface conditions ***:*** represents the pressure and temperature conditions at which volumes of oil, gas, condensate and natural gas liquids are measured for report purpose. It is also referred to as standard conditions. For YPF these conditions are 14.7 psi for pressure and 60°F for temperature. All volume units expressed in this report are at surface conditions.

Abbreviations:

bbl	Barrels.
Bcf	Billion cubic feet ≡ 10^9 cubic feet.
Bcm	Billion cubic meters ≡ 10^9 cubic meter.
boe	Barrels of oil equivalent.
bpd	Barrels of oil per day.
boe/d	Barrels of oil equivalent per day.
GWh	Gigawatt hours.
HP	Horse Power.

mbbl/d	Thousand barrels per day.
mboe/d	Thousand barrels of oil equivalent per day.

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mbpd	Thousand barrels of oil per day.
km	Kilometers.
km^2	Square kilometers.
liquids	Crude oil, condensate and natural gas liquids.
m	Thousand.
mm	Million.
mmbbl	Million barrels.
mmboe	Million barrels of oil equivalent.
mmboe/d	Million barrels of oil equivalent per day.
mmBtu	Million British thermal units.
mmcf	Million cubic feet.
mmcf/d	Million cubic feet per day.
mmcm/d	Million cubic meters per day.
MW	Megawatts.
psi	Pounds per square inch
WTI	West Texas Intermediate.
USA	United States of America.

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PART I

ITEM 1. Identity of Directors, Senior Managers and Advisers

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable

Not applicable.

ITEM 3. Key Information

Selected Financial Data

The selected consolidated financial data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements and the accompanying Notes and Exhibits included in this annual report.

The consolidated income statement data for each of the years in the three-year period ended December 31, 2006 and the consolidated balance sheet data as of December 31, 2006, 2005 and 2004 set forth below have been derived from, and are qualified in their entirety by reference to, the Consolidated Financial Statements and the accompanying Notes and Exhibits included in this annual report. The consolidated income statement data for each of the years in the two-year period ended December 31, 2003 and the consolidated balance sheet data as of December 31, 2003 and 2002 set forth below have been derived from YPF s audited consolidated financial statements, which are not included in this annual report.

YPF s Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in Argentina (Argentine GAAP), which differ in certain respects from generally accepted accounting principles in the United States (U.S. GAAP). Note 13 to the Consolidated Financial Statements describes the principal differences between Argentine GAAP and U.S. GAAP, as they relate to YPF. Note 14 provides the effects of the significant differences on net income and shareholders equity and a reconciliation of such differences, and Note 15 provides certain additional disclosures required under U.S. GAAP. Additionally, Oil and Gas disclosures are included in the Supplemental information on oil and gas producing activities (unaudited).

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	Year Ended December 31,				
	2006	2005 (1)	2004 (1)	2003 (2)	2002 (2)
	(in millions of pesos, except for per share and per American Depositary Share (ADS) data)				
Consolidated Income Statement Data:					
Amounts in accordance with Argentine GAAP (3)					
Net sales (4)(5)	25,635	22,901	19,931	17,514	17,050
Gross profit	9,814	11,643	10,719	9,758	8,424
Administrative expenses	(674)	(552)	(463)	(378)	(411)
Selling expenses	(1,797)	(1,650)	(1,403)	(1,148)	(1,077)
Exploration expenses	(460)	(280)	(382)	(277)	(240)
Operating income	6,883	9,161	8,471	7,955	6,696
Income (Loss) on long-term investments	183	39	154	150	(450)
Amortization of goodwill					(13)
Other expenses, net	(204)	(545)	(981)	(152)	(245)
Interest expense	(213)	(459)	(221)	(252)	(679)
Other financial income (expenses) and holding gains (losses), net	667	561	359	202	(2,312)
Income (Loss) from sale of long-term investments	11	15			690
Impairment of other current assets	(69)				
Income before income tax and minority interest	7,258	8,772	7,782	7,903	3,687
Income tax	(2,801)	(3,410)	(3,017)	(3,290)	(58)
Minority interest					
Net income from continuing operations	4,457	5,362	4,765	4,613	3,629
Income (Loss) on discontinued operations			3	15	(13)
Income from sale of discontinued operations			139		
Net income	4,457	5,362	4,907	4,628	3,616
Earnings per share and per ADS (6) (in nominal pesos)	11.33	13.63	12.48	11.77	9.19
Dividends per share and per ADS (6) (in nominal pesos)	6.00	12.40	13.50	7.60	4.00
Dividends per share and per ADS (6) (in U.S. dollars)	1.93	4.24	4.70	2.62	1.12
Approximate amounts in accordance with U.S. GAAP					
Operating income	5,626	8,065	6,550	7,567	5,173
Net income	3,667	5,142	4,186	4,435	3,498
Earnings per share and per ADS (6) (in nominal pesos)	9.32	13.07	10.64	11.28	8.89
Consolidated Balance Sheet Data:					
Amounts in accordance with Argentine GAAP (3)					
Cash	118	122	492	355	309
Working capital	4,905	2,903	3,549	4,001	4,063
Total assets	35,394	32,224	30,922	32,944	31,756
Total debt (7)	1,425	1,453	1,930	2,998	5,552
Shareholders equity (8)	24,345	22,249	21,769	22,534	20,896
Approximate amounts in accordance with U.S. GAAP					
Total assets	37,046	34,748	32,540	34,125	36,280
Shareholders equity	26,241	24,254	23,506	24,334	26,303
Other Consolidated Financial Data:					
Amounts in accordance with Argentine GAAP (3)					
Fixed assets depreciation	3,718	2,707	2,470	2,307	2,161
Cash used in fixed asset acquisitions	5,002	3,722	2,867	2,418	2,898

(1) Consolidated income and balance sheet data for the years ended December 31, 2005 and 2004 set forth above include the retroactive effect from the application of new accounting rules in Argentina (see Note 1 (b) to the Consolidated Financial Statements).

(2) Consolidated income and balance sheet data for the years ended December 31, 2003 and 2002 set forth above do not include the retroactive effect from the application of new accounting rules in Argentina (see Note 1 (b) to the Consolidated Financial Statements).

(3) Amounts restated to constant pesos as of February 28, 2003 to reflect the effect of changes in the purchasing power of money as of such date. See Note 1 to the Consolidated Financial Statements.

(4) Includes Ps. 1,451 million for the year ended December 31, 2006, Ps. 1,216 million for the year ended December 31, 2005, Ps. 1,122 million for the year ended December 31, 2004, Ps. 760 million for the year ended December 31, 2003 and Ps. 1,019 million for the year ended December 31, 2002 corresponding to the proportional consolidation of the net sales of investees in which YPF holds joint control with other third parties. See Note 13 (b) to the Consolidated Financial Statements.

(5) Net sales are net to YPF after payment of a fuel transfer tax, turnover tax and from 2002, after custom duties for hydrocarbon exports. Royalties with respect to YPF s production are accounted for as a cost of production and are not deducted in determining net sales. See Note 2 (g) to the Consolidated Financial Statements.

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

(7) Total debt under Argentine GAAP includes long-term debt of Ps. 510 million as of December 31, 2006, Ps. 1,107 million as of December 31, 2005, Ps. 1,684 million as of December 31, 2004, Ps. 2,085 million as of December 31, 2003 and Ps. 3,760 million as of December 31, 2002.

(8) YPF s subscribed capital as of December 31, 2006, is represented by 393,312,793 shares of common stock and divided into four classes of shares, with a par value of Ps. 10 and one vote per share. These shares are fully subscribed, paid-in and authorized for stock exchange listing.

Exchange Rates

Prior to December 1989, the Argentine foreign exchange market was subject to exchange controls. Since December 1989, Argentina has had a freely floating exchange rate for all foreign currency transactions. As a result of inflationary pressures, the Argentine currency has been devalued repeatedly during recent decades. From April 1, 1991, when Law No. 23,928 and Decree No. 529/91 (referred to as the Convertibility Law) became effective, the peso was freely convertible into dollars. Pursuant to the Convertibility Law, the Central Bank was required to:

- maintain a reserve in foreign currencies, gold and certain public bonds denominated in foreign currency equal to the amount of outstanding Argentine currency; and

- sell dollars to any person who so requires it at a rate of one peso per one U.S. dollar.

On January 6, 2002, the Argentine Congress passed Law No. 25,561 on Public Emergency Reform of the Foreign Exchange System (the Public Emergency Law). Among other measures, this law delegated to the National Executive the right to establish the exchange system between the peso and foreign currencies. On January 9, 2002, the National Executive made use of those faculties thus abrogated the one-to-one dollar-peso peg, established an official exchange rate of Ps. 1,40 per U.S. dollar and a free foreign exchange market for transactions that were not to be mandatorily executed trough the official exchange market. A few days later the National Executive also established an exchange rate of Ps. 1.70 per dollar for the free market.

The exchange rate on December 31, 2006 closed at Ps. 3.062 per U.S. dollar, selling rate. The exchange rate on June 21, 2007, the latest practicable date before the filing of this annual report, was Ps. 3.082 per U.S. dollar. See Item 5. Operating and Financial Review and Prospects Overview of Consolidated Results of Operations.

The following table sets forth, for the periods indicated, the high, low, average and period-end rate for the purchase of U.S. dollars, expressed in nominal pesos per dollar.

Year Ended December 31,	High	Low	Avg.(1)	Period End

2002	3.9000	1.4000	3.2442	3.3700
2003	3.3500	2.7600	2.9492	2.9300
2004	3.0600	2.8030	2.9434	2.9800
2005	3.0400	2.8590	2.9029	3.0320
2006	3.1070	3.0300	3.0745	3.0620

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Month	High	Low	Average	Period End
November 2006	3.0870	3.0680	3.0746	3.0680
December 2006	3.0760	3.0480	3.0596	3.0620
January 2007	3.1080	3.0580	3.0860	3.1070
February 2007	3.1060	3.0980	3.1027	3.1000
March 2007	3.1060	3.0970	3.1015	3.1000
April 2007	3.1010	3.0830	3.0894	3.0900
May 2007	3.0850	3.0750	3.0799	3.0770
June 2007 (2)	3.0820	3.0720	3.0756	3.0820

(1) Calculated using the average exchange rates on the last day of each month during each year.

(2) Through June 21, 2007.
Source: Banco Nación and Banco Central de la República Argentina.

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

Dividends

The following table sets forth for the periods and dates indicated, the dividend payments made by YPF, expressed in nominal pesos.

	Pesos Per Share/ADS				
Year Ended December 31,	**1Q**	**2Q**	**3Q**	**4Q**	**Total**
2002				4.00	4.00
2003		5.00	2.60		7.60
2004		9.00		4.50	13.50
2005		8.00		4.40	12.40
2006		6.00			6.00
2007(1)	6.00				6.00

(1) Through June 21, 2007.

The Annual Ordinary and Extraordinary Shareholders Meeting held on April 10, 2002, approved an annual dividend of Ps. 2.00 per share or per ADS, proposed by the Board of Directors on November 29, 2001. This dividend was paid on December 5, 2001. At the same meeting, the shareholders approved a reserve of Ps. 1,707 million for future dividends. Under Argentine law, the Board of Directors has the right to declare annual dividends subject to further approval by the shareholders at the next shareholders meeting. The Board of Directors has the power to decide the timing and the amount of future payments out of this reserve, to the extent such payments are possible under the Argentine and YPF s economic and financial circumstances.

On November 7, 2002, the Board of Directors approved a dividend of Ps. 1,581 million, to be paid out of the reserve for future dividends approved by the Shareholders Meeting of April 10, 2002. The payment of such dividend was mostly offset against receivables held by Repsol YPF, our majority shareholder, in the amount of Ps. 1,543 million. Minority shareholders were paid in cash from freely available funds.

The Shareholders Meeting held on April 9, 2003, approved an annual dividend of Ps. 5.00 per share and per ADS, which was paid on April 22, 2003. In addition, the Shareholders Meeting also approved a reserve for future dividends of Ps. 1,023 million.

On July 2, 2003, the Board of Directors approved a dividend of Ps. 2.60 per share or per ADS, to be paid out of the reserve for future dividends approved by the Shareholders Meeting of April 9, 2003 and ratified by the Shareholders Meeting of April 21, 2004. The dividends were paid on July 15, 2003.

The Shareholders Meeting held on April 21, 2004, approved the payment of a dividend of Ps. 9.00 per share or per ADS, which was paid on April 30, 2004. In addition, the Shareholders Meeting also approved a reserve for future dividends of Ps. 1,770 million. The remainder of the reserve for future dividends (Ps. 133 million) not distributed as of December 31, 2003 was carried forward as retained earnings.

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On October 27, 2004, the Board of Directors approved a dividend of Ps. 4.50 per share or per ADS, to be paid out of the reserve for future dividends approved by the Shareholders Meeting of April 21, 2004 and ratified by the Shareholders Meeting of April 19, 2005. The dividends were paid on November 5, 2004.

The Shareholders Meeting held on April 19, 2005, approved the payment of a dividend of Ps. 8.00 per share or per ADS which was paid on April 29, 2005. In addition, this Shareholders Meeting also approved a reserve for future dividends of Ps. 1,731 million.

On November 10, 2005, the Board of Directors approved a dividend of Ps. 4.40 per share or per ADS, to be paid out of the reserve for future dividends approved by the Shareholders Meeting of April 19, 2005 and ratified by the Shareholders Meeting of April 28, 2006. The dividends were paid on November 18, 2005.

The Shareholders Meeting held on April 28, 2006, approved the payment of a dividend of Ps. 6.00 per share or per ADS, which was paid on May 9, 2006. In addition, the Shareholders Meeting also approved a reserve for future dividends of Ps. 2,710 million. The Board of Directors has the power to decide the timing and the amount of future payments out of this reserve to the extent such payments are possible under Argentine and YPF s economic and financial circumstances.

On March 6, 2007, the Board of Directors approved a dividend of Ps. 6.00 per share or per ADS, to be paid out of the reserve for future dividends approved by the Shareholders Meeting of April 28, 2006. The dividends were paid on March 21, 2007, and ratified by the Shareholders Meeting of April 13, 2007.

The Shareholders Meeting held on April 13, 2007, approved a reserve for future dividends of Ps. 4,234 million. The Board of Directors has the power to decide the timing and the amount of future payments out of this reserve to the extent such payments are possible under Argentine and YPF s economic and financial circumstances.

Risk Factors

Economic, Political and Regulatory Developments in Argentina May Adversely Affect Our Domestic Operations

Economic conditions and government policies. 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. The annual inflation rate as measured by the wholesale price index was approximately 432% in 1988, 5,386% in 1989 and 798% 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 gross domestic product to decrease 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. Gross Domestic Product (GDP) declined by 10.9% in 2002, annual inflation rose to 41%, the exchange rate continued to be highly volatile, and unemployment rose to over 20%. The political and economic instability not only curtailed commercial and financial activities in Argentina but severely restricted the country s access to international financing.

Due to the economic crisis, the President of Argentina, Mr. Fernando De la Rua, was forced to relinquish office. After a short period of time with provisional authorities, the Congress designated Senator Mr. Eduardo Duhalde to complete De la Rua s presidential term. General presidential elections took place on April 27, 2003 and the victor, Mr. Nestor Kirchner, took office as the new President on May 25, 2003. The next presidential election will take place in October 2007.

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Strong economic growth in the world s developed economies and favorable raw material pricing from 2003 through 2006, paved the way for Argentina s economic recovery. The manufacturing and construction industries drove GDP growth to 8.7% in 2003, 9.0% in 2004, 9.2% in 2005, and 8.5% in 2006. 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 and 3.5% in 2006. Annual inflation was 3.7% in 2003, 6.1% in 2004, 12.3% in 2005 and 9.8% in 2006. The government s main strategy to fight increasing inflation has been the establishment of price agreements with private companies.

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

The Argentine economy began 2007 with favorable prospects in terms of economic growth, but with a concern over inflation levels. Private analysts forecast that GDP will grow more than 7% during 2007 and that annual inflation will be around 10%. YPF, however, cannot predict the evolution of future macroeconomic events.

Since March 2004, and as a consequence of (i) an increase in domestic demand, (ii) a shortage in the domestic supply of natural gas and (iii) continued high international oil prices;, the Argentine government made certain changes in regulations governing the energy sector. In order to ensure adequate energy supply, the government also (i) made provisions for importing natural gas from Bolivia, (ii) ended transport capacity restrictions, (iii) imported fuel-oil from Venezuela, and (iv) imposed limits on the supply of gas to industrial consumers. During winter, in the event of shortages, gas supply to industries and electricity generation plants may be interrupted for priority to be given to residential consumers.

Although the government increased wellhead natural gas prices for industrial and electricity generators from 2004 through 2006, it also increased the export tax for crude oil to a maximum of 45% and reintroduced a 5% export tax on gasoline during that period. Additionally, since May 28, 2004, exports of natural gas have been subject to customs duties (pursuant to Decree No. 645/2004), which were subsequently increased by Resolution 534/06 of the Ministry of Economy and Production to 45%. This Resolution provides that the natural gas price set by the framework agreement between Argentina and Bolivia (the Framework Agreement) serves as the valuation basis for calculating export duties on gas sales. On October 10, 2006, Resolution 776/06, issued by the Ministry of Economy and Production clarified that the export duties created by Law 25,561, Section 6 apply to exports from the Tierra del Fuego Province, which were otherwise exempted from taxes pursuant to Law 19,640. Finally, Law 26,217, published in the Official Bulletin on January 16, 2007, extended the application of export duties created by Law 25, 561, Section 6, for five years, clarified that these duties apply to exports from Tierra del Fuego Province, and ratified the effectiveness of a number of decrees and resolutions.

Despite domestic inflation and higher international oil prices, domestic retail oil products did not experience similar increase in prices. For further detail, see Fluctuations in Foreign Exchange Rates, the Imposition of New Taxes and the Enactment of Exchange and Price Controls in Argentina Could Adversely Affect Our Performance and Our Capacity to Service Our Financial Obligations Price and Supply Controls.

YPF s business and results of operations have been, and may continue to be, materially and adversely affected by economic, political and regulatory developments in Argentina. In particular, in the past few years the energy sector and YPF have been affected by lower sales volumes, difficulties in transferring the impact of prices of crude oil and derived products quoted in dollars to domestic prices fixed in pesos, difficulties in increasing domestic natural gas sale prices and the creation of a withholding system for the export of hydrocarbons.

Even in a climate of continued growth and stability in the Argentine economy, YPF will continue to face the following risks:

- difficulties in passing fluctuations in international prices of crude oil and exchange rates through to domestic prices;

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- difficulties in increasing local prices of natural gas, in particular for its residential customers;
- higher taxes on exports of hydrocarbons and the application of duties to previously untaxed exports;
- restrictions on hydrocarbon export volumes;
- regulations requiring the import of hydrocarbon fuels even if it is unprofitable;
- higher taxes on domestic fuel sales;
- lack of financing alternatives for Argentine corporations may impact the execution of YPF s plans; and
- uncertainty about concession renewals, substantially all of which expire in 2017.

YPF is subject to the risk of export restrictions being imposed on it. Any export restriction imposed on YPF may adversely affect operating results. Law No. 17,319 establishes that the Federal Executive will permit hydrocarbon exports as long as they are not required for the domestic market and are sold at reasonable prices. In May 2002, due to concerns over lack of domestic availability of crude oil and Liquid Petroleum Gas (LPG), the Argentine government, through Decree No. 867/02, declared a temporary national emergency for the period May through September 2002 and authorized the Secretariat of Energy to establish minimum volumes of crude oil and LPG to be sold in the domestic market, in turn limiting the volumes of those products available for export.

With respect to natural gas and in light of similar concerns over domestic supply, in March 2004, the Argentine government established several regulations (including, Secretariat of Energy s Resolutions No. 265/2004, 659/2004, 752/2005, 2020/2005 and 275/2006) that affect natural gas exports that were previously authorized under long-term firm export permits granted pursuant to Natural Gas Law No. 24,076. These are described further in Item 4. Information on The Company Regulatory Framework and Relationship with the Argentine Government. Pursuant to these regulations, the Argentine authorities may require exporting producers, such as YPF, to supply additional volumes of natural gas, beyond their contractual commitments, to the domestic market, thereby affecting natural gas exports. In addition, these new regulations establish sanctions and conditions upon natural gas exports not envisaged under existing export permits, thereby affecting compliance with these permits. Pursuant to these regulations, as described in Item 8. Financial Information Legal Proceedings , since March 2004, YPF has been forced to reduce, either totally or partially, its natural gas deliveries to some of its export clients. YPF has challenged the validity of the aforementioned regulations, and has invoked the occurrence of a *force majeure* event under the corresponding natural gas purchase and sales agreements. The counterparties to such agreements have rejected such invocation.

In addition, on December 23, 2004, the Secretariat of Energy issued Resolution No. 1,679/04 reestablishing the registry of export operations for crude oil and diesel. In accordance with this resolution, companies intending to export crude oil and diesel must previously obtain an authorization from the Secretariat of Energy. Oil companies willing to export crude oil must first demonstrate that the demand for crude oil by local refineries is satisfied or that an offer to sell crude oil to local refineries has been made and rejected. Oil refineries willing to export diesel fuel must also first demonstrate that the local demand of diesel is duly satisfied.

During 2006, the Customs General Administration of Neuquén and Comodoro Rivadavia served notices upon YPF to inform it that summary proceedings have been brought against it due to formal mistakes YPF allegedly made in the export permit forms issued in relation to commitments to make future sales of crude oil. Based on the opinion of counsel, YPF s management believes the claim lacks any legal basis.

New Regulatory Framework. On January 2007, the Argentine Congress enacted Law No. 26,197 which, in accordance with Article 124 of the national constitution, provided that provinces shall be the owners of the hydrocarbon reservoirs located within their territories. Pursuant to the law, the Argentine Congress is charged with enacting laws and regulations aimed at developing mineral resources within Argentina, while the provincial governments are responsible for enforcing these laws and administering hydrocarbon fields that fall within the territories of their respective provinces. Certain provincial governments, however, have construed the provisions of

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Law No. 26,197 and Article 124 to empower the provinces to enact their own regulations concerning exploration and production of oil and gas within their territories. While regulations enacted by the provinces under this interpretation may conflict with those adopted by the Argentine Congress, there is no assurance that the Argentine government will take action to address the effects of provincial regulations of this type.

Fluctuations in Foreign Exchange Rates, the Imposition of New Taxes and the Enactment of Exchange and Price Controls in Argentina Could Adversely Affect Our Performance and Our Capacity to Service Our Financial Obligations

Exchange Rates. The prices at which we sell crude oil and natural gas are generally set either in U.S. dollars or by reference to U.S. dollars, while costs are incurred in both pesos and dollars, in many cases by reference to international prices. Because our cash flows are denominated in more than one currency, any devaluation of the peso against the dollar and other hard currencies may have a material adverse effect on our business and results of operations. In January 2002, the Argentine Congress abandoned the fixed exchange rate mechanism of the Convertibility Law, allowing the peso to float freely against the U.S. dollar, and lifted the obligation of the Central Bank to maintain foreign currency reserves to back up the amount of outstanding pesos and to sell or buy U.S. dollars at a fixed exchange rate.

Following a significant depreciation of the peso in the first half of 2002, the Argentine currency steadily appreciated, mainly due to the current account surplus. To prevent further appreciation, the Central Bank intervened to stabilize the peso at approximately Ps. 3.10 for each U.S.$ 1.00, by buying dollars in the exchange market. No prediction of either the direction or the magnitude of future fluctuations in exchange rates, nor government monetary policy with respect thereto, can be made. A depreciation of the peso in relation to foreign currencies could adversely affect the financial condition or results of operations of YPF and the ability of YPF to meet its foreign currency obligations.

New Taxes. As part of the Government s efforts to reduce fiscal deficits and find new sources of public revenues, new duties have been imposed on exports. In March 2002, oil and gas companies were levied with a five-year, 20% tax on proceeds from the export of crude oil and a five-year 5% tax on proceeds from the export of oil products. These duties on exports were increased on May 11, 2004, by Resolutions No. 335/04, No. 336/04 and No. 337/04 issued by the Ministry of Economy and Production, to establish the following taxation rates: 25% on exports of crude oil, 20% on exports of butane, methane and LPG, and 5% on exports of gasoline and diesel. On May 26, 2004, a new 20% duty on natural gas and natural gas liquids exports (NGL) was imposed by Decree No. 645/04. On August 4, 2004 the Ministry of Economy and Production issued Resolution No. 532/04, establishing a progressive scheme of export duties for crude oil, with rates ranging from 25% to 45%, depending on the quotation of the WTI reference price at the time of export and thereby modifying the fixed 25% tax rate established in the earlier resolution.

In July 2006 the Ministry of Economy and Production issued Resolution 534/06, which increased to 45% the export duty on gas and instructed the Customs General Administration to apply the price fixed by the Framework Agreement between Argentina and Bolivia for natural gas sales, as a basis upon which to determine the export tax on gas sales. On October 10, 2006, Resolution 776/06, issued by the Ministry of Economy and Production, clarified that the export duties created by Law 25,561, Section 6, apply to exports from the Tierra del Fuego Province which were otherwise exempted from taxes pursuant Law 19,640. Finally, Law 26,217, published on the Official Bulletin on January 16, 2007, extended the application of export duties created by Law 25,561, Section 6, for five years, clarified that these duties apply to exports from Tierra del Fuego Province and ratified the effectiveness of Decrees No. 310/2002, 809/2002, 645/2004, Resolutions ME No. 526/2002, Resolutions MEyP No. 335/2004, 336/2004 and 337/2004, 534/2006 and 776/2006.

Moreover, in May 2007 the Ministry of Economy and Production issued Decree No. 509/07, which increased to 25% the export duty on exports of butane, propane and LPG. There can be no assurances as to future levels of export taxes.

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The financial results of YPF s operations in Argentina, as well as YPF s ability to meet its foreign currency obligations, may be adversely affected by changes in the Argentine tax regime.

Exchange and Capital Controls. From March 1991 to December 2001, the Argentine foreign exchange market was completely free from any restrictions on converting pesos into U.S. dollars. Capital controls were imposed in December 2001 and reinforced in January 2002 after the devaluation of the peso. Restrictions on fund transfers abroad were eased in the beginning of 2003, but exporters are still required to convert proceeds from export operations into domestic currency. Pursuant to Decree No. 1,589/89 and Decree No. 2,703/02, companies in the oil and gas sector are partially exempted from this requirement and are allowed to keep abroad up to 70% of export proceeds. In July 2002, Argentina s Attorney General issued an opinion which would have effectively required YPF to convert 100% of its export receivables into Argentine pesos. On December 5, 2002, the Central Bank stated that it would adopt the Attorney General s opinion. YPF filed a lawsuit before a Federal Court in Argentina requesting confirmation of YPF s right to freely dispose of up to 70% of its export receivables in accordance with the provisions of Decree No. 1,589/89. YPF obtained an injunction that prohibited the Central Bank and the Ministry of Economy and Production from interfering with YPF s access to foreign exchange proceeds as stipulated by the original decree. The injunction was subsequently appealed by the Central Bank and the Ministry of Economy and Production. 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. On December 15, 2003, YPF filed a motion for clarification asking the court to clarify whether the exemption was available 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 YPF s motion for clarification, indicating that the Decree No. 2,703/02 was sufficiently clear, and confirmed the lifting of the injunction that prohibited the Central Bank and the Ministry of Economy from interfering with YPF s access to foreign exchange proceeds. On February 19, 2004, YPF filed an extraordinary appeal before the Supreme Court challenging the December 1, 2003 decision of the Court of Appeals and requested the reinstatement 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. Should the Central Bank eventually request the conversion of the foreign currency proceeds derived from hydrocarbon exports made from the issuance of Decree No. 1,606/01 to the date on which Decree 2,703/02 became effective, YPF may challenge such decisions or proceedings through administrative appeals procedures, as well as by requesting precautionary measures through other judicial proceedings.

No prediction can be made relating to the probability of modifications on exchange and capital controls. Further imposition of exchange and capital controls could adversely affect the financial condition or results of operations of YPF and the ability of YPF to meet its foreign currency obligations.

Price and Supply Controls. During the first part of 2002, YPF raised retail prices of gasoline and diesel due to the devaluation of the peso and rising international prices for crude oil and derivative products. Since that time, in response to certain measures imposed by the Argentine Government, oil companies in Argentina have agreed with the government to defer the effect of high crude oil prices on retail gasoline and diesel prices. In addition several regulations impose certain obligations to the oil companies to supply the domestic refined products market demand. For additional information on the latter, see Item 4. Information on the Company Regulatory Framework and Relationship with the Argentine Government Market Regulation.

Considering the issuance of Resolution SE No. 599/2007, YPF s domestic and export sales could be further adversely affected by virtue of the mechanisms and limitations and proposal of agreement approved therein or by the Procedimientos de Abastecimiento Complementario al Mercado Interno 2007-2011 , which are described in Item 4. Information on the Company Regulatory Framework and Relationship with the Argentine Government Market Regulation.

The Argentine Economy may be Negatively Affected by Developments in Other Countries

The Argentine financial and securities markets are, to varying degrees, influenced by economic and market conditions in other countries. Although economic conditions are different in each country, the reaction of investors to developments in one country can have significant effects on the price of securities issued in other countries,

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including Argentina. For example, political and economic developments in December 1994 and early 1995 in Mexico, in the second half of 1997 in several Asian nations, and the Brazilian Real devaluation in January 1999, had a negative impact on the financial and securities markets in many emerging market countries, including Argentina. There can be no assurances that the Argentine financial and securities markets will not continue to be adversely affected from time to time by events elsewhere, especially in other emerging markets. See also Item 3. Key information Risk Factors Expected Natural Gas Deliveries from Bolivia may have a Material Effect on our Long-term Natural Gas Supply Commitments.

Fluctuations in Oil and Gas Prices Could Affect Our Level of Capital Expenditures

Fluctuations in the market price of oil may affect the timing and the amount of our projected capital expenditures related to exploration and development activities, which, in turn, could have an adverse effect on YPF s future ability to replace reserves. Oil prices in Argentina reflect world market prices after taking into account the withholding system described above. World oil prices have fluctuated widely over the last ten years and are determined by global supply and demand factors over which YPF has no control. In 2006, the average international crude oil price was U.S.$ 66.02 per barrel, compared to U.S.$ 56.58 per barrel in 2005. Domestic oil prices are approximately 40% lower than in the international oil markets.

YPF budgets capital expenditures related to gas exploration, development and distribution activities in accordance with market prices for natural gas. In the event that low gas prices were to prevail in the domestic market sufficiently enough to affect capital expenditure plans, the Company s ability to replace gas reserves and develop its natural gas business might be adversely affected. A significant portion of YPF s natural gas sales from natural gas distribution companies are set in pesos and could be subject to direct and indirect price controls, see Item 4. Information on the Company Regulatory Framework and Relationship with the Argentine Government Natural Gas. Therefore, a further devaluation of the peso, not accompanied by a corresponding increase in natural gas prices, may result in a delay of capital expenditures related to the natural gas business.

We May Not Be Able to Replace Our Reserves

The rate of production from oil and gas properties generally declines as reserves are depleted. Without successful exploration and development activities or reserve acquisitions, our proved reserves will decline as oil and gas are produced from our existing proved developed reserves. YPF cannot guarantee that its exploration, development and acquisition activities will result in significant additional reserves or that the Company will continue to be able to drill productive wells at acceptable costs.

YPF s Oil and Natural Gas Reserves are Estimates

YPF s oil and gas proved reserves are estimated in accordance with the guidelines established by the SEC and accounting principles set by the U.S. Financial Accounting Standards Board (FASB). Proved reserves are estimated using geological and engineering data to determine with reasonable certainty whether the crude oil or natural gas in known reservoirs is recoverable under existing economic and operating conditions.

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

- the results of drilling, testing and production after the date of the estimates which may require substantial revisions;

- the quality of available geological, technical and economic data and the interpretation and judgment of such;

- the production performance of the Company s reservoirs;

- developments such as acquisitions and dispositions, new discoveries and extensions of existing fields and the application of improved recovery techniques;

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the changes in oil and natural gas prices could have an effect on the quantities of the Company s proved reserves because the estimates of reserves are based on prices and costs at the date when such estimates are made. A decline in the price of oil or gas could make reserves no longer economically viable to exploit and therefore not classifiable as proved; and

whether the prevailing tax rules, other government regulations and contractual conditions will remain the same as on the date estimates are made. Changes in tax rules and other government regulations could make reserves no longer economically viable to exploit;

Many of these factors, assumptions and variables involved in estimating proved reserves are beyond YPF s control and may prove to be incorrect over time. Consequently, measures of reserves are not precise and are subject to revision. Any downward revision in YPF estimated quantities of proved reserves could adversely impact YPF s financial results, leading to increased depreciation, depletion and amortization charges and/or impairment charges, which would reduce earnings and shareholders equity.

Certain Natural Gas Export Authorizations May Be Revoked or Suspended by the Secretariat of Energy Due to its Analysis of the Argentine Northwest Basin Reserves

The effectiveness after certain specific dates of natural gas export authorizations granted to YPF pursuant to Resolutions 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 of natural gas reserves in the Northwest Basin. The result of the aforementioned analysis 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 cost and liabilities for YPF. See Item 8. Financial Information Legal Proceedings Argentina.

The Oil and Gas Industry is Subject to Particular Operational Risks

Oil and gas exploration and production activities are subject to particular economic risks, some of which are beyond the control of YPF, such as production, equipment, and transportation risks, and natural hazards and other uncertainties, including those relating to the physical characteristics of an oil or natural gas field. The operations of YPF may be curtailed, delayed or cancelled due to bad weather conditions, mechanical difficulties, shortages or delays in the delivery of equipment and compliance with governmental requirements. If these risks materialize, YPF may suffer substantial operational losses and disruptions. Drilling may be unprofitable, not only with respect to dry wells, but also with respect to wells that are productive but do not produce sufficient net revenues to return a profit after drilling; operating and other costs are taken into account. These activities are also subject to the payment of royalties and taxes, which tend to be high compared with those payable in respect of other commercial activities.

The Company s operations are subject to industry-specific operating risks including the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations, and environmental hazards, such as oil spills, gas leaks, ruptures or discharges of toxic gases. The occurrence of these industry-specific operating risks could generate substantial losses. Such losses may be due to any one of the following occurrences:

injury or loss of life;

severe damage to, or destruction of, property, natural resources and equipment;

pollution or other environmental damage, clean-up responsibilities and regulatory investigations; and

penalties and suspension of operations.

YPF s Acquisition of Exploratory Acreage and Crude Oil and Natural Gas Reserves is Subject to Heavy Competition

In October 2004, the Argentine Congress enacted Law No. 25,943 creating a new state-owned energy company Energía Argentina Sociedad Anónima (ENARSA). The purpose of ENARSA is to explore and exploit solid, liquid and gaseous hydrocarbons, and to transport, store, distribute, market and industrialize these products, as well as to transport and distribute gas as a public service and generate, transport, distribute and market electricity. Moreover, Law 25,943 granted ENARSA exploration permits for all the national offshore areas, not covered by endorsed exploration permits or exploitation concessions at the time of the enactment of the law. YPF has executed three preliminary agreements with ENARSA for the exploration and exploitation of offshore areas in Argentina.

In addition, some provinces of Argentina have created their own companies to develop activities in the oil and gas industry.

Oil companies, including YPF, must maintain a certain level of undeveloped oil and natural gas reserves to keep results of exploration and production activities relatively stable over time. Crude oil and natural gas production blocks are typically auctioned by governmental authorities. YPF faces intense competition in bidding for such production blocks, especially those blocks with the most attractive crude oil and natural gas reserves.

Considering the competition described in the preceding paragraph, the entry of ENARSA and other companies owned by Argentine provinces into the market, and the transfer of hydrocarbon properties to the provinces in Argentina, YPF s access to new exploratory or productive areas could be affected, resulting in YPF s failure to obtain new production or exploration blocks, or the price paid for such blocks could be higher than anticipated.

We May Incur Significant Costs and Liabilities Related to Environmental and Safety Matters, Including More Stringent Enforcement of Such Laws

Our operations are subject to a wide range of environmental laws and regulations in the countries we operate. These laws and regulations have had and will continue to have a substantial impact on YPF S.A. s operations or those of its subsidiaries, which are subject to certain environmental risks inherent to the oil and gas industry and which may arise unexpectedly and result in material adverse effects on YPF s financial position and results of operation. In some jurisdictions, local, provincial and national authorities are moving towards more stringent enforcement of applicable laws. Argentina has adopted regulations that require our operations to meet environmental standards comparable in many respects to those in effect in the United States and in countries within the European Union. These regulations establish the general framework for environmental protection requirements, including the imposition of fines and criminal penalties for violations. We have conducted studies to determine what is required to comply with these standards and we are preparing to implement and plan various abatement and remediation projects. Future changes in laws or technology could cause an upward revision of capital expenditures and reserves for environmental remediation estimates. Changes in projected expenditures as a result of changes in management plans, in Argentine or United States laws and regulations, or in the laws and regulations of other countries in which we operate may affect our operating results in any given year.

Some risks of environmental and other damage are inherent in certain of our existing or former operations and we cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. More stringent laws and/or more vigorous enforcement policies in the future or the development of additional information may require us to spend additional funds in order to remain compliant with the applicable laws. Such additional expenditures could be material to our operating results.

Expected Natural Gas Deliveries from Bolivia may have a Material Effect on our Long-term Natural Gas Supply Commitments.

YPF had a gas supply agreement with Yacimientos Petrolíferos Bolivianos (YPFB) with a term ending on December 31, 2006. On June 29, 2006 the Bolivian and Argentine governments executed the Framework

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Agreement, pursuant to which they agreed that the natural gas imports from Bolivia to Argentina should be managed by ENARSA. The Framework Agreement establishes a 20-year delivery plan of between 7.7 and 27.7 mmcm/d of Bolivian gas to Argentina. The delivery of volumes exceeding 7.7mmcm/d is subject to the construction of the North East Pipeline, with an expected capacity of 20 mmcm/d. The agreed upon price is approximately U.S.$ 5/ mmBtu, adjusted according to a formula based upon a basket of fuels. The increased cost of the natural gas purchased pursuant to the Framework Agreement is currently absorbed by ENARSA, and financed by the Federal Government with the collection of export duties on natural gas. As per the Framework Agreement, on April 25, 2007, YPF accepted the offer made by ENARSA for the sale of natural gas from the Republic of Bolivia until December 31, 2009.

Any suspension by YPFB and/or ENARSA of natural gas deliveries could have a material adverse effect on YPF s financial condition and operations, including the inability to provide gas to certain clients, since YPF plans to fulfill its long-term supply contracts of natural gas in part through increasing import volumes from Bolivia.

Shareholders May be Liable Under Argentine Law for Actions that are Determined to be Illegal or Ultra Vires.

Under Argentine law, a shareholder s liability for the financial losses of a company is limited to the value of its shareholdings. Under Argentine law, however, shareholders who vote in favor of a resolution that is subsequently declared void by a court as contrary to Argentine law or to a company s by-laws (or regulations, if any) may be held jointly and severally liable for damages to such company, to other shareholders or to third parties resulting from such resolution.

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ITEM 4. Information on the Company
History and Development of YPF

Overview

YPF Sociedad Anónima was created on June 2, 1977, under the laws of the Republic of Argentina as a governmental entity. On January 1, 1991, through Decree No. 2,778/90, it became a stock corporation. YPF s term of duration expires on June 15, 2093. The address of YPF is Avenida Presidente Roque Sáenz Peña 777, C1035AAC, Cuidad Autónoma de Buenos Aires, Argentina and its telephone number is (5411) 4329-2000.

YPF is an integrated oil and gas company engaged in the exploration, development and production of oil, gas, natural gas and electricity-generation activities (Upstream), the refining, marketing, transportation and distribution of oil and a wide range of petroleum products, petroleum derivatives, petrochemicals and liquid petroleum gas (Downstream). At a Shareholder s Meeting on April 13, 2007, YPF s shareholders approved an amendment to YPF s by-laws which broadens the scope of YPF s permissible activities to include work with non-fossil fuels, biofuels, and their components, as well as the production, processing, transport, marketing and storage of grain and its derivatives. The amendment is currently under the registration process with the Argentine National Securities Commission (NSC).

As of December 31, 2006 Repsol YPF, which holds 99.04% of YPF s shares, controls YPF. Repsol YPF is a stock corporation (Sociedad Anónima) duly incorporated and existing under the laws of the Kingdom of Spain.

Repsol YPF s principal business is the exploration, development and production of crude oil and natural gas, transportation of petroleum products, LPG and natural gas, petroleum refining, production of a wide range of petrochemicals and marketing of petroleum products, petroleum derivatives, petrochemicals, liquefied petroleum gas and natural gas.

YPF had net sales of Ps. 25,635 million in 2006 and has proved reserves, as estimated at January 1, 2007, of approximately 680 mmbbl of crude oil, condensate and natural gas liquids and 4,015 Bcf of natural gas. More than the 99% of these reserves are located in Argentina, where YPF produced 126 million barrels of crude oil, condensate and natural gas liquids (345 mbpd), and 650 Bcf of natural gas in 2006. YPF is the operator of more than 50 fields in Argentina, which account for approximately 39% of the total production of crude petroleum and 28% of the total production of gas in Argentina according to the Secretariat of Energy.

YPF s domestic refining operations are conducted at three wholly owned refineries with combined annual refining capacity of approximately 116 million barrels, representing approximately 51% of the total refining capacity in Argentina. YPF also has a 50% interest in Refinería del Norte S.A. (Refinor), which has a refinery located in the Province of Salta, known as Campo Durán, with a capacity of approximately 10 million barrels.

YPF s retail distribution network for automotive petroleum products is composed of approximately 1,731 YPF-branded service stations, representing approximately 31.1% of all service stations in Argentina.

YPF s international operations are conducted through its subsidiaries, YPF International S.A. and YPF Holdings.

Below is an organizational chart of YPF s main investments in controlled companies, and companies in which we have joint control or a significant influence as of the date of this annual report, including their country of incorporation, and YPF s ownership interest in those subsidiaries. See Note 16 (b) to the Consolidated Financial Statements for a complete list of YPF s ownership interest in other companies.

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Deregulation, Privatization and Recent Developments

Beginning in the 1920s and until 1990, both the Upstream and Downstream segments of the Argentine oil and gas industry were effectively monopolies of the federal government of Argentina. During this period, YPF and its predecessors were owned by the state and controlled the exploration and production of oil and natural gas, as well as the refining of crude oil and marketing of refined petroleum products. In August 1989, Argentina enacted laws aimed at the deregulation of the economy and the privatization of Argentina s state-owned companies, including YPF. Following the enactment of these laws, a series of presidential decrees (referred to as the Oil Deregulation Decrees) were promulgated, thereby eliminating restrictions on imports and exports of crude oil (subject to approval of the Secretariat of Energy in the case of exports) and deregulating the domestic oil industry, including deregulation of the prices of oil and petroleum products and the lifting of restrictions on the opening of service stations.

In addition, in order to reduce the percentage of Argentina s oil and gas production controlled by YPF and to permit the development of competition in the Argentine oil and gas industry, the Oil Deregulation Decrees required YPF to sell majority interests in the production rights with respect to certain major producing areas, as well as certain other production and exploration rights to private companies that now compete with YPF. These sales substantially reduced the percentage of Argentina s overall oil production and reserves controlled by YPF. As a result of these and other transactions, YPF s proved reserves were reduced by approximately 1.8 billion boe (representing an amount equal to 45% of YPF s total proved reserves as of January 1, 1991).

YPF s restructuring called for an internal management and operational restructuring and a cost reduction program, including a substantial reduction in the number of employees. The number of YPF employees was reduced from over 51,000 (including approximately 15,000 personnel under contract) as of December 31, 1990, to fewer than 10,000 by 1993. In connection with its restructuring plan, YPF also reorganized its operations, beginning in 1992, into Upstream (for exploration and production activities) and Downstream (for refining and marketing operations). The separation of these functions permitted management, for the first time in YPF s history, to evaluate its Upstream and Downstream activities based on their respective results of operations and contributions to earnings. The Upstream and Downstream activities are now accounted for in the Exploration and Production business unit and the Refining and Marketing business unit, respectively.

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In November 1992, Law No. 24,145 (referred to as the Privatization Law), which established the procedures by which YPF was to be privatized, was enacted. In accordance with the Privatization Law, in July 1993 YPF completed a worldwide offering of 160 million Class D Shares that previously had been owned by the Argentine government. Concurrently with the completion of such offering, the Argentine government transferred capital stock of YPF to five oil and gas producing provinces of Argentina and made an offer to holders of Argentina s pension bonds and certain other claims to exchange capital stock of YPF for such bonds and other claims. In addition, approximately ten percent of YPF s outstanding capital stock was set aside for offer to the employees of YPF upon terms and conditions established by the Argentine government in accordance with Argentine law. As a result of these transactions, the Argentine government s ownership percentage in YPF s capital stock was reduced from 100% to approximately 20%.

In July 1997, the shares set aside for the benefit of YPF s employees in conjunction with the privatization, excluding approximately 1.5 million shares set aside as a reserve against potential claims, were sold through a global public offering, increasing the percentage of YPF s outstanding shares of capital stock held by the public to 75%. Proceeds from the transactions were used to cancel debt related to the employee share ownership plan, with the remainder distributed to participants in the plan. Additionally, Resolution 1,023/2006 of the Ministry of Economy and Production, dated December 21, 2006, effected the transfer to the employees covered by the employee share ownership plan, or programa de propiedad participada (PPP), of 1,117,717 shares of Class C stock, corresponding to the shares set aside as a reserve against potential claims, and reserving 357,987 shares of Class C stock until a decision was reached in a pending lawsuit. Subsequently, with a final decision having been reached in the lawsuit, and consistent with the mechanism of conversion of Class C shares into Class D shares established by Decree 628/1997 and its accompanying rules, as of June 21, 2007, 1,353,245 Class C shares have been converted into Class D shares.

In January 1999, Repsol acquired 52,914,700 Class A Shares in block (14.99% of YPF s shares) which were converted to Class D Shares. Additionally, on April 30, 1999, Repsol announced a tender offer to purchase all outstanding Class A, B, C and D Shares at a price of U.S.$ 44.78 per share (the Offer). Pursuant to the Offer, in June 1999, Repsol acquired an additional 82.47% of the outstanding capital stock of YPF. On November 4, 1999, Repsol acquired an additional 0.35%. On June 7, 2000, Repsol YPF announced a tender offer to exchange newly issued Repsol YPF s shares for the 2.16% YPF s Class B, C and D Shares held by minority shareholders. As of December 31, 2006, Repsol YPF controls YPF through a 99.04% shareholding.

As part of Repsol YPF s divestment plan, YPF s Board of Directors approved between 2004 and 2005, the following transactions, regarding YPF s assets and related companies:

- In July 2004, YPF, through YPF Holdings, sold for U.S.$ 43 million its interest in Global Companies LLC, a jointly controlled company with operations in the Refining and Marketing segment in the United States of America, recording a gain of Ps. 47 million.

- In October 2004, YPF through YPF International S.A., sold for U.S.$ 41 million its interest in YPF Indonesia Ltd., a controlled company with operations in the Exploration and Production segment in Indonesia, recording a gain of Ps. 92 million.

- In January 2005, YPF sold its interest in PBBPolisur S.A. (PBB) for U.S.$ 97.5 million (Ps. 285 million), recording a gain of Ps. 75 million.

- In March 2005, YPF agreed to sell its interest in Petroquímica Ensenada S.A. (Petroken) for U.S.$ 58 million (Ps. 170 million), equivalent to its carrying amount. In July 2005, this sale was approved by the National Antitrust Protection Board (CNDC).

- In October 2005, YPF transferred its interest in Gas Argentino S.A. to YPF Inversora Energética S.A., a company controlled by YPF.

In October 2006, YPF s Board of Directors approved commencement of the sale of certain non-strategic Exploration and Production areas. The assets and liabilities related to this operation were reflected in the Other

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Assets section of our Consolidated Financial Statements as of December 31, 2006. Thereafter, as of April 2007, the Company decided to suspend the sale, as previously mentioned (See Note 2 (c) to the Financial Statements).

Business Overview

As of January 1, 2005, Repsol YPF, introduced a new management model, which combined the operations of the Natural Gas and Electricity segment with the Exploration and Production segment. As a result of this change, in 2005 YPF organized its business along the following segments:

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

The Exploration and Production segment sells to third parties in Argentina and abroad and includes natural gas and services fees (primarily transportation, storage and treatment of hydrocarbons and products). In addition to this, crude oil produced by YPF in Argentina or received from third parties in Argentina pursuant to service contracts is transferred from Exploration and Production to Refining and Marketing at a transfer price that reflects Argentine market prices, which fluctuate according to international prices. Under certain circumstances the Refining and Marketing segment purchases crude oil from third parties.

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

The Chemical segment sells petrochemical products both in the domestic and international market.

Additionally, the Corporate and others segment includes other activities such as corporate administration costs and assets, construction activities and environmental remediation activities related to YPF Holdings discontinued operations.

The following table sets forth net sales and operating income for each of YPF s lines of business for the years ended December 31, 2006, 2005 and 2004.

	For the Year Ended December 31,		
	2006	2005	2004
	(in million of pesos)		
Net Sales (1)			
Exploration and Production (2) (3)			
To unrelated parties	3,076	2,910	2,164
To related parties	774	626	752
Intersegment sales and fees (4)	14,033	11,659	11,225
Total Exploration and Production	17,883	15,195	14,141
Refining and Marketing (5)			
To unrelated parties	17,651	15,791	13,144
To related parties	1,624	1,425	1,773
Intersegment sales and fees	1,526	962	891

Total Refining and Marketing	20,801	18,178	15,808
Chemical			
To unrelated parties	2,401	2,062	1,958

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	For the Year Ended December 31,		
	2006	2005	2004
	(in million of pesos)		
Intersegment sales and fees	647	207	188
Total Chemical	3,048	2,269	2,146
Corporate and other			
To unrelated parties	109	87	140
Intersegment sales and fees	282	243	126
Total Corporate and others	391	330	266
Less intersegment sales and fees	(16,488)	(13,071)	(12,430)
Total net sales (6)	25,635	22,901	19,931
Operating Income (loss)			
Exploration and Production	6,564	7,140	7,140
Refining and Marketing	258	1,900	1,324
Chemical	572	542	564
Corporate and other	(540)	(451)	(430)
Consolidation adjustments	29	30	(127)
Total operating income	6,883	9,161	8,471

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

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

(3) From January 1, 2005, the Natural Gas and Electricity segment operations are included in the Exploration and Production business segment. The information presented for comparative purposes was restated to give retroactive effect to this change. The net sales of these operations in 2004 were Ps. 577 million, and the operating income was Ps. 262 million in 2004.

(4) Intersegment sales of crude oil to Refining and Marketing are recorded at transfer prices that reflect Argentine market prices.

(5) Includes LPG activities.

(6) Net sales include export sales of Ps. 8,649 million , Ps. 8,644 million and Ps. 7,875 million for the years ended December 31, 2006, 2005 and 2004, respectively. The export sales were mainly to the United States of America (Ps. 1,603 million in 2006, Ps. 2,821 million in 2005 and Ps. 2,194 million in 2004), Brazil (Ps.1,125 million in 2006, Ps. 659 million in 2005 and Ps. 897 million in 2004) and Chile (Ps. 1,153 million in 2006, Ps. 1,315 million in 2005 and Ps. 1,928 million in 2004).

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Exploration and Production

Reserves

Our proved reserves are associated with Concessions. In a concession, the consortium of which we are a part is entitled to the reserves that can be produced over the license period, which may be the life of the field.

The following table sets forth YPF s estimated proved reserves and proved developed reserves of crude oil and natural gas as of December 31, 2004, 2005 and 2006 and are subject to the explanations and qualifications listed therein.

	Crude Oil (1) (millions of barrels)	Natural Gas (Bcf)	Combined (2) (boe in millions)
Proved Developed and Undeveloped Reserves			
Reserves at December 31, 2004 (4)	1064	5676	2076
Revisions of previous estimates (3)	(175)	(355)	(239)
Extensions, discoveries and improved recovery	22	30	27
Production for the year	(134)	(668)	(253)
Reserves at December 31, 2005	777	4683	1611
Revisions of previous estimates (3)	9	(63)	(2)
Extensions, discoveries and improved recovery	20	46	29
Production for the year	(126)	(651)	(242)
Reserves at December 31, 2006	680	4015	1396
Proved Developed Reserves			
At December 31, 2004 (4)	863	4045	1582
At December 31, 2005	604	3201	1174
At December 31, 2006	521	2571	979

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

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

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

(4) As restated.

Net crude oil and gas proved reserves at December 31, 2006 were 1,396 million barrels of oil equivalent (49% crude oil, including condensate and natural gas liquids and 51% natural gas), a 13% decrease compared to net crude oil and gas proved reserves of 1,611 million barrels of oil equivalent reported at December 31, 2005.

Changes in YPF estimated net proved reserves

Restatement of Previously Reported Reserves as of December 31, 2004

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

The independent review reported that this was principally due to:

Lack of proper understanding of and training on the requirements of the SEC for booking proved reserves.

Undue optimism regarding the technical performance of the fields and focus on replacement ratio.

Absence of a meaningful deliberative process for determining proved reserves and resolving disputes.

Unwillingness to accept personal responsibility for reporting internally adverse facts regarding reserves and a corresponding tendency to view such issues as falling within another person s or department s jurisdiction. Over time, problems emerged and grew in the absence of delineation of responsibilities for booking proved reserves and in the absence of clear directives pre-2005.

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

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

	Crude oil, condensate and natural gas liquids (Millions of barrels)	
	Proved developed and undeveloped reserves	**Proved developed reserves**
As originally reported at December 31	1,114	908
Effect of the adjustment		
As of beginning of year	(67)	(63)
Movement during the year	17	18
Total	(50)	(45)
As restated at December 31	1,064	863

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

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

Changes in YPF estimated net proved reserves during 2005

1. Revisions of previous estimates

At December 31, 2004, YPF s restated proved reserves were 2,076 million barrels of oil equivalent (5,676 billion standard cubic feet of gas and 1,064 million barrels of crude oil, condensate and natural gas liquids). The downward revision at December 31, 2005 of the previous estimates by 239 million barrels of oil equivalent (175 million barrels of crude oil, condensate and natural gas liquids and 355 billion standard cubic feet of gas), represented 12% of YPF s restated proved reserves at December 31, 2004.

These negative revisions were principally due to two factors:

- Contractual revisions: reserves declared as proved in previous years based on the 10 year extension of the Concessions, established by the Hydrocarbons Law, were reclassified as non-proved since there is no reasonable certainty at December 31, 2005 that concessions will indeed be renewed.

This entails a negative adjustment of net proved reserves of 67 million barrels of oil equivalent (63 million barrel of crude oil and 23 billion standard cubic feet of gas) of which 47% correspond to the Chihuido de la Sierra Negra area and 42% correspond to the reserve areas of the Cuyana basin.

- Several technical revisions, such as revisions of Gas Initially in Place (GIIP) in gas fields because of adjustments of the pressure evolution, greater decline of the primary oil production and acceleration of the water cut in oil fields, which caused a negative adjustment of 172 million barrels of oil equivalent (112 million barrels of crude oil, condensate and natural gas liquids and 333 billion standard cubic feet of natural gas).

The principal adjustments due to the revision of previous estimates were made to:

The Chihuido de la Sierra Negra (CHSN)-Troncoso Inferior/Agrio+Avilé reservoir for which the new evaluation implies a negative revision of 40.2 million barrels of oil equivalent (37.8 million barrels of crude oil and 13.2 billion standard cubic feet of gas) for technical reasons relating to the production performance of the reservoir that has been adversely affected by multiple factors, including the effect of interrupted production in late 2004 and problems with the injection wells and the handling of the produced fluids, which has caused a downward deviation in short and medium-term production estimates, to which 31.6 million barrels of oil equivalent need to be added (30.4 million barrels of crude oil and 6.5 billion standard cubic feet of gas) corresponding to the 10 years contractual extension declared as proved in previous years. The total revision, taking into account both reasons, amounts to 49% of the reservoir proved reserves at December 31, 2004. The proved reserves had been certified by D&M at December 31, 2005.

The Ramos/Chango Norte-Porcelana gas-condensate field, where the updated analysis of the pressure evolution by the material balance method resulted in a negative revision of the net proved reserves of 24.9 million barrels of oil equivalent (118 billion standard cubic feet of gas and 3.9 million barrels of condensate and natural gas liquids), which represent 39% of the field proved reserves at December 31, 2004. This field had been certified by GCA at December 31, 2004.

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The Portón/Chihuido of the Salina/Chihuido of the Salina Sur reserve area, where the net proved reserves were reduced by 21.7 million barrels of oil equivalent (78.9 billion standard cubic feet of gas and 7.7 million barrels of condensate and natural gas liquids) principally due to the volumetric adjustments of the GIIP of the gas-caps and its corresponding liquid hydrocarbons. The mentioned revision includes the adjustment of 2.3 million barrels of oil equivalent (12.5 billion standard cubic feet of gas) corresponding to the gas volumes to be produced in the El Portón area during the 10 years contractual extension declared as proved in previous years. The external reserve certification, conducted by D&M at December 31, 2005, confirmed that the internal estimate was reasonable.

The Aguada Toledo-Sierra Barrosa reservoir, for which the review of the production-reinjection history, together with the evolution of the pressures of the gas-cap and its analysis by the material balance method resulted in a negative revision of 21 million barrels of oil equivalent (119 billion standard cubic feet of gas), of which 28% have been reclassified as non-proved reserves. The proved reserves had been certified by DeGolyer and MacNaughton (D&M) at December 31, 2005.

The Lomas del Cuy/Los Perales reserve areas, formed by oil reservoirs, located in the western flank of the Golfo de San Jorge basin, where there has been a global negative revision of 17.3 million barrels of crude oil, 17% of the crude oil proved reserves at December 31, 2004, due to the external reserve certification conducted by Gaffney, Cline & Associates at December 31, 2005. The fundamental reason for the negative revision is the increased exponential decline used by GCA to estimate the proved reserves, for the primary oil recovery, of wells drilled before 2001 in Los Perales and Lomas del Cuy.

2. Improved recovery

Additions of net proved reserves for improvements in the recovery were due to our Argentinean oil fields that have added 7.1 million barrels of oil equivalent (7.0 million barrels of crude oil and 0.5 billion standard cubic feet of associated gas) through water injection projects.

3. Extensions and discoveries

The addition of net proved reserves through extensions and discoveries was 20.0 million barrels of oil equivalent (14.7 million barrels of crude oil and 30 billion standard cubic feet of associated gas).

Changes in YPF estimated net proved reserves during 2006

1. Revisions of previous estimates

During 2006, the proven reserves were revised downwards by 2.5 million barrels of oil equivalent (a decrease of 63.0 billion cubic feet of gas and an increase of 8.7 million barrels of crude oil, condensate and natural gas liquids).

The reserves of all the productive areas were externally audited by GCA and D&M over a period of two years (2005-2006). The audit performed by GCA on all the West Business Unit in the Neuquén and Cuyana basin (UNAO) assets not operated by YPF resulted in the removal of 53.5 billion cubic feet of proven reserves of gas and 1.5 million barrels of proven reserves of liquids, while the results were unremarkable for the assets not operated by YPF and the minor South Business Unit in the Golfo San Jorge basin (UNAS) areas. The audit by D&M on the minor UNAO areas resulted in the removal of 5.4 billion cubic feet of proven gas reserves and the inclusion of 2.7 million barrels of proven reserves of liquids.

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Main changes to proved reserves have been due to:

In the Northeastern basin, 9.2 billion cubic feet of gas were removed fundamentally due to the low production behavior of the Campo Durán (Tupambi) deposit in the Aguaragüe area.

In the Cuyana basin, except for the inclusion of 0.7 million barrels of oil due to the upgrading of recovery systems at the Estructura Cruz de Piedra deposit, all the other areas showed low production behavior and gave rise to an overall removal of 4.6 million barrels of oil.

In the Neuquina basin, the primary upward revisions were made in the Aguada Toledo-Sierra Barrosa area, where 52.9 billion cubic feet of gas reserves were added due to the implementation of low compression, the repair of a well, and the adjustment update of the material balance.

In the Paso Bardas Norte area, 3.7 billion cubic feet of gas reserves were added due to the adjustment of the Materials Balance in the Huitrín La Tosca deposit and in the Piedras Negras area, and 3.1 billion cubic feet of gas were reclassified as proven following the signing of a gas contract for electric power generation.

The primary revisions downward in this basin occurred in the Puesto Cortadera, Rincón del Mangrullo and Loma La Lata-Lotena deposits. Overall, 56.1 billion cubic feet of proved gas reserves were removed due to the adverse effect of some wells and the corresponding adjustment of estimates. In the Filo Morado area within the Faja Plegada, a downward revision of 23 billion cubic feet of gas and 1.6 million barrels of liquid hydrocarbons was made due to production behavior.

In Southern Argentina, the positive results of development drilling (primarily in the areas of Manantiales Behr, Zona Cental-Bella Vista Este, Escalante, El Trébol, Las Heras and Lomas del Cuy) in locations adjacent to the production areas, classified as not proved due to their geological uncertainty and to the fields improved production response, resulted in the inclusion of 5.5 million barrels of oil and 4.2 billion cubic feet of gas into proven reserves.

2. Improved recovery

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

3. Extensions and discoveries

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

In the Rincón de los Sauces area, the projects outlining the Desfiladero Bayo Este and the Pata Mora fields, and the discoveries in the area of the CNQ7 A exploration permit resulted in the addition of 1.9 million barrels of proven oil reserves.

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

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

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

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Internal controls on Reserves and reserves audits

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

At YPF all the assumptions made and the basis for the technical calculations used in the estimates regarding oil and gas proved reserves are based on the guides, norms and procedures established by Rule 4-10(a) of Regulations S-X under the SEC. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies Oil and Gas reserves for a detailed discussion of the methods and techniques used to estimate our reserves.

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

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

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

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

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

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

For depletion-type reservoir or other reservoirs where performance has disclosed a reliable decline in production-rate trends or other diagnostic characteristics, reserves are estimated by the application of appropriate decline curves or other performance relationships. In analyzing decline curves, reserves are estimated to the calculated economic limits based on current economic conditions.

Proved reserves are limited to:

a. the portion of the reservoir delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and in the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir,

b. the economic limit, the expiration data of a production license or, in the case of gas reserves, the expiration of applicable gas sales contracts, whichever occurs first.

Reserves on undrilled acreage are limited to those drilling units offsetting productive units that were reasonably certain of production when drilled. Proved reserves for other undrilled units are claimed only where it could be demonstrated with certainty that there was continuity of production from the existing productive formation.

The reserves estimated are typically expressed as gross and net reserves. Gross reserves are defined as the total estimated petroleum to be produced from the properties at the year end. Net reserves are defined as that portion of the gross reserves attributable to the interest of YPF after deducting interests owned by third parties.

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Historical cost of operations and development of the properties evaluated, as well as product prices, including agreements affecting revenues and future operations form an integral part of the estimates and form the basis for the economic evaluation for the engineer to assist in its estimates.

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

a) The Quality Reserve Controller (QRC) a professional assigned at each Exploration and Production Business Unit of Repsol YPF to ensure that there are effective controls in the proved reserves estimation and approval process of the estimates of the Group (Repsol YPF S.A. and its consolidated subsidiaries, which include YPF) and the timely reporting of the related financial impact of proved reserves changes. These QRCs are responsible for reviewing proved reserves estimates and are independent of the operating business unit to ensure integrity and accuracy of reporting.

b) A formal review through technical review committees to ensure that both technical and commercial criteria are met prior to the commitment of capital to projects.

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

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

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

a. All properties on a three-year cycle, with properties audited in the first year of the cycle corresponding to those audited in the first year of the previous cycle;

b. Recently acquired properties not audited in the previous cycle and properties with respect to which there is new information which could materially affect prior reserves estimates; and

c. Approximately one-third of the volume of the net proven reserves at the end of the year of the auditing.

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

For those areas audited by independent firms, Repsol YPF s proved reserves figures have to be within seven percent or 10 million barrels of oil equivalent of the independent auditor figures, for Repsol YPF to declare that the volumen have been ratified by an external auditor. In the event that the difference, above or below, is greater that the tolerance, Repsol YPF will reestimate its proven reserves to achieve this tolerance level or should disclose the figures of the external auditor.

The reserves in all our production areas in Argentina were externally audited by independent engineers Gaffney, Cline & Associates (GCA) over a three-year cycle (2002-2004).

On January 1, 2005, a second external auditing cycle began. D&M audited the main areas operated by YPF in the Cuyana and Neuquina basins and GCA audited the main areas operated by YPF in the Golfo de San Jorge basin and the reserves in the Loma La Lata-Sierras Blancas gas condensate reservoir. External audits covered 69.5% of YPF s proved reserves in Argentina at December 31, 2005.

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In 2006, GCA audited all the non-operated assets and the minor areas operated by YPF in the Golfo San Jorge basin. D&M audited the minor areas operated by YPF in the Cuyana and Neuquina basins. All these external audits of 2006 were performed at September 30, 2006.

Total YPF s estimated proved reserves at September 30, 2006 were 1,469 million barrels of oil equivalent. At September 30, 2006 external reservoir engineers audited fields in respect of which Repsol YPF estimated as of such date proved reserves of 459 million barrels of oil equivalent in the aggregate. Of such external reservoir engineers aggregate audited proved reserves in respect of such fields, approximatelly 28% corresponds to the figures of the external auditor in order to comply with the tolerance criteria mentioned before.

For the areas externally audited at September 30, 2006, the final proved reserves for the year-end closing and for the filing of this 20-F at December 31, 2006 were internally adjusted as a result of the movements of the fourth quarter of 2006.

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Exploration and Development Activities

Domestic Activities

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

	For the Year Ended December 31,		
	2006	2005	2004
Gross wells drilled (1)			
Exploratory			
Oil	1	6	5
Gas	1	1	4
Dry	17	7	19
Total	19	14	28
Development			
Oil	703	632	649
Gas	42	34	41
Dry	12	18	30
Total	757	684	720
Net wells drilled (1)			
Exploratory			
Oil	1	5	3
Gas	1	0	4
Dry	13	5	17
Total	15	10	24
Development			
Oil	580	485	537
Gas	15	17	32
Dry	10	16	28
Total	605	518	597

(1) Gross wells means all wells in which YPF has an interest. Net wells means gross wells after deducting interests of others.

In the UNAS, and UNAO, a series of labor and community conflicts halted the production of approximately 2.9 million of barrels of oil equivalent.

A new production record was achieved in 2006 in the Loma de la Mina field, which is located in the Neuquén basin, and is wholly owned by YPF. Production has increased by 315.1% there mainly due to the introduction of fracturing techniques in the well-drilling process.

New production records were also set for the CNQ7 A, Paso Barda Norte and Cañadón Yatel reserve areas. The 745% increase in production at CNQ7 A, which is operated by Petroandina and where YPF has a 50% stake, is mostly related to the development of new production areas. The production increases of 348.3% at Cañadon Yatel and 74.2% at Paso Barda Norte, both wholly owned by YPF, were largely the result of the drilling of new production wells (8 at Cañadon Yatel and 7 at Paso Barda Norte).

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In August 2006, YPF began use of a new Low Temperature Separator (LTS) plant at the El Portón field, for which it had invested U.S.$65 million. The gas treated by the LTS plant is deposited into the gas pipeline system that connects the El Portón and Loma La Lata fields.

The separate Low Pressure Project under development in the Loma La Lata field, representing an estimated total investment of U.S.$25 million, is nearing its final stage and is planned to be completed by the third quarter of 2007.

Furthermore, the Ramos Low Pressure project in the Northwest of Argentina, which will increase compression capacity at that site from 23,680 HP to 38,500 HP, is on schedule and expected to be completed during the first quarter of 2008. The final investment by YPF for this project is estimated at U.S.$22 million.

During 2006, the Acambuco Joint Venture finalized its plans for the first stage of the development of the Macueta field through the construction of a roadway between Macueta and the Piquierenda plant, the construction of a facility at the Piquierenda plant to treat gas extracted at Macueta, and the completion of the Macueta well (Macueta x-1001 bis reentry). In addition, drilling of the Macueta 1003 well began in 2006, and is currently continuing. A side track was also drilled in November 2006 at San Pedrito x-2.

Work continued at Rincón de los Sauces in the Neuquina basin, in the Chihuido de la Sierra Negra field, to mitigate the natural decline that has been underway since mid-1999. The total estimated cost of this project, which began in 2005 and is expected to be completed in 2009, is estimated at U.S.$133 million. Work undertaken in 2006 included the repair of 47 wells, replacement of 70,000m of pipelines and drilling 8 replacement wells. Development of new fields, begun in 2005, has resulted in the drilling of 38 wells in Desfiladero Bayo Este, 47 wells in Jaguel Casa de Piedra, and 7 wells in Pata Mora, as of December 31, 2006. The EOR (Enhanced Oil Recovery) pilot project for gels and the WAG (Water Alternating Gas) project in Chihuido de la Sierra Negra were continued in 2006.

As of December 2006, and due to some problems that affected the main pipeline of Magallanes UTE, oil and gas production was stopped. The Company and its partner in the joint venture are working to resolve the problem, and expect that full oil and gas production will be restored by the end of September 2007.

In May 2004, the Argentine government increased the tax rate on crude oil exports from 20% to 25% and the tax on LPG exports from 5% to 20% (which was increased to 25% by Decree 509/07). It also imposed a 20% withholding on natural gas exports and a 5% withholding on gasoline exports. In August 2004, as a consequence of crude oil international price increases, the crude oil tax rate was raised over the existing 25% by adding a variable surcharge from 3% up to 20% on the WTI crude oil price when the price is greater than U.S.$32 per barrel. The percentage to be applied depends on the increase of the WTI price from U.S.$32 up to U.S.$45 per barrel. Over U.S.$45 per barrel the surcharge is 20%, the maximum applicable.

In July 2006, the Ministry of Economy and Production issued Resolution 534/06, which increased the export duty on gas exports to 45% and instructed the Customs General Administration to apply the price fixed by the framework agreement between Argentina and Bolivia for natural gas sales, as a basis upon which to determine the export tax on gas sales. Moreover, on October 10, 2006, Resolution 776/06, issued by the Ministry of Economy and Production, clarified that the export duties created by Law 25,561, Section 6 apply to exports from the Tierra del Fuego Province, which were otherwise exempted from taxes pursuant Law 19,640. Finally, Law 26,217 published on the Official Bulletin on January 16, 2007, extended the application of export duties created by Law 25,561, Section 6 for five years, and clarified that these duties apply to exports from Tierra del Fuego Province and ratified the effectiveness of Decrees No. 310/2002, 809/2002, and 645/2004, Resolutions ME No. 526/2002, and Resolutions MEyP No. 335/2004, 336/2004, 337/2004, 534/2006 and 776/2006. YPF has informed its customers that they are responsible for the export duties imposed by these Resolutions and has explained the reasons supporting its position. Although certain of YPF s export contracts provide for the transfer of export duties to the buyers, currently some of these buyers pay export duties pursuant to a contractual reservation, as they maintain that their contracts include a Most Favored Nation clause, which means that they would have the right to claim the same advantages and privileges than those granted by YPF to other clients that do not receive those charges. Other of YPF´s export contracts do not provide for the transfer of export duties to the buyer.

Moreover, in May 2007 the Ministry of Economy and Production issued Decree No. 509/07, which increased to 25% the export duty on exports of butane, methane and LPG.

During 2006, 19 exploratory wells, 18 of which in the Neuqina basin and one in the Cuyana basin, were completed (gross basis) in Argentina. Two of these were successful: El Corcobo (oil) and Loma Amarilla (gas), both located in the Neuquina basin. As of December 31, 2006, two exploratory wells were under evaluation.

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

Exploration and Development Properties and Production

Domestic Properties and Production

YPF domestic operations are subject to numerous risks. See Item 3. Key Information Risk Factors.

Argentina is the fourth largest hydrocarbon producing nation in Latin America and the fourth largest in reserves after Mexico, Venezuela and Brazil. Oil has historically accounted for the majority of the country s hydrocarbon production and consumption, although the relative share of natural gas has increased rapidly in recent years. There are 24 known sedimentary basins in the country. Eleven of these are located entirely onshore, six are combined onshore/offshore and seven are entirely offshore. Total onshore acreage is composed of 358 million acres, and total offshore acreage includes 98 million acres on the South Atlantic shelf within the 200-meter depth line. A substantial portion of the 456 million acres in sedimentary basins has yet to be evaluated by exploratory drilling. Commercial production is concentrated in five basins: Neuquina, Cuyana and Golfo San Jorge in central Argentina, Austral in southern Argentina (which includes onshore and offshore fields), and Noroeste in northern Argentina. The Neuquina and Golfo San Jorge basins are the most significant basins for YPF s activities in Argentina. As of December 31, 2006, YPF had an interest in 16.9 million net acres onshore and offshore (within the 200-meter depth line), of which 6.2 million net acres were under production concessions and 10.7 million net acres were under exploration permits.

The following table shows YPF s gross and net interests in productive oil and gas wells and exploration permits and production concessions in Argentina by basin, as of December 31, 2006.

	Wells				**Acreage**			
	Oil		**Gas**		**Production Concessions (1)**		**Exploration Permits (1)**	
	Gross (2)	**Net (2)**	**Gross (2)**	**Net (2)**	**Gross (2)**	**Net (2)**	**Gross (2)**	**Net (2)**
					(thousands of acres)			
Onshore								
Neuquina	3,033	2,633	479	342	3,546	2,864	998	654
Golfo de San Jorge	6,753	5,951	55	55	2,472	2,347	4,927	2,464
Cuyana	840	760			427	375	945	945
Noroeste	27	6	55	19	1,329	372		
Austral	92	29	70	23	602	181		
Offshore	20	10	15	8	115	63	18,920	6,625

(1) Production concessions are granted after commercially exploitable quantities of oil or gas are discovered, are based upon the estimated field size as determined by geological and geophysical techniques and are subject to adjustment based upon new

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information concerning the reservoir. Accordingly, not all acreage covered by production concessions is in fact producing. Acreage held under exploration permits is unproved and non-producing.

(2) Gross wells and acreage include all wells and acreage in which YPF has an interest. Net wells and acreage equals gross wells and acreage after deducting third party interests.

Approximately 86% of YPF s proved crude oil reserves in Argentina are concentrated in the Neuquina (56%) and Golfo San Jorge (30%) basins, and 96% of YPF s proved gas reserves in Argentina are concentrated in the Neuquina (76%), Noroeste (12%) and Austral (8%) basins.

As of December 31, 2006, YPF held 106 production concessions and exploration permits in Argentina. YPF directly operates 69 of them, including 60 production concessions and 9 exploration permits.

As of December 31, 2006, YPF held 17 exploration permits in Argentina,10 of which are onshore exploration permits and 7 of which are offshore exploration permits. YPF has 100% ownership of 5 onshore permits and 1 offshore permit, and its participating interests in the rest vary between 27% and 50%. YPF s interests in the riskier offshore permits vary between 30% and 50%.

As of December 31, 2006, YPF had 89 production concessions. YPF has a 100% ownership interest in 54 production concessions and its participating interests in the remaining 35 production concessions vary between 12% and 98%.

Production

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

	For the Year Ended December 31,		
	2006	**2005**	**2004**
	(thousands of barrels per day)		
Crude oil production (1)(3)			
Neuquina	201	213	239
Golfo de San Jorge	105	108	112
Cuyana	28	31	32
Noroeste	7	9	9
Austral	5	5	7
Total oil production	346	366	399
	(millions of cubic feet per day)		
Natural gas production (1)			
Neuquina	1,392	1,439	1,539
Golfo de San Jorge	112	112	107
Cuyana	3	11	3
Noroeste	172	163	172
Austral	100	102	105
Total gas production	1,779	1,827	1,926
Average sales price			
Oil (U.S.$ per barrel) (2)	42.81	35.53	31.39
Gas (U.S.$ per mcf)	1.63	1.34	1.07

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

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(2) The average sales price per barrel of oil represents the transfer price established by YPF, which reflects the Argentine market price.

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

In 2006, crude oil and natural gas production, on a boe basis, decreased by 4.2% compared to 2005. As compared to 2005, crude oil (including condensate and natural gas liquids production) decreased by 5.5% in 2006. With respect to natural gas, the production decreased by 2.6% in 2006 compared to 2005.

The crude oil produced by YPF in Argentina varies by geographic area. Almost all crude oil produced by YPF in Argentina has very low or no sulfur content. Most of the natural gas produced by YPF is of pipeline quality. All of the gas fields produce commercial quantities of condensate, and substantially all of the oil fields produce associated gas.

International Properties and Production United States

YPF s foreign operations, through YPF Holdings, are subject to numerous risks. See Item 3: Key Information Risk Factors.

As of December 31, 2006, YPF had mineral rights in 66 exploratory blocks, with a net surface area of 756 square kilometers.

YPF s U.S. subsidiaries net petroleum production in the United States in 2006 and 2005 was 105 thousand and 118 thousand barrels of oil equivalent, respectively.

YPF s U.S. subsidiaries have entered into various operating agreements and capital commitments associated with the exploration and development of their oil and gas properties. Such contractual, financial and/or performance commitments are not material, except those commitments related to the development of the Neptune Prospect located in the vicinity of the Atwater Valley Area, Blocks 573, 574, 575, 617 and 618. YPF s investment in the Neptune project includes three exploratory wells totaling U.S.$13 million. The latest well was drilled in March and April of 2004. YPF and its partners have discovered reserves that are commercially viable and the project is in the execution phase of development. The U.S. Minerals Management Service has granted a field designation that allows the lease to be maintained without beginning production after the field has been identified as commercial and a development plan has been submitted and approved. This is expected to be ready and to begin to produce by the end of 2007. During 2006 three development wells were drilled. YPF spent approximately U.S.$ 12 million in 2005 and U.S.$53 million in 2006 on this project.

On November 17, 2004, an agreement with Murphy Oil Corporation was reached to swap 50% of YPF s interest in 13 offshore exploration blocks in the Green Canyon with 11 blocks of Murphy Oil Corporation in same area. Additionally in 2004, YPF s U.S. subsidiaries acquired participation rights in 24 offshore exploration blocks in Alaminos Canyon, Green Canyon, Mississippi Canyon and Atwater Valley through farm-in operations. During 2005 three exploration blocks were relinquished at East Breaks and Garden Banks in the Gulf of Mexico. In 2006, six exploration blocks were relinquished or expired.

Joint Ventures and Contractual Arrangements in Argentina

YPF participates in eighteen of the most important exploration and production joint ventures in Argentina. YPF s interests in these joint ventures range from 12% to 98%, and its obligations to share exploration and development costs vary under these agreements. In addition, under the terms of some of these joint ventures, YPF has agreed to indemnify its joint venture partners in the event that YPF s rights with respect to such areas are restricted or affected in such a way that the purpose of the joint venture cannot be achieved. For a list of the exploration and production joint ventures in which YPF participates, see Note 6 to the Consolidated Financial Statements. YPF is also a party to a number of other contractual arrangements that arose through the renegotiation of service contracts and risk contracts and their conversion into production concessions and exploration permits, respectively.

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Natural Gas Marketing

YPF estimates, based on preliminary figures, that natural gas delivered by transport companies in Argentina totalled approximately 1,470 Bcf in 2006. From 1980 to 2006, the production of natural gas in Argentina has grown significantly, increasing by approximately 284%, at an average annual rate of 5.1%. This increase is attributable, in part, to an increase in the number of users connected to distribution systems from approximately 2.5 million in 1980 to approximately 6.8 million by 2006. YPF does not believe that the natural gas market will continue to grow at the same rate as it has in the last twenty-six years, except if new productive areas are found and more gas is imported.

Prior to 1993, all of YPF s gas production was delivered to Gas del Estado, the state-owned entity that operated the gas transportation and distribution system for all of Argentina. YPF now sells approximately 30% of its gas to nine local distribution companies, formed in connection with the privatization of Gas del Estado in 1992, approximately 55% to industries and power plants, and approximately 15% in exports to foreign markets. Approximately 70% of natural gas sales are from the Neuquina Basin.

The currency devaluation that began in January 2002 was initially accompanied by a freeze on natural gas prices that created very low prices for natural gas as compared to alternative fuels. Consequently, demand for these products soared while suppliers did not have any incentive to meet the extremely high growth rates in consumption.

In January 2004, Decree No. 181/04 authorized the Secretariat of Energy to negotiate with producers a pricing mechanism for natural gas supplied to industries and electric generation companies. Domestic market prices at the retail market level were excluded from these negotiations. On April 2, 2004, the Secretariat of Energy and gas producers signed an agreement which was ratified by Resolution No. 208/04 issued by the Ministry of Federal Planning, Public Investment and Services. The aim of the agreement is to implement a scheme for the normalization of natural gas prices. The main aspects of the agreement are: i) initial price adjustments are applied exclusively to gas supplied by producers to industrial users, new direct consumers and electricity generators (to the extent that electricity was destined for the domestic market); ii) prices are adjusted as of May 10, 2004; and iii) the Secretariat of Energy will implement in the future a progressive scheme for the normalization of the price of natural gas destined to residential users and small commercial users. This agreement expired on December 31, 2006.

On June 14, 2007, Resolution No. 599/2007 of the Secretariat of Energy was published in the Official Gazette. This resolution approves a proposal of Agreement with Natural Gas producers regarding the supply of natural gas to the domestic market during the period 2007 through 2011 (the Proposed Agreement 2007-2011), giving such producers a five business-day term to enter into the Proposed Agreement 2007-2011. If within that term, the Proposed Agreement 2007-2011 is not executed by a sufficient number of producers to make it viable, the Secretariat of Energy will disregard the Proposed Agreement 2007-2011 and enact the Procedimientos de Abastecimiento Complementario al Mercado Interno 2007-2011 (not described in Resolution No. 599/2007). Taking into account that pursuant to the current government policy, natural gas exports are subordinated to the satisfaction of any domestic demand, natural gas exports and certain domestic sales of producers that do not sign of the Proposed Agreement 2007-2011 will be called upon first in order to satisfy such domestic demand, prior to affecting export sales of the producers that have signed of the Proposed Agreement 2007-2011. The purpose of the Proposed Agreement 2007-2011 is to guarantee the supply of the domestic market demand as registered during 2006 plus the growth of residential and small commercial customers (the Demand of the Agreement). Producers that have signed the Proposed Agreement 2007-2011 would commit to supply a part of the Demand of the Agreement according to certain shares determined for each producer based upon to its share of production for the 36 months prior to April 2004. The Proposed Agreement 2007-2011 also establishes terms of effectiveness, and pricing provisions and limitations for each segment of the Demand of the Agreement. In order to guarantee any domestic market demand of natural gas in excess to the Demand of the Agreement, Resolution SE No. 599/2007 maintains the effectiveness of Resolutions SE No. 659/2004, 752/2005 and 1329/2006 (and further related regulations described above) as adapted by Resolution SE No. 599/2007. The Resolution also states that the Proposed Agreement 2007-2011 does not prevent the possible suspension or termination of export permits.

Taking into account the above described terms and conditions of Resolution No. 599/2007, the Company felt compelled to execute the Proposed Agreement 2007-2011, among other reasons, in order to mitigate the damages and losses that may be suffered by both the Company and the natural gas purchasers. However, the Company expressly stated that the execution of the Proposed Agreement 2007-2011 did not entail any recognition by YPF of the validity of the terms and conditions of Resolutions SE No. 265/2004; SSC No. 27/2004; SE No. 503/2004; SE No. 659/2004; SE No. 1681/2004; SE No. 752/2005; SE No. 882/2005; SE No. 939/2005; SE No. 2020/2005; SE No. 275/2006; SE No. 1329/2006; SE No. 1886/2006; MEP No. 534/2006; and/or SE No. 599/2007 (which approved the Proposed Agreement). YPF will timely challenge the validity of Resolution No. 599/2007.

YPF had a gas supply agreement with Yacimientos Petrolíferos Bolivianos (YPFB) with a term ending on December 31, 2006. On June 29, 2006 the Bolivian and Argentine governments executed the Framework Agreement, pursuant to which they agreed that the natural gas imports from Bolivia to Argentina should be managed by ENARSA. The Framework Agreement establishes a 20-year delivery plan of between 7.7 and 27.7 mmcm/d of Bolivian gas to Argentina. The delivery of volumes exceeding 7.7 mmcm/d is subject to the construction of the North East Pipeline, with an expected capacity of 20 mmcm/d. The agreed upon price is approximately U.S.$ 5/ mmBtu, adjusted according to a formula based upon a basket of fuels. The increased cost of the natural gas purchased pursuant to the Framework Agreement is currently absorbed by ENARSA, and financed by the Federal Government with the collection of export duties on natural gas. In the context of the Framework Agreement, on April 25, 2007, YPF accepted the offer made by ENARSA for the sale of natural gas from the Republic of Bolivia until December 31, 2009, which main terms and conditions are as follows: (i) maximum contracted quantity of up to 4,4 mmcm/d; (ii) guaranteed quantity equal to 60% of the maximum contracted quantity; (iii) take-or-pay quantity equal to 80% of the guaranteed quantity (iv) price of U.S.$ 1.6/ mmBtu for the natural gas, plus U.S.$ 0.237 /mmBtu for the liquid components contained therein; (v) price reopening in January 2008 or at any time in relation to changes in Federal Government s compensation to ENARSA; (vi) effectiveness until December 31, 2009; and (vii) limited allowed curtailments or interruptions of supply due to operative conditions and scheduled maintenance.

YPF s direct sale volumes to industrial users in 2006 represented 37% of total natural gas sale volumes. During 2006, YPF s domestic natural gas sale volumes did not practically increase.

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Most of YPF s proved natural gas reserves in Argentina are situated in the Neuquina basin (76.8%), which is strategically located in relation to the principal market of Buenos Aires and is supported by sufficient pipeline capacity during most of the year. Accordingly, YPF believes that natural gas from this region has a competitive advantage compared to natural gas from other regions. The capacity of the natural gas pipelines in Argentina has proven in the past to be inadequate at times to meet peak-day winter demand, and there is no meaningful storage capacity in Argentina. During the last 12 years, local pipeline companies have added approximately 57 million cubic meters per day of new capacity. These additions have improved their ability to satisfy peak-day winter demand and directly benefited YPF.

Decree No. 180/04, issued in January 2004, created a trust fund for the financing of transportation and the enlargement of distribution facilities under a global program for the issuance of debt securities and participation certificates approved by Resolution No. 185/04, issued by the Ministry of Federal Planning, Public Investment and Services on April 20, 2004. In accordance with Decree No. 180/2004, two trust funds were created to finance an expansion of the North Pipeline operated by TGN (Transportadora Gas del Norte), whose capacity increased by 1.8 million cubic meters per day (63.6 mmcf/d) in 2005, and an expansion of the San Martín Pipeline operated by TGS (Transportadora Gas del Sur) whose capacity increased by 2.9 million cubic meters per day (102.4 mmcf/d) in 2005. Both expansions are currently operating. YPF has participated as investor in the trust fund for the expansion of TGN s North Pipeline, pursuant to which gas transportation capacity from Bolivia was increased, with a contribution of about U.S.$ 100 million. This expansion will enable YPF to obtain natural gas transportation capacity in order to transport Bolivian gas imports. As of December 2006, the amounts corresponding to the contribution previously mentioned had been reimbursed to the Company.

Natural gas is delivered by YPF through its own gathering systems to the trunk lines from each of the major basins, although all of the firm capacity of the natural gas transportation pipelines in Argentina is currently apportioned among the distribution companies under long-term firm transportation contracts. All of the available capacity of the transportation pipelines is taken by firm customers during only a few days in winter, leaving capacity available for interruptible customers in varying degrees throughout the rest of the year.

As a consequence of the energy crisis in Argentina, since 2002 the Argentine Government has established resolutions and regulations which regulate both the export and internal market. These regulations have affected Argentine producers ability to export natural gas. In fact, YPF has appealed to the validity of the aforementioned regulations and resolutions, and has invoked the occurrence of a *force majeure* event under the corresponding export natural gas purchase and sales agreements. The counterparties to such agreements have rejected such invocation. See Item 4. Information on the Company Regulatory Framework and Relationship with the Argentine Government Market Regulation below. In addition, these regulations have caused YPF s business and financial condition to be adversely affected. See Item 3. Key Information Risk Factors Negative Economic, Political and Regulatory Developments in Argentina Including Export Controls May Adversely Affect Our Domestic Operations and Item 8. Financial Information Legal Proceedings.

During December 1996, YPF began exporting natural gas from Argentina, delivering 37 mmcf/d to the Methanex plant (methanol producer) located in Cabo Negro-Punta Arenas in Chile under a 20-year contract. The natural gas supplied to the Methanex plant is produced in the Austral Basin. In the second quarter of 1999, an expansion of the Methanex plant increased the plant s supply requirements to 159 mmcf/d, of which YPF supplied approximately 42 mmcf/d. In 2003, YPF entered into a 20-year agreement to supply an additional 18 mmcf/d of natural gas subsequent to the expansion of the plant, which took place in 2005. In 2010, YPF will begin to supply an additional 21 mmcf/d to the plant.

The Gas Andes pipeline linking Mendoza, Argentina, to Santiago, Chile, with a transportation capacity of 353 mmcf/d, it was brought on line in August of 1997, carrying natural gas from the Neuquina basin. In August 1998, the San Isidro Electricity Company (Endesa), located at Quillota, Chile, began operations using natural gas 100% supplied by YPF. This was YPF s first export to Chile through Gas Andes with volumes averaging 63 mmcf/d. The contract is for a term of 15 years. In addition, since the end of 1999, YPF supplies 20% of the natural gas requirements of the electricity company Colbun (11 mmcf/d). This contract is for a term of 15 years. During the first quarter of 2003, YPF started supplying natural gas to Gas Valpo (35 mmcf/d) under a 15-year contract.

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In December 1999, Gasoducto del Pacífico, a consortium in which YPF has a 10% interest, completed the construction of a natural gas pipeline connecting Loma La Lata (Neuquén, Argentina) with Chile. The pipeline has a capacity of 318 mmcf/d and carries natural gas from the Neuquén Basin. Since December 1999, YPF has supplied, through Gasoducto del Pacífico, natural gas to a distribution company that further distributes natural gas to residential and industrial clients (99 mmcf/d). This contract is for a term of 18 years.

In the second half of 1999, two natural gas pipelines, with a carrying capacity of 300 mmcf/d each, connecting Salta, Argentina, to Región II in Chile, were brought on line. The pipelines were planned to carry natural gas from the Noroeste Basin. Beginning in January 2000, YPF started supplying natural gas to thermal power plants in northern Chile (113 mmcf/d).

Through the 560 mmcf/d natural gas pipeline, which links Aldea Brasilera, Argentina, to Uruguayana, Brazil, YPF supplies to AES s thermal power plant with 99 mmcf/d of gas under a 20-year contract. In the second half of 2000, YPF started delivering gas produced in the Neuquina Basin.

In November 1999, a Shareholders Agreement was signed in Brazil for the construction of a natural gas pipeline from Uruguayana to Porto Alegre, Brazil, through a partnership among Gaspetro (25%), Ipiranga (20%), Total (25%), Techint (15%) and Repsol YPF Brasil (15%). In October 1998, YPF signed an agreement with Petrobras to supply natural gas to the pipeline project. The project is currently delayed because of the excess of energy offered in the south and southeast parts of Brazil.

During the last quarter of 1999, YPF began supplying 40 mmcf/d of natural gas under a 12-year contract to the Termoandes power plant located in Salta, Argentina. Pursuant to a modification to that contract, YPF committed to supply 26 mmcf/d rather than the 40 mmcf/d of natural gas originally agreed upon. The natural gas comes from the Noroeste Basin. This power plant provides power to a high voltage line running from Salta to Región II in Chile.

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

Natural Gas Liquids

YPF developed Compañía Mega S.A. (Mega) to increase its ability to separate liquid petroleum products from natural gas. Mega allowed YPF in 2001, through the fractioning of gas liquids, to increase production at the Loma La Lata gas field by approximately 5.0 million cubic meters per day.

YPF owns 38% of Mega, while Petrobras and Dow Chemical have a 34% and 28% stake, respectively.

Mega includes:

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

Mega required an investment of approximately U.S.$ 715 million and commenced operations at the beginning of 2001. Mega s maximum annual production capacity is 1.35 million tonnes of gasoline, LPG and ethane. YPF is

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Mega s main supplier of natural gas. The fractioning plant production is used in the petrochemical operations of PBB and is also exported by tanker to Petrobras facilities in Brazil.

Electricity Market

Generation

YPF participates in four power stations with an aggregate installed capacity of 1,685 megawatts (MW):

- A 45% interest in Central Térmica Tucumán (410 MW combined cycle);
- A 45% interest in Central Térmica San Miguel de Tucumán (370 MW combined cycle);
- A 50% interest in Filo Morado (63 MW); and
- A 40% interest in Central Dock Sud (775 MW combined cycle and 67 MW gas turbines)

In 2006, these plants generated altogether approximately 9,441 GWh in the aggregate.

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

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

Other Activities

Natural Gas Distribution

YPF currently holds through its subsidiary YPF Inversora Energética S.A. a 45.33% stake in Gas Argentino S.A. (GASA), which in turn holds a 70% stake in Metrogas S.A. (Metrogas), which is a natural gas distributor in southern Buenos Aires and one of the main distributors in Argentina. During 2006, Metrogas distributed approximately 7.90 billion cubic meters of natural gas to 2 million customers in comparison with approximately 7.67 billion cubic meters of natural gas distributed to 2 million customers in 2005. The economic crisis that affected the country at the end of 2001 and beginning of 2002 caused a severe deterioration of the financial and operational situation of GASA. Thus the decision was made on March 25, 2002 to suspend payment of principal and interest on its entire financial debt. From then on, Metrogas management has focused on an efficient and rational use of its cash flow in order to be able to comply with all of the legal requirements agreed with the Argentine government with respect to its services. After negotiating a restructuring of the outstanding debt with its creditors, GASA has reached and executed on December 7, 2005 an agreement (the Master Restructuring Agreement or MRA) with its creditors, by which they would exchange debt for equity in GASA and/or Metrogas. After this exchange, YPF Inversora Energética S.A. will hold a 31.7% stake in GASA. The agreement has been presented to the Argentine entities CNDC and Ente Nacional Regulador del Gas (ENARGAS) and is subject to their approval as condition precedent to the closing of the MRA. The MRA included a creditors option to terminate that agreement if by December 7, 2006, the closing of the debt restructuring had not occurred. Since the CNDC and the ENARGAS approvals have not yet been obtained the closing is still pending, but up to this date the creditors have not communicated their intention to terminate the MRA.

At the same time, Metrogas has reached an agreement with its main creditors in order to restructure its financial debt and align its future financial commitments to the expected generation of funds. The main objective of the restructuring process is to modify certain terms and conditions included in the loan and negotiable agreements, by adjusting interest rates and the amortization period so as to align the cash flow required for repayment of the indebtedness with debt service capacity. Accordingly, on April 20, 2006, Metrogas entered into an out-of-court preventive agreement with creditors representing approximately 95% of its unsecured indebtedness which has become effective in May 2006.

Refining and Marketing

During 2005, YPF s Refining and Marketing activities included crude oil marketing, refining and transportation, and the marketing and transportation of refined fuels, lubricants, LPG, compressed natural gas and other refined petroleum products in wholesale, retail and export markets.

During 2005, Refining and Marketing segment was organized into the following Divisions:

Refining Division;

Logistic Division;

Domestic Marketing Division;

International Marketing Division; and

LPG General Division.

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

Refining Division:

YPF wholly owns and operates three refineries in Argentina:

La Plata Refinery, located in the Province of Buenos Aires;

Luján de Cuyo Refinery, located in the Province of Mendoza; and

Plaza Huincul Refinery, located in the Province of Neuquén (together referred as the Refineries).

YPF s Refineries have an aggregate refining capacity of approximately 319,500 barrels per calendar day. The Refineries are strategically located along YPF s crude oil pipeline and product pipeline distribution systems. In 2006, 87.9% of the crude oil processed by YPF s Refineries was supplied by YPF s Upstream operations. YPF, through Refinor, also owns a 50% interest in a 26,100 barrel per calendar day refinery located in the Province of Salta, known as Campo Durán.

The following table sets forth the throughputs and production yields for YPF s Refineries for each of the three-years ended December 31, 2006:

	For the Year Ended December 31,		
	2006	2005	2004
	(millions of barrels)		

Throughput crude/Feedstock	118.1	113.1	112.0
Production			
Diesel fuel	47.7	43.9	44.2
Gasoline	31.1	32.3	32.5
Jet fuel	5.7	6.6	5.5
Base oils	2.8	2.7	3.0
	(thousands of tonnes)		
Fuel oil	1,548	1,198	935
Coke	929	967	961
LPG	595	596	617
Asphalt	186	204	207

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

The La Plata Refinery is the largest refinery in Argentina, with a capacity of 189,000 barrels of crude oil per calendar day. The refinery includes three distillation units, two vacuum distillation units, two catalytic cracking units, two coking units, a coker naphtha hydrotreater unit, a platforming unit, a gasoline hydrotreater, a diesel fuel hydrofinishing unit, an isomerization unit and a lubricants complex. The refinery is located at the port in the city of La Plata, in the Province of Buenos Aires, approximately 60 kilometers from the City of Buenos Aires. In 2006, the refinery processed approximately 179,400 barrels of crude oil per calendar day. The capacity utilization rate at the La Plata Refinery for 2006 was 3.9% higher than in 2005. The crude oil processed at the La Plata Refinery comes mainly from YPF s own production in the Neuquina and Golfo de San Jorge basins. Crude oil supplies for the La Plata Refinery are transported from the Neuquina basin by pipeline and from the Golfo de San Jorge basin by vessel in each case to Puerto Rosales and then by pipeline from Puerto Rosales to the refinery.

YPF has been implementing an environmental program to address contamination generated prior to YPF s privatization, with particular emphasis on effluents. In 2004, the project Integral Treatment of Liquids Effluents at La Plata Refinery was concluded and in 2006, the project Integral Adapting of Effluent Treatment System at the Luján de Cuyo Refinery was concluded.

In September 2003, YPF approved a project for the construction of a new Fluid Cracking Catalysts (FCC) naphtha splitter and a desulfuration unit in the La Plata Refinery and in 2004 approved a project for the construction of a new naphtha splitter in the Luján de Cuyo Refinery. Both projects, which were completed during 2006, will allow YPF to meet higher technical requirements imposed by legislation in Argentina that limit the level of sulfur in fuels (gasolines).

In December 2006, La Plata Refinery was audited by prestigious international insurance companies and received an above average rating.

The Luján de Cuyo Refinery has an installed capacity of 105,500 barrels per calendar day, the third largest capacity among Argentine refineries. The refinery includes two distillation units, a vacuum distillation unit, two coking units, one catalytic cracking unit, a platforming unit, an Methyl TerButil Eter (MTBE) unit, an isomerization unit, an alkylation unit, and hydrocracking and hydrotreating units. In 2006, the refinery processed approximately 109,100 barrels of crude oil per calendar day. The incremental amount of crude oil processed is a consequence of many factors, including improved operational techniques, elimination of bottlenecks, the use of crude oil of a different quality than that for which the facility was designed, and the fact that each unit has a margin of processing above its nominal capacity. The capacity utilization rate for 2006 was 4.0% higher than in 2005. Because of its location in the western Province of Mendoza and its proximity to significant distribution terminals owned by YPF, the Luján de Cuyo Refinery has become the primary facility responsible for providing the central provinces of Argentina with petroleum products for domestic consumption. Luján de Cuyo Refinery receives crude supplies from the Neuquina and Cuyana basins by pipeline directly into the facility. Approximately 88% of the crude oil processed at the Luján de Cuyo Refinery is produced by YPF. Most of the crude oil purchased from third parties comes from oil fields in Neuquén or in Mendoza.

In May 2005, Lujan de Cuyo Refinery was audited by prestigious international insurance companies, and received a Better than average rating.

The Plaza Huincul Refinery, located near the town of Plaza Huincul in the Province of Neuquén, has an installed capacity of 25,000 barrels per calendar day. In 2006, the refinery processed approximately 26,000 barrels of crude oil per calendar day. The incremental amount of crude oil processed is a consequence of many factors like good operation, elimination of bottlenecks, the crude oil use of qualities different from those for which the facilities were designed, and also the fact that each unit has a margin of processing with respect to its nominal capacity, among others. The capacity utilization rate for 2006 was 8.7% higher than in 2005. The only products currently produced commercially at the refinery are gasoline, diesel fuel and jet fuel, which are sold primarily in nearby areas and in the southern regions of Argentina. Heavier products, to the extent production exceeds local demand, are blended with crude oil and transported by pipeline from the refinery to La Plata Refinery for further processing. Plaza Huincul Refinery receives its crude supplies from the Neuquina basin by pipeline. Crude oil processed at Plaza Huincul Refinery is mostly produced by YPF. In 2006, 19% of the refinery s crude supplies were purchased from third parties.

In December 2006, Plaza Huincul Refinery was audited by prestigious international insurance companies, and received a Good to Very Good rating.

During 1997 and 1998, each of the Refineries, YPF s La Plata Petrochemical Plant and YPF s Applied Technology Center were certified under ISO 9002 and ISO 14000 (environmental performance) and were recertified under ISO 9001 (version 2000) in 2003.

Capital expenditures in 2006 for efficiency and environmental projects and other improvements at the three Refineries were U.S.$ 141.1 million.

Logistic Division:

Crude Oil and Products Transportation and Storage

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

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

From	To	YPF Interest	Length (km)	Daily Capacity (bpd)
Puesto Hernández	Luján de Cuyo Refinery	100%	528	75,000
Puerto Rosales	La Plata Refinery	100%	585	316,000
La Plata Refinery	Dock Sud	100%	52	106,000
Brandsen	Campana	30%	168	120,700
Puesto Hernández/P. Huincul/Allen	Puerto Rosales	37%	888(1)	232,000
Puesto Hernández	Concepción (Chile)	18%	428(2)	114,000

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

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

YPF owns two crude oil pipelines in Argentina. One connects Puesto Hernández to the Luján de Cuyo Refinery (528 kilometers) and the other connects Puerto Rosales to the La Plata Refinery (585 kilometers) and extends to Shell s refinery in Dock Sud at the Buenos Aires port (52 kilometers). YPF also owns a plant for storage and distribution of crude oil in the northern Province of Formosa with an operating capacity of 19,000 cubic meters, and in the city of Berisso in the Province of Buenos Aires there are two tanks with 60,000 cubic meters of capacity. YPF owns 37% of Oleoductos del Valle S.A., operator of 888 kilometers of pipelines, its main pipeline being a double 513 kilometer pipeline that connects the Neuquina basin and Puerto Rosales. At December 31, 2006, YPF had an 18% interest in the 428 kilometer Transandean pipeline, which transported crude oil from Argentina to Concepción in Chile. This pipeline stopped operating on December 29, 2005, as a consequence of the interruption of oil exports resulting from smaller production in the north of the province of Neuquén. At present the future destination of the pipeline is under evaluation and the assets related to this pipeline were reduced to their recovery value.

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

In Argentina, YPF also operates a network of multiple pipelines for the transportation of refined products with a total length of 1,801 kilometers. YPF also owns 16 plants for the storage and distribution of refined products with an approximate operating capacity of 983,620 cubic meters. Three of these plants are annexed to the refineries of Luján de Cuyo, La Plata and Plaza Huincul. Ten of these plants have maritime or river connections. YPF also operates 53 airplane refueling facilities (40 of them are wholly owned) with a capacity of 24,000 cubic meters, owns 27 trucks, 112 suppliers and 16 dispensers. These facilities provide a flexible countrywide distribution system and satisfy the growing needs of exports to foreign markets, mainly to neighboring countries and to the United States of America. Products are shipped mainly by truck, ship or river barge.

Marketing Division:

Domestic Marketing Division

Through its Marketing Division, YPF markets gasoline, diesel fuel and other petroleum products to retail and wholesale customers. In 2006, retail, wholesale, lubricants and specialties, and aviation sales reached Ps. 11,913 million, representing 62% of Refining and Marketing consolidated revenue, with Ps. 5,656 million generated by retail customers.

Until December 31, 2006, the Retail Division s sales network in Argentina included 1,731 retail service stations, of which 98 are directly owned by YPF, and the remaining 1,633 are affiliated service stations. Operadora de Estaciones de Servicio S.A. (OPESSA) (a wholly-owned subsidiary of YPF), operates 167 of our retail service stations, 79 of which are directly owned by YPF, 24 of which are leased to ACA (Automovil Club Argentino), and 64 of which are leased to independent owners. Additionally, YPF has a 50% interest in Refinor, which operates 76 retail service stations.

YPF estimates that, as of December 31, 2006, YPF s points of sale accounted for 31.1% of the Argentine market. In Argentina, Shell, Petrobras and Esso are YPF s main competitors and own approximately 14.5%, 13.1% and 9.4%, respectively, of the points of sale in Argentina, according to the last information available.

During 2006, YPF slightly increased its market share in the diesel fuel and gasoline markets from 53.8% in 2005 to 54.8%, according to internal calculations. YPF will continue its efforts to eliminate non-strategic existing stations, and dealer-operated stations which do not comply with the level of operational efficiency that YPF requires.

The Red XXI marketing program, launched in October 1997, which has significantly improved operational efficiency and provides YPF with immediate performance data from each station, is aiming to connect most of its service stations network. Currently, 1,461 stations are linked to the Red XXI system, with plans to add approximately 18 additional stations in 2007.

YPF has continued developing its technical seminars and courses for station personnel and employees in order to improve the quality of services currently provided by service stations. In 2006, approximately 10,250 service station employees of YPF s owned and branded service stations participated in training courses throughout the year.

In order to improve the performance of the gas stations, YPF has been increasing the standard of its services and management systems, including certificating 211 gas stations with ISO 9001, 144 gas stations with ISO 9001 and ISO 14001, and 24 gas stations with ISO 9001, ISO 14001 and OHSAS 18001. The total number of certificated gas stations is 379. Additionally, 32 gas station stores are in the ISO 22000 (food safety management systems) certification process.

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YPF s sales to the agricultural sector are principally conducted through a network of 134 distributors (nine of which are owned by YPF). During 2006, the Wholesale Division increased by 14 the number of exclusive distribution contracts it holds with independent distributors.

Sales to transportation, industrial, utility, and mining sectors are made primarily through YPF s direct selling efforts. The main products sold in the domestic wholesale market include diesel fuel and fuel oil. During 2006, the direct selling division has begun the non-oil sale of products such as bags for storing grains, fertilizers and glyphosate.

In December 2002, the Wholesale Division obtained the ISO 9001 certification covering the design, operation, marketing, customer service and management processes. As of December 2006, there are 64 diesel fuel distributors under ISO certification, nine of which are owned by YPF. Among them, 38 had ISO 9001 certification, 23 had ISO 9001 and 14001 certification, and 3 had ISO 9001, 14001 and OHSAS 18001 certification.

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

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

During 2006, YPF s Lubricants and specialties sales to local markets increased by 28% from Ps. 947 million in 2005 to Ps. 1,216 million in 2006. YPF exports lubricants to 20 countries, including the United States. During 2006, a new independent distributor on behalf of YPF began operations in Canada, and YPF also began to study the possibility of entering the lubricants and specialties market in Mexico. Sales to export markets increased by 10% from Ps. 192 million in 2005 to Ps. 212 million in 2006. During 2006, total lubricants sales increased by 32%, total asphalt sales increased by 16% and total derivatives sales increased by 23%.

In a market of increasing costs, the strategy of differentiation followed by YPF s Lubricants and specialties unit allowed it to maintain its position of leadership in the Argentine market despite experiencing a slightly decreased market share, from 37.5% in 2005 to 36.9% in 2006. Lead domestic automotive manufacturers Ford, VW, Scania, Seat, Porsche and General Motors, which represent more than 60% of the automotive industry in Argentina, exclusively use and recommend YPF lubricant products.

YPF has demonstrated its commitment to alternative fuels, through its biofuels programs, which were recently integrated as a new business unit in the Lubricants and specialties department. YPF s main objectives in this area are to produce biofuels for the domestic Argentine market, to create associations for the production of biodiesel in light of the potential of the European Union as an export market of Argentina, and to launch a national research program into alternative crops as sources for biofuels.

With respect to the domestic market for biofuels, a recent Argentine law (Law 26,093) establishes that beginning in January 2010, every gasoline or diesel oil sold in Argentine will have to contain at least 5% of biofuels.

International Marketing Division

The International Marketing Division sells crude oil and refined products to international customers and oil to domestic oil companies. Sales to international companies for 2006 totaled Ps. 4,945 million (U.S.$1,606 million), 80% of which represented sales of refined products, 12% of which represented crude oil deliveries and the remaining 8% of which represented sales of marine fuels. On a volume basis, sales consisted of 5.50 million barrels of crude oil, 21.2 million barrels of refined products and 1.67 million barrels of marine fuels. Exports include crude oil, unleaded gasoline, diesel fuel, fuel oil, liquefied petroleum gases, light naphtha and virgin naphtha. YPF s export sales are made principally to the United States, Mexico and Brazil. Domestic sales of crude oil reached Ps. 677 million (U.S.$ 221 million) and 5.6 million barrels in 2006. Domestic sales of marine fuels, reached Ps. 258 million (U.S.$ 84 million) and 1.5 million barrels.

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LPG General Division:

Production

YPF is one of the largest LPG players in Argentina, with a yearly production of 734,815 tonnes in 2006 (including 212,053 tonnes of LPG destined for petrochemical usage). This represents approximately 20.07% of total LPG Argentine production (including LPG destined for petrochemical usage).

YPF also has a 50% interest in Refinor, a jointly controlled company, which produced 350,453 tonnes of LPG in 2006.

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

	Purchase (tonnes)
LPG from Natural Gas Processing Plants:(1)	
Loma La Lata	3,125
General Cerri	33,016
El Portón	124,648
San Sebastián	16,703
Total Upstream	177,492
LPG from Refineries and Petrochemical Plants:	
La Plata Refinery	235,151
Luján de Cuyo Refinery	88,071
La Plata Petrochemical Plant	22,048
Total Refineries & Petrochemical Plants (2)	345,270
LPG purchased to jointly controlled companies: (3)	120,374
LPG purchased to unrelated parties	95,908
Total	739,044

(1) San Sebastian plant is a joint-venture in which YPF owns 30% interest; Loma La Lata and El Portón are 100% owned by YPF; General Cerri belongs to a third party, having a façon agreement with YPF.

(2) This production is net of 214,874 tonnes of LPG used as petrochemical feedstock (olefins derivatives, polybutenes and maleic).

(3) Purchased to Refinor.

LPG Marketing

YPF sells LPG to the foreign market, domestic wholesale market and domestic retail market.

YPF 2006 LPG sales can be broken down by market as follows:

	Sales Capacity (tonnes)
Domestic market	
Retail to related parties under common control	237,362
Other bottlers/propane network distributors	105,000
Other Wholesales	79,813
Foreign market/exports	
Exports	359,501
Total Sales	781,676

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Total sales of LPG (excluding LPG used as petrochemical feedstock) to both domestic and foreign markets was Ps. 820 million in 2006.

Chemicals

During 2006, YPF s revenues from chemical sales were Ps. 3,048 million and the operating income was Ps. 572 million.

Petrochemicals are produced at five different facilities at YPF s petrochemical complexes in Ensenada and Plaza Huincul.

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

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

	Capacity (tonnes per year)
Ensenada:	
Aromatics	
BTX (Benzene, Toluene, Mixed Xylenes)	244,000
Paraxylene	38,000
Orthoxylene	25,000
Cyclohexane	95,000
Solvents	66,100
Olefins Derivatives	
MTBE	60,000
Butene I	25,000
Oxoalcohols	35,000
TAME	105,000
LAB/LAS	
LAB	48,000
LAS	25,000
Polybutenes	
PIB	26,000
Maleic	
Maleic Anhydride	17,500
Plaza Huincul:	
Methanol	411,000

Natural gas, raw material for methanol, is supplied by YPF s upstream unit. Production from the Methanol unit during 2006 was destined for export (71.0%), to YPF s internal consumption as feedstock for MTBE and TAME (17.7%) and to the local market (11.3%).The use of natural gas as a raw material makes possible the monetization of reserves, which demonstrates the integration between the petrochemical and the upstream units.

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

In 2006, petrochemicals sales from Ensenada Industrial Complex, Methanol units and YPF s fertilizer retail units were Ps. 2,518 million, with the domestic market accounting for 61% and exports for 39%. During 2006, the exports were destined to Mercosur countries, Latin American countries, Europe, the United States and Middle East.

YPF also participates in the fertilizer business directly and through Profertil S.A. Profertil (a 50% subsidiary of YPF).

Profertil is a jointly controlled investment between YPF and Agrium (a worldwide leader in fertilizers), that produces urea and ammonia and started operations in 2001. YPF is Profertil s principal supplier of natural gas, supplying approximately 35.7% of Profertil s feedstock.

In January 2005, YPF sold its interest in PBB, a chemical company, for U.S.$ 97.5 million, recording a gain of Ps. 75 million.

In March 2005 YPF sold its interests in Petroken, a jointly controlled company, for U.S.$ 58 million, equal to its carrying amount. In July 2005, this operation was approved by the CNDC.

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

Competition

The deregulation and privatization process created a competitive environment in the Argentine oil and gas industry. In its Exploration and Production business, YPF encounters competition from major international oil companies and other domestic oil companies in acquiring exploration permits and production concessions. In its Refining and Marketing and Chemicals business, YPF faces competition from several major international oil companies, such as Esso (a subsidiary of ExxonMobil), Shell and Petrobras as well as several domestic oil companies. In its export markets, YPF competes with numerous oil companies and trading companies in global markets.

YPF operates in a dynamic market in the Argentine downstream industry and the crude oil and natural gas production industry. Crude oil and most refined products prices are subject to international supply and demand and, accordingly, may fluctuate for a variety of reasons. Some of the prices in the internal market are controlled by local authorities. Changes in the international price of crude oil and refined products will have a direct effect on YPF s results of operations and on its levels of capital expenditures. See Item 3. Key Information Risk Factors Fluctuations in Oil and Gas Prices Affect Our Level of Capital Expenditures.

Environmental Matters

YPF Argentine operations

YPF s operations are subject to a wide range of laws and regulations relating to the general impact of industrial operations on the environment, including emissions into the air and water, the disposal or remediation of soil or water contaminated with hazardous or toxic waste, fuel specifications to address air emissions and the effect of the environment on health and safety. We have made and will continue to make expenditures to comply with these laws and regulations. In Argentina, local, provincial and national authorities are moving toward more stringent enforcement of applicable laws. In addition, since 1997, Argentina has been implementing regulations that require YPF s operations to meet stricter environmental standards that are comparable in many respects to those in effect in the United States and in countries within the European Community. These regulations establish the general framework for environmental protection requirements, including the establishment of fines and criminal penalties for their violation. YPF has undertaken what is likely to be required to achieve compliance with these standards and is undertaking various abatement and remediation projects, the more significant of which are discussed below. YPF cannot predict what environmental legislation or regulation will be enacted in the future or how existing or future laws will be administered or enforced. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of regulatory agencies, could require additional expenditures in the future by YPF for the installation and operation of systems and equipment for remedial measures and could affect YPF s operations generally.

In 2006, YPF continued to make investments in order to comply with new Argentine fuel specifications that are expected to come into effect between 2008 and 2016, pursuant to Resolution No. 1283/2006 of the Secretariat of Energy (which replaces the Resolution No. 398/2003).

During 2006, YPF invested U.S.$ 23.8 million at La Plata Refinery and U.S.$ 9.9 million at Luján de Cuyo refinery in order to meet the previously indicated new gasoline quality environmental specifications. The investments were mainly in the FCC fractioning and gasoline hydrotreatment units.

In addition YPF has completed basic engineering studies and begun detailed engineering studies for the construction of diesel fuel-oil desulfuration units at La Plata and Luján de Cuyo refineries. These projects have been delayed due to the postponement of the implementation of fuel specification regulations.

At each of its refineries, YPF is performing, on a voluntary basis, remedial investigations and feasibility studies and pollution abatements projects, which are designed to control liquid effluent discharges and air emissions. In addition, YPF has implemented an environmental management system to assist its efforts to collect and analyze environmental data in its upstream and downstream operations. Almost all the operating units are ISO 14001 certified as of November 2003.

In addition to the projects related to the new specification standards mentioned above, YPF has begun to implement a broad range of environmental projects in the Domestic Exploration and Production and Refining and Marketing segments. Capital expenditures for those environmental projects associated with Refining and Marketing segment s projects during 2006 were U.S.$ 64.7 million. A significant portion of the environmental program is dedicated to La Plata Refinery and Luján de Cuyo Refinery. The primary projects at La Plata include installation of separation and water treatment systems to replace existing systems, air pollution control devices, flare gas recovery systems, hydrocarbon recovery systems, double bottoms in several tanks and site remediation. In addition, during 2006, the storage facilities at certain service stations were replaced by new and safer technologies, such as double wall tanks and flexible pipes.

Capital expenditures associated with Domestic Exploration and Production environmental projects during 2006 were U.S.$ 61.4 million and included oil and gas recovery systems and remediation of well sites, tank batteries and oil spills in the gathering systems of fields. Expenditures will also be made to improve technical assistance and training and to establish environmental contamination remediation plans, air emissions monitoring plans and ground water investigation and monitoring programs.

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

In 1991, YPF entered into an agreement (Convenio de Cooperación Interempresarial or CCI) with certain other oil and gas companies for the implementation of a plan to reduce and assess environmental damage resulting from oil spills in Argentine waters to reduce the environmental impact of potential oil spills offshore. This agreement involves consulting on technological matters and mutual assistance in the event of any oil spills in rivers or at sea, due to accidents involving tankers or offshore exploration and production facilities.

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

- Actively promote the identification and pursuit of opportunities to reduce emissions within YPF. For that, YPF takes into account the cost of carbon into its business decisions; and

Intensify the execution of internal projects for credit-generating by the clean development mechanisms that help its parent company, Repsol YPF, to meet its obligations. YPF collaborates with competent authorities from the countries in which it operates, in particular the Argentina Clean Development Mechanism Office (OAMDL).

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

YPF Holdings Operations in the United States of America

Laws and regulations relating to health and environmental quality in the United States affect nearly all of YPF Holdings operations in the United States.

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

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

The environmental policy of Tierra Solutions Inc. (Tierra) is the result of the alleged obligations of Maxus, as described in the previous sections, as a consequence of actions or facts that occurred in the decades of the 1940s and 1970s and attributed to Maxus by Chemicals predecessor companies. Notwithstanding those actions and existing liabilities relating thereto, at the present time, with respect to the present operations of the YPF Holdings affiliates, no violations of or conflicts with effective environmental legislation in the U.S. have been detected.

See the heading Legal Proceedings YPF Holdings under Item 8. Financial Information of this annual report for a description of environmental matters in connection with YPF Holdings.

Property, Plant and Equipment

Most of YPF s property, consisting of interests in crude oil and natural gas reserves, refineries, storage, manufacturing and transportation facilities and service stations, is located in Argentina. YPF also owns property in the United States. See Item 4. Information on the Company.

There are several classes of property which YPF does not own in fee. YPF s petroleum exploration and production rights are in general based on sovereign grants of concession. Upon the expiration of the concession, the exploration and production assets of YPF associated with the particular property subject to the relevant concession revert to the government. In addition, at December 31, 2006, YPF leased 88 service stations to third parties and also had activities with service stations that are owned by third parties and operated by them under a supply contract with YPF for the distribution of YPF products.

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Regulatory Framework and Relationship with the Argentine Government

Overview

The Argentine oil and gas industry is regulated by Law No. 17,319, which was adopted in 1967 and amended by Law No. 26,197. Law 17,319, as amended, is referred to as the Hydrocarbons Law.

The executive branch of the Argentine government issues the regulations to complement this law through the national Secretariat of Energy. The regulatory framework of the Law No. 17,319 was established on the assumption that the reservoirs of hydrocarbons would be national properties and Yacimientos Petrolíferos Fiscales Sociedad del Estado, YPF s predecessor, would lead the oil and gas industry and operate under a different framework than private companies. In 1992, Law No. 24,145, referred to as the Privatization Law, privatized YPF and was designed to implement the transfer of ownership of reservoirs to the provinces, subject to the existing rights of the holders of exploration permits and production concessions.

The Privatization Law granted YPF 24 exploration permits covering approximately 132,735 square kilometers and 50 production concessions covering approximately 32,560 square kilometers. Law No. 17,319 limits the number and total area of exploration permits or production concessions that may be held by any one entity. YPF was exempted from such limit with regard to the exploration permits and production concessions awarded to it by Law No. 24,145. The National Department of Economy of Hydrocarbons (Dirección Nacional de Economía de los Hidrocarburos), applying a restrictive interpretation of Section 25 and 34 of Law No. 17,319, has objected to the award of new exploration permits and production concessions in which YPF has a 100% interest. If such a limit is applied in the future, it may affect YPF s ability to acquire 100% of new exploration permits and/or exploitation concessions. As a consequence of the transfer of ownership of certain hydrocarbons areas to the provinces in accordance with Decree No. 1,055/89 and Law 24,145, YPF participates in competitive bidding rounds organized since the year 2000 by several provincial governments for the award of contracts for the exploration of hydrocarbons.

In October 2004, the Argentine Congress enacted Law No. 25,943 creating a new state-owned energy company, ENARSA. The corporate purpose of ENARSA is the exploration and exploitation of solid, liquid and gaseous hydrocarbons, the transport, storage, distribution, commercialization and industrialization of these products, as well as the transportation and distribution of natural gas, and the generation, transportation, distribution and marketing of electricity. Moreover, Law 25,943 granted to ENARSA exploration permits over all the national off-shore areas, not covered by endorsed exploration permits or exploitation concessions, at the time of the enactment of the law.

The transfer of property to the provinces was implemented through the enactment of legal provisions that effectively amended Law No. 17,319.

- In October 1994, the Argentine national constitution was amended, pursuant to which Article 124 now establishes that natural resources existing within a province s territory are the property of such province.

- In August 2003, executive Decree No. 546/03 transferred to the provinces the right to grant hydrocarbons exploitation and transportation concessions in certain locations designated as transfer areas as well as in other areas designated by the competent provincial authorities.

- In January 2007, Law No. 26,197 established the provinces ownership of the hydrocarbon reservoirs in accordance with Article 124 of the national constitution.

In light of the existing legal framework governing the hydrocarbon reservoirs, the Argentine Congress is entrusted to enact laws and regulations to develop mineral resources existing within the national territory, while the governments of the provinces where the mineral and hydrocarbon reservoirs are located are responsible for enforcing these laws.

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In addition, in October 2006, Law No. 26,154 created a regime of tax incentives which are aimed at encouraging hydrocarbon exploration and which apply to new exploration permits awarded in respect of the marine areas granted to ENARSA and those over which no rights have been granted to third parties under Law No. 17,319, provided the provinces in which the hydrocarbon reservoirs are located adhere to this regime. Association with ENARSA is a precondition to access the benefits provided by the regime created by Law No. 26,154. Promotional benefits include: early reimbursement of the value added tax for investments and expenses made in the exploration period and for investments made within the production period; accelerated amortization of expenses and investments made in the exploration period and investments made in connection with production, as regards income tax; and exemptions to the payment of import duties for capital assets not manufactured within Argentina. To date of this filing, the Company has not used the tax incentives previously mentioned.

Law No. 26,197

Law No. 26,197, which amended Law No. 17,319, transferred to the provinces and the City of Buenos Aires the ownership over all hydrocarbon reservoirs located within their territories and in the adjacent seas up to 12 marine miles from the coast. Law No. 26,197 also provides that the hydrocarbon reservoirs located beyond 12 marine miles from the coast to the outer limit of the continental shelf shall remain within the National state ownership.

Pursuant to Law No. 26,197, Congress shall continue to enact laws and regulations to develop oil and gas resources existing within all of the Argentine territory (including its sea), but the governments of the provinces where the hydrocarbon reservoirs are located shall be responsible for the enforcement of these laws and regulations, the administration of the hydrocarbon fields and shall act as granting authorities for the exploration permits and production concessions. However, the administrative powers granted to the provinces shall be exercised within the framework of law No. 17,319 and the regulations which complement this law.

Consequently, even though Law No. 26,197 establishes that the provinces shall be responsible for administering the hydrocarbon fields, the National Congress shall continue issuing rules and regulations regarding the oil and gas legal framework. Additionally, the National government shall continue with the power to design of the national energy policy.

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

Law No. 26,197 provides that the National government shall remain with authority to grant transportation concessions for: (i) transportation concessions located within two or more provinces territory and (ii) transportation concessions directly connected to export pipelines for export purposes. Consequently, transportation concessions which are located within the territory of only one province and which are not connected to export facilities shall be transferred to the provinces.

In addition, Law No. 26,197 provides a 180 day term as of its promulgation in which the National Executive Branch and the provinces shall take all necessary steps in order to reach an agreement regarding transfer of relevant information (e.g., statistical, environmental, and technical information about oil and gas fields).

Finally, Law No. 26,197 grants the following powers to the Provinces: (i) the exercise in a complete and independent manner of all activities related to the supervision and control of the exploration permits and production concessions transferred by Law No. 26,197; (ii) the fulfillment of all applicable legal and/or contractual obligations as regards investments, rational production, information, canon and royalties payment; (iii) the extension of legal and/or contractual terms; (iv) the application of sanctions provided in Law No. 17,319 and (v) all the other faculties related to the granting power pursuant to Law No. 17,319.

Public Emergency

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

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

Conversion into pesos of (i) all funds deposited in financial institutions at an exchange rate of Ps. 1.40 for each U.S.$ 1.00 and (ii) all obligations (e.g., loans) with financial institutions denominated in foreign currency and governed by Argentine law at an exchange rate of Ps. 1.00 for each U.S.$ 1.00. The deposits and obligations converted into pesos will be thereafter adjusted by a reference stabilization index, the Coeficiente de Estabilidad de Referencia (CER), to be published by the Argentine Central Bank. Obligations governed by non-Argentine law have not been converted to pesos under the new laws. Substantially all of YPF s dollar-denominated debt is governed by non-Argentine law.

Conversion into pesos at an exchange rate of Ps. 1.00 for each U.S.$ 1.00 of all obligations outstanding among private parties at January 6, 2002 that are governed by Argentine law and payable in foreign currency. The obligations so converted into pesos will be adjusted through the CER index, as explained above. In the case of non-financial obligations, if as a result of the mandatory conversion into pesos the resulting intrinsic value of the goods or services that are the object of the obligation are higher or lower than its price expressed in pesos, then either party may request an equitable adjustment of the price. If they cannot agree on such equitable price adjustment, either party may resort to the courts. Decree No. 689/02 established an exception to the Public Emergency Law and regulations and provides that the prices of long-term natural gas sale and transportation agreements executed before the enactment of the Decree and denominated in U.S. dollars will not be converted into pesos (Ps. 1.00 for each U.S.$ 1.00) when the natural gas is exported.

Conversion into pesos at an exchange rate of Ps. 1.00 for each U.S.$ 1.00 of all tariffs of public services and the imposition of a period of renegotiation with the governmental authorities thereafter.

Imposition of customs duties on the export of hydrocarbons with instructions to the executive branch of the Argentine government to set the applicable rate thereof. See also Taxation below.

Exploration and Production

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

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

Under the Hydrocarbons Law, the Secretariat of Energy and/or competent provincial authorities may grant exploration permits after submission of competitive bids. Permits granted to third parties in connection with the deregulation and demonopolization process were granted in accordance with procedures specified in the Oil Deregulation Decrees, and permits covering areas in which YPF was operating at the date of the Privatization Law and that were granted to YPF by such law. In 1991, the national executive established a program under the Law No. 17,319 (known as the Argentina Plan) pursuant to which exploration permits may be auctioned. The holder of an exploration permit has the exclusive right to perform the operations necessary or appropriate for the exploration of oil and gas within the area specified by the permit. Each exploration permit may cover only unproved areas not to exceed 10,000 square kilometers (15,000 square kilometers offshore), and may have a term of up to 14 years (17 years for offshore exploration). The 14-year term is divided into three basic terms and one extension term. At the expiration of each of the first two basic terms, the acreage covered by the permit is reduced, at a minimum, to 50%

of the remaining acreage covered by the permit. At the expiration of the three basic terms, the permit holder is required to revert all of the remaining acreage to the Argentine government, unless the holder requests an extension term, in which case such grant is limited to 50% of the remaining acreage.

If the holder of an exploration permit discovers commercially exploitable quantities of oil or gas, the holder may obtain an exclusive concession for the production and development of this oil and gas. A production concession gives the holder the exclusive right to produce oil and gas from the area covered by the concession for a term of 25 years (plus, in certain cases, a part of the unexpired portion of the underlying exploration permit). The term may be extended for an additional 10 years by application to the Secretariat of Energy and/or competent provincial authorities. A production concession also confers on the holder the right to conduct all activities necessary or appropriate for the production of oil and gas, provided that such activities do not interfere with the activities of other holders of exploration permits and production concessions. A production concession entitles the holder to obtain a transportation concession for the oil and gas produced. See Transportation below.

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

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

Holders of production concessions, including YPF, also are required to pay royalties to the province where production occurs. A 12% royalty is payable on the estimated value at the wellhead of crude oil production and the natural gas volumes commercialized. The estimated value is calculated based upon the approximate sale price of the crude oil and gas produced, less the costs of transportation and storage. The royalty expense is accounted for as a production cost. Any oil and gas produced by the holder of an exploration permit prior to the grant of a production concession is subject to the payment of a 15% royalty.

Exploration permits and production or transportation concessions will terminate upon any of the following events:

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

- death or end of legal existence of the permit or concession holder; or

- failure to transport hydrocarbons for third parties on a non-discriminatory basis or repeated violation of the authorized tariffs for such transportation.

When a production concession expires or terminates, all oil and gas wells, operating and maintenance equipment and facilities automatically revert to the province where the reservoir is located or to the Argentine government in the case of reservoirs under federal jurisdiction (i.e. located within the continental platform), without payment to the holder of the concession.

On March 16, 2006 the Secretariat of Energy issued Resolution No. 324/06 establishing that holders of exploration permits and hydrocarbon concessions have to present details of their proved reserves existing in each of the areas, certified by an external reserves auditor, each year. Holders of hydrocarbon concessions that export hydrocarbons are obliged to certify their oil and gas proved reserves by national universities (which offer degrees in oil and gas engineering). The aforementioned certification only has the meaning established by Resolution No. 324/06, according to which it should not be interpreted as a certification of oil and gas reserves under the SEC rules (see Item 4. Information on the Company Exploration and Production Reserves).

Security Zones Legislation

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

- for non-Argentine shareholders to acquire control of YPF; or
- if and when the majority of the shares of YPF belong to non-Argentine shareholders, for any additional acquisition of real estate, mineral rights, oil or other Argentine government concessions located within, or with respect to, security zones. Because approval of Class A shares is required for a change in control of YPF under its by-laws, and approval of the national executive or provincial governments is required for the grant or transfer of oil concessions, YPF believes that possible additional requirements under the security zone legislation will not have a significant impact on its operations.

Natural Gas

In June 1992, Law No. 24,076, referred to as the Natural Gas Law, was passed providing for the privatization of Gas del Estado and the deregulation of the price of natural gas. To effect the privatization of Gas del Estado, the five main trunk lines of the gas transmission system were divided into two systems principally on a geographical basis (the northern and the southern trunk pipeline systems). This is designed to give both systems access to gas sources and to the main centers of demand in and around Buenos Aires. These systems were transferred into two new transportation companies. The Gas del Estado distribution system was divided into eight regional distribution companies, including two distribution companies serving the greater Buenos Aires area. Shares of each of the transportation and distribution companies were sold to consortiums of private bidders. Likewise, in 1997, a distribution license for the Provinces of Chaco, Formosa, Entre Ríos, Corrientes and Misiones was granted to private bidders.

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

New cross-border gas pipelines have been built to interconnect Argentina, Chile, Brazil and Uruguay, and producers such as YPF are currently exporting natural gas to the Chilean and Brazilian markets. Exports of natural gas require prior approval by the Secretariat of Energy. In 2001, Resolution No. 131/01 was passed by the Secretariat of Energy to expedite the issuance of authorizations for natural gas exports. The issuance of new authorizations was suspended by Resolution No. 265/04 issued by the Secretariat of Energy in March 2004.

As discussed in Exploration and Development Properties and Production Natural Gas Marketing above, Decree No. 180/04, issued in January 2004, created a trust fund for the financing of transportation and distribution facilities enlargement under a global program for the issuance of debt securities and participation certificates approved by Resolution No. 185/04, issued by the Ministry of Federal Planning, Public Investment and Services on April 20, 2004.

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Transportation

Law No. 17,319 permits the National Executive to award 35-year concessions for the transportation of oil, gas and petroleum products following submission of competitive bids. Pursuant to Law No. 26,154, enacted in October 2006, the respective Province Executives have the same powers. Holders of production concessions are entitled to receive a transportation concession for the oil, gas and petroleum products that they produce. The term of a transportation concession may be extended for an additional ten-year term upon application to the executive branch. The holder of a transportation concession has the right to:

- transport oil, gas, and petroleum products; and

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

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

On January 13, 2004, the Secretariat of Energy issued Resolution No. 5/04 establishing the maximum tariffs that may be collected by the holders of transportation concessions during the term of 180 days as of the day of publication of such resolution in the official gazette. This term was extended for an additional 180 days as of October 2004, by means of Resolution No. 963/04. After that, the term was extended by Resolution No. 972/05 until such time as new tariffs are issued.

Additionally, pursuant to Law No. 26,154, all transportation concessions entirely located within a province s jurisdiction and not directly connected to any export pipeline are to be transferred to such province. The executive branch of the Argentine government is to be the authority of enforcement of all transportation concessions located within two or more provinces and all transportation concessions directly connected to export pipelines.

Refining

Crude oil refining activities conducted by oil producers or others are subject to Argentine government registration requirements and safety and environmental regulations, as well as to provincial environmental legislation and municipal health and safety inspections. Registration in the registry of oil companies maintained by the Secretariat of Energy is also required in order to operate a refinery in Argentina. The refineries operated by YPF are so registered in this manner. Registration is granted on the basis of general financial and technical standards.

Market Regulation

Under the Hydrocarbons Law and the Oil Deregulation Decrees, holders of production concessions have the right to produce and own oil and gas and are allowed to dispose of such production in the market without restrictions. In 2002, Decree No. 867/02 declared a temporary emergency for the provision of hydrocarbons within Argentina for the period May through September 2002, and authorized the Secretariat of Energy to establish the volume of crude oil and LPG to be sold in the domestic market until September 30, 2002. Moreover, Resolutions No. 140/02 and No. 166/02 (both derogated) established for the period June through September 2002 a ceiling over crude oil exports on a percentile basis.

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At present YPF, as well as private companies producing oil under service contracts with YPF, following the conversion of such contracts to concessions, may sell their production in domestic or export markets and refiners may obtain crude oil from suppliers within or outside Argentina.

The Hydrocarbons Law authorizes the National Executive to regulate the Argentine oil and gas markets and prohibits the export of crude oil during any period in which the national executive finds domestic production to be insufficient to satisfy domestic demand. If the national executive restricts the export of oil and petroleum products or the free disposition of natural gas, the Oil Deregulation Decrees provide that producers, refiners and exporters shall receive a price:

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

Resolution No. 85/2003 of the Secretariat of Energy ratified the agreement entered into between crude oil producers including YPF, and refiners for the stability of the price of crude oil, gasoline and diesel fuel. This agreement provides that during the first quarter of 2003, the crude oil forwarded to the refineries by producers shall be invoiced and paid based on a WTI crude oil reference price of U.S.$ 28.50 per barrel. The difference between this reference price and the actual WTI crude oil price will be assigned to an price adjustment account and the producer will receive the difference between the reference price and the actual WTI price from the moment that the actual WTI price falls below the reference price. The amounts assigned to the price adjustment account will yield an annual interest rate equal to the higher of (i) LIBOR (London Interbank Offered Rate) plus 2% or (ii) 8% per year. Crude oil sale agreements effective or entered into between January and March 2003 were to incorporate an additional clause reflecting this mechanism. This clause will be reviewed on a monthly basis and may be terminated by any party if (i) the peso exchange rate depreciates below Ps. 3.65=U.S.$ 1 (Banco de la Nación Argentina seller quotation), (ii) WTI crude oil prices exceed U.S.$ 35 per barrel for 10 consecutive quotation days, (iii) WTI crude oil prices fall below U.S.$ 22 per barrel for 10 consecutive quotation days or (iv) taxes and/or export duties applicable to oil producers are increased. Resolution No. 85/2003, its extensions and amendments were in force until April 30, 2004. On February 25, 2003 oil producers and refiners entered into a supplementary agreement to the agreement for the stability of the price of crude oil, gasoline and diesel fuel. The parties to this supplementary agreement agreed to extend the agreement for the stability of the crude oil, gasoline and diesel fuel until March 31, 2003 and to fix a maximum WTI reference price of U.S.$ 36 per barrel in any agreement for the delivery of crude oil to the local market entered into between oil producers and refiners until March 31, 2003. This agreement was extended over 2003 and through May 2004. Moreover, the parties agreed that the amounts assigned to the adjustment of price account will yield an annual interest rate equal to the higher of: (i) LIBOR plus 2% or (ii) 7% per year. At present, the crude oil forwarded by producers like YPF to local refineries is priced to reflect, among other things, the alternatives YPF has to sell the product in the open market, thereby taking into account the WTI price and applying a coefficient that reflects the effect of customs duties on the export of crude oil over the actual WTI price.

In April 2002, the national government and the main oil companies, including YPF, reached an agreement to regulate a subsidy provided by the Argentine government to public bus transportation companies. This agreement, named Convenio de Estabilidad de Suministro de Gas Oil, or Agreement on Stability of Supply of Diesel Fuel , was approved by decree No. 652/02 and assured the transportation companies their necessary supply of diesel fuel at a fixed price of Ps. 0.75 per liter from April 22, 2002 to July 31, 2002. Additionally, it established that the oil companies were to compensate for the difference between the fixed price and the market price through a reduction of their export duties. This agreement was extended through August 31, 2002. Through new price-stabilization agreements the subsidy was extended through June 30, 2005 and was increased up to Ps. 0.82 per liter. After June 25, 2005, the price paid by transporters was reduced to Ps. 0.42 for local public transportation and to Ps. 0.62 for the rest of public transportation. As of the date of this filing, this subsidy is still in force and a new extension of the agreement is under negotiation.

The Secretariat of Energy has issued a series of resolutions affecting the fuel market. For example, Resolution No. 1,102/04 created the Registry of Liquid Fuels Supply Points, Self Consumption, Storage, Distributors and Bulk

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Sellers of Fuels and Hydrocarbons, and of Compressed Natural Gas; Resolution No. 1,104/04 created a bulk sales price information module as an integral part of the federal fuel information system, as well as a mechanism for communication of volumes sold by fuel manufacturers and by sellers; Resolution No. 1,834/05 compels service stations and/or supply point operators and/or self consumption of liquid fuels and hydrocarbons who have requested supply, and have not been supplied, to communicate such situation to the Secretariat of Energy; Resolution No. 1,879/05 established that refining companies registered by the Secretariat of Energy, who are parties to contracts that create any degree of exclusivity between the refining company and the fuel seller, shall assure continuous, reliable, regular and non-discriminatory supply to the local market, giving the right to the seller to obtain the product from a different source, and thereupon, charging any applicable overcosts to the refining company; and Resolution No. 1869/04 created the registry of diesel fuel and crude oil export transactions, and mandated that producers, sellers, refining companies and any other market agent that wishes to export diesel fuel or crude oil to register such transaction and to demonstrate that domestic demand has been satisfied and that they have offered the product to be exported to the domestic market. Finally, Disposition No. 1,157/06 of the Under Secretariat of Fuels provides that fuel sellers who are parties to contracts that create any degree of exclusivity between the refining company and the fuel seller, and which for any reason are seeking to terminate such contract, shall report the termination in advance with the Under-Secretariat of Fuels in order to inform the Secretary of Domestic Commerce of the situation. In that case, the Secretary of Domestic Commerce is to: (i) issue a statement regarding the validity of the termination of the contract and (ii) use all necessary means to allow the fuel seller terminating the contract to execute another agreement with a refining company and/or fuel broker in order to guarantee its fuel supply. Finally, Resolution No. 25/06 of the Secretariat of Domestic Commerce imposes on the refining companies the obligation to supply all gas oil demand, in those cases in which the relevant supply contract with the service station operator includes exclusivity with the supplier.

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

In January 2004, Decree No. 181/04 authorized the Secretariat of Energy to negotiate with producers a pricing mechanism for natural gas supplied to industries and electric generation companies. Domestic market prices at the retail market level were excluded from these negotiations. On April 2, 2004, the Secretariat of Energy and gas producers signed an agreement which was ratified by Resolution No. 208/04 issued by the Ministry of Federal Planning, Public Investment and Services. The aim of the agreement is to implement a scheme for the normalization of natural gas prices. The main aspects of the agreement are: i) initial price adjustments are applied exclusively to gas supplied by producers to industrial users, new direct consumers and electricity generators (to the extent that electricity is destined for the domestic market); ii) prices are adjusted as of May 10, 2004; and iii) the Secretariat of Energy will implement in the future a progressive scheme for the normalization of the price of natural gas destined to residential users and small commercial users. This agreement expired on December 31, 2006.

On June 14, 2007, Resolution No. 599/2007 of the Secretariat of Energy was published in the Official Gazette. This resolution approves a proposal of Agreement with Natural Gas producers regarding the supply of natural gas to the domestic market during the period 2007 through 2011 (the Proposed Agreement 2007-2011), giving such producers a five business day term to enter into the Proposed Agreement 2007-2011. If within that term, the Proposed Agreement 2007-2011 is not executed by a sufficient number of producers to make it viable, the Secretariat of Energy will disregard the Proposed Agreement 2007-2011 and enact the Procedimientos de Abastecimiento Complementario al Mercado Interno 2007-2011 (not described in Resolution No. 599/2007). Taking into account that pursuant to the current government policy, natural gas exports are subordinated to the satisfaction of any domestic demand, natural gas exports and certain domestic sales of producers that do not sign of the Proposed Agreement 2007-2011 will be called upon the first in order to satisfy such domestic demand, prior to affecting export sales of the producers that have signed of the Proposed Agreement 2007-2011. The purpose of the Proposed Agreement 2007-2011 is to guarantee the supply of the domestic market demand as registered during 2006 plus the growth of residential and small commercial customers (the Demand of the Agreement). Producers that have signed of the Proposed Agreement 2007-2011 would commit

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to supply a part of the Demand of the Agreement according to certain shares determined for each producer based upon to its share of production for the 36 months prior to April 2004. The Proposed Agreement 2007-2011 also establishes terms of effectiveness, and pricing provisions and limitations for each segment of the Demand of the Agreement. In order to guarantee any domestic market demand of natural gas in excess to the Demand of the Agreement, Resolution SE No. 599/2007 maintains the effectiveness of Resolutions SE No. 659/2004, 752/2005 and 1329/2006 (and further related regulations described above) as adapted by Resolution SE No. 599/2007. The Resolution also states that the Proposed Agreement 2007-2011 does not prevent the possible suspension or termination of export permits.

Taking into account the above described terms and conditions of Resolution No. 599/2007, the Company felt compelled to execute the Proposed Agreement 2007-2011, among other reasons, in order to mitigate the damages and losses that may be suffered by both the Company and the natural gas purchasers. However, the Company expressly stated that the execution of the Proposed Agreement 2007-2011 did not entail any recognition by YPF of the validity of the terms and conditions of Resolutions SE No. 265/2004; SSC No. 27/2004; SE No. 503/2004; SE No. 659/2004; SE No. 1681/2004; SE No. 752/2005; SE No. 882/2005; SE No. 939/2005; SE No. 2020/2005; SE No. 275/2006; SE No. 1329/2006; SE No. 1886/2006; MEP No. 534/2006; and/or SE No. 599/2007 (which approved the Proposed Agreement). YPF will timely challenge the validity of Resolution No. 599/2007.

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

- the suspension of all exports of surpluses of natural gas that may be needed for internal consumption;
- the suspension of automatic approvals of requests to export natural gas;
- the suspension of all applications for new authorizations to export natural gas filed or to be filed before the Secretariat of Energy; and
- authorizing the Under-Secretariat of Fuels to formulate a rationalization plan of gas exports and transportation capacity.

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

In June 2004, the Secretariat of Energy issued Resolution No. 659/04, thereby removing the limit on natural gas exports authorizations (based on a comparison of export volumes in 2004 with export volumes in 2003) established by regulation No. 27/04. In addition, Resolution No. 659/04 established a new program for the adequate supply of natural gas to the domestic market (which substitutes for the program created by regulation No. 27/04). Under Resolution No. 659/04 (amended by Resolution No. 1,681/04), natural gas exports may be affected due to shortages of natural gas in the domestic market, since exporting producers may be required to deliver to the domestic market additional volumes of natural gas that are not contractually committed by such producers in order to satisfy the internal demand of natural gas (additional injection requirements). The export of natural gas under export permits previously granted to producers is conditioned on the fulfillment of additional injection requirements imposed on exporting producers by governmental authorities. Such program was further amended and supplemented by Resolution No. 752/05 issued by the Secretariat of Energy in May 2005, which reduced the ability of producers to export natural gas, and created a mechanism under which the Secretariat of Energy may require exporting producers to inject additional volumes for domestic consumers during a seasonal period (Permanent Additional Injection), which volumes of natural gas are also not committed by the exporting producers. Based on the provisions of Regulation No. 27/04, Resolution No. 659/04 and Resolution No. 752/05, the Secretariat of Energy and/or the Under-Secretariat of Fuels have instructed YPF to re-direct natural gas export volumes to the internal market, thereby affecting natural gas exports. YPF has challenged the validity of the aforementioned regulations and resolutions, and has invoked the occurrence of a *force majeure* event under the corresponding natural gas purchase and sales agreements. The counterparties to such agreements have rejected such invocation.

Resolution No. 752/05 also established a mechanism (further regulated by Resolutions No. 2,020/05 and 275/06) under which industrial and commercial consumers, above certain consumption levels, that were purchasing natural gas from distributors, could purchase gas directly from the producers. According to such resolution, from certain dates distributors were no longer able to supply gas to such industrial and commercial consumers, and such consumers could require the producer to transfer its natural gas supply commitments with distributors. Likewise,

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Resolution No. 752/05 establishes (i) a special market, open and anonymous, for compressed natural gas stations to purchase natural gas under regulated commercial conditions, which demand requirements are ensured by the Secretariat of Energy with Permanent Additional Injection required to exporting producers, and (ii) a mechanism of standardized irrevocable offers for electric power generators and industrial and commercial consumers to obtain supply of natural gas, which satisfaction is also ensured by the Secretariat of Energy with Permanent Additional Injection required from exporting producers.

Pursuant to the standardized irrevocable offers procedure mentioned above, which will operate at the MEG, any direct consumer may bid for a term gas purchase at the export average gas price net of withholdings by basin. The volume necessary to satisfy the standardized irrevocable offers which have not been satisfied will be required as a Permanent Additional Injection only until the end of the seasonal period during which the unsatisfied requests should be made (October April or May September). Such Additional Injection will be requested from the producers that export gas and that inject the natural gas from the basins that are able to supply those unsatisfied irrevocable offers. Resolution of the Secretariat of Energy No. 1886/2006, published on January 4, 2007, extended the term of effectiveness of this mechanism of standardized irrevocable offers until 2016, and empowered the Under-Secretariat of Fuels to suspend its effectiveness subject to the satisfaction of internal demand of natural gas achieved by means of regulations, agreements or due to the discovery of reserves.

Under the unbundling process, the Secretariat of Energy issued Resolution No. 2,020, which segmented low consumption residential and commercial customers into three groups: (i) consumption between 1000 and 5000 m^3/d, (ii) consumption between 500 and 1000 m^3/d and (iii) consumption between 300 and 500 m^3/d. Subgroup (i) started to receive gas directly from the producers in January 2006, subgroup (ii) in April 2006 and subgroup (iii) is still pending to be unbundled. This latter subgroup and all residential consumption which is supplied by distributors has not received any increase in price.

On September 22, 2006, by means of Resolution No.1329/2006, the Secretariat of Energy defined which volumes it deems to be comprised within the scope of the agreement between the Secretariat of Energy and gas producers (ratified by Resolution MPFIPyS No. 208/04), unilaterally modifying the scope of such agreement. The following volumes were included in the agreement pursuant to such resolution: (i) volumes, not contractually committed, that the authorities decided should be supplied by producers to distribution companies; (ii) volumes contractually committed by producers to distribution companies; (iii) volumes contractually committed with New Direct Consumers pursuant to the unbundling process; (iv) volumes required to be delivered to compressed natural gas stations, as Permanent Additional Injection, and pursuant to the special market created for these consumers within MEG; and (v) volumes contractually committed between producers and power generators (including generators comprised in the agreement and other generators). This resolution also obligates producers to give first priority in their injections of natural gas to the volumes that are deemed to be comprised within the scope of the agreement pursuant to this Resolution, and obligates transportation companies to guarantee these priorities through the allocation of transportation capacity.

Law No. 26,020 enacted on March 9, 2005 sets forth the Regulatory Framework for the Industry and Commercialization of LPG. The Law regulates the activities of production, bottling, transportation, storage, distribution, and commercialization of LPG in Argentina; and declares such activities to be of public interest. Among other things, the law:

- Creates the Registry of LPG bottlers, obliging LPG bottlers to register the bottles of their property.
- Protects the trademarks of LPG bottlers.
- Creates a price reference system, pursuant to which, the Secretariat of Energy shall periodically publish reference prices for LPG sold in bottles of 45 Kilograms or less.
- Gives the Secretariat of Energy a 120 day term to comply with the following tasks: (i) create LPG transfer mechanisms, in order to guarantee access to the product to all the agents of the supply chain; (ii) establish mechanisms for the stabilization of LPG prices charged to local LPG bottlers; and (iii) together with the Antitrust Agency, make an analysis of the composition of the LPG market and its behavior, in order to establish limitations on the concentration of the market in each phase, or limitations to the vertical integration throughout the chain of the LPG industry. Such limitations must include affiliates, subsidiaries, and controlled companies.

Grants open access to LPG storage facilities.

By Resolutions No. 792/2005 (dated 6/28/2005), No.1071/2005 (dated 9/22/2005), No.344/06 (dated 3/21/2006) and No. 1340/06 (dated 10/5/2006) the Secretariat of Energy established, among other issues, the reference prices applicable to sales of 45 kg LPG bottles, and to sales of bulk LPG exclusively to LPG bottlers. Also, the Secretariat of Energy approved the method for calculating the LPG export parity to be updated monthly by the Under-Secretariat of Fuels.

US Environmental Regulations

In addition, federal, state and local laws and regulations relating to health and environmental quality in the United States, where YPF Holdings Inc. (YPF Holdings) operates, affect nearly all the operations of this subsidiary. These laws and regulations set various standards for certain aspects of health and environmental quality, provide for penalties and other liabilities for such standards violations, and establish remedial obligations in certain circumstances. Particularly strong measures and special provisions may be appropriate or required in environmentally sensitive foreign areas of operations. Many of YPF Holdings United States operations, conducted primarily through Maxus Energy Corporation (Maxus), are subject to the requirements of the following U.S. environmental laws:

Safe Drinking Water Act;

Clean Water Act;

Clean Air Act;

Resource Conservation and Recovery Act;

Occupational Safety and Health Act;

Comprehensive Environmental Response, Compensation and Liability Act; and

various other federal and state laws.

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

Other Regulations

During 2005, the Secretary of Energy, by means of Resolution No. 785/2005, created the National Program of Hydrocarbons Warehousing Aerial Tank Loss Control, a measure aimed at reducing and correcting environmental pollution caused by hydrocarbons warehousing-aerial tanks. Management is assessing the effect of the resolution.

By Resolution No. 404/1994, the Secretary of Energy amended previous Resolution Nº 419 of 1993, and created the Registry of Independent Professionals and Safety Auditing Companies (Registro de Profesionales Independientes y Empresas Auditoras de Seguridad) which shall act with respect to areas of hydrocarbons storage, oil refineries, gas stations, fuel commercialization plants and plants for fractionation of LPG in containers or cylinders. The rule sets forth the obligation to perform external audits by professionals registered in the Registry of oil refineries, gas stations, and all fuel storage plants mentioned in Section 1 of Resolution SSC No. 6/1991. Domestic fuel manufacturing companies and companies that sell fuels are prohibited from supplying these products to any station failing to comply with its obligations. Penalties exist for failure to perform the audits and remedial or safety tasks, including the disqualification of plants or gas stations. In addition, a set of obligations is established in relation to the fuel underground storage systems, including a mechanism for instant information in cases of loss or suspicion of loss from the storage facilities.

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Taxation

Holders of exploration permits and production concessions are subject to federal, provincial and municipal taxes and regular customs duties on imports. The Hydrocarbons Law grants such holders a legal guarantee against new taxes and certain tax increases at the provincial and municipal levels. Holders of exploration permits and production concessions must pay an annual surface tax based on the area held. In addition, net profit (as defined in the Hydrocarbons Law) of holders of permits or concessions accruing from activity as such holders might be subject to the application of a special 55% income tax. This tax has never been applied. Each permit or concession granted to an entity other than YPF has provided that the holder thereof is subject instead to the general Argentine tax regime, and a decree of the national executive provides that YPF is also subject to the general Argentine tax regime.

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

In compliance with the provisions of the Law No. 25,561 on Public Emergency and Foreign Exchange System Reform, the Argentine government imposed (via the Executive Decrees No. 310/2002 and 809/2002, as amended by Resolutions No. 335/04, 336/04 and 337/04 issued by the Ministry of Economy and Production on May 11, 2004) customs duties on the export of crude oil at a rate of 25%, butane, methane and LPG at a rate of 20% and gasoline and diesel fuel at a rate of 5%. Moreover, on May 26, 2004, through the issuance of Decree No. 645/04, an export duty on the export of natural gas and NGL was established at a rate of 20%. Finally, on August 4, 2004 the Ministry of Economy and Production issued Resolution No. 532/04 establishing a progressive scheme of export duties for crude oil, with rates ranging from 25% to 45%, depending on the quotation of the WTI reference price at the time of the exportation. In July, 2006, the Ministry of Economy and Production issued Resolution 534/06, which increased to 45% the export duty on gas exports and instructed the Customs General Administration to apply the price fixed by the framework agreement between Argentina and Bolivia as an estimation basis upon which to determine the export tax on gas sales. On October 10, 2006, Resolution 776/06, issued by the Ministry of Economy and Production, clarified that the export duties created by Law 25,561, Section 6, apply to exports from the Tierra del Fuego Province, which were otherwise exempted from taxes, pursuant to Law 19640. Finally, Law 26,217, published in the Official Bulletin on January 16, 2007, extended the application of export duties created by Law 25, 561, Section 6, for five years, and clarified that these duties apply to exports from the Tierra del Fuego Province and ratified the effectiveness of Decrees No. 310/2002, 809/2002, 645/2004, Resolutions ME No. 526/2002, Resolutions MEyP No. 335/2004, 336/2004 and 337/2004, 534/2006 and 776/2006. Moreover, in May 2007 the Ministry of Economy and Production issued Decree No. 509/07, which increased to 25% the export duty on exports of butane, methane and LPG.

Certain contracts under which YPF exports gas provide that any tax (whose definition YPF believes is inclusive of the export duties mentioned above) that is created after the execution of such agreements shall be borne by the buyer thereof. Consequently, it is reasonable to estimate that the applicable export duties will not be entirely borne by YPF.

Antitrust Agreement

On June 16, 1999, the Argentine Ministry of Economy and Public Works delivered a letter to Repsol YPF setting forth a series of obligations that Repsol YPF was required to assume after the acquisition of the majority of YPF s share capital. Repsol YPF, in a letter dated June 17, 1999, accepted the Ministry s requirements, which are described below:

- Repsol YPF must instruct YPF not to renew specified contracts under which YPF purchases natural gas. Repsol YPF estimated that these contracts accounted for approximately 15% of the natural gas sold in Argentina by YPF and Repsol YPF in 1998.

- By January 1, 2001, Repsol YPF was required to divest itself of Argentine refining capacity equal to 4% of total Argentine installed capacity at December 31, 1998 and of a number of service stations that account for a sales volume equivalent to that of Eg3 S.A., a refining and marketing Argentine subsidiary of Repsol YPF (Eg3) in 1998. Both of these requirements were satisfied through the swap agreement with Petrobras. In addition to Eg3, the swap agreement encompassed other assets located in Argentina. Repsol YPF received assets in Brazil valued at approximately U.S.$ 559 million.

Until the gas contracts referred to above have expired, Repsol YPF may not participate in any new electricity generation projects.

Repsol YPF must eliminate from YPF s LPG export contracts any provision prohibiting reimportation by the buyer.

By December 1, 2002, Repsol YPF must reduce its share of the Argentine retail LPG market by 4%. Repsol YPF estimated that the combined Repsol YPF/YPF share of this market was approximately 38% at December 31, 1998.

During the period until December 1, 2002, Repsol YPF must pass on, in the form of price reductions, any benefits resulting from economies of scale in its Argentine LPG operations resulting from the YPF acquisition. Repsol YPF believes that these benefits consisted mainly of cost reductions, which could be passed directly to consumers.

YPF believes that it has complied with all the obligations required in the letter delivered on June 16, 1999, by the Argentine Ministry of Economy and Public Works and the Argentine government has not raised any objections to the performance of those obligations.

On March 14, 2000, the Secretariat for the Defense of Competition and the Consumer of the Ministry of Economy and Production (Secretaría de Defensa de la Competencia y del Consumidor del Ministerio de Economía y Producción) issued a press release stipulating the following series of guidelines establishing the manner in which Repsol YPF must meet its obligation under the June 16, 1999, letter of the Argentine Ministry of Economy and Public Works requiring that Repsol YPF dispose of refining assets and service stations in Argentina in connection with its acquisition of control of YPF:

(1) Repsol YPF must make the required sale of service stations to a single purchaser.

(2) The block of service stations and refining capacity to be sold must correspond to an equivalent of Repsol YPF s share of the relevant geographical and product markets prior to its acquisition of YPF in 1999. The sale of the block of service stations must keep Repsol YPF s market share at YPF s pre-acquisition market share levels. Repsol YPF must transfer refining capacity sufficient to permit adequate supply for the block of service stations transferred.

(3) The entity acquiring the service stations and refining assets must have no agreements with Repsol YPF. In addition, Repsol YPF may not transfer the assets to any related entity or to an entity which has a market share greater than 10% for each of refining and service station activities in Argentina.

(4) The Secretariat for the Defense of Competition and the Consumer of the Ministry of Economy and Production may supervise Repsol YPF s divestment of the specified assets. The Court of Defense of Competition will have the authority to review Repsol YPF s disposal of the specified refining assets and service stations.

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

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

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Repatriation of Foreign Currency

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

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

On December 27, 2002, the government issued Decree No. 2,703/02, effective as of January 1, 2003, setting forth a minimum repatriation limit of 30% with respect to proceeds from the export of hydrocarbons and byproducts, with the remaining portion freely disposable. However, when referring to the minimum repatriation limit of 30%, the decree only mentions the foreign exchange proceeds from freely disposable exports of crude oil and its byproducts. Although the recitals and the first part of Section 1 of Decree No. 2,703/02 mention natural gas and LPG as covered by this regime, there are no express references to natural gas or LPG in the rest of Section 1. However, taking into account the rights granted by Decree No. 1,589/89, YPF applies this regime to the export of crude oil, LPG and natural gas. It is worth noting that the recitals of Decree No. 2,703/02 restate the interpretation maintained by the Attorney General in the sense that Decree No. 1,589/89 has been repealed by Decree No. 530/91 and No. 1,606/01. This interpretation prompted the filing of the above-mentioned declaratory judgment action. Moreover, since Decree No. 2,703/02 is effective as from January 1, 2003, and, in light of the Attorney General s opinion, it is unclear whether hydrocarbon exporters would be required to repatriate the total amount of their 2002 export proceeds or whether the existing hydrocarbons regulatory framework will prevail, YPF has expanded the object of the declaratory judgment action before the federal court to request that the judge expressly state that Decree No. 530/91 did not derogate Decree No. 1,589/89 and, thus, that the right of free disposal of export receivables was effective between issuance of Decree No. 1,606/01 and Decree 2,703/02. On December 1, 2003 the National Administrative Court of Appeals decided that the issuance of Decree No. 2,703/02, which allows companies in the oil & gas sector to keep abroad up to 70% of the export proceeds, rendered the injunction unnecessary. On December 15, 2003, YPF filed a motion for clarification asking the court to clarify whether the exemption was available to oil & gas companies during the period between the issuance of Decree No. 1,606/01 and the issuance of Decree 2,703/02. On February 6, 2004, the Court of Appeals dismissed YPF s motion for clarification, indicating that the regulations included in Decree 2,703/02 were sufficiently clear, and confirmed the lifting of the injunction that prohibited the Central Bank and the Ministry of Economy and Production from interfering with YPF s access to foreign exchange proceeds, as described above. On February 19, 2004, YPF filed an extraordinary appeal before the Supreme Court challenging the December 1, 2003 decision of the Court of Appeals and requesting the restatement of the injunction against the Central Bank and the Ministry of Economy and Production. The Federal Court of Appeals dismissed the extraordinary appeal. Taking into account the fact that there is a new special system in place allowing for the free disposal of up to 70% of the foreign currency proceeds from the exports of crude oil and its derivatives, it was deemed advisable to abandon the suit as a procedural strategy. Should the Central Bank eventually request the conversion of the foreign currency proceeds derived from hydrocarbon exports made from the issuance of Decree No. 1,606/01 to the date on which Decree 2,703/02 became effective, YPF may challenge such decisions or proceedings through administrative appeal procedures, as well as request precautionary measures within the frame of other judicial proceedings.

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ITEM 4A. Unresolved Staff Comments

We do not have any unresolved staff comments.

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ITEM 5. Operating and Financial Review and Prospects

You should read the information in this section together with the Consolidated Financial Statements and the related notes included in this annual report. YPF prepares its consolidated statements in accordance with Argentine GAAP, which differ in certain significant respects from U.S. GAAP. Notes 13 and 14 to the Consolidated Financial Statements provide a summary and the effect of the significant differences on net income and shareholders equity under Argentine GAAP and U.S. GAAP. Note 15 provides certain additional disclosures required under U.S. GAAP. Additionally, Oil and Gas disclosures are included in the Supplemental information on oil and gas producing activities (unaudited).

Summarized Income Statement

	For The Year Ended December 31,		
	2006	2005	2004
	(in millions of pesos)		
Net sales	25,635	22,901	19,931
Cost of sales	(15,821)	(11,258)	(9,212)
Gross profit	9,814	11,643	10,719
Administrative expenses	(674)	(552)	(463)
Selling expenses	(1,797)	(1,650)	(1,403)
Exploration expenses	(460)	(280)	(382)
Operating income	6,883	9,161	8,471
Income on long term investments	183	39	154
Other expenses, net	(204)	(545)	(981)
Financial income (expense), net and holding gains	454	102	138
Income from sale of long-term investments	11	15	
Impairment of other assets	(69)		
Net income before income tax	7,258	8,772	7,782
Income tax	(2,801)	(3,410)	(3,017)
Net income from continuing operations	4,457	5,362	4,765
Income on discontinued operations			3
Income from sale of discontinued operations			139
Net income	4,457	5,362	4,907

YPF s Characteristics

YPF s operations are affected by a number of factors, including:

The volume of crude oil, oil products and natural gas we produce and sell;

Changes in international prices of crude oil and oil products;

Fluctuations in the Argentine peso/U.S. dollar exchange rate;

Interest rates;

Changes to our capital expenditures plan;

Price controls;

Introduction of new taxes or higher taxes on sales; and

Changes in laws and regulations affecting our operations.

As mentioned in Item 3. Key Information-Risk Factors , fluctuations in the Argentine economy and actions by the Argentine government have had and will continue to have a significant effect on Argentine companies, including YPF. Specifically, the Company has been affected and might be affected in the future by inflation, interest rates, price controls, business regulations, tax regulations and, in general, by the political, social and economic environment in and affecting Argentina. See Item 3. Key Information-Risk Factors for detailed descriptions of factors that affect YPF s operations, and Item 4. Information on the Company-Regulatory Framework and Relationship with the Argentine Government for detailed descriptions of regulations that affect our business.

Specifically, the average export sales price per barrel realized by YPF from Argentina, before withholdings, was U.S.$ 53.11 in 2006, U.S.$ 41.31 in 2005 and U.S.$ 33.65 in 2004. Future changes in international oil prices, the fluctuation of the peso against the dollar and any additional economic measures which the Argentine authorities could adopt will continue to affect YPF s results.

Historically, YPF s results fluctuated during the year as a result of greater natural gas sales during the winter. After the 2002 devaluation and as a consequence of the natural gas price freeze imposed by the Argentine government, the use of this fuel was diversified, thus generating an increase in its long-term demand throughout the year.

During the year ended December 31, 2004, YPF Holdings sold its interests in Global Companies LLC and affiliates (Global), and YPF International S.A. sold its interests in YPF Indonesia Ltd. Income from these sales was included in the Income from sale of discontinued operations account of the statements of income. As a consequence, Global and YPF Indonesia Ltd s results are disclosed in Income on discontinued operations account of the statements of income.

Due to the sales of the interests in Global and in YPF Indonesia Ltd., YPF conducts its main activities in Argentina, where almost 100% of total consolidated sales were made during 2006, including oil and product exports.

Critical Accounting Policies

Basis of presentation of financial statements

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

Functional Currency

YPF has determined the U.S. dollar as its functional currency, because YPF transacts more of its operations in U.S. dollars or indexed to U.S. dollars than in any other currency. For U.S. GAAP reconciliation purposes, financial statements are remeasured into U.S. dollars and the assets and liabilities are translated into Argentine pesos (reporting currency) at the exchange rate prevailing at year end and revenues, expenses, gains and losses are translated at the exchange rate existing at the time of each transaction, or, if appropriate, at a weighted average of the exchange rates during the year.

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

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

Oil and Gas Reserves

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

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

YPF manages its hydrocarbon resources on a project management basis: exploration of basin and prospects (non-proved reserves), appraisal (non-proved reserves) and development and production categories (proved reserves). When a discovery is made, volumes are transferred from the exploration category to the appraisal category.

Resources in a field will only be categorized as proved reserves when all the criteria for attribution of proved status have been met, including an internally imposed requirement for project approval expected within six months and, for additional reserves in existing fields, the requirement that the reserves be included in the business plan and scheduled for development within three years. Internal approval and final investment decision are what we refer to as project sanction.

After approval, all booked reserves will be categorized as proved undeveloped (PUD). Volumes will subsequently be categorized from PUD to proved developed (PD) as a consequence of development and production activities. When part of a well s reserves depends on a later phase of activity, only that portion of reserves associated with existing, available facilities and infrastructure moves to PD. The first PD booking will occur at the point of first oil or gas production. Major development projects typically take one to three years from the time of initial booking to the start of production. Changes to reserves booking may be made due to analysis of new or existing data concerning production, reservoir performance, commercial factors, acquisition and divestment activity, additional reservoir development activity, legal, tax or regulatory changes. Over time, undeveloped reserves are reclassified into the developed category as new wells are drilled, existing wells are recompleted and/or facilities to collect and deliver the production from existing and future wells are installed.

In order to estimate its proved reserves, YPF prepares internal estimates and uses, to a certain extent, estimates and audits of independent engineers. The internal process for the estimation of proved reserves is internally audited by senior level geoscience and engineering professionals with significant technical experience, integrated in the Reserves Control Group. Although we are reasonably certain that the proved reserves will be produced, the timing and amount ultimately recovered might be affected by a number of factors, including completion of development projects, actual reservoir performance and significant changes in long-term oil and gas price levels. Proved reserve estimates are therefore subject to future revisions (either upward or downward) based on new information which becomes available, such as from development drilling and production activities, changes in prices, contract terms or development plans. See also Item 4. Information on the Company Exploration and Production Reserves.

For YPF estimates of proven reserves, all information and requirements are prepared using standard geological and engineering methods generally accepted by the petroleum industry. The nature and scope of procedure to be performed or combination of methods to be utilized in the analysis of each reservoir is tempered by experience with similar reservoirs, the stage of development of the reservoir, the quality and completeness of the data regarding the reservoir and its production history.

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

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

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

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

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

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

Future costs related to hydrocarbon wells abandonment obligations are capitalized along with the related assets, and are depreciated using the unit-of-production method and a liability is recognized for this concept in the estimated value of the discounted payable amounts.

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

Impairment of long-lived assets

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

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

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

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

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Therefore, YPF s management must make reasonable and supportable assumptions and estimates with respect to: (i) the market value of reserves, (ii) oil fields production profiles, (iii) future investments and their amortization, taxes and costs of extraction and (iv) risk factors for unproved reserves which are in accordance with the Swanson rule (which relates to the calculation of the mean value of a lognormal distribution knowing three points), these imply risk factors of 70% and 30% for probable and possible reserves, respectively and other factors. Such assumptions and estimates have a significant impact on calculations of depreciation in accordance with the unit of production method and evaluating the impairment of fixed assets (oil and gas investments). As such, any change in the variables used to prepare such assumptions and estimates may have, as a consequence, a significant effect on the impairment tests relating to investments in areas with oil and gas reserves.

Impact of Oil and Gas Reserves and Prices on Testing for Impairment

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

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

Depreciation

Volumes produced and asset costs are known, while proved reserves have a high probability of recoverability and are based on estimates that are subject to some variability. The impact of changes in estimated proved reserves is treated prospectively by depreciating the remaining book value of the assets over the future expected production, affecting the following year s net income. In 2006, 2005 and 2004, YPF recorded depreciation of fixed assets associated with hydrocarbon reserves amounting to Ps. 3,223 million, Ps. 2,180 million and Ps. 1,936 million, respectively.

Asset retirement obligations

Future costs related to hydrocarbon wells abandonment obligations are capitalized along with the related assets, and are depreciated using the unit-of-production method. As compensation, a liability is recognized for this concept at the same estimated value of the discounted payable amounts. Future estimated retirement obligations and removal costs are based on management s best estimate of the time that the event will occur and the assertion of costs to be met with the removal of the asset. Asset removal technologies and costs, as well as political, environmental, safety and public expectations, are constantly changing. Consequently, the timing and future cost of dismantling are subject to significant modification. The timing and the amount of future dismantling expenditures are reviewed annually. As such, any change in variables used to prepare such assumptions and estimates can have, as a consequence, a significant effect on the liability and the related capitalized asset and in the future charges related to the retirement obligations.

Environmental liabilities, litigation and other contingencies

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

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

Reserves totaling Ps. 1,952 million, Ps. 1,561 million and Ps. 1,298 million as of December 31, 2006, 2005 and 2004, respectively, have been established to afford contingencies which are probable and can be reasonably estimated. In the opinion of the management and its external counsel, the amount reserved reflects the best estimate, based on the information available as of the date of the issuance of these financial statements and of the possible outcome of contingencies discussed above.

Exchange differences generated by the translation of interests in foreign entities

Beginning January 1, 2006, the Company applied new generally accepted accounting principles introduced by Resolution CD No. 93/2005 of the Professional Council of Economic Sciences of the Autonomous City of Buenos Aires (C.P.C.E.C.A.B.A.) which were issued to make uniform the accounting principles of the different jurisdictions of Argentina. These new accounting principles were adopted by the NSC through Resolutions No. 485/2005 and No. 487/2006.

With respect to changes attributable to the application of the Argentine generally accepted accounting principles, the exchange difference generated by the translation of interests in foreign companies and the changes in the fair value of effective cash flow hedges of jointly controlled companies, which prior to the adoption of the new generally accepted accounting principles were included in an intermediate account between liabilities and shareholders equity, shall be included as a component of the shareholders equity in the account Deferred earnings.

Defined benefit pension plans and other post-retirement and post-employment benefits provided to employees of foreign companies

As of December 31, 2006, the Company applied the dispositions established by Technical Resolution No. 23 Post-employment benefits and other long-term benefits , which were approved by the NSC through Resolution No. 494/2006.

The liabilities related to those benefits were valued at net present value and were accrued based on the service of employees during the prior year of service.

As a result of the adoption of the new generally accepted accounting principles mentioned above, the prior year s information as of the beginning of each year was modified as follows:

	Deferred earnings Gains (Losses)			**Unappropriated retained earnings Gains (Losses)**		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Translation of interests in foreign entities	(4)	6	(125)			
Pension Plans and other post-employment benefits of foreign entities				25	31	(230)
	(4)	6	(125)	25	31	(230)

Presentation of financial statements

The Consolidated Financial Statements reflect the effect of changes in the purchasing power of money by the application of the method for restatement in constant Argentine pesos set forth in Argentine GAAP until February 28, 2003, when the restatement in constant money was discontinued. See Note 1 to the Consolidated Financial Statements.

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U.S. GAAP Reconciliation

The recurrent difference between YPF s net income under Argentine GAAP and its net income under U.S. GAAP for the years ended December 31, 2006, 2005 and 2004 is primarily due to the remeasurement into functional currency and translation into reporting currency, the elimination of the restatement 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 YPF and certain of its subsidiaries and investees, the U.S. dollar to be its functional currency in accordance with Statement of Financial Accounting Standards (SFAS) No. 52. Therefore, YPF has remeasured into U.S. dollars the Consolidated Financial Statements as of December 31, 2006, 2005 and 2004, prepared in accordance with Argentine GAAP by applying the procedures specified in SFAS No. 52. The objective of the remeasurement 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 remeasured at the balance sheet date (current) exchange rate. Amounts carried at prices in past transactions are remeasured at the exchange rates in effect when the transactions occurred. Revenues and expenses are remeasured on a monthly basis at the average rates of exchange in effect during the period, except for consumption of nonmonetary assets, which are remeasured 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 remeasurement are included in the determination of net income (loss) in the period such gains and losses arise. For certain of YPF s subsidiaries and investees, YPF has determined the Argentine peso as its functional currency. Translation adjustments resulting from the process of translating the financial statements of the mentioned subsidiaries into U.S. dollars are not included in determining net income and are reported in other comprehensive income, as a component of shareholders equity.

The amounts obtained from the remeasurement 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 Argentine pesos Ps. 3.06, Ps. 3.03 and Ps. 2.98 to U.S.$ 1, as of December 31, 2006, 2005 and 2004, respectively. Revenues, expenses, gains and losses reported in the income statement are translated at the exchange rate existing at the time of each transaction or, if appropriate, at the weighted average of the exchange rates during the period. Translation effects of exchange rate changes are included as a cumulative translation adjustment in shareholders equity. As of December 31, 2006, 2005 and 2004, the remeasurement into functional currency and the translation into reporting currency decreased net income determined according to Argentine GAAP by Ps. 2,065 million, Ps. 1,479 million and Ps. 1,447 million, respectively.

YPF has proportionally consolidated, net of intercompany transactions, assets, liabilities, net revenues, cost and expenses of investees in which joint control is held, which is not allowed for U.S. GAAP purposes. The proportional consolidation generated an increase of Ps. 446 million, Ps. 381 million and Ps. 672 million in total assets and total liabilities as of December 31, 2006, 2005 and 2004, respectively, and an increase of Ps. 1,451 million, Ps. 1,216 million and Ps. 1,122 million in net sales and Ps. 774 million, Ps. 681 million and Ps. 640 million in operating income for the years ended December 31, 2006, 2005 and 2004, 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, YPF s 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, YPF performs the impairment review on an individual field basis. Other long-lived assets are aggregated, so that the individual cash flows produced by each group of assets may be separately analyzed. Each asset is tested following the guidelines of SFAS No. 144, Accounting for the Impairment of Long Lived Assets , by comparing the net book value of such an asset with the expected cash flow. Impairment losses are measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. When fair values are not available, YPF estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the assets. The accumulated adjustments under U.S. GAAP of the impairment provisions as of December 31, 2006, 2005 and 2004 were Ps. 491 million, Ps. 611 million and Ps. 773 million, respectively, mainly corresponding to YPF s Exploration and Production segment. Impairment charges under U.S. GAAP amounted to Ps. 71 million, Ps. 2 million and Ps. 177 million for the years ended December 31, 2006, 2005 and 2004, respectively. The impairment recorded in 2006 was mainly the result of the downward revision in reserves made by YPF in December 2006. It was also due to certain non-strategic Exploration and Production areas that were available for sale at that time, and accordingly were valued at fair value less cost to sell (see Item 4. Information on the Company Deregulation, Privatization and Recent Developments). The impairment recorded in 2005 was mainly the result of the downward revision in reserves made by YPF in December 2005. See Item 4. Information on the Company Exploration and Production. The impairments recorded in 2004 were the result of studies conducted that have revealed a decrease in proved reserves.

The adjusted basis after impairment results in lower depreciation under U.S. GAAP of Ps. 197 million, Ps. 170 million and Ps. 122 million for the years ended December 31, 2006, 2005 and 2004, respectively.

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

SFAS No. 143, Accounting for Assets Retirement Obligations, requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The asset retirement obligations liability is built up in cash flow layers, with each layer being discounted using the discount rate as of the date that the layer was created. Remeasurement of the entire obligation using current discount rates is not permitted. Each cash flow layer is added to the carrying amount of the associated asset. This additional carrying amount is then depreciated over the life of the asset. The liability is increased due to the passage of time based on the time value of money (accretion expense) until the obligation is settled. Argentine GAAP is similar to SFAS No. 143, except 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.

YPF, through its indirect subsidiary Greenstone Assurance Limited, is a member of Oil Insurance Limited (OIL). OIL is owned by and operated by and for its shareholders, all of whom are engaged in energy operations. Pursuant to OIL s Rating and Premium Plan, there is a withdrawal premium (the Avoided Premium Surcharge or APS) to which insured members are liable under certain circumstances which include cancellation and non-renewal of the policy. The APS is calculated by OIL at its sole discretion, it is final and the amount shall not exceed the applicable future premiums that the insured would have paid absent such cancellation or non-renewal, in respect of losses incurred before the date on which the cancellation or non-renewal takes place. Such obligation, in substance, is similar to a retrospective premium to recover past losses which is paid, either through future premium payments (if the member remains in OIL) or as a one-time payment if the member withdraws from OIL. The effect on net income under U.S. GAAP, as of December 31, 2004, was Ps. 123 million, which was recorded in the subsequent year for Argentine GAAP purposes.

FIN No. 46R, Consolidation of Variable Interest Entities, (FIN 46R) clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, 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

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finance its activities without additional subordinated financial support from other parties. The interpretations explain how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. These interpretations require existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Under Argentine GAAP consolidation is based on the control of corporate decisions through shareholding (Note 1 to the Consolidated Financial Statements). FIN 46R is effective for YPF as of January 1, 2004.

As of December 31, 2006, YPF has operations with one variable interest entity (VIE), which has been created in order to structure YPF s future deliveries of oil (FOS). Additionally, up to September 2005, YPF had operations with a VIE related to another FOS transaction, which was settled in advance, as described in Note 10.c to the Consolidated Financial Statements. For a further description refer to Transactions With Unconsolidated Variable Interest Entities below.

The effects before taxes of such consolidation as of December 31, 2006, 2005 and 2004 was (i) an increase in loans by Ps. 186 million, Ps. 297 million and Ps. 1,198 million, respectively, (ii) an increase in current assets by Ps. 19 million , Ps. 18 million and Ps. 192 million, respectively, (iii) the elimination of net advances from crude oil purchasers from balance sheets by Ps. 103 million, Ps. 196 million and Ps. 898 million respectively, and (iv) a decrease in shareholders equity by Ps. 65 million, Ps. 83 million and Ps. 108 million, respectively.

The effects before taxes of the consolidation as of December 31, 2004 of these VIE following the provisions of FIN 46R were accounted for as a cumulative effect of a change in an accounting principle.

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

Consolidated Oil and Gas Reserves and Production

The following table sets forth YPF s estimated proved reserves of crude oil and natural gas on a consolidated basis at December 31, 2006, 2005 and 2004. The reserve estimates set forth below were prepared in accordance with Rule 4-10 of Regulation S-X of the SEC.

	At December 31,		
	2006	**2005**	**2004 (4)**
	(millions of barrels)		
Estimated proved crude oil reserves (1)(2)(3)			
Developed	521	604	863
Undeveloped	159	173	201
Total	680	777	1,064
	(billions of cubic feet)		
Estimated proved natural gas reserves (1)(2)(3)			
Developed	2,571	3,201	4,045
Undeveloped	1,444	1,482	1,631
Total	4,015	4,683	5,676
	(millions of barrels)		
Crude oil production (1)(2)	126	134	146
	(billions of cubic feet)		
Natural gas production (1)(2)	651	668	706

(1) Crude oil (including condensate and natural gas liquids) and gas reserves and production amounts are stated before making any deductions in respect of royalties. Royalties on YPF s production are accounted for as a cost of production and are not deducted in determining net sales.

(2) All information relating to YPF s oil and gas production has been determined in accordance with Rule 4-10 of Regulation S-X of the SEC and Statement of Financial Accounting Standards No. 69, and such amounts may differ from actual production amounts and actual deliveries of oil or natural gas.

(3) Restated at December 31, 2004. In December 2005, YPF reduced by 509 million barrels of oil equivalent its oil and natural gas proved reserves in Argentina, including 493 million barrels of oil equivalent corresponding to proved developed and undeveloped reserves of YPF and 16 million barrels of oil equivalent corresponding to proved developed and undeveloped reserves of affiliated companies. See Item 4. Information on the Company Exploration and Production Reserves and Supplemental information on oil and gas producing activities (unaudited) to the Consolidated Financial Statements.

(4) As restated.

Overview of Consolidated Results of Operations

Macroeconomic conditions

Global economic growth remained solid during 2006 and was more balanced among the different regions of the world. Worldwide GDP is expected to have grown by approximately 4% in 2006, a similar rate to that of 2005. While growth slowed in the U.S. and Japan, the Euro zone and emerging Asian and Latin American markets performed better than in previous years.

Increased consumption and international trade growth has caused worldwide commodity prices to remain high by historical standards, thus favoring exporting countries. In Latin America, high international prices for the region s main export products have favored the economic performance of Latin American countries, which have shown an improvement in their key economic indicators.

Worldwide oil prices continued to increase during the first half of 2006, reaching a maximum of U.S.$ 77 per barrel (WTI) in July. After a slight decline in the third quarter of 2006, the WTI crude oil price ended around U.S.$ 61 per barrel.

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Within the favorable international and regional context, the economic growth rate of Argentina remained high in 2006. After three years during which economic activity grew at an annual cumulative rate of 9%, GDP increased 8.5% in 2006. Fixed investment and private consumption were the main reasons for the 2006 growth.

Total exports from Argentina increased by 15.4% to U.S.$ 46,569 million in 2006, mainly driven by an increase in exports of industrial and agricultural products. Imports rose by 29% due to the growth in consumption and investment in Argentina. The trade surplus remained high, growing from U.S.$ 11,321 million in 2005 to U.S.$ 12,409 million in 2006.

Consistent with this economic growth, the unemployment rate continued to fall as a consequence of job growth, both regular and unreported. The data corresponding to the fourth quarter of 2006 showed that 8.7% of the active population is unemployed, which is 1.4 points lower than 10.1% in the prior year. Average real wages of the economy increased by 8% in 2006.

The Central Bank continued its policy of accumulating international reserves during 2006, which enabled it to recover and surpass the level of January 2006, prior to the cancellation of all financial obligations to the IMF. Central Bank reserves ended the year at U.S.$ 32 billion.

The peso / dollar exchange rate increased to Ps 3.06 per dollar as of December 2006, a 1.3% depreciation compared to December 2005. The real exchange rate of the Argentine Peso against a basket of currencies remained stable throughout the year.

National fiscal revenues increased by 25% in 2006, allowing for a national primary fiscal surplus of 3.5% of GDP. In relation to public debt, two issues are still pending: (i) a smaller portion of the defaulted debt which was not included in the 2005 debt swap (the so-called Paris Club) has not yet been resolved, and (ii) certain government bondholders have not accepted the government s proposal.

Consumer prices increased by 9.8% in 2006, which is an elevated rate compared to international standards. Authorities have decided to continue attempting to curb inflation through administrative measures, such as price controls and price agreements between the public and private sectors.

The Argentine hydrocarbon industry is still facing significant price distortions. Within a framework of increasing international prices, liquid fuel prices remained practically unchanged in the local market. Taxes on crude oil exports remained at a maximum of 45%, while natural gas export taxes were increased to 45%. As in 2005, the lack of local diesel supply and low local prices required the implementation of a plan exempting customs duty payments on a larger scale.

The Argentine economy began 2007 with favorable prospects in terms of economic growth, but with significant concern over inflation levels. Private analysts forecast that GDP will grow more than 7% in 2007, within a context of high annual inflation, estimated at over 10%. YPF, however, cannot predict the evolution of future macroeconomic events.

Results of Operations

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

	Year Ended December 31,		
	2006	**2005**	**2004**
	(percentage of net sales)		
Net sales	100.0%	100.0%	100.0%
Cost of sales	(61.7)	(49.2)	(46.2)
Gross profit	38.3	50.8	53.8
Administrative expenses	(2.6)	(2.4)	(2.2)
Selling expenses	(7.0)	(7.2)	(7.0)
Exploration expenses	(1.8)	(1.2)	(1.9)
Operating income	26.9	40.0	42.7

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As mentioned above in this Item 5, during the year ended December 31, 2004, YPF Holdings sold its interests in Global and YPF International S.A. sold its interests in YPF Indonesia Ltd. As a consequence, Global and YPF Indonesia Ltd. results for year ended 2004 and 2003 were disclosed in Income on discontinued operations account of the statement of income.

Net Sales

Net sales for 2006 were Ps. 25,635 million, representing a 12% increase compared to Ps. 22,901 million in 2005. This increase was primarily attributable to the greater volume sales of crude oil, petrochemicals, fuel oils and commercialized lubricating oils in the domestic market. In the international market, the decline in exported volumes was compensated for almost entirely by the increase in international oil prices.

Net sales for the year ended December 31, 2005 were Ps. 22,901 million compared to Ps. 19,931 million in 2004, representing a 15% increase, resulting from higher international prices that affected the products sold in the export market, whereas in the domestic market, natural gas prices increased, due to the application of the price program set forth by the Secretariat of Energy (See Item 4. Information on the Company Regulatory Framework and Relationship with the Argentine Government Market Regulation), as did crude oil, diesel and jet fuel prices. This higher income due to better prices was partially offset by a fall in the volume sold, mainly of oil, due to lower crude oil production resulting from trade union strikes affecting the Province of Chubut during the last semester and from the natural decline in the production curve.

Cost of Sales

Cost of sales in 2006 was Ps. 15,821 compared to Ps. 11,258 in 2005, representing a 41% increase, which was mainly attributable to sharply increasing property, plant and equipment amortization due to a reduced base of proven reserves when computing depreciation rates, and to rising crude oil purchases due to increasing prices and volumes that kept distillation plants highly operative, as well as to increasing fuel and natural gas purchases to meet domestic demand. Additionally, maintenance costs and contract services increased, certain contingent penalties resulting from contractual commitments were recognized, and royalties increased due to WTI price increases.

Cost of sales for the year ended December 31, 2005 was Ps. 11,258 million, compared to Ps. 9,212 million in 2004, representing a 22% increase, mainly due increased oil purchases to offset the lower production and diesel fuel and natural gas imports, and an increase in royalties because of the increase in the price per barrel of WTI, depreciation and other production costs.

Operating Income

Operating income in 2006 was Ps.6,883 million compared to Ps. 9,161 million in 2005, which represents a decrease of 25%. Operating income decreased primarily due to increased previously mentioned expenses (property, plant and equipment amortization, and maintenance costs and contract services, among others) that were not offset by a corresponding increase in domestic prices, which remained stable.

Operating income for the year ended December 31, 2005 was Ps. 9,161 million compared with Ps. 8,471 million in 2004, which represents an 8% increase resulting from higher international prices that increased refined product export sale margins.

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Other Expenses, net

Other expenses net decreased to Ps. 204 million in 2006 from Ps. 545 million in 2005, mainly as a result of reduced policy premiums caused by greater losses in the industry in the year 2005. The principal expenses during 2006 derived from provisions for lawsuits, environmental remediation and other contingencies.

Other expenses, net decreased to Ps. 545 million for the year ended December 31, 2005 compared to a Ps. 981 million loss in 2004, resulting from a decrease in provisions for lawsuits, environmental remediation and other contingencies.

Financial income (expense), net and holding gains

In 2006, financial income, net was Ps. 454 million compared to financial income, net of Ps. 102 million in 2005. This increase is attributable to a sharp rise in holding gains on inventories due to stock revaluation for increasing production costs, which is offset by increasing cost of sales, which had a negative impact on operating income, as described in previous paragraphs. In addition, income from short term investment increased and interest expense from liabilities decreased.

In 2005, financial income, net was Ps. 102 million compared to financial income, net of Ps. 138 million in 2004, resulting from higher financial losses of Ps. 36 million, mainly from the early repayments of the debt in Mega and the FOS III transaction (See Transactions With Unconsolidated Variable Interest Entities below), partially offset by holding profits on inventories. In addition, the peso devaluation generated a translation difference net profit of Ps. 96 million compared to Ps. 10 million net loss in 2004.

Taxes

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

Income tax expense during 2005 was Ps. 3,410 million compared to Ps. 3,017 million in 2004. The effective income tax rates for 2005 and 2004 were 38.87% and 38.22%, respectively, compared to the statutory income tax rate of 35%.

Net Income

Net income for the year ended December 31, 2006 was Ps. 4,457 million, compared to Ps. 5,362 million in 2005, for a decrease of 17%. This decrease is mainly attributable to the 25% decline in operating income, partially offset by lower expenses and improved net financial income.

Net income for the year ended December 31, 2005 was Ps. 5,362 million compared to Ps. 4,765 in 2004, an increase of 12.5%. This increase mainly reflects the increase in operating results of Ps. 690 million, a decrease in other expenses, net, of Ps. 436 million, and lower income on long-term investments of Ps. 115 million. This increase was partially offset by an increase in income tax expense of Ps. 393 million and a decrease in income from the sale of discontinued operations of Ps. 139 million.

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Results of Operations by Business Segment

The tables below set forth YPF s net sales and revenues and operating income by business segment for 2006, 2005 and 2004 as well as the percentage changes in revenues for the periods shown.

	2006	2005	2004	2006 vs. 2005	2005 vs. 2004
		(millions of pesos)			
Net sales and revenues					
Exploration and Production (1)	17,883	15,195	14,141	17.69%	7.45%
Refining and Marketing	20,801	18,178	15,808	14.43%	14.99%
Chemical	3,048				