

Argentina Oil & Gas Industry Legal Framework

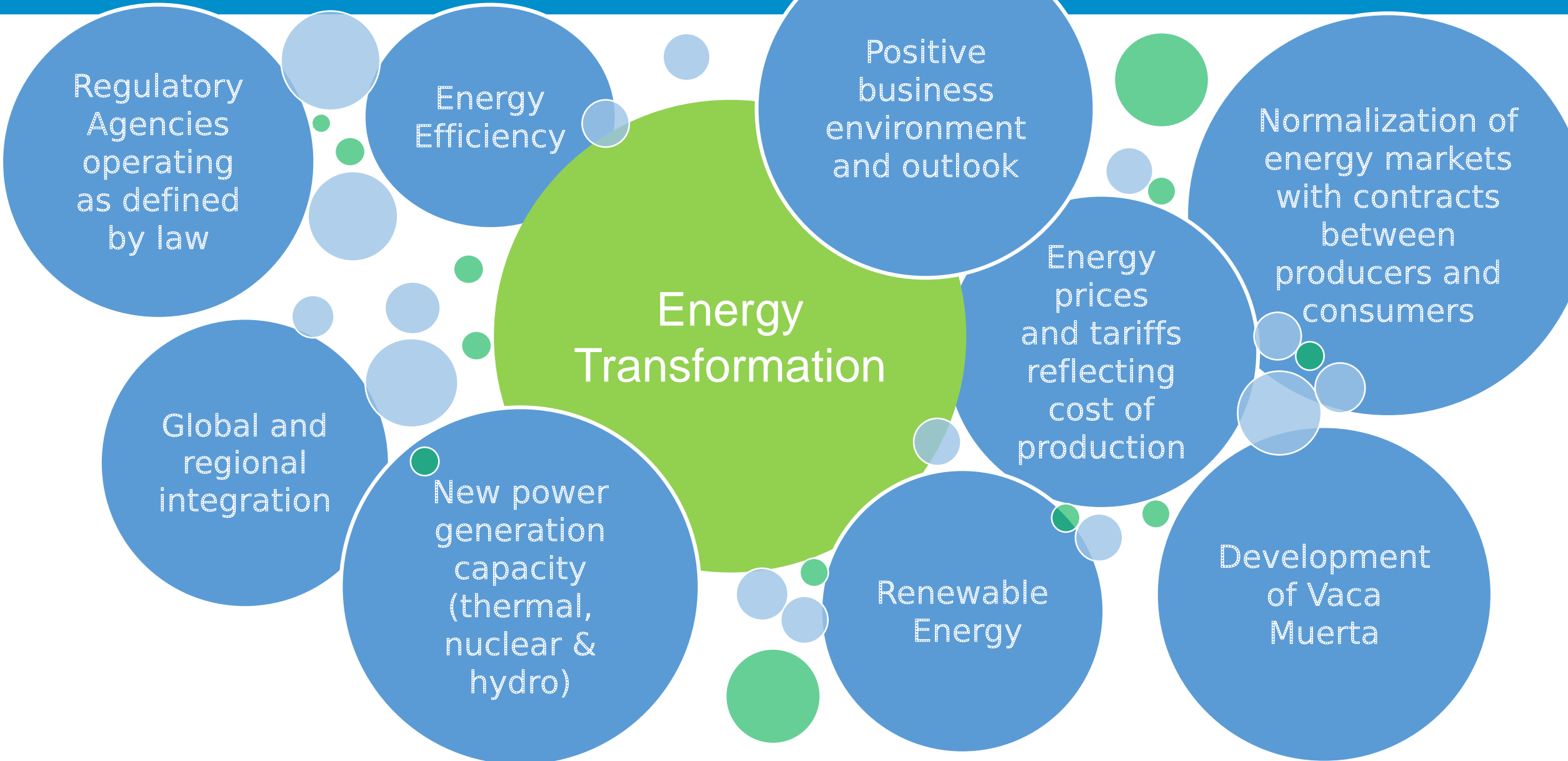


Ministerio de Energía y Minería
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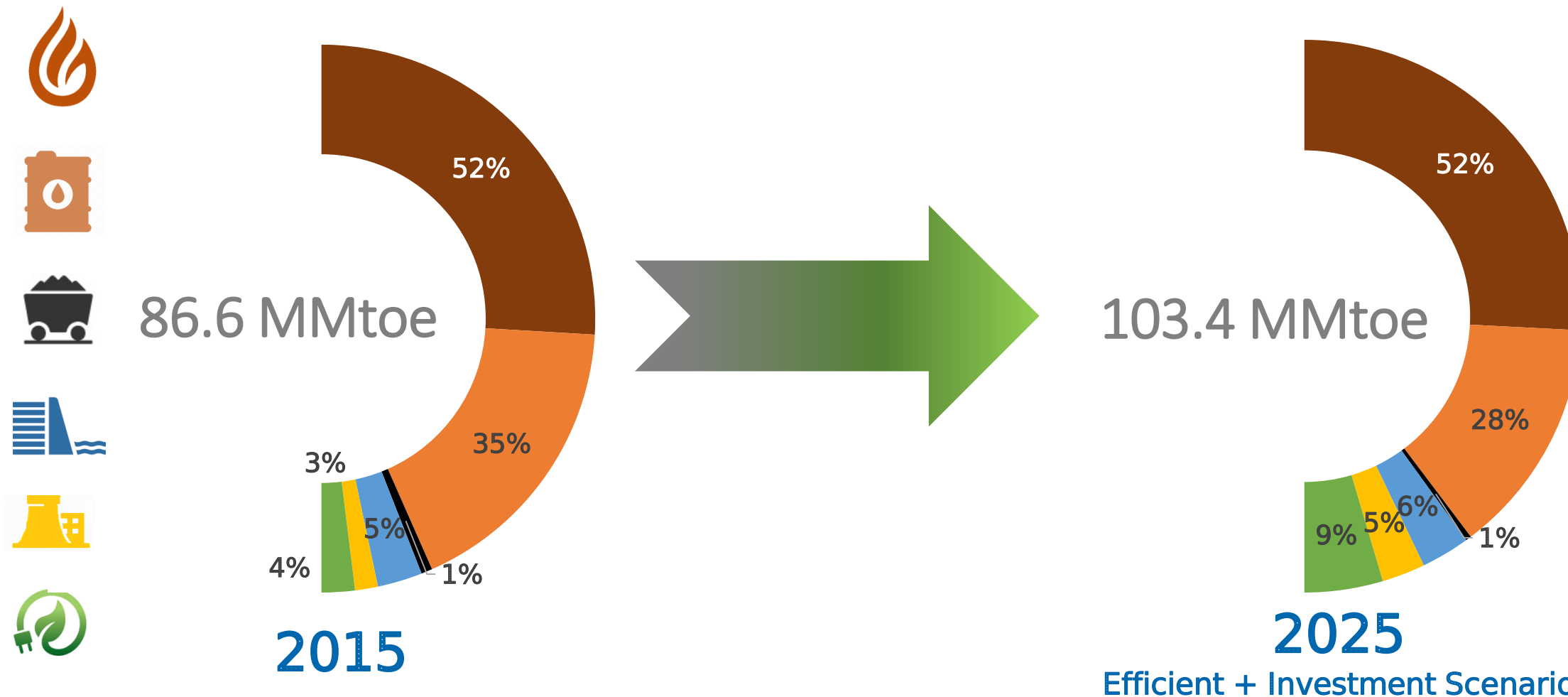
Ensure energy supply for a growing country

Reduce the impact on the environment

Transformation involves multiple challenges and opportunities



Internal Energy Supply



The growth of renewable energies diversifies the energy mix, despite the prevalence of hydrocarbons

Total internal energy supply: Primary energy internal supply plus the effect of the secondary energy' trade balance.

1907 *First H/C Discovery*

Main Fields

1957: Cerro Dragón San Jorge Basin – 1465 MMBOE

1977: Loma La Lata, Neuquén Basin - 10 TCF

1989: CMA-1, Offshore Austral Basin – 4 TCF

2010: Vaca Muerta Shale, NQN: 308 TCF, 27 BBBL

Cumulative Production:

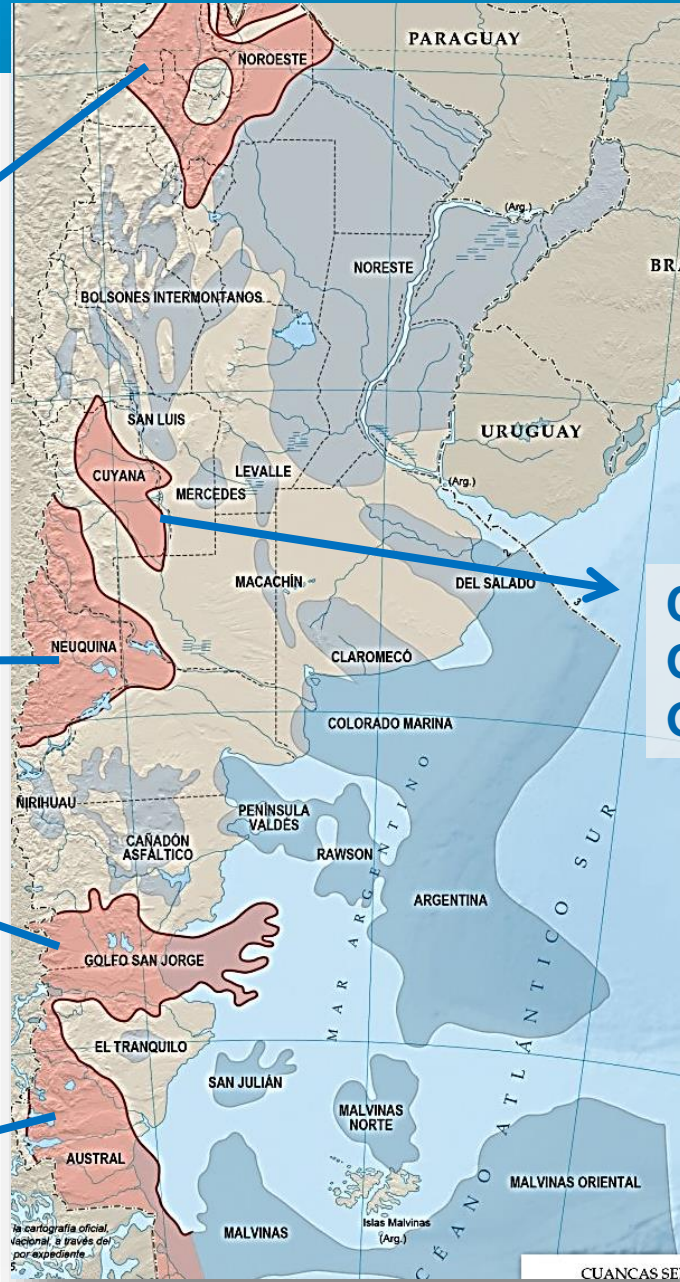
Oil: 11,3 BBBL

Gas: 50,7 TCF

Main Laws

- 1967: Law 17,319 creates the legal framework for the Oil & Gas Industry
- 2007: Law 26,197 transfers H/C ownership to Provinces for Onshore
- 2014: Law 27,007 establishes framework for Unconventional

Oil & Gas Reserves (@ 31 Dec 2015)



Noroeste Basin
O: 31 MMbbl
G: 839 Bcf

Neuquen Basin
O: 545 MMbbl
G: 5,526 Bcf

Golfo San Jorge Basin
O: 1,597 MMbbl
G: 1,716 Bcf

Austral Basin
O: 93 MMbbl
G: 4,270 Bcf

Cuyana Basin
O: 128 MMbbl
G: 26 Bcf

Proven Reserves

Oil: 2.4 Bbbl
Gas: 12.4 TCF

Probable Reserves

Oil: 0.8 Bbbl
Gas: 5.7 TCF

Figures exclude Unconventional Resources

Oil & Gas Production (2016)

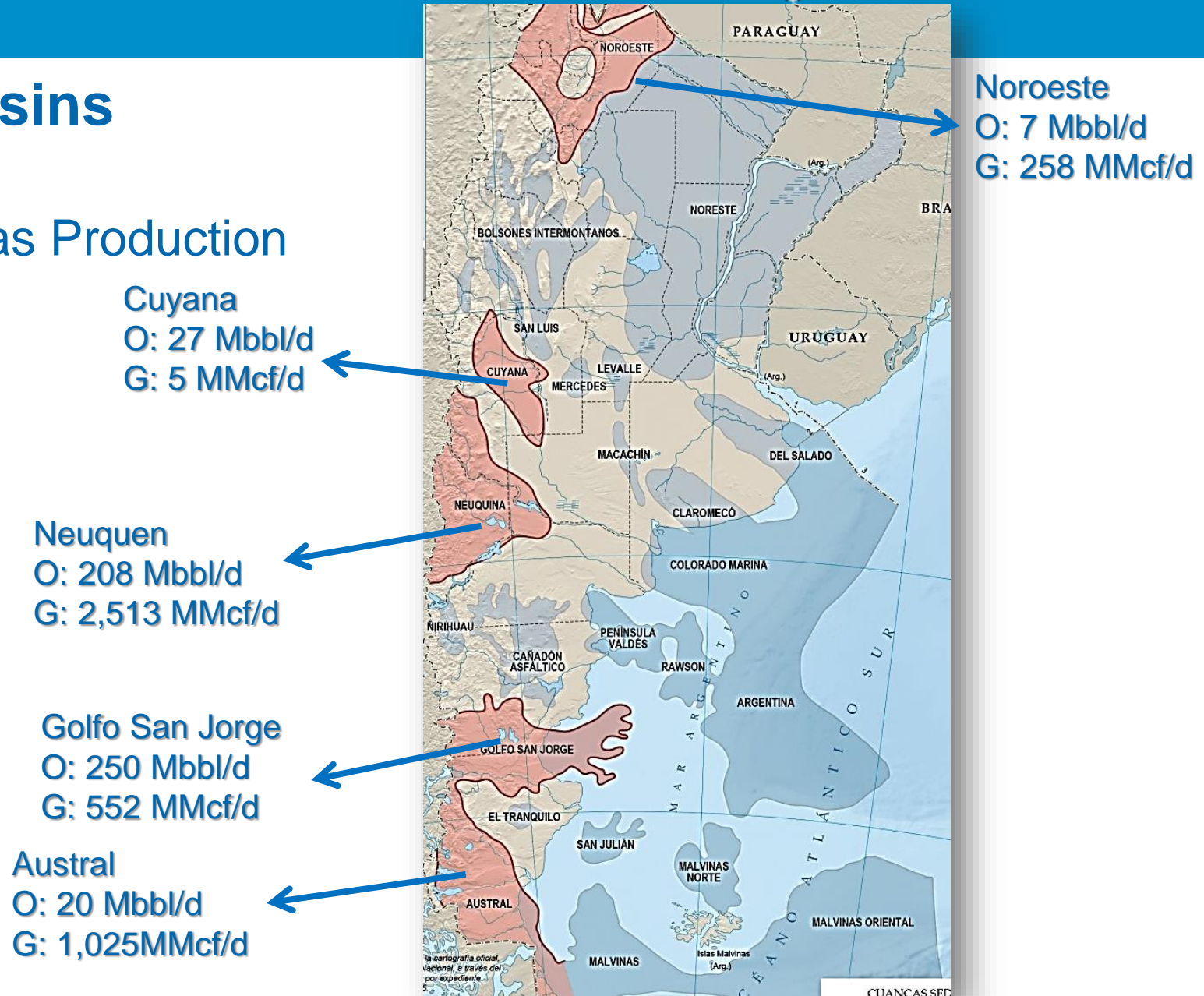
Currently 5 productive Basins

- 600,000 km²
- Austral Basin with Offshore Gas Production

14 unproductive Basins

Daily Production

- Oil: 0.5 MMbbl/d
- Gas: 4.3 Bcf/d



Legal Framework Overview

- Subsurface resources are Province/Federal Government property
- Permits / Concessions granted on tax + royalty regime
- Access to acreage through bid rounds or farm-in agreements with existing rightsholders
- Federal Government sets national H/C policies, controls marketing activities and inter-province transport
- Provinces in charge of onshore supervision and control
- Minimum environmental regulations set by Federal Government and specific legislation set by Provinces

Exploration Permits

- Conventional
 - 1st and 2nd terms: 3 + 3 years
 - Extension: 5 years
- Unconventional / Offshore
 - 1st and 2nd terms: 4 + 4 years
 - Extension: 5 years

Production Concessions

- Conventional: 25 years
- Unconventional: 35 years
- Offshore: 30 years
- Extensions: 10 years (unlimited when requirements are met)

Royalties

- 12% of Production (15% in exploration phase)
- Extension: additional 3% for each (maximum 18%)

Annual Fee

- Exploration Phase Fee
- Production Phase Fee

Other taxes generally apply to business conducted in Argentina

- Provincial Taxes: Gross Income Tax (3%) and Stamp Duties
- Federal Taxes: VAT (21%) and Income Tax (35%)
- Land Owner Compensation



Res SE 105 (1992)

- Regulations and procedures for environmental protection within E&P. Preliminary Studies, Tracking and control.

Res SE 342 (1993)

- Contingency Environmental Plan requirements for HC Exploration
 - Evaluation and management of Risk previously analyzed
 - Tasks should be grouped in: containment, confinement, recollection, cleaning and restoration

Res SE 341 (1993)

- Approves schedule and standards for soil restoration and pond rehabilitation

Res SE 143 (1998)

- Approves procedures and standards for gas flaring and defines exception criteria.

Res SE 24 (2004)

- Environmental Incident classification
 - Major: spills, explosions/fire, toxic or hazardous vapors/gas leaks, well blow outs, RA/explosives/chemical incidents.
 - Communicate to Authority in 24 hours. Report to be submitted in 30 days

Res SE 25 (2004)

- Environmental studies (each with different timeframes): Exploration drilling, seismic, construction and abandonment of facilities.
- Each needs to have 4 stages: Pre project evaluation, Identification and evaluation of impacts due to project, mitigation plan for those impacts and the effectiveness of that mitigation.

What we did in our first year

Managed transition of domestic oil & gas prices towards international level

- Reduction of oil prices from 77 USD/bbl via industry agreements. Now closer to import parity level
- Natural gas prices increased and path toward import parity defined
- New program to promote development of Vaca Muerta gas fields via government supported price

Optimization of Oil and Natural Gas imports

- Started LNG imports via Chile to compensate for lower supply from Bolivia during the winter months
- Less LNG cargoes and lower price compared with the past
- Management of imports directly by ENARSA (instead of contracted YPF)

Introduced changes into domestic fuels market

- New specs for mogas and diesel to improve quality (Res. 5/2016)
- Ethanol in mogas increased to 12% (Res. 37/2016)
- Biodiesel with higher capacity utilization in 2016

Trilateral agreement to start of development of Vaca Muerta unconventional resources

- Union agreed to modify old labor contract to reduce operational cost
- Oil companies committed investment to develop new fields of unconventional resources in Vaca Muerta
- Neuquén Province and Federal Government to support natural gas prices and reduce government take

What we are focusing on

Continued normalization of Oil & Gas markets

- Convergence with international oil prices
- Natural gas price increase and subsidy reduction

Improved regional integration

- Continued improving regulation of regional exports and renewed commitment to Uruguay exports
- Import regulations set to ensure proper functioning of markets

Improved productivity and cost reduction

- Chubut unions agreed to modify labor contract to increase productivity and reduce operational costs and oil companies committed investment to sustain activity
- New used equipment import program reduces duties from 28 % to 7 % and expedites process

Offshore Bid Rounds

- Survey of interest concluded
- Seismic campaign underway

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