YPF SOCIEDAD ANONIMA
Form 20-F
July 14, 2006
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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, 2005

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, 2005 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 acre	=	0.405 hectares	=	0.004 squared kilometer
1 barrel	=	42 U.S. gallons		
1 barrel of oil equivalent	=	1 barrel of crude oil	=	5,615 cubic feet of gas
1 barrel of crude oil per day	=	approximately 50 tonnes of crude oil per year		
1 cubic meter	=	35.314 cubic feet		
1 cubic meter	=	6.2891 barrels		
1 kilometer	=	approximately 0.62 miles		
1 meter	=	0.0006 miles		
1 short ton	=	0.907 tonnes	=	2,000 pounds
1 long ton	=	1.016 tonnes	=	2,240 pounds
1 tonne	=	1 metric tonne	=	1,000 kilograms = approximately 2,205 pounds
1 tonne of crude oil	=	1 metric tonne of crude oil	=	approximately 7.3 barrels of crude oil (assuming a specific gravity of 347 Atmospheric Pressure Index (API))

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 , YPF S.A. , we, our and us refer to YPF Sociedad Anónima and its controlled and jointly controlled companies or, if 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 US$ are to United States dollars.

Disclosure of Certain Information

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 abrogated the one-to-one dollar-peso peg. Since that date, the peso floats freely against the dollar in the Argentine foreign exchange market. Since December 31, 2002, the exchange markets were consolidated into a free market for negotiating foreign trade transactions.

In this annual report, references to Consolidated Financial Statements are to YPF s audited consolidated balance sheets as of December 31, 2005, 2004 and 2003, and YPF s audited consolidated statements of income for the three years ended December 31, 2005, 2004 and 2003.

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.

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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.

Reserves Restatement

On January 26, 2006, YPF announced that, in connection with the determination of its proved oil and gas reserves as of December 31, 2005, it would reduce its prior proved reserves estimates by 509 million barrels of oil equivalent, 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. This amount represented 21% of YPF s total proved reserves originally reported as of December 31, 2004. 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 with the assistance of an independent counsel, King & Spalding LLP. On January 27, 2006, the Audit Committee of YPF determined to rely on the investigation being conducted by Repsol YPF s Audit and Control Committee. The Audit and Control Committee presented the final conclusions and recommendations of the independent review to the Board of Directors of Repsol YPF at its meeting of June 15, 2006. On the same date, the Audit Committee of YPF evaluated such conclusions and recommendations, endorsed such conclusions and recommended to the Board of Directors of YPF that such recommendations be implemented by YPF. This report includes restated unaudited oil and gas reserves disclosures as of December 31, 2003 and 2004 that give effect to this reduction as of such dates, on which such reserves did not originally represent proved reserves under the applicable rules of the Securities and Exchange Commission. Please refer to Item 4. Information on the Company Exploration and Production Reserves for an analysis of the reserves revision, Item 5. Operating and Financial Review and Prospects Recent Developments Reserves Revisions and Independent Review and Notes 16 and 18 of the Consolidated Financial Statements for additional information and discussion relating to the reserves revision.

Forward Looking Statements

This annual report 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 appear throughout this annual report and may include statements regarding the intent, belief or current expectations of YPF and its management, including with respect to trends affecting YPF s financial condition, results of operations, business, strategy, production volume and reserves, as well as YPF s plans with respect to capital expenditures and investments. 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, results of operations, business strategy, production volumes, reserves, capital expenditures and investments 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 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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CERTAIN OIL AND GAS TERMS

Unless the context indicates otherwise, the following terms have the meanings shown below:

acreage	The total area, expressed in acres, over which YPF has interests in exploration or production. Net acreage is YPF s interest, expressed in acres, in the relevant exploration or production area.
Bcf	Billion cubic feet.
Bcfe	Billion cubic feet equivalent.
BOE	Barrels of oil equivalent.
bpd	Barrels of oil per day.
calendar day	When used with respect to production or capacity, it means total annual production or capacity (after taking into account scheduled plant shutdowns) divided by the number of days in each year.
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.
HP	Horse power.
MBOE	Million barrels of oil equivalent.
mmbbl	Million barrels.
mbpd	Thousand barrels per day.
mcf	Thousand cubic feet.
mcfpd	Thousand cubic feet per day.

mmbtu	Million British Thermal Units.
mmcf	Million cubic feet.
mmcfpd	Million cubic feet per day.
proved reserves	Proved oil and gas reserves are the estimated volumes 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 of escalations based upon future conditions.

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proved developed reserves	Proved developed 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 natural forces and mechanisms of primary recovery are included as proved developed reserves only after pilot project testing or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.
proved undeveloped reserves	Proved undeveloped 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, but does not include reserves attributable to any acreage for which an application of fluid injection or other improved recovery techniques are contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir. Reserves on undrilled acreage are limited to those drilling units offsetting productive units with reasonable production certainty 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.
WTI	West Texas Intermediate.

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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, 2005 and the consolidated balance sheet data as of December 31, 2005, 2004 and 2003 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, 2002 and the consolidated balance sheet data as of December 31, 2002 and 2001 set forth below have been derived from YPF s audited consolidated financial statements, which are not included in this annual report. The consolidated income statement data for the year ended December 31, 2001 and the consolidated balance sheet data as of December 31, 2001 do not include the retroactive effects from discontinued operations mentioned in Note 2 (c) to the Consolidated Financial Statements.

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.

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	Year Ended December 31,				
	2005	2004	2003	2002	2001(1)
	(in millions of pesos, except for per share and per ADS data)				
Consolidated Income Statement Data:					
Amounts in accordance with Argentine GAAP (2)					
Net sales (3)(4)	22,901	19,931	17,514	17,050	17,942
Gross profit	11,643	10,719	9,758	8,424	7,201
Administrative expenses	(552)	(463)	(378)	(411)	(480)
Selling expenses	(1,650)	(1,403)	(1,148)	(1,077)	(1,721)
Exploration expenses	(280)	(382)	(277)	(240)	(224)
Operating income	9,161	8,471	7,955	6,696	4,776
Income (Loss) on long-term investments	39	154	150	(450)	(227)
Other expenses, net	(570)	(1,012)	(152)	(245)	(206)
Interest expense	(459)	(221)	(252)	(679)	(647)
Other financial income (expenses) and holding gains (losses), net	561	359	202	(2,312)	(35)
Income (Loss) from sale of long-term investments	15			690	(274)
Income before income tax and minority interest	8,747	7,751	7,903	3,687	3,345
Income tax	(3,410)	(3,017)	(3,290)	(58)	(1,424)
Minority interest					(2)
Net income from continuing operations	5,337	4,734	4,613	3,629	1,919
Income (Loss) on discontinued operations		3	15	(13)	
Income from sale of discontinued operations		139			
Net income	5,337	4,876	4,628	3,616	1,919
Earnings per share and per ADS (5) (in nominal pesos)	13.57	12.40	11.77	9.19	4.88
Dividends per share and per ADS (5) (in nominal pesos)	12.40	13.50	7.60	4.00	4.22
Dividends per share and per ADS (5) (in U.S. dollars)	4.24	4.70	2.62	1.12	4.22
Approximate amounts in accordance with U.S. GAAP					
Operating income	8,065	6,550	7,567	5,173	1,676
Net income	5,142	4,186	4,435	3,498	1,252
Earnings per share and per ADS (5) (in nominal pesos)	13.07	10.64	11.28	8.89	3.18
Consolidated Balance Sheet Data:					
Amounts in accordance with Argentine GAAP (2)					
Cash	122	492	355	309	132
Working capital	2,903	3,549	4,001	4,063	(865)
Total assets	32,224	30,922	32,944	31,756	30,856
Total debt (6)	1,453	1,930	2,998	5,552	6,139
Shareholders equity (7)	22,546	22,087	22,534	20,896	18,861
Approximate amounts in accordance with U.S. GAAP					
Total assets	34,748	32,540	34,125	36,280	20,581
Shareholders equity	24,254	23,506	24,334	26,303	13,259
Other Consolidated Financial Data:					
Amounts in accordance with Argentine GAAP (2)					
Fixed assets depreciation	2,707	2,470	2,307	2,161	2,295
Cash used in fixed asset acquisitions	3,722	2,867	2,418	2,898	2,915

(1) The consolidated income and balance sheet data for the year ended December 31, 2001 set forth above does not include the retroactive effect from the sale of discontinued operations (see Note 2 (c) to the Consolidated Financial Statements).

(2) Amounts restated to constant Argentine 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.

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(3) Includes 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, Ps. 1,019 million for the year ended December 31, 2002 and Ps. 2,939 million for the year ended December 31, 2001 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.

(4) 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 (h) to the Consolidated Financial Statements.

(5) 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.

(6) Total debt under Argentine GAAP includes long-term debt of 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, Ps. 3,760 million as of December 31, 2002 and Ps. 3,288 million as of December 31, 2001.

(7) YPF s subscribed capital as of December 31, 2005, is represented by 393,312,793 shares of common stock and divided into four classes of shares, with a par value of Argentine pesos 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 the last 30 years. From April 1, 1991, when Law No. 23,928 and Decree No. 529/91 (referred to as the Convertibility Law) became effective, until December 23, 2001, when the foreign exchange market in Argentina was closed for eighteen days, 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 abrogated the one-to-one dollar-peso peg. On that date, the Argentine foreign exchange market reopened and the peso started to float freely against the dollar.

The exchange rate on December 31, 2005 closed at Ps. 3.032 per US dollar, selling rate. The exchange rate on July 11, 2006, the latest practicable date before the filing of this annual report, was Ps. 3.084 per US 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
2001	1.0000	1.0000	1.0000	1.0000
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

Month	High	Low	Average	Period End
November 2005	2.992	2.939	2.965	2.966
December 2005	3.040	2.978	3.015	3.032
January 2006	3.066	3.030	3.047	3.066
February 2006	3.075	3.066	3.070	3.074
March 2006	3.083	3.067	3.083	3.082
April 2006	3.085	3.039	3.066	3.048
May 2006	3.088	3.034	3.057	3.085
June 2006	3.090	3.075	3.082	3.086
July 2006 (2)	3.087	3.084	3.086	3.084

(1) Calculated using the average exchange rates on the last day of each month during each year.
(2) Through July 11, 2006.
Source: Banco Nación.

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**
2001	0.22	2.00		2.00	4.22
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 (1)		6.00			6.00

(1) Through July 11, 2006.

The Annual Ordinary and Extraordinary Shareholders Meeting held on April 10, 2002 approved an annual dividend of Ps. 2.00 per share or per American Depositary Share (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.

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.

Risk Factors

Negative Economic, Political and Regulatory Developments in Argentina Including Export Controls 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 towards the end of the 1980s and beginning of the 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, and the annual inflation rate as measured by the wholesale price index was approximately 432% in 1988, 5,386% in 1989 and 798% in 1990. As a result of inflationary pressures, the Argentine currency was devalued repeatedly during the 1960s, 1970s and 1980s, 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 during this period.

Since 1991, following the adoption of the Convertibility Law and for a period of seven years, inflation declined progressively and the Argentine economy enjoyed seven years of growth. In the last quarter of 1998, the Argentine economy was affected by an adverse change in international financial conditions, and started to show signs of stagnation, entering into a recession, causing Argentine s 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 deep social and economic deterioration accompanied by high political and economic instability. The restrictions on bank deposits withdrawals, 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 (and the consequent depreciation of the peso against the dollar) resulted in a deep negative shock to the Argentine economic system, resulting in economic activity contraction (Gross Domestic Product (GDP), declined by 10.9% in 2002), increasing inflation (41% in that year) and high volatility of the exchange rate. Unemployment rose to over 20%, and the incidence of poverty worsened dramatically. The political and economic instability curtailed commercial and financial activities in Argentina and affected adversely the country s access to international financing.

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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 elections took place on April 27, 2003. Mr. Nestor Kirchner took office as the new President on May 25, 2003. At the end of 2005, Kirchner s political party maintained a majority in both Houses of Congress, and held the majority of the provincial governships. In the first three years of his in office, Mr. Kirchner has been enjoying a very high rate of public approval for his administration.

In a context of strong economic growth in the developed economies and favorable pricing of raw materials, throughout 2003, 2004 and 2005, Argentina has recovered from the deep crisis that began at the end of 2001. The manufacturing and construction industries have driven GDP growth to 8.7% in 2003, 9.0% in 2004, and 9.2% in 2005. Public finances continued to strengthen both at national and provincial levels, recording a consolidated primary surplus of about 5.5% of GDP in 2004 and 4.5% in 2005. Inflation was 3.7% year-on-year at the end of 2003, but showed an upward trend in 2004 (6.1% year-on-year) and 2005 (12.3% year-on-year). The government s main strategy to fight against increasing inflation has been the use of price controls and price agreements with private companies.

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 also seeking to resolve the non-restructured part of its external public debt and the claims brought before international courts by foreign companies affected during the crisis.

At the beginning of 2006, the economic growth outlook is still positive, and in May 2006 GDP growth and inflation were projected to be 7.5% and 11%, respectively, in 2006.

Since March 2004, and as a consequence of an increase in domestic demand, a shortage in the domestic supply of natural gas and continued high international oil prices, the government has adopted additional measures that modify the energy sector regulatory environment. In order to alleviate energy restrictions, the government made provisions for importing natural gas from Bolivia, including ending transport capacity restrictions, importing fuel-oil from Venezuela, and imposing limits on the supply of gas to industrial consumers. And during winter, gas supply to industries and electricity generation plants may be interrupted since priority is given to residential consumers.

Although the government has increased well head gas prices for industrial and electricity generators, the government increased the export tax for crude oil to a maximum of 45% and reintroduced an export tax for gasoline at 5%. Additionally, since May 28, 2004 exports of natural gas are subject to customs duties of 20%.

In the domestic oil product market, domestic inflation rates and international oil prices have not translated into higher domestic prices.

YPF s business and results of operations have been, and may continue to be, materially and adversely affected by economic, political and regulatory risks and developments in Argentina. In particular, in the past few years the energy sector and YPF have been affected by lower sale volumes, restrictions on transferring money out of Argentina, 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 if Argentine growth trends and macroeconomic stability noted in the last three years continue, which is not assured, the energy sector and YPF will continue to face significant risks of an economic and political slowdown. The main economic risks we face because of our operations in Argentina are the following:

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

- difficulties in increasing local prices of natural gas, especially for our residential customers households;

- higher taxes on exports of hydrocarbons;
- quantitative restrictions on hydrocarbon exports;
- political pressure to carry out hydrocarbon import activities even if they are unprofitable or loss-making activities;
- higher taxes on domestic sales of fuel;
- political pressure to increase investment in Argentina, or to sell or transfer some assets to other public or private companies; and
- unexpected unilateral termination of oil & gas production concessions.

The difficult social situation and frequent street demonstrations, may affect our normal operations particularly at wells, refineries, distribution terminals, pipelines and at YPF s administrative headquarters.

The Argentine government still faces a wide array of formidable tasks, such as bringing down the inflation rate, establishing a new regulatory framework for privatized utilities, restoring investor confidence and stimulating investment in Argentina, developing a sound medium-term budgetary policy and addressing the fundamental flaws in Argentina s long-term fiscal policies that caused the country s last economic and political crisis.

There is no assurance that Argentina s government will be able to accomplish these tasks, that the Argentine economy will achieve a steady growth rate in the foreseeable future, that the measures announced so far will achieve their intended results, or that the political and socio-economic conditions currently prevailing in Argentina will enable the government to develop and implement other measures and policies necessary to achieve macroeconomic stabilization goals.

YPF is subject to the risk of export restrictions being imposed on it. Any export restriction imposed on YPF may adversely affect the results of our operations. Law No. 17,319 established that the Federal Executive allows hydrocarbons exports as long as they are not required for the domestic market and they are sold at reasonable prices. In May 2002, the Argentine government, through Decree No. 867/02, declared a temporary national emergency and authorized the Secretariat of Energy to establish the volumes of crude oil and Liquid Petroleum Gas (LPG) that must be sold in the domestic market, hence restricting the volumes of crude oil and LPG that may be exported. In March 2004, the Secretariat of Energy, through Resolution No. 265/04 established certain restrictions on export sales of surplus natural gas that may be needed for internal consumption. Pursuant to Resolution No. 265/04, the Under-Secretariat of Fuels issued Regulation No. 27/04 which, among other things, establishes that without an express authorization by the Government, natural gas export authorizations may not be granted for volumes exceeding natural gas exports registered during 2003. Moreover, 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 willing to export crude oil and diesel have to previously obtain an authorization. To that effect, oil companies willing to export crude oil have to previously prove that the demand of crude oil by local refineries is satisfied or that an offer to sell crude oil has been made to refineries. In similar terms, refineries willing to export diesel have to previously prove that the local demand of diesel is duly satisfied. Through Resolution No. 752 issued by the Secretariat of Energy , the government could require from producers an additional injection of natural gas for the Electronic Gas Market (Mercado Electrónico del Gas MEG), participants. See Item 4. Information on YPF Regulatory Framework and Relationship with Argentine Government. In connection with the previously mentioned resolutions, as described in Item 8. Legal Proceedings , since March 2004, YPF was forced to reduce, either totally or partially, its natural gas deliveries to some of its export clients. Upon giving notice of each restriction to its clients, YPF asserted that the resolution constitutes force majeure and releases YPF from any contractual or extra contractual liability for failing to supply the natural gas volumes agreed upon in the respective contracts. Some of YPF s customers have rejected YPF s assertion of force majeure and notified YPF of their intention to hold YPF liable for a breach of contract. YPF has answered by asserting force majeure once again.

On March 31, 2006 and on May 24, 2006 the General Customs Administration of Neuquén and Comodoro Rivadavia served notice upon YPF thereby informing it that summary proceedings have been brought against it due to a formal misstatement on the forward oil deliveries (future commitments of crude oil deliveries) in the loading permits submitted before such agency. YPF s Management, based on the opinion given by its legal counsel, believes the claim has no legal basis. 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 Materially Affect Our Capacity to Service Our Financial Obligation.

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 Materially Affect Our Capacity to Service Our Financial Obligation

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 inflows and outflows 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 Congress abandoned the fixed exchange rate mechanism of the Convertibility Law, allowing the peso to float freely against the U.S. dollar. Under this new mechanism, the Central Bank is no longer obligated to maintain foreign currency reserves to back up the amount of outstanding pesos, nor is it obligated to sell or buy U.S. dollars at a certain fixed exchange rate.

Following a deep depreciation of the peso in the first half of 2002, the peso had thereafter steadily appreciated, mainly as a consequence of the current account surplus. The currency subsequently stabilized at approximately Ps. 3.00 for each US$1.00, as the Central Bank intervened to avoid further appreciation of the peso, by buying dollars in the exchange market.

No prediction of either the direction or the magnitude of future fluctuations in exchange rates can be made. In the event of a reversal of the current Argentine peso appreciation trend, additional 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 were imposed on exports. Since March 2002, oil and gas companies must pay a 20% tax on the proceeds from the export of crude oil and a 5% tax on the proceeds from the export of oil products for a five-year period. 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, as follows: export of crude oil by 25%, exports of butane, methane and LPG by 20%, and exports of gasoline and diesel at a rate of 5%. On May 26, 2004, a new 20% duty on natural gas and natural gas liquids exports (NGL) was imposed by Decree No. 654/04. 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 export.

However, given the need to increase the fiscal primary surplus and the difficulties of the government in generating additional revenues, there can be no assurances that the government will reduce or even increase or extend the duration of export taxes. In such an unstable environment, 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 the 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 still have to convert proceeds from their export operations into domestic currency. Pursuant to Decree No. 1,589/89 and Decree No. 2,703/02, companies in the oil & gas sector are partially exempted from this requirement and are allowed to keep abroad up to 70% of their export proceeds. This regulation allows YPF to service its financial and other obligations denominated in U.S. dollars. In July 2002, Argentina s Attorney General issued an opinion which would have effectively required YPF to liquidate 100% of its export receivables in Argentina. 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 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. 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 & 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. On the other hand, the Court of First Instance hearing the case considered that the lawsuit has an economic nature. 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 hydrocarbon exports, 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 request precautionary measures within the framework of other judicial proceedings.

Price and Supply Controls. Since January 2002, YPF raised retail prices of gasoline and diesel, to reflect the effect of the currency devaluation and rising international prices for crude oil and derivative products. Since the second half of 2002, oil companies in Argentina agreed with the government to defer the effect of high crude oil prices on gasoline and diesel retail prices. We cannot guarantee that the government will not put in place additional implicit or explicit price controls in an attempt to reduce prices and curb inflation. If YPF s domestic sales are subjected to implicit or explicit price controls, YPF s business and results of operations may be adversely affected.

In addition, YPF may be forced to import increasing amounts of diesel fuel to supply internal demand, which depending on the price of the diesel fuel and the volume of fuel imported, may have a material adverse effect on YPF s financial condition.

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, investors reaction to developments in one country can have significant effects on the price of securities issued in other countries, 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 Risk Factors Political Instability and the Uncertain Regulatory Outlook in Bolivia may have a Material Adverse Effect on our Long-term Natural Gas Supply Commitments below.

Fluctuations in Oil and Gas Prices 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 a material adverse effect on our ability to replace our reserves in the future. 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 2005, the average international crude oil price was US$ 56.58 per barrel, compared to US$ 41.40 per barrel in 2004. In addition, our prices in the domestic oil market are approximately 41.65% lower than in the international oil markets.

Natural gas market prices affect the timing and the amount of our projected capital expenditures related to gas exploration, development and distribution activities, which could have a material adverse effect on our ability to replace our gas reserves and develop our natural gas business. A significant portion of our natural gas sales from natural gas distribution companies are set in pesos and are subject to direct and indirect price controls, see Item 4: Regulatory Framework and Relationship with Argentine Government Natural Gas . Therefore, a further devaluation of the peso, not accompanied by the corresponding increase in natural gas prices, may result in our delaying 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. We cannot guarantee that our exploration, development and acquisition activities will result in significant additional reserves or that we will continue to be able to drill productive wells at acceptable costs.

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. They are subject to production, equipment and transportation risks, 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 involve unprofitable efforts, 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.

Our 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, regulatory investigation; and
- penalties and suspension of operations.

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

In October 2004, the Argentinean 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 to transport and distribute gas as a public service and generete, 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 two preliminary agreements with ENARSA for the exploration and exploitation offshore areas in Argentina.

Oil companies, including YPF, must maintain a certain level of undeveloped oil and natural gas reserves to keep their results from 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. Such competition may result in YPF s failure to obtain desirable production blocks or result in YPF s acquiring such blocks at a higher price.

Governmental Regulations and Political Risks May Interrupt Our Production Activities

Our foreign petroleum exploration, development and production activities are subject to a variety of regulatory and political risks including:

- expropriation of property and cancellation or modification of contract rights;
- political and economic uncertainties; and
- foreign exchange restrictions and other risks arising out of foreign governmental sovereignty over the areas in which our operations are conducted.

Any occurrence of one of these regulatory or political activities would have a material adverse effect on our financial condition and results of operation.

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. These laws and regulations have had and will continue to have a substantial impact on YPF s operations, 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 about 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 results of operations in any given year.

In addition, federal, state and local laws and regulations relating to health and environmental quality in the United States, as well as environmental laws and regulations of other countries in which YPF Holdings Inc. (YPF Holdings), operates, affect nearly all the operations of this subsidiary. These laws and regulations set

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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 a variety of 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.

Some risks of environmental and other damage are inherent in certain of our 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 results of operations.

We may also have liabilities relating to our former operations. In particular, Maxus, an indirectly wholly-owned subsidiary of YPF Holdings, has indemnified Occidental Petroleum for certain environmental liabilities associated with the former operations of Diamond Shamrock Chemicals Company. Tierra Solution Inc. (Tierra) also an indirectly wholly-owned subsidiary of YPF Holdings, has assumed responsibility for most of these liabilities. Maxus and Tierra have taken reserves of US$ 85.2 million relating to those liabilities based on current knowledge, including the information with respect to the number and type of claims made to date and the current state of technical and factual information about the environmental issues. It is possible that additional claims will be made, however, and additional information about new or existing claims is likely to be developed over time. As a result, Maxus and Tierra may have to incur costs that may be material, in addition to the reserves already taken.

Political Instability and the Uncertain Regulatory Outlook in Bolivia may have a Material Adverse Effect on our Long-term Natural Gas Supply Commitments.

In July 2004, former President Carlos Mesa held a referendum on the future of the country s oil and gas industry in which Bolivians voted to permit natural gas exports, to exert more control over the industry and to impose higher royalties and taxes on natural gas. However, during the first months of 2005, there have been protests in Bolivia calling for, among other things, greater state involvement in the oil and gas industry. In May 2005, the Bolivian Congress voted to impose an additional 32% tax on foreign oil companies in Bolivia. Moreover, on May 1, 2006 President Evo Morales Ayma issued Supreme Decree No. 28,701 (the Supreme Decree), setting forth the nationalization of hydrocarbons. The Supreme Decree establishes, among other measures that the government of Bolivia: i) will control and direct all aspects of oil and gas production and distribution and is empowered to commercialize, set conditions, volumes and prices for internal consumption, export and industrialization; ii) establish a 180-day time period for the renegotiation of contracts to bring them in line with oil and gas Law No. 3,058 enacted in 2005; iii) recover up to 51% of the voting shares of five companies; and iv) increase the tax burden from 50% to 82% for the two largest gas fields in Bolivia.

Since the new hydrocarbon law has not been enacted yet, the final impact can not be properly estimated. The main oil & gas producers in Bolivia have stated that the volume of natural gas exports to Argentina and Brazil have not been affected by this situation and they expect that production in Bolivia will not be reduced.

However, it is likely that exports and production will not increase at previously estimated rates. Consequently, the future plan to increase natural gas supply to Argentina may be substantially delayed. It is not possible to anticipate the consequences of this shortage, since YPF plans to fulfil its long-term supply contracts of natural gas in part through increasing import volumes from Bolivia.

YPF has a gas supply agreement with Yacimientos Petrolíferos Bolivianos (YPFB) with a term ending on December 31, 2006. YPF has not received notification from YPFB of any possible termination of the supply of gas and the governments of Bolivia and Argentina are still having discussions about such supply. Nevertheless, any suspension by YPFB of natural gas deliveries would have a material adverse effect on YPF s financial condition and operations, including the inability to provide gas to certain clients.

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 losses of a company is limited to the value of his or her shareholdings in YPF. 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 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.

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, Buenos Aires, Argentina and its telephone number is (5411) 4329-2000.

YPF, Argentina s largest company, is an integrated oil and gas company engaged in the exploration, development and production of oil and gas and 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).

As of December 31, 2005 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. 22,901 million in 2005 and has proved reserves, as estimated at January 1, 2006, of approximately 777 mmbbl of crude oil, condensate and natural gas liquids and 4,683 Bcf of natural gas. More

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than the 99% of these reserves are located in Argentina, where YPF produced 134 million barrels of crude oil, condensate and natural gas liquids (367 mbpd) in 2005, representing approximately 40% of the total estimated crude oil production in Argentina. YPF s natural gas production in Argentina reached 667 Bcf in 2005, representing approximately 30% of the total natural gas production of Argentina.

YPF s domestic refining operations are conducted at three own 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 of 10 million barrels.

YPF s retail distribution network for automotive petroleum products is composed of approximately 1,830 YPF-branded service stations, representing approximately 30% of all service stations in Argentina.

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

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 17 (b) to the Consolidated Financial Statements for a complete list of YPF s ownership interest in other companies.

Deregulation, Privatization and Recent Developments

From the 1920 s to 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 eliminating restrictions on imports and exports of crude oil (subject to

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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 plan 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.

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 of 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 plan, with the remainder distributed to participants in the plan.

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 Classes A, B, C and D Share at a price of US$ 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, 2005, 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 Inc., sold for US$ 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.

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In October 2004, YPF through YPF International S.A., sold for US$ 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 US$ 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 US$ 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.

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;

Chemical.

The Exploration and Production segment sells to third parties in Argentina and abroad include 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 preceding operations and A-Evangelista S.A. s operations.

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The following table sets forth net sales and operating income for each of YPF s lines of business for the years ended December 31, 2005, 2004 and 2003.

	For the Year Ended December 31,		
	2005	2004	2003
	(in million of pesos)		
Net Sales (1)			
Exploration and Production (2)(3)			
To unrelated parties	2,910	2,164	1,475
To related parties	626	752	534
Intersegment sales and fees (4)	11,659	11,225	10,390
Total Exploration and Production	15,195	14,141	12,399
Refining and Marketing (5)			
To unrelated parties	15,791	13,144	11,856
To related parties	1,425	1,773	2,161
Intersegment sales and fees	962	891	650
Total Refining and Marketing	18,178	15,808	14,667
Chemical			
To unrelated parties	2,062	1,958	1,369
Intersegment sales and fees	207	188	184
Total Chemical	2,269	2,146	1,553
Corporate and other			
To unrelated parties	87	140	119
Intersegment sales and fees	243	126	117
Total Corporate and others	330	266	236
Less intersegment sales and fees	(13,071)	(12,430)	(11,341)
Total net sales (6)	22,901	19,931	17,514
Operating Income (loss)			
Exploration and Production	7,140	7,140	6,362
Refining and Marketing	1,900	1,324	1,527
Chemical	542	564	387
Corporate and other	(451)	(430)	(311)
Consolidation adjustments	30	(127)	(10)
Total operating income	9,161	8,471	7,955

(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 (h) 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 and 2003 were Ps. 577 million and Ps. 418 million, respectively, and the operating income was Ps. 262 million and Ps. 180 million in 2004 and 2003, respectively.

(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. 8,644 million, Ps. 7,875 million and Ps. 7,422 million for the years ended December 31, 2005, 2004 and 2003, respectively. The export sales were mainly to the United States of America (Ps. 2,821 million in 2005 and Ps. 2,194 million in 2004), Brazil (Ps. 659 million in 2005 and Ps. 897 million in 2004) and Chile (Ps. 1,315 million in 2005 and Ps. 1,928 million in 2004).

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Exploration and Production

Reserves

Unless otherwise indicated below, YPF has estimated its proved oil and gas reserves in this report as of December 31, 2005, 2004, 2003 and 2002 in accordance with guidelines established by the Securities and Exchange Commission and accounting principles set by the Financial Accounting Standards Board. See Note 16 to the Consolidated Financial Statements. These standards require reserve estimates to be prepared under existing economic and operating conditions with no provision for price and cost escalations except by contractual arrangements.

Prior to the revisions described below, the reserves in all our production areas in Argentina were externally certified by independent engineers Gaffney, Cline & Associates (GCA) over a three-year cycle (2002-2004). On January 1, 2005, a second external certification cycle began. DeGolyer and MacNaughton (D&M) evaluated the main areas operated by YPF in the Cuyana and Neuquina basins and GCA evaluated 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 certifications covered 69.5% of YPF s proved reserves in Argentina at December 31, 2005.

The following table sets forth YPF s estimated proved reserves and proved developed reserves of crude oil and natural gas as of December 31, 2002, 2003, 2004 and 2005 and are subject to the explanations and qualifications listed therein.

As restated	Crude Oil (1) (millions of barrels)	Natural Gas (Bcf)	Combined (2) (BOE in millions)
Proved Developed and Undeveloped Reserves			
Reserves at December 31, 2002	1,387	8,974	2,985
Revisions of previous estimates (3)	(86)	(1,897)	(423)
Extensions, discoveries and improved recovery	58	16	61
Production for the year	(157)	(644)	(272)
Reserves at December 31, 2003	1,202	6,449	2,351
Revisions of previous estimates (3)	(21)	(137)	(45)
Extensions, discoveries and improved recovery	34	115	55
Sales of reserves in place	(5)	(45)	(13)
Production for the year	(146)	(706)	(272)
Reserves at December 31, 2004	1,064	5,676	2,076
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	4,683	1,611
Proved Developed Reserves			
At December 31, 2002	1,136	6,801	2,347
At December 31, 2003	984	4,226	1,737
At December 31, 2004	863	4,045	1,582
At December 31, 2005	604	3,201	1,174

(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.

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Net crude oil and gas proved reserves at December 31, 2005 were 1,611 million barrels of oil equivalent (48% crude oil, including condensate and natural gas liquids and 52% natural gas), a 31% decrease compared to net crude oil and gas proved reserves of 2,330 million barrels of oil equivalent originally reported at 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 with the assistance of an independent counsel, King & Spalding LLP. On January 27, 2006, the Audit Committee of YPF determined to rely on the investigation being conducted by Repsol YPF s Audit and Control Committee. The Audit and Control Committee presented the final conclusions and recommendations of the independent review to the Board of Directors of Repsol YPF at its meeting of June 15, 2006. On the same date, the Audit Committee of YPF evaluated such conclusions and recommendations, endorsed such conclusions and recommended to the Board of Directors of YPF that such recommendations be implemented by YPF. According to the independent review, the process for determining reserves with respect to YPF s fields in Argentina was flawed from 1999 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.

In addition to emphasizing the importance of the numerous and effective organizational changes that Repsol YPF, including YPF, has undertaken in 2005, which have remedied in large measure the weaknesses identified above, as well as the significant steps already undertaken regarding public awareness about YPF s reserves, the independent review has also led to certain recommendations with the goal of continuing the process already underway. The Board of Directors of YPF has fully accepted the conclusions of the Audit and Control Committee of Repsol YPF and of its independent advisors and management is in the process of implementing these recommendations. See Note 16 to the Consolidated Financial Statements and Item 5. Operating and Financial Review and Prospects Recent Developments Reserves Revisions and Independent Review for a detailed discussion of the independent review and its conclusions.

Based on its application of SEC criteria for reporting proved reserves, YPF has concluded that a reserves restatement should be made in Argentina with respect to years 2003 and 2004. Specifically, YPF has concluded that reported volumes at the gas-condensate reservoir of Loma La Lata Sierras Blancas, which had originally been booked on the basis of computer reservoir simulation modeling, were not sufficiently supported by actual reservoir performance. This conclusion is attributable to recent processing of technical information available in 2003 and 2004. D&M and GCA had conducted two external evaluations of the Loma La Lata Sierras Blancas gas condensate reservoir at December 31, 2005.

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As a consequence of these proved reserves restatements, the previously reported proved reserves as of December 31, 2003 and 2004 have been restated as follows:

At December 31, 2003 the aggregate effect on proved reserves volumes of the reserves restatement was 339 million barrels of oil equivalent, comprising 67 million barrels of crude oil, condensate and natural gas liquids and 1,531 billion standard cubic feet of gas. This amounts to 13% of the total proved reserves originally stated at that date (2,690 million barrels of oil equivalent). Of the total aggregate effect 91% had been in the proved developed reserves category and 9% had been categorized as proved undeveloped reserves. The reserves restatement gave rise to an estimated reduction of Ps.1,839 million in the standardized measure of discounted future net cash flow for YPF. This effect represents approximately 6% of the total standardized measure that was originally stated at that date.

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 amounts 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 represents approximately 3% of the total standardized measure that was originally stated at that date.

For year 2005 the main changes to proved reserves, after giving effect to the proved reserves restatement previously indicated for prior years, have been due to:

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

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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.

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 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).

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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,		
	2005	2004	2003
Gross wells drilled (1)			
Exploratory			
Oil	6	5	7
Gas	2	4	1
Dry	7	19	19
Total	15	28	27
Development			
Oil	632	649	586
Gas	34	41	25
Dry	18	30	29
Total	684	720	640
Net wells drilled (1)			
Exploratory			
Oil	5	3	7
Gas	1	4	1
Dry	5	17	17
Total	11	24	25
Development			
Oil	517	537	506
Gas	17	32	24
Dry	16	28	29
Total	550	597	559

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

In the South Business Unit in the Gulf of San Jorge basin, a series of labor conflicts occurred in the Province of Santa Cruz in the West and South Flanks that halted the production of 1.7 million of barrels of oil equivalent and delayed the drilling of 58 new wells.

A new production record in the Manantiales Behr field, of which YPF owns 100%, was achieved in 2005. Production from this field, located in the San Jorge Gulf basin, has doubled in recent years in spite of its maturity, and reached a cumulative production of 5.88 million barrels of oil equivalent, or 16,117 barrels of oil equivalent per day.

YPF is planning to invest US$ 65 million to build a low temperature separator (LTS) plant in the El Portón field to treat 12,578 million BOE of gas and inject the gas into the gas trunk line transport system that connects El Portón with Loma La Lata. YPF hopes to have the plant commissioned by next year. Additionally, YPF began the Low Pressure Project in the Loma La Lata field with an investment of US$ 19.7 million over the next three years. Another similar project is to increase Ramos Low Pressure s current capacity from 18,000 HP to 60,000

HP, with an investment of US$ 19.7 million, to be completed by 2007.

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During 2005, the Acambuco Joint Venture announced the Macueta project. This project consists of the construction of a gas trunk line between the Macueta Field and the Piquirenda Plant. Additionally, the Joint Venture will begin the expansion of the Piquirenda Plant to treat gas coming from Macueta. Both of them are expected to be operational during 2006. The supply of gas will be increased by 1.5 MMm3/d.

Work continued at Rincón de los Sauces in the Neuquina basin to mitigate the natural decline that has been under way since mid-1999. Work undertaken in 2005 included the repair of 82 wells, replacement of 7,000 m of pipelines and drilling nine replacement wells, which cost an aggregate of US$ 133 million. New development fields have been considered, for example Desfiladero Bayo Este (75 wells over the period from 2005 to 2007), Jagüel Casa de Piedra (30 wells), Pata Mora (15 wells) and Risco Alto (10 wells over a period of three years). Another consideration is the implementation of an EOR (Enhanced Oil Recovery) pilot project of gels and WAG (Water Alternating Gas) project in Chihuido de la Sierra Negra.

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%. 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 US$ 32 per barrel. The percentage to be applied depends on the increase of the WTI price from US$ 32 up to US$ 45 per barrel. Over US$45 per barrel the surcharge is 20%, the maximum applicable.

During 2005, 15 exploratory wells were finished (gross basis), eight of which were successful. Most prominent among the discoveries made in Argentina are those made in the Jagüel Casa de Piedra, Aguada Pichana Norte and Risco Alto wells, which are located in the Neuquina basin.

Three-dimensional seismic testing is being used in several basins to increase exploratory success, improve the quality of exploratory prospects and optimize positioning of the wells. In 2005, 3,771 km2 of three-dimensional seismic testing were recorded and evaluated.

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, 2005, YPF had an interest in 12.4 million net acres onshore and offshore (within the 200-meter depth line), of which 6.2 million net acres were under production concessions and 6.2 million net acres were under exploration permits.

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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, 2005.

	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	3,124	2,663	295	294	3,523	2,840	1,061	717
Golfo de San Jorge	6,551	5,750	50	50	2,472	2,347	4,927	2,464
Cuyana	791	692			427	375		
Noroeste	43	13	52	13	1,329	372		
Austral	104	31	54	16	602	181		
Offshore	22	11	9	5	115	63	4,032	3,018

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

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

The decrease in the number of concessions between 2004 and 2005 was due to the issue of Law No. 25,943 which revoked preliminary concessions in Argentina and transferred them to ENARSA. See Item 3. Risk Factors-Political Instability and the Uncertain Regulatory Outlook in Bolivia may have a Material Adverse Effect on our Long-term Natural Gas Supply Commitments.

Approximately 86% of YPF s proved crude oil reserves in Argentina are concentrated in the Neuquina (57%) and Golfo San Jorge (29%) basins, and 96% of YPF s proved gas reserves in Argentina are concentrated in the Neuquina (78%), Noroeste (11%) and Austral (7%) basins.

As of December 31, 2005, YPF held 104 production concessions and exploration permits in Argentina. YPF directly operates 69 of them, including 59 production concessions and 10 exploration permits.

As of December 31, 2005, YPF held 16 exploration permits in Argentina, 10 of which are onshore exploration permits and 6 of which are offshore exploration permits. YPF has 100% ownership of 5 onshore permits, and its participating interests in the rest vary between 27% and 50%. YPF s interests in the riskier offshore permits vary between 34% and 90%.

As of December 31, 2005, YPF had 88 production concessions. YPF has a 100% ownership interest in 54 production concessions and its participating interests in the remaining 34 production concessions vary between 12% and 70%.

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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,		
	2005	**2004**	**2003**
	(thousands of barrels per day)		
Crude oil production (1)(3)			
Neuquina	213	239	258
Golfo de San Jorge	108	112	119
Cuyana	31	32	37
Noroeste	9	9	10
Austral	5	7	6
Total oil production	366	399	430
	(millions of cubic feet per day)		
Natural gas production (1)			
Neuquina	1,439	1,539	1,365
Golfo de San Jorge	112	107	114
Cuyana	11	3	4
Noroeste	163	172	193
Austral	102	105	87
Total gas production	1,827	1,926	1,763
Average sales price			
Oil (US$ per barrel) (2)	35.53	31.39	26.18
Gas (US$ per mcf)	1.34	1.07	0.85

(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 (h) to Consolidated Financial Statements.

(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 2005, crude oil and natural gas production on a BOE basis decreased by 7% compared to 2004. As compared to 2004, crude oil (including condensate and natural gas liquids production) decreased by 8% in 2005. With respect to natural gas, the production decreased by 5% in 2005 compared to 2004.

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

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

United States

As of December 31, 2005, YPF had mineral rights in 73 exploratory blocks, with a net surface area of 1,000 square kilometers.

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YPF s U.S. subsidiaries net petroleum production in the United States in 2005 and 2004 were 118 thousand and 111 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 totalling US$ 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 plan development has been submitted and approved. This is expected to be ready and to begin to produce in 2007. Drilling of the first of seven planned development wells is scheduled to begin by May 2006. During 2005, approximately US$ 12 million was spent by YPF on the execution of this project. During 2006, expenditures by YPF are expected to be approximately US$ 64 million.

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.

Joint Ventures and Contractual Arrangements in Argentina

YPF participates in fourteen of the most important exploration and production joint ventures in Argentina. YPF s interests in these joint ventures range from 12% to 70%, although 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.

Natural Gas Markets and Distribution

Natural gas market business involves the marketing of Exploration and Production s natural gas production.

YPF estimates, based on preliminary figures, that natural gas delivered by transport companies in Argentina totalled approximately 1,400 Bcf in 2005. From 1980 to 2005, the production of natural gas in Argentina has grown significantly, increasing by approximately 273%, at an average annual rate of 5.2%. 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 6.6 million by 2005. YPF does not believe that the natural gas market will continue to grow at the same rate as it has in the last twenty-four 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 43% of its gas to nine local distribution companies, formed in connection with the privatization of Gas del Estado in 1992, approximately 42% to industries and power plants, and approximately 15% in exports to foreign markets. Approximately 68% of natural gas sales are from the Neuquina Basin.

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The currency devaluation dating back to January 2002 caused at the very beginning a freeze on natural gas prices which in turn produced very low-end prices against 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 the first quarter of 2004, YPF and the other gas producers in Argentina signed an agreement with the government for implementation of the regularization of natural gas prices at the point of entry into the transport system scheme, set forth under Decree No. 181/04. This agreement allows for gradual adjustments in the prices of the Industry, Power Generation, and CNG segment. It also requires producers to guarantee the supply of maximum daily volumes to distributors and power generation plants that use firm transport, covering both current volumes and growth from 2004 to 2006. All of these increases were approved by the Argentine government and already took place in May and October 2004 and in May and July 2005. From then until the end of 2006, YPF has proposed a preset price which is higher than that agreed to in July 2005 with the Secretariat of Energy.

In June 2004, YPF began to import Bolivian gas. YPF has purchased approximately 115 mmcfpd in 2005 and its contract has been renegotiated and concludes in December 2006. (See Item 3 Risk Factor Political Instability and the Uncertain Regulatory Outlook in Bolivia may have a Material Adverse Effect on our Long-term Natural Gas Supply Commitments).

YPF s direct sale volumes to industrial users in 2005 represented 28% of total natural gas sale volumes. During 2005, YPF s domestic natural gas sale volumes did not practically increase.

Most of YPF s proved natural gas reserves in Argentina are situated in the Neuquina basin (76.5%), 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 period from 1994 to 2001, local pipeline companies added approximately 1,606 mmcfpd 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 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. 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), which capacity increased by 1.8 million cubic meters per day (63.6 mmcfpd) in 2005, and an expansion of the San Martín Pipeline operated by TGS (Transportadora Gas del Sur) which capacity increased by 2.9 million cubic meters per day (102.4 mmcfpd) in 2005. Both expansions are about to be in full service. YPF has participated as investor in the trust fund for the expansion of TGN s North Pipeline, which would increase gas transportation capacity from Bolivia, with a contribution of about US$ 100 million. Contributions to this trust fund will accrue interest and will enable YPF to obtain the additional natural gas transport capacity to transport increased Bolivian gas imports.

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 only during 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, over the past three years the Argentine Government has established resolutions and regulations which regulate both the export and internal market. These regulations have affected Argentine producers s ability to export natural gas. In fact, YPF has appealed to the validity of the

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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 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. 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 mmcfpd 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 mmcfpd, of which YPF supplies approximately 42 mmcfpd. In 2003, YPF entered into a 20-year agreement to supply an additional 21 mmcfpd of natural gas since the expansion of the plant, which took place in 2005.

The Gas Andes pipeline linking Mendoza, Argentina, to Santiago, Chile, with a transportation capacity of 353 mmcfpd, 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 mmcfpd. 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 mmcfpd). This contract is for a term of 15 years. During the first quarter of 2003, YPF started supplying natural gas to Gas Valpo (35 mmcfpd) under a 15-year contract.

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 mmcfpd 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 industrial clients (99 mmcfpd). This contract is for a term of 17 years.

In the second half of 1999, two natural gas pipelines, with a carrying capacity of 300 mmcfpd 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 mmcfpd).

Through the 560 mmcfpd natural gas pipeline, which links Aldea Brasilera, Argentina, to Uruguayana, Brazil, YPF supplies a AES thermal power plant with 99 mmcfpd 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 started supplying 40 mmcfpd of natural gas under a 12-year contract to the Termoandes power plant located in Salta, Argentina, representing 50% of the Plant s gas requirements. 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

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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 also started a gas injection pilot test in March 2005 as part of the Lunlunta Carrizal Project , located 60 kilometers South-East of Mendoza, where a depleted oil reservoir feasible for gas storage is located.

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 2005, Metrogas distributed approximately 7.67 billion cubic meters of natural gas to 2 million customers in comparison with approximately 7.82 billion cubic meters of natural gas distributed to 1.9 million customers in 2004. 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. 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.

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 US$ 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

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ethane. YPF is Mega s main supplier of natural gas. The fractioning plant production is used in the petrochemical operations of PBBPolisur S.A. 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 2005, these plants generated altogether approximately 8,940 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).

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

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).

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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 2005, 94.2% 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 28,500 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, 2005:

	For the Year Ended December 31,		
	2005	**2004**	**2003**
	(millions of barrels)		
Throughput crude/Feedstock	113.1	112.0	111.5
Production			
Diesel fuel	43.9	44.2	44.1
Gasoline	32.3	32.5	33.8
Jet fuel	6.6	5.5	5.7
Base oils	2.7	3.0	2.9
	(thousands of tonnes)		
Fuel oil	1,198	935	759
Coke	967	961	1,057
LPG	596	617	678
Asphalt	204	207	123

In 2005, overall volumes of crude oil processed increased by 1.0% compared with 2004 and volumes sales in foreign markets were 16% lower than in 2004. Refinery capacity utilization in 2005 reached 94.4%, compared with 93.1% in 2004 and 93.1% in 2003.

The La Plata Refinery is the largest refinery in Argentina, with 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 2005, the refinery processed approximately 172,700 barrels of crude oil per calendar day. The capacity utilization rate at the La Plata Refinery for 2005 was 1.7% higher than in 2004. 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 Liquid Effluents at La Plata Refinery was concluded and the project Integral Adapting of Effluent Treatment System at the Luján de Cuyo Refinery has started execution and will be concluded in 2006.

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

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 MTBE unit, an isomerization unit, an alkylation unit, and hydrocracking and hydrotreating units. In 2005 the refinery processed approximately 104,900 barrels of crude oil per calendar day. The capacity utilization rate for 2005 was 3.5% higher than in 2004. 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 Neuquinaand Cuyana basins by pipeline directly into the facility. Approximately 89% of the crude oil processed at the Luján de Cuyo Refinery is produced by YPF. Most of the crude 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, positioning the industrial complex above international refineries safety standards.

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 2005, the refinery processed approximately 24,000 barrels of crude oil per calendar day. 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 2005, 10% of the Refinery s crude supplies were purchased from third parties.

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 2005 for efficiency and environmental projects and other improvements at the three Refineries were Ps. 358 million.

Logistic Division:

Crude Oil and Products Transportation and Storage

YPF transports crude oil from production areas to the Refineries or to the ports through 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 Argentinian 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.

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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, 2005, 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.

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 264,000 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 54 airport facilities (44 of them are wholly owned) with a capacity of 24,000 cubic meters, owns 27 trucks, 116 suppliers and 16 dispensers. These facilities provide a flexible country-wide 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 the Marketing Division, YPF markets gasoline, diesel fuel and other petroleum products to retail and wholesale customers. In 2005 retail, wholesale, lubricants and specialties directions and aviation sales reached Ps. 9,526 million, representing 56% of Refining and Marketing consolidated revenue, with Ps. 4,820 million generated by retail customers.

Until December 31, 2005, the Retail Division s sales network in Argentina included 1,794 retail service stations, 93 of which are directly owned by YPF, and the remainder 1,701 are affiliated service stations. Operadora de Estaciones de Servicio S.A. (OPESSA) (a wholly-owned subsidiary of YPF), operates 155 of our retail service stations, 73 of which are directly owned by YPF, 24 are leased to ACA (Automovil Club Argentino), and 58 are leased to independent owners. Additionally, 36 retail service stations are branded by Refinor (of which YPF owns 50%).

YPF estimates that, as of December 31, 2005, YPF s points of sale accounted for 29.9% of the Argentine market. In Argentina, Shell, Petrobras and Esso are YPF s main competitors and own approximately 13.9%, 12.2% and 8.2%, respectively, of the points of sale in Argentina.

During 2005, YPF slightly increased its market share in the diesel fuel and gasoline markets from 50.0% in 2004 to 53.8%, according to internal calculations. YPF will continue its efforts to eliminate unprofitable or non-strategic existing stations, and dealer-operated stations which do not comply with the level of operational efficiency that YPF requires.

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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, 1,445 stations are linked to the Red XXI system, with plans to add approximately 36 additional stations in 2006.

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 2005, approximately 14,106 service station employees of YPF s own and branded service stations participated in training courses throughout the year.

In order to improve the performance of the gas stations during 2005, YPF increased the standard of services and management system, by certificating 211 gas stations with ISO 9001, 143 gas stations with ISO 9001 and ISO 14001, and 24 gas stations with ISO 9001, ISO 14001 and OHSAS 18001. The total certificated gas stations is 378.

YPF s sales to the agricultural sector are principally conducted through distributors (nine of which are owned by YPF). During 2005, the Wholesale Division consolidated a distribution network through more than 120 exclusive distribution contracts with independent distributors from all regions of Argentina.

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.

In December 2002 the Wholesale Division obtained the ISO 9001 certification covering the design, operation, marketing, customer service and management processes. As of December 2005, there are 54 Diesel fuel distributers under ISO certification, including six of which are owned by YPF. From these, 32 had ISO 9001 certification, 19 had 9001 and 14001 certification, and three 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 2005, YPF s Lubricants and specialities sales to local markets increased by 23% from Ps. 765 million in 2004 to Ps. 947 million in 2005. YPF exports lubricants to 19 countries, including the United States with Repsol Moto lubricants. Sales to export markets increased by 11% from Ps. 173 million in 2004 to Ps. 192 million in 2005. The total lubricants sales increased by 29%, the asphalt sales increased by 42% and the derivatives increased by 11% during 2005.

In the lubricant market in Argentina, YPF maintained its position as the market leader by increasing its sales from 36.9% in 2004 to 37.5% in 2005. Lead domestic automotive manufacturers Ford, VW, Scania, Seat, Porsche and General Motors, which represent 60% of the automotive industry in Argentina, exclusively use and recommend YPF lubricant products.

In October 2005, the Iberoamerican Foundation of Quality (FUNDIBEQ) awarded to YPF s Lubricant Division the Iberoamerican Award for performance and quality. This award was obtained after being evaluated on our performance, business model and the principles of management excellence.

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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 2005 totalled Ps. 5,495 million (US$1,876 million), 76% of which represented sales of refined products, 18% represented crude oil deliveries and the remaining 6% sales of marine fuels. On a volume basis, sales consisted of 11.18 million barrels of crude oil, 24.5 million barrels of refined products and 2.05 million barrels of marine fuels. Exports include crude oil, unleaded gasoline, diesel fuel, fuel oil, liquefied petroleum gases, light naphtha, virgin naphtha, and base oils. YPF sells to the export market directly and through traders mainly to neighbouring countries (Brazil, Chile and Paraguay) and the United States. Domestic sales of crude oil, reached Ps. 524 million (US$ 181 million) and 5.5 million barrels in 2005. Domestic sales of marine fuels, reached Ps. 194 million (US$ 66 million) and 1.3 million barrels.

LPG General Division:

Production

YPF is one of the largest LPG players in Argentina, with a yearly production of 848,804 tonnes in 2005 (including 285,336 tonnes of LPG destined for petrochemical usage). This represents approximately 25.39% 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 347,462 tonnes of LPG in 2005.

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	30,966
General Cerri	27,291
El Portón	123,829
San Sebastián	16,883
Total Upstream	198,969
LPG from Refineries and Petrochemical Plants:	
La Plata Refinery	155,655
Luján de Cuyo Refinery	181,329
La Plata Petrochemical Plant	27,514
Total Refineries & Petrochemical Plants (2)	364,498
LPG purchased to Jointly controlled companies: (3)	119,469
LPG purchased to unrelated parties	82,140
Total	765,076

(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 285,336 tonnes of LPG used as petrochemical feedstock (olefins derivatives, polybutenes and maleic).
(3) Purchased by Refinor.

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LPG Marketing

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

YPF 2005 LPG sales can be broken down by market as follows:

	Sales Capacity (tonnes)
Domestic market	
Retail to related parties under common control	226,017
Other bottlers/propane network distributors	101,319
Other Wholesales	41,158
Foreign market/exports	
Exports	373,157
Total Sales	741,651

Total sales of LPG (excluding LPG used as petrochemical feedstock) to both domestic and foreign markets was Ps. 699 million in 2005.

Chemicals

During 2005 YPF s revenues from chemical sales were Ps. 2,269 million and the operating income was Ps. 542 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

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Natural gas, raw material for methanol, is supplied by YPF s upstream unit. In 2005 the plant operated at 82.0% of its nominal capacity. Production from the Methanol unit during 2005 was destined for export, (75.5%) to YPF s internal consumption as feedstock for MTBE and TAME (15.5%) and to the local market (9.0%). 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 2005, petrochemicals sales from Ensenada Industrial Complex, Methanol units and YPF s fertilizers retail units were Ps. 2,269 million, with the domestic market accounting for 49.7% and exports for 50.3%. During 2005, 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), which is proportionally consolidated.

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 56% of Profertil s feedstock.

The fertilizers we sell are supplied by Profertil (urea) or imported (phosphorus and potassium based fertilizers). In 2003, YPF started participating in an exchange program that allows producers to deliver corn as payment for fertilizers. The corn delivered to YPF is resold in the market.

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

In March 2005 YPF sold its interests in Petroken, a jointly controlled company, for US$ 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 expects increasing levels of competition in the Argentine downstream industry and the crude oil and natural gas production industry. Crude oil and refined products prices are subject to international supply and demand and, accordingly, may fluctuate for a variety of reasons. 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.

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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 2005, YPF continued to make investments in order to comply with new Argentine fuel specifications that are expected to come into effect from 2006 to 2009 pursuant to Resolution No. 398/2003 of the Secretariat of Energy. Estimated capital expenditures associated with the improvement and construction of new units at the Refineries in Argentina to comply with the fuel specifications, are approximately US$ 493 million (US$ 294 million at La Plata Refinery, US$ 197 million at Luján de Cuyo Refinery and US$ 2 million at Plaza Huincul Refinery) and US$ 30 million to the first biodiesel fuel plant that will be installed in Argentina.

During 2005, YPF has already invested US$ 29.8 million at La Plata Refinery and US$ 10.5 million at Luján de Cuyo refinery in order to meet the previously indicated new gasoline quality environmental specifications, mainly in a FCC fractioning and gasoline hydrotreatment units. The total capital expenditures as of December 31, 2005 were US$ 68 million.

In addition YPF has completed basic engineering studies for the construction of diesel fuel-oil desulfuration units at La Plata and Luján de Cuyo refineries, and has now begun detailed engineering studies.

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 2005 were US$ 15.3 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 systems and water treatment to replace existing systems, air pollution control devices, gas recovery systems, hydrocarbon recovery systems, process recovery measures, double bottoms in several tanks and site remediation. In addition during 2005, some gasoline stations storage facilities were replaced by new and safer technologies for facilities, such as double wall tanks and flexible pipes.

Capital expenditures associated with Domestic Exploration and Production environmental projects during 2005 were US$ 36.8 million and included oil & gas recovery systems and remediation of well sites, tank batteries

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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.

- 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 Inc. Operations in the United States of America

Laws and regulations relating to health and environmental quality in the United States affect nearly all of the operations of YPF Holdings. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish in certain circumstances remedial obligations.

YPF believes that YPF Holdings policies and procedures in the area of pollution control, product safety and occupational health are adequate to prevent unreasonable risk of environmental and other damage, and of resulting financial liability, in connection with its business. Some risk of environmental and other damage is, however, inherent in particular operations of YPF Holdings and, as discussed below, Maxus and Tierra, controlled companies through YPF Holding Inc, have certain potential liabilities associated with operations of Maxus former chemical subsidiary. YPF Holdings 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. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of the regulatory agencies, could in the future require material expenditures by YPF Holdings for the installation and operation of systems and equipment for remedial measures, possible dredging requirements and in certain other respects. Also, certain laws allow for recovery of natural resource damages from responsible parties and ordering the implementation of interim remedies to abate an imminent and substantial endangerment to the environment. Potential expenditures for any such actions cannot be reasonably estimated.

As of December 31, 2005, reserves for the environmental contingencies totalled approximately US$ 85.2 million. Management believes it has adequately reserved for all environmental contingencies that are probable and can be reasonably estimated. However, changes in circumstances could result in changes, including additions, to such reserves in the future.

In connection with the sale of Maxus former chemical subsidiary, Diamond Shamrock Chemicals Company (Chemicals), to Occidental Petroleum Corporation (together with its subsidiary Occidental Chemical Corporation, Occidental) in 1986, Maxus agreed to indemnify Chemicals and Occidental from and against certain liabilities relating to the business or 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 50% of certain environmental costs incurred on projects involving remedial activities relating to chemical plant sites or other property used in the conduct of the business of Chemicals 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, with Maxus aggregate exposure for this cost sharing being limited to US$ 75 million. The obligation under this cost sharing arrangement has been substantially satisfied in that as of December 31, 2005. YPF Holdings had expended a total of approximately US$ 74.9 million thereunder. The remaining portion of this cost sharing arrangement (approximately US$ 0.1 million as of December 31, 2005) has been reserved.

Tierra has agreed to assume essentially all of Maxus aforesaid indemnity obligations to Occidental in respect of Chemicals.

In the following discussion concerning plant sites and third party sites, references to YPF Holdings include, as appropriate and solely for ease of reference, references to Maxus and Tierra. As indicated above, Tierra is also a subsidiary of YPF Holdings and has assumed certain of Maxus obligations.

Newark, New Jersey. A consent decree, previously agreed upon by the U.S. Environmental Protection Agency (the EPA), the New Jersey Department of Environmental Protection and Energy (the DEP) and Occidental, as successor to Chemicals, was entered in 1990 by the United States District Court of New Jersey and requires implementation of a remedial action plan at Chemicals former Newark, New Jersey agricultural chemicals plant. The approved remedy has been completed and paid for by Tierra pursuant to the above described indemnification obligation to Occidental. This project has moved into the operation and maintenance phase; however, there will be periodic assessments to determine if additional work needs to be done. YPF Holdings has fully reserved the estimated costs required to conduct ongoing operation and maintenance of such remedy (at an average cost of approximately US$ 1 million annually) for 9 years from and after January 1, 2006.

Passaic River, Newark bay, New Jersey. Studies have indicated that sediments of the Newark Bay watershed, including the Passaic River adjacent to the former Newark plant, are contaminated with hazardous chemicals from many sources. These studies suggest that the older and more contaminated sediments located adjacent to the former Newark plant generally are buried under more recent sediment deposits. Maxus, on behalf of Occidental, negotiated an agreement with the EPA under which Tierra has conducted further testing and studies to characterize contaminated sediment and biota in a six-mile portion of the Passaic River near the plant site. The stability of the sediments in the entire six-mile portion of the Passaic River study area was also examined as a part of Tierra s studies. While some work remains, these studies were substantially completed in 2005. In addition,

Maxus and Tierra have been conducting similar studies under their own auspices for several years.

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The EPA and other agencies are addressing the lower Passaic River in a joint federal, state, local and private sector cooperative effort designated as the Lower Passaic River Restoration Project (the PRRP). Tierra has agreed, along with approximately 30 other entities, to participate in a remedial investigation and feasibility study proposed in connection with the PRRP.

In 2003, the DEP issued its Directive No. 1 for Natural Resource Injury Assessment and Interim Compensatory Restoration of Natural Resources for the Lower Passaic River (Directive No. 1). Directive No. 1 was served on approximately 66 entities, including Occidental and Maxus and certain of their respective related entities, and seeks to address natural resource damages allegedly resulting from almost 200 years of historic industrial and commercial development of the lower 17 miles of the Passaic River and a part of its watershed. Directive No. 1 asserts that the named entities are jointly and severally liable for the alleged natural resource damages without regard to fault. The DEP has asserted jurisdiction in this matter even though all or part of the lower Passaic River has been designated as a Superfund site and is a subject of the PRRP. Directive No. 1 calls for the following actions: interim compensatory restoration, injury identification, injury quantification and value determination. Maxus and Tierra responded to Directive No. 1 setting forth good faith defenses. Settlement discussions between the DEP and the named entities have been held; however, no agreement has been reached or is assured.

In 2004, the EPA and Occidental entered into an administrative order on consent (the AOC) pursuant to which Tierra (on behalf of Occidental) has agreed to conduct testing and studies to characterize contaminated sediment and biota in the Newark Bay. Tierra presented a proposed initial work plan, a study that includes sampling in Newark bay, which was approved by the EPA. Tierra began field work on this study in October 2005. After the data has been collected in the initial study, a determination will be made as to what additional work, if any, might be required.

In December 2005, the DEP issued a directive to Tierra, Maxus and Occidental directing said parties to pay the State of New Jersey s costs of developing a Source Control Dredge Plan focused on alleged dioxin-contaminated sediment in the lower six-mile portion of the Passaic River. The development of this plan is estimated by the DEP to cost approximately US$ 2.3 million. This directive was issued even though this portion of the lower Passaic River has been designated as a Superfund site and is a subject of the PRRP. Maxus and Tierra are studying this new directive. The DEP has advised the recipients that (a) it is engaged in discussions with the EPA regarding the subject matter of the directive, and (b) they are not required to respond to the directive until otherwise notified.

Also in December 2005, the DEP sued YPF, YPF Holdings, Tierra, Maxus and several affiliated entities, in addition to Occidental, in connection with dioxin contamination allegedly emanating from Chemicals former Newark plant and contaminating the lower 17-mile portion of the Passaic River, Newark Bay, other nearby waterways and surrounding areas. The DEP seeks unspecified damages for injuries to so-called uplands resources and for other matters. The DEP also seeks punitive damages. YPF, YPF Holdings and its subsidiary, CLH Holdings Inc., have filed pleadings seeking dismissal, and the remaining defendants who have been served are in the process of preparing appropriate responsive pleadings.

As of December 31, 2005, there is a total of approximately US$ 9.0 million reserved in connection with the foregoing matters related to the Passaic River, Newark Bay and surrounding area. Studies are ongoing with respect to the Passaic River and Newark Bay watershed. Until these studies are completed and evaluated, YPF Holdings cannot estimate what additional costs, if any, will be required to be incurred. However, it is possible that additional work, including interim remedial measures, may be ordered with respect to the Passaic River and/or Newark Bay. In addition, as more is known about the aforesaid directives and litigation, additional costs may be required to be incurred or additional reserves may need to be established.

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Hudson County, New Jersey. Until 1972, Chemicals operated a chromite ore processing plant at Kearny, New Jersey (Kearny Plant). According to the DEP, wastes from these ore processing operations were used as fill material at a number of sites in and near Hudson County. The DEP and Occidental, as successor to Chemicals, signed an administrative consent order with the DEP in 1990 for investigation and remediation work at certain chromite ore residue sites in Kearny and Secaucus, New Jersey. Tierra, on behalf of Occidental, is presently performing the work, and Tierra is funding Occidental s share of the cost of investigation and remediation of these sites. Tierra, on behalf of Occidental, is providing financial assurance in the amount of US$20 million for performance of the work. This financial assurance may be reduced with the approval of the DEP following any annual cost review. While Tierra has participated in the cost of studies and is implementing interim remedial actions and conducting remedial investigations, the ultimate cost of remediation is uncertain. Tierra submitted its remedial investigation reports to the DEP in late 2001, and the DEP continues to review these reports. In addition:

In May 2005, the DEP took two actions in connection with the chrome sites in Hudson and Essex Counties. First, the DEP issued a directive to Maxus, Occidental and two other chromium manufacturers (the Respondents) directing them to arrange for the cleanup of chromite ore residue at three sites in Jersey City and the conduct of a study by paying the DEP a total of US$ 20 million. While YPF Holdings believes that Maxus is improperly named and there is little or no evidence that Chemicals chromite ore residue was sent to any of these sites, the DEP claims the Respondents are jointly and severally liable without regard to fault. Second, the State of New Jersey filed a lawsuit against Occidental and two other entities in state court in Hudson County seeking, among other things, cleanup of various sites where chromite ore residue is allegedly located, recovery of past costs incurred by the State of New Jersey at such sites (including in excess of US$ 2.3 million dollars allegedly spent for investigations and studies) and, with respect to certain costs at 18 sites, treble damages. The DEP claims that the defendants are jointly and severally liable, without regard to fault, for much of the damages alleged. The parties have engaged in preliminary discussion regarding possible settlement; however, there is no assurance that these discussions will be successful.

In 2004, the DEP expressed a desire that a sediments testing program be conducted on a portion of the Hackensack River near the former Kearny Plant. Tierra, on behalf of Occidental, and other parties are engaged in discussions with the DEP regarding this issue.

By letter dated November 10, 2005, several environmental groups sent a notice of intent to sue the owner of the property adjacent (the Adjacent Property), to the former Kearny Plant and five other parties, including Tierra, under the Resource Conservation and Recovery Act. The stated purpose of the lawsuit, if filed, would be to require the noticed parties to carry out measures to abate alleged endangerments to health and the environment emanating from the Adjacent Property. Tierra is studying this notice.

As of December 31, 2005, there is a total of approximately US$ 24.8 million reserved in connection with the foregoing chrome-related matters. Soil action levels for chromium in New Jersey have not been finalized, and the DEP is currently reviewing the proposed action levels. The cost of addressing these chrome-related matters could increase depending upon the final soil action levels, the DEP s response to Tierra s reports and other developments.

Painesville, Ohio. From about 1912 through 1976, Chemicals operated manufacturing facilities in Painesville, Ohio (the Painesville Works). The operations over the years involved several discrete but contiguous plant sites over an area of about 1,300 acres. The primary area of concern historically has been Chemicals former chromite ore processing plant (the Chrome Plant). For many years, the site of the Chrome Plant has been under the administrative control of the EPA pursuant to an administrative consent order under which Chemicals is required to maintain a clay cap over the Chrome Plant site and to conduct certain ground water and surface water monitoring. Certain other areas have previously been clay-capped, and one specific site, which was a waste disposal site from the mid-1960s until the 1970s, has been encapsulated and is being controlled and monitored. In 1995, the Ohio Environmental Protection Agency (the OEPA), issued its Director s Final Findings and Order (the Director s Order), by consent ordering that a remedial investigation and feasibility study (the RIFS), be conducted at the

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former Painesville Works area. Tierra has agreed to participate in the RIFS as required by the Director s Order. Tierra submitted the remedial investigation report to the OEPA, which report was finalized in 2003. Tierra will submit required feasibility reports separately. In addition, the OEPA has approved certain work, including the remediation of the site of a former cement plant, remediation of a former aluminum smelting plant and work associated with the development plans discussed below (the Remediation Work), which has begun. As the OEPA approves additional projects for the site of the former Painesville Works, additional amounts may need to be reserved. Over ten years ago, the former Painesville Works site was proposed for listing on the National Priority List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA); however, the EPA has stated that the site will not be listed so long as it is satisfactorily addressed pursuant to the Director s Order and OEPA s programs. The site has not been listed. YPF Holdings has reserved a total of approximately US$12.5 million as of December 31, 2005 for its estimated share of the cost to perform the RIFS, the Remediation Work and other operation and maintenance activities at this site. The scope and nature of any further investigation or remediation that may be required cannot be determined at this time; however, as the RIFS progresses, YPF Holdings will continuously assess the condition of the Painesville Works site and make any changes, including additions, to its reserve as may be required. Tierra has entered into an agreement with a developer for the possible development and use of all or portions of this site. While the developer is proceeding with its development plans, there can be no assurance that this site will be successfully developed or that any productive use can be made of all or a portion of this site.

Third Party Sites. Chemicals has also been designated as a potentially responsible party (PRP) by the EPA under CERCLA with respect to a number of third party sites where hazardous substances from Chemicals plant operations allegedly were disposed or have come to be located. Numerous PRPs have been named at substantially all of these sites. At several of these, Chemicals has no known exposure. Although PRPs are typically jointly and severally liable for the cost of investigations, cleanups and other response costs, each has the right of contribution from other PRPs and, as a practical matter, cost sharing by PRPs is usually effected by agreement among them. At a number of these sites, the ultimate response cost and Chemicals share of such costs cannot be estimated at this time. At December 31, 2005, YPF Holdings has reserved approximately US$3.1 million in connection with its estimated share of costs related to these sites while the cost of other sites can not be determined as of the date hereof.

The Port of Houston Authority (the Port), sued a number of parties, including Occidental (as successor to Chemicals) and Maxus, alleging in excess of US$ 25 million in damages to its property, plus the need for remediation at certain of its property, as a result of contamination allegedly emanating from a facility adjoining Greens Bayou formerly owned by Chemicals and at which DDT and certain other chemicals were manufactured. Tierra is handling this matter on behalf of Occidental. The Port s claims were settled for an initial payment of US$ 30 million and certain other undertakings, including an agreement to remediate various properties in the vicinity of the Greens Bayou facility, an agreement by another defendant to purchase a tract of land for up to US$ 5 million, and an agreement to indemnify the Port up to an aggregate of US$ 20 million in respect of certain matters. The cost of such remediation is not expected to exceed a total of approximately US$ 44 million. Pursuant to a cost sharing agreement among the defendants, Tierra (on behalf of Occidental) contributed US$ 6.3 million toward the settlement, subject to the defendants agreement to arbitrate their respective obligations in connection with the settlement. Following the arbitration and initiation of challenges to the award, the defendants agreed to settle their dispute pursuant to a confidential settlement agreement. At December 31, 2005, YPF Holdings has reserved approximately US$ 26.3 million for its share of future remediation activities associated with the Greens Bayou facility.

YPF Holdings, including its subsidiaries, is a party to various other lawsuits, the outcomes of which are not expected to have a material adverse affect on YPF s financial condition. Reserves have been established for legal contingencies in situations where losses are probable and can be reasonably estimated.

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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 a concession. Upon the expiration of the concession, the exploration and production assets of YPF associated with a particular property subject to the relevant concession revert to the government. In addition, at December 31, 2005, YPF leased 82 service stations to third parties and 1,701 service stations are owned by third parties and operated by them under a supply contract with YPF for the distribution of YPF products.

Regulatory Framework and Relationship with the Argentine Government

Overview

The Argentine oil and gas industry is regulated by Law No. 17,319, referred to as the Hydrocarbons Law, which was adopted in 1967. The executive branch of the Argentine government applies this law through the national Secretariat of Energy. The regulatory framework of the Hydrocarbons Law was established on the assumption that the reservoirs of hydrocarbons would be national properties and Yacimientos Petrolíferos Fiscales Sociedad del Estado, 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 holders of exploration permits and production concessions. However, the transfer of property to the provinces has not been implemented, since an amendment to the Hydrocarbons Law has not been enacted. 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 October 1994, the national constitution was amended. Article 124 establishes that natural resources existing within a province s territory are the property of such province. Article 75 of the national constitution allows Congress to enact laws to develop mineral resources existing within the national territory. The governments of the provinces where the mineral and hydrocarbon reservoirs are located will be responsible for enforcing these laws. Legislators have submitted to Congress new drafts of the Hydrocarbons Law. These drafts establish the provinces ownership of the hydrocarbon reservoirs in accordance with Article 124. However, the enactment of the reforms is still pending.

On January 6, 2002, the Argentine Congress enacted Law No. 25,561, the Public Emergency and Foreign Exchange System Reform 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.

After the enactment of the Public Emergency and Foreign Exchange System Reform 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 US$ 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 US$ 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 US$ 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 and Foreign Exchange System Reform 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 US$ 1.00) when the natural gas is exported.

Conversion into pesos at an exchange rate of Ps. 1.00 for each US$ 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. Executive Decrees No. 310/2002 and No. 809/2002 (as amended by resolutions 335/04, 336/04 and 337/04 issued by the Ministry of Economy and Production) imposed certain customs duties on crude oil, LPG, gasoline, diesel fuel and certain refined products exports. On May 26, 2004 through the issuance of Decree No. 645/04 an export duty on the export of natural gas and LPG was established at a rate of 20%. Moreover, 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 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 performance of the transportation and distribution of gas public service 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.

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 with permission of the private property owner. Information gained as a result of surface reconnaissance must be provided to the Secretariat of Energy. The Secretariat of Energy 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 national executive 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 were granted to YPF by such law. In 1991, the national executive established a program under the Hydrocarbons Law (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 executive branch. 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. 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;

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- 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 Argentine government, without payment to the holder of the concession.

The Privatization Law granted YPF 24 exploration permits covering approximately 132,735 square kilometers and 50 production concessions covering approximately 32,560 square kilometers. The Hydrocarbons Law 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 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 the provincial government of Neuquén for the award of contracts for the exploration of hydrocarbons.

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 each year details of their proved reserves existing in each of the areas, certified by an external reserves auditor. Holders of hydrocarbon concessions that export hydrocarbons are obliged to certify their oil and gas proved reserves by national universities (which offers degrees in oil and gas engineering).

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.

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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 (suspended by Resolution No. 265/04 issued by the Secretariat of Energy in March 2004).

As discussed in Natural Gas Markets and Distribution 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.

Transportation

The Hydrocarbons Law permits the National Executive to award 35-year concessions for the transportation of oil, gas and petroleum products following submission of competitive bids. 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 respects 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 perceived 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.

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 also is required to operate a refinery in Argentina. The refineries operated by YPF are so registered. 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 restriction. 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.

At present YPF, as well as private companies producing oil and gas under service contracts with YPF, following 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 subscribed 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 US$ 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 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=US$ 1 (Banco de la Nación Argentina seller quotation), (ii) WTI crude oil prices exceed US$ 35 per barrel for 10 consecutive quotation days, (iii) WTI crude oil prices fall below US$ 22 per barrel for 10 consecutive quotation days or (iv) taxes and/or export duties applicable to oil producers are increased. At present, the crude oil forwarded by producers like YPF to local refineries is invoiced taking into account the effect of the custom duties on the export of crude oil over the actual WTI price.

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 US$ 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.

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On 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 (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 shall 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 transportators was reduced to Ps. 0.42 for local public transportation and to Ps. 0.62 for the rest of public transportation.

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 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 station 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 exclusively 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.

In January 2004, Decree No. 180/04 (i) created the 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.

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 the 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;

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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 exports 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 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 which 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 Nos. 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 their natural gas supply commitments with distributors. Likewise, 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 to exporting producers.

Finally, a standardised irrevocable offers procedure is set forth, which will operate at the Electronic Gas Market (MEG) through which 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 standardised 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 request should be made (October- to April or May- to September). Such Additional Injection will be requested from the producers that export gas and that inject the natural gas from the basins, who are able to supply those unsatisfied irrevocable offers. Priority will be given to those which,

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considering the transportation available, imply a lower cost at the delivery point, corresponding to consumers who made the standardised irrevocable offer, still unsatisfied. In the case that the Permanent Additional Injection Volume should exceed the volumes exported, priority will be given to those consumers that have firm transport and/or distribution systems.

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 are supplied by distributors have not received any increase in price. YPF is negotiating with the government to adjust the price levels within of these segments.

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 also is subject instead 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 Nos. 310/2002 and 809/2002, as amended by Resolutions Nos.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.

Certain contracts under which YPF exports gas provide that any tax (which definition YPF believes is inclusive of the above mentioned export duties) 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 duty will be not 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 acquisition of the majority of the share capital of YPF. 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 estimates 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 encompasses other assets located in Argentina. Repsol YPF received assets in Brazil valued at approximately US$ 559 million.

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

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 estimates 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 (Secretaría de Defensa de la Competencia y del Consumidor del Ministerio de Economía) 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 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.

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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.

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

Inter alia, Law No. 26,020:

- 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 Kilogrames or less.
- Gives the Secretariat of Energy a one hundred and twenty 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 a deep analysis of the composition of the LPG market and its behaviour, in order to establish limitations to 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.

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 Nos. 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.

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

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by-products, 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 by-products. 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 Nos. 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 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. The Federal Court of Appeals dismissed the extraordinary appeal. On the other hand, the Court of First Instance hearing the case considered that the lawsuit has an economic nature. Taking into account the fact that there is a new special system in place allowingfor the free disposal of up to 70% of the foreign currency proceeds from hydrocarbon exports, 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 request precautionary measures within the frame of other judicial proceedings.

ITEM 4A. Unresolved Staff Comments

We do not have any unresolved staff.

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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 provide certain additional disclosures required under U.S. GAAP.

Summarized Income Statement

	For The Year Ended December 31,		
	2005	2004	2003
	(in millions of pesos)		
Net sales	22,901	19,931	17,514
Cost of sales	(11,258)	(9,212)	(7,756)
Gross profit	11,643	10,719	9,758
Administrative expenses	(552)	(463)	(378)
Selling expenses	(1,650)	(1,403)	(1,148)
Exploration expenses	(280)	(382)	(277)
Operating income	9,161	8,471	7,955
Income on long term investments	39	154	150
Other expenses, net	(570)	(1,012)	(152)
Financial income (expense), net and holding gains	102	138	(50)
Income from sale of long-term investments	15		
Net income before income tax	8,747	7,751	7,903
Income tax	(3,410)	(3,017)	(3,290)
Net income from continuing operations	5,337	4,734	4,613
Income on discontinued operations		3	15
Income from sale of discontinued operations		139	
Net income	5,337	4,876	4,628

YPF s Characteristics

YPF s operations are affected mainly by changes in international oil prices and by economic changes in Argentina.

The average export sales price per barrel realized by YPF from Argentina, before withholdings, was US$ 41.31 in 2005, US$ 33.65 in 2004 and US$ 27.23 in 2003. 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. See Item 3. Risk Factors Negative Economic, Political and Regulatory developments in Argentina Including Export Controls May Adversely Affect our Domestic Operations .

Historically, YPF s results were rather seasonable 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.

Due to the sales of the interest in Global and in YPF Indonesia Ltd., YPF conducts its main activities in Argentina, where almost 100% of total consolidated sales were made during 2005, including oil and products exports.

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During the year ended December 31, 2004, YPF Holdings Inc. and YPF International S.A. sold their interests in Global Companies LLC and affiliates (Global), and in YPF Indonesia Ltd., respectively. 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. results are disclosed in Income on discontinued operations account of the statements of income. Net sales and operating income of these operations amounted to Ps. 3,658 million and Ps. 29 million for the year ended December 31, 2003. Assets and liabilities of these companies amounted to Ps. 493 million and Ps. 373 million as of December 31, 2003, and were disclosed net in the Other assets account of the balance sheet.

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 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 which 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

YPF prepares its assumptions and estimates regarding oil and gas reserves taking into consideration the rules and regulations established for the oil and gas industry by the U.S. Securities and Exchange Commission and the accounting principles laid down by the U.S. Financial Accounting Standards Board. In accordance with these rules, proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrates with reasonable certainty that can be extracted from known fields in future years under existing economic and operating conditions, such as prices and costs as of the date of the estimates. Prices include consideration of changes in existing prices only by contractual arrangements, but not of escalations based upon future conditions. In order to estimate its proved reserves, YPF prepares internal studies and uses, to a certain extent, reports of independent engineers.

Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods and current economic conditions as of each balance sheet date. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing natural forces and mechanisms of primary recovery are 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 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, but does not include reserves attributable to any acreage for which an application of fluid injection or other improved recovery techniques is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir. Reserves on undrilled acreage are 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.

Unproved reserves are those with less than reasonable certainty of recoverability and are classified as either probable or possible.

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 expense. 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 is not met, cost of drilling exploratory wells is charged to expense.

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 the calculation of depreciation. Revisions in estimates of reserves are performed at least once a year.

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 at the estimated value of the discounted payable amounts.

Foreign unproved properties have been valued at cost 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.

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Therefore, in performing an impairment test, 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) appropriate risk factors for unproved reserves and other factors. Such assumptions and estimates have a significant impact on 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 in the impairment tests on investments in areas with oil reserves.

The estimation of proved reserves, which is based on the requirement of reasonable certainty, is an ongoing process based on rigorous technical evaluations and extrapolations of well information such as flow rates and reservoir pressure declines.

On January 26, 2006, YPF announced that it would reduce its prior proved reserves estimates by 509 million barrels of oil equivalent. This amount represented 21% of YPF s total proved reserves originally reported as of December 31, 2004. Simultaneously, YPF announced that the Audit and Control Committee of its parent company, Repsol YPF, was undertaking an independent review of the facts and circumstances of the reduction in proved reserves with the assistance of an independent counsel, King & Spalding LLP. On January 27, 2006, the Audit Committee of YPF determined to rely on the investigation being conducted by Repsol YPF s Audit and Control Committee. The Audit and Control Committee presented the final conclusions and recommendations of the independent review to the Board of Directors of Repsol YPF at its meeting of June 15, 2006. On the same date, the Audit Committee of YPF evaluated such conclusions and recommendations, endorsed such conclusions and recommended to the Board of Directors of YPF that such recommendations be implemented by YPF. With respect to the accounting consequences of the review, we concluded as follows:

- No significant adjustments to YPF s balance sheets or statements of income included in its statutory consolidated financial statements for the year ended December 31, 2005 have come to light.

- No restatement of the YPF s balance sheets or statements of income included in its statutory consolidated financial statements for prior years is necessary.

See Item 4. Information on the Company Exploration and Production for an analysis of the reserves revision and Recent Developments Reserves Revisions and Independent Review for a detailed discussion of the independent review and its conclusions.

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 pending sale or disposal, YPF s policy is to record these assets at amounts that do not exceed net realizable value.

Under U.S. GAAP, for oil and gas properties, YPF performs the impairment review on an individual field basis. Other long-live assets are aggregated, so that the individual cash flows produced by each group of assets may be separately analyzed.

For Argentine and U.S. 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 undiscounted 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 charge on the property s book value.

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.

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.

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. An asset would be impaired if the undiscounted cash flows were less than its carrying value. 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 next years net income. In 2005, 2004 and 2003 YPF recorded depreciation of fixed assets associated with hydrocarbon reserves amounting to Ps. 2,180 million, Ps. 1,936 million and Ps. 1,789 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 in 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 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.

A reserve totalling Ps. 1,561 million, Ps. 1,298 million and Ps. 706 million as of December 31, 2005, 2004 and 2003, 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 the contingencies discussed above.

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.

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, 2005, 2004 and 2003 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 sale of noncurrent assets to related parties, the impairment of long-lived assets, capitalization of financial expenses, accounting for assets retirement obligations and the timing for the recognition of insurance retrospective premiums.

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, 2005, 2004 and 2003, 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. 3.03, Ps. 2.98 and Ps. 2.93 to US$ 1, as of December 31, 2005, 2004 and 2003, 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, 2005, 2004 and 2003, the remeasurement into functional currency and the translation into reporting currency decreased net income determined according to Argentine GAAP by Ps. 1,479 million, Ps. 1,447 million and Ps. 1,629 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. 381 million, Ps. 672 million and Ps. 2,022 million in total assets and total liabilities as of December 31, 2005, 2004 and 2003, respectively, and an increase of Ps. 1,216 million, Ps. 1,122 million and Ps. 760 million in net sales and Ps. 681 million, Ps. 640 million and Ps. 428 million in operating income for the years ended December 31, 2005, 2004 and 2003, respectively.

From January 1, 2003, under Argentine GAAP, in order to perform the recoverability test, long-lived assets are grouped with other assets at business segment level. With respect to operations that were held pending sale or disposal, YPF s policy was to record these assets 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-live 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 (before income tax and without discounting the 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, 2005, 2004 and 2003 were Ps. 605 million, Ps. 764 million and Ps. 692 million, respectively, for YPF s Exploration and Production segment, and Ps. 6 million, Ps. 9 million and Ps. 12 million, respectively, for the Refining and Marketing segment, corresponding to investments in controlled companies. Impairment charges under U.S. GAAP amounted to Ps. 2 million, Ps. 177 million and Ps. 6 million for the years ended December 31, 2005, 2004 and 2003, respectively. The impairment recorded in 2005 was mainly the result of

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the downward revision in reserves made by YPF in December 2005. See Item 4. Information on the Company Exploration and Production Reserves. The impairments recorded in 2004 and 2003 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. 170 million, Ps. 122 million and Ps. 174 million for the years ended December 31, 2005, 2004 and 2003, 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 sales of non current assets to related parties under common control and related accounts receivables are considered as a capital (dividend) transaction. Under Argentine GAAP, results on sales of non current assets 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 the company) 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 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, 2005, 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

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had operations with a VIE related to another FOS transaction, which was cancelled 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 above.

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

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, 2005, 2004 and 2003. The reserve estimates set forth below were prepared in accordance with Rule 4-10 of Regulation S-X of the Securities and Exchange Commission.

	At December 31,		
As restated	**2005**	**2004**	**2003**
	(millions of barrels)		
Estimated proved crude oil reserves (1)(2)(3)			
Developed	604	863	984
Undeveloped	173	201	218
Total	777	1,064	1,202
	(billions of cubic feet)		
Estimated proved natural gas reserves (1)(2)(3)			
Developed	3,201	4,045	4,226
Undeveloped	1,482	1,631	2,223
Total	4,683	5,676	6,449
	(millions of barrels)		
Crude oil production (1)(2)	134	146	157
	(billions of cubic feet)		
Natural gas production (1)(2)	667	705	644

(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 Securities and Exchange Commission 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, 2003 and 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 Note 16 to the Consolidated Financial Statements.

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Overview of Consolidated Results of Operations

Macroeconomic conditions

Though at a slower pace than in 2004, the world economy kept growing during 2005. The American economy is growing by 3.3% a year and it is expected that the world s GDP growth will be 4.3%. In Asia, China is still leading the expansion.

Consumption and international trade growth has caused commodity prices to increase, thus favoring exporting countries. In Latin America, high international prices of the region s main oil export products, have favored the economic performance of Latin American countries, showing an improvement in their fiscal and external accounts.

Oil prices have increased, marked by geopolitical tensions affecting the main producer regions of the world. During 2005, the WTI barrel price was US$ 56 per barrel on average (showing a 37% increase compared with last 2004 average), reaching a maximum of almost US$ 70 per barrel by the end of August. In the last days of 2005, the WTI crude oil barrel was quoted at US$ 59 per barrel.

Within the favorable international and regional context, the Argentine economy grew steadily since 2003, with an estimated annual GDP growth of approximately 9.2% for 2005. The industrial and building activity grew by 7.8% and 14.6%, respectively.

Exports increased by 15.8% to US$ 40,029 million, mainly driven by an increase in industrial manufacturing products exports. Imports rose by 27.8% due to the growth in consumption and investment in the country, reduced the balance of trade surplus, which dropped from US$ 12,104 million in 2004 to US$ 11,321 million in 2005.

The fast pace of growth, the government s decision of avoiding a nominal appreciation of the local currency and an expansive monetary policy of the Central Bank increased inflation. Prices increased by 12.3% in 2005, thus almost duplicating the 2004 inflation rate of 6.1%. Authorities decided to fight against inflation by agreeing to the prices of a basket of home consumption main products with the private sector. From January to May 2006 retail inflation was 4.4%, eight tenths below that of the period from January to May 2005.

In December 2005, the Argentine Government resorted to the Central Bank reserves in order to cancel all financial obligations to the IMF. After payment of US$ 9,530 million the international reserves were reduced to US$18,580 million. The operation resulted in lower payments throughout 2006. As a result the Peso exchange rate increased to Ps 3.03, a 1.7% depreciation compared to December 2004. Unlike the other currencies of the region, which appreciated against the U.S. Dollar, the Argentine Peso was stable throughout the year.

Together with economic growth, the unemployment rate kept falling as a consequence of informal and formal job increases. The data corresponding to the fourth quarter of 2005 showed that 12.1% of the active population is unemployed, which is 2 points lower than 14.1% in the prior year, whereas average real wages of the economy increased by 7.1% annually.

National fiscal revenue increased by 21.3% in 2005, allowing for a national primary fiscal surplus of 3.7% of GDP. The first stage of restructuring the defaulted public debt was successfully completed by the middle of 2005, when 76% of the Argentine offer was accepted. Thus, Argentina significantly reduced its indebtedness level and its funding needs for the future, since the new securities are very favorable in regards to term and interest rate. Two issues are still pending: (i) the resolution of a smaller portion of the defaulted debt which was not included in the debt swap (the so called Paris Club) and (ii) government bondholders who have not accepted the Argentine proposal.

The Argentine hydrocarbon industry is still facing distortions. Within a framework of increasing international prices, liquid fuel prices remained practically unchanged in the local market. Moving withholdings of crude oil exports remained at a maximum of 45%. The lack of local diesel supply and low local prices required the implementation of a plan exempting customs duty payments on a larger scale, which will be repeated in 2006.

The Argentine economy starts 2006 with favorable prospects regarding economic growth, but with a significant concern about inflation levels. Private analysts forecast that the GDP will grow more than 6.8% a year, within a context of high inflation, estimated on average to be 13%. 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,		
	2005	2004	2003
	(percentage of net sales)		
Net sales	100.0%	100.0%	100.0%
Cost of sales	(49.2)	(46.2)	(44.3)
Gross profit	50.8	53.8	55.7
Administrative expenses	(2.4)	(2.2)	(2.1)
Selling expenses	(7.2)	(7.0)	(6.6)
Exploration expenses	(1.2)	(1.9)	(1.6)
Operating income	40.0	42.7	45.4

As mentioned above in this Item 5, during the year ended December 31, 2004, YPF Holdings Inc. and YPF International S.A. sold their interests in Global and in YPF Indonesia Ltd., respectively. 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 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 which affected the products sold in the export market, whereas in the domestic market, natural gas prices increased, due to the application of the price scheme 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.

Net sales for the year ended December 31, 2004 were Ps. 19,931 million compared to Ps. 17,514 million in 2003, an increase of 14%. This increase mainly reflects stronger international oil and refined products prices, partially offset by higher withholdings of hydrocarbon exports and higher discounts due to inferior oil quality, an increase in international costs of freight, a decrease of crude oil volume sold, due to lower production, as well as an increase in domestic prices of diesel, propylene and natural gas.

Cost of Sales

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 barrell of WTI, depreciation and other production costs.

The cost of sales in 2004 was Ps. 9,212 million, compared to Ps. 7,756 million in 2003, an increase of 19% mainly due to higher purchases of crude oil and natural gas, and higher royalties, depreciation and other production cost.

Operating Income

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.

Operating income in 2004 was Ps. 8,471 million compared to Ps. 7,955 million in 2003, which represents an increase of 6%. This increase was mainly due to higher international prices that increase refined products export sale margins.

Other Expenses, net

Other expenses, net decreased to Ps. 570 million for the year ended December 31, 2005 compared to a Ps. 1,012 million loss in 2004, resulting from a decrease in provisions for lawsuits, environmental remediation and other contingencies.

Other expenses net increased to Ps. 1,012 million in 2004 from Ps. 152 million in 2003, mainly reflecting an increase in provisions related to pending lawsuits, environmental issues and other contingencies. The most significant contingencies are described in Item 8. Legal Proceedings .

Financial income (expense), net and holding gains

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 Transaction 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.

In 2004 financial income net was Ps. 138 million compared to financial expense net of Ps. 50 million in 2003. The increase in financial income reflects an increase in holding gains on inventories due to higher production cost.

Taxes

Income tax expense during 2005 was Ps. 3,410 million compared to Ps. 3,017 million in 2004. The effective income tax rate for 2005 and 2004 was 38.98% and 38.22%, respectively, compared to the statutory income tax rate of 35%.

Income tax expense during 2004 was Ps. 3,017 million compared to Ps. 3,290 million in 2003. The effective income tax rate for 2004 and 2003 was 38.22% and 41.55%, respectively, compared to the statutory income tax rate of 35%.

The significant increase in the effective tax rate above the statutory rate is primarily due to the non-recognition for tax purposes of higher depreciation expenses that resulted from the restatement in constant Argentine pesos of fixed assets and inventories.

Net Income

Net income for the year ended December 31, 2005 was Ps. 5,337 million compared to Ps. 4,876 in 2004, an increase of 9.45%. This increase mainly reflects the increase in operating results of Ps. 690 million, a decrease in

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other expenses, net, of Ps. 442 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.

Net income for the year ended December 31, 2004 was Ps. 4,876 million compared to Ps. 4,628 million in 2003, an increase of 5%. This increase mainly reflects the increase of 6% in operating income and lower financial expenses, partially offset by the increase in other expenses net, as well as income from the sale of discontinued operations of Ps. 139 million.

Results of Operations by Business Segment

The tables below set forth YPF s net sales and revenues and operating income by business segment for 2005, 2004 and 2003 as well as the percentage changes in revenues for the periods shown.

	2005	2004 (millions of pesos)	2003	2005 vs. 2004	2004 vs. 2003
Net sales and revenues					
Exploration and Production (1)	15,195	14,141	12,399	7.45%	14.05%
Refining and Marketing	18,178	15,808	14,667	14.99%	7.78%
Chemical	2,269	2,146	1,553	5.73%	38.18%
Corporate and others	330	266	236	24.06%	12.71%
Consolidation adjustments	(13,071)	(12,430)	(11,341)		
Total	22,901	19,931	17,514	14.90%	13.80%

	2005	2004 (millions of pesos)	2003	2005 vs. 2004	2004 vs. 2003
Operating income					
Exploration and Production (1)	7,140	7,140	6,362	0.00%	12.23%
Refining and Marketing	1,900	1,324	1,527	43.50%	(13.29)%
Chemical	542	564	387	(3.90)%	45.74%
Corporate and others	(451)	(430)	(311)	4.88%	38.26%
Consolidation adjustments	30	(127)	(10)		
Total	9,161	8,471	7,955	8.15%	6.49%

(1) From January 1, 2005, 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 and 2003 were Ps. 577 million and Ps. 418 million, respectively, and the operating income was Ps. 262 million and Ps. 180 million in 2004 and 2003, respectively

Transactions with Controlled Companies

In the ordinary course of YPF s business, YPF maintains purchases, sales and financing transactions with related parties as mentioned in Note 7 to the Consolidated Financial Statements.

Exploration and Production

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.

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Exploration and Production net sales in 2005 were Ps. 15,195 million compared to Ps. 14,141 million in 2004, an increase of 7%. Net crude oil sales increased by Ps. 1,515 million mainly due to higher international oil prices used to determine internal transfer prices between business segments, partially offset by a reduction in sales volumes, due to lower crude oil production resulting from trade union strikes affecting the Province of Chubut during the last semester and from a natural decline in the production curve, which was partially offset by purchases from external parties. Additionally, during 2005, natural gas sales increased by Ps. 488 million due to higher industrial prices and natural gas liquids sales increased by Ps. 122 million.

Due to higher operating expenses, mainly royalties, depreciations, preservation, repair and maintenance expenses and crude oil purchases, so as to honor prior sales commitments, Exploration and Production operating income in 2005 remained almost the same as in 2004.

Crude oil, condensate and natural gas liquids production during 2005 decreased to 367 thousand barrels per day, compared to 399 thousand barrels per day in 2004. Natural gas production in 2005 decreased to 1,827 million cubic feet per day from 1,926 million cubic feet per day in 2004, as a consequence of a production decrease due to the natural decline in the production curve.

Exploration and Production net sales during 2004 were Ps. 14,141 million compared to Ps. 12,399 million in 2003, an increase of 14%. Net crude oil sales increased by Ps. 1,099 million mainly as a consequence of higher international oil prices used to determine internal transfer prices, partially offset by a reduction in sales volumes, due to a lower crude oil production. Additionally, during 2004 there was an increase of Ps. 480 million in natural gas sales due to higher industrial prices and an increase in production, as well as a natural gas liquids sales increase of Ps. 79 million.

Due to higher operating expenses, primarily royalties, depreciation, preservation, repair and maintenance and crude oil purchases, partially offset by better margins obtained by Mega (due to higher ethane, LPG and natural gasoline prices), Exploration and Production operating income increased by 12%, to Ps. 7,140 million in 2004 compared to Ps. 6,362 million in 2003.

Crude oil, condensate and natural gas liquids production during 2004 decreased to 399 thousand barrels per day compared to 430 thousand barrels per day obtained in 2003. Natural gas production during 2004 increased to 1,926 million of cubic feet per day from 1,767 million of cubic feet per day in 2003.

Refining and Marketing

Net sales in 2005 were Ps. 18,178 million, a 15% increase compared to Ps. 15,808 million in 2004, mainly as a result of higher exports prices of diesel fuel, fuel oil and fuel, partially offset by lower export volumes of diesel fuel and an increase in exports withholdings. In the domestic market, diesel, jet fuel and lubricants bases prices and sales volume increased.

Operating income in 2005 was Ps. 1,900 million, a 44% increase compared to Ps. 1,324 million in 2004. This increase resulted from increased net sales due to higher prices, partially offset by greater purchases of imported diesel fuel, an increase of crude oil prices, greater refining expenses and greater transportation expenses. Refining cost per barrell in 2005 was 7.6, compared to Ps. 7.2 in 2004, a 6% increase.

Refinery throughput in 2005, including 50% of Refinor, reached 319.9 thousand barrels per day, representing a utilization rate of 92.6% of the existing processing capacity of 345.6 thousand barrels per day.

Net sales in 2004 were Ps. 15,808 million, an 8% increase compared to Ps. 14,667 million in 2003, mainly as a result of higher exports prices of refined products, partially offset by lower sales volumes of gasoline and diesel in the international market, and an increase in exports withholdings. Sales volumes of diesel in the local market were higher than 2003 in order to supply local demand, while prices remained significantly lower than export prices.

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Operating income in 2004 was Ps. 1,324 million, a 13% decrease compared to Ps. 1,527 million in 2003, mainly reflecting a higher cost of crude oil purchased to the Exploration and Production segment and higher refining cost. Refining cost per barrel in 2004 was Ps. 7.2, compared to Ps. 6.3 in 2003, a 14% increase.

Refinery throughput in 2004 reached 298 thousand barrels per day, representing a utilization rate of 93%. Processing capacity was 319.5 thousand barrels per day.

Chemical

Net sales in 2005 were Ps. 2,269 million compared to Ps. 2,146 million in 2004, resulting mainly from an increase in export sales due to better international prices.

Operating income in 2005 was Ps. 542 million compared to Ps. 564 million in 2004. This decrease resulted from increased purchases and depreciation, partially offset by higher sales volumes and higher prices in the domestic and export market. In addition, Profertil s operating income increased, but was partially offset by the sale of Petroken in 2004 which therefore generated no income for YPF in 2005.

Net sales during 2004 were Ps. 2,146 million compared to Ps. 1,553 million in 2003. This increase mainly reflects a strong increase in sales volumes, primary exported, due to the methanol production record reached, which was 12% higher than in 2003.

Operating income in 2004 was Ps. 564 million, an increase of 46%, compared to Ps. 387 million in 2003. This increase reflects higher sales volumes and higher Profertil operating income, which achieved a substantial improvement in operations. The increase in the production was accompanied by an increase in urea s international prices, which reached its highest level since 1995.

Liquidity and Capital Resources

Financial Condition

Total net debt outstanding as of December 31, 2005 was US$ 479 million (Ps. 1,453 million), consisting of short-term debt (including the current portion of long-term debt) of US$ 114 million (Ps. 346 million) and long-term debt of US$ 365 million (Ps. 1,107 million). As of December 31, 2005, almost all of our debt was denominated in U.S. Dollars. The use of derivatives is detailed in Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Since September 2001, YPF has repurchased certain of its publicly-traded bonds in open market transactions on an arms-length basis. YPF has repurchased approximately US$ 285 million of its outstanding bonds, which have not been cancelled and remain in its investment portfolio. YPF may from time make additional purchases of, or effect other transactions relating to, its publicly-traded bonds if in YPF s own judgment the market conditions are attractive.

Net cash flow provided by operating activities was Ps. 8,251 million in 2005, compared to Ps. 8,515 million in 2004, a decrease of 3%. Higher operating income in 2005 was partially decreased by lower credits received from the parent company in 2005 compared to 2004.

The principal uses of cash in investing and financing activities in 2005 included Ps. 3,722 million in fixed asset acquisitions, Ps. 4,878 million in dividend payments and Ps. 483 million in net repayments of outstanding loans. The principal cash provided by these activities included the sale of Petroken and PBB, which generated Ps. 454 million. In 2004, the principal uses of cash from investing and financing activities included Ps. 2,867 million in fixed assets acquisitions, Ps. 5,310 million in dividends payments and Ps. 980 million in net repayments of outstanding loans. In 2004 the principal cash provided by these activities included Ps. 244 million from the sale of discontinued operations.

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Our current financing policy is to use cash flows provided by operating activities to fund both investing and operating activities, as well as to settle outstanding financial liabilities. YPF s working capital is sufficient for the company s present requirements.

The Shareholders Meeting held on April 19, 2005, approved a Notes Program of up to US$ 700 million. The proceeds of this program will be used to refinance liabilities, and to invest in working capital and fixed assets in Argentina and in related companies. Notes could be issued with or without guarantee. The Board of Directors will determine the terms, conditions and characteristics of each issuance, if this source of financing is required.

The following table sets forth information with regard to our commitments for the periods indicated below with regard to our debt:

	Expected Maturity Date (millions of Ps.)						
	2006	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
Debt	346	603		307		197	1,453

Contractual Obligations

The following table sets forth information with regard to YPF s commitments under commercial contracts for the years indicated below, as of December 31, 2005:

	Total	**Less than 1 year**	**1 3 years**	**3 5 years**	**More than 5 years**
			(million US$)		
Contractual Obligations					
Debt (1)	700	147	247	124	182
Capital Lease Obligations					
Operating Lease Obligations	344	97	110	71	66
Purchase Obligations (2)	2,792	343	614	498	1,337
Purchases of services (4)	1,384	182	309	234	659
Purchases of goods	1,408	161	305	264	678
LPG (4)	78	20	33	14	11
Electricity	317	34	60	49	174
Natural gas (4)	87	13	26	26	22
Crude oil (4)	698	70	140	140	348
Steam	185	13	26	26	120
Others	43	11	20	9	3
Other Liabilities (3)	2,344	1,654	272	91	327
Total	6,180	2,241	1,243	784	1,912

(1) These projected amounts include interest which, if set with a variable rate, are calculated considering the last rate agreed as of December 31, 2005.

(2) Includes purchase commitments under commercial agreements that do not provide for a total fixed amount, which have been valued using YPF s best estimates.

(3) Reserves for contingent liabilities, which amount to US$ 408 million, are not included in the contractual obligations table above, as YPF based on the evidence available to date cannot reasonably estimate the settlement date such contingencies may become due.

(4) The Company has signed contracts under which it has committed to buy certain products and services, and to sell natural gas, liquefied petroleum gas and other products. Some of the contracts include penalty clauses that stipulate compensation for a breach of the obligation to receive or to deliver the products under contract. Furthermore, the Company is subject to certain regulations requiring the Company to supply the domestic hydrocarbon market demand.

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	Total	Less than 1 year	1 3 years	3 5 years	More than 5 years
			(million US$)		
Sale Commitments					
Crude oil sales	77	32	45		
Natural Gas sales	9,162	1,109	1,681	1,533	4,839
LPG sales	3,374	849	1,531	284	710
Other petroleum and petrochemical product sales	3,543	769	994	518	1,262
Services	204	23	43	38	100
Total	16,360	2,782	4,294	2,373	6,911

YPF has additional commitments under derivatives contracts and guarantees. For a discussion of these additional commitments see Item 11. Quantitative and Qualitative Disclosures About Market Risk and Guarantees Provided below.

Transactions With Unconsolidated Variable Interest Entities

Since 1996, YPF has entered into three forward oil sale agreements, which we refer to as the FOS transactions in this annual report. These agreements were entered into in order to obtain cash to fund operations in advance of the actual sale and delivery of oil. Under these transactions, YPF was advanced US$ 381 million in 1996, US$ 300 million in 1998 and US$ 383 million in 2001, against future deliveries of oil. YPF s obligations under the FOS transactions are recorded as a liability in the consolidated balance sheet as customer advances and will be reduced and moved to income as the physical deliveries are made over the term of the contracts. As of December 31, 2005, the amount of FOS customer advances recorded on our consolidated balance sheet was Ps. 196 million (US$ 64 million). The obligations to deliver crude oil under the agreements entered into in 1996 have been satisfied in their entirety, with the last delivery having taken place in October 2003. The obligations to deliver crude oil under the agreement entered into in 2001 were cancelled on September 30, 2005. The obligations to deliver crude oil under the 1998 agreement will continue through May 2008.

The structure of the remaining FOS transaction is similar to the ones already cancelled. YPF enters into a forward oil sale agreement that calls for the future delivery of oil for the life of the contract. YPF is paid in advance for the future delivery of oil. The price of the oil to be delivered is calculated using various factors, including the expected future price and quality of the crude oil being delivered. The counterparty or assignee to the oil supply agreement is a special purpose entity incorporated in the Cayman Islands, which finances itself as described below. The oil to be delivered under the supply agreement is subsequently sold in the open market.

YPF is exposed to any change in the price of the crude oil it will deliver in the future under the FOS transaction. YPF s exposure derives from the crude oil swap agreement under which YPF pays a fixed price with respect to the nominal amount of the crude oil sold, and receives the variable market price of such crude oil. See Item 11. Quantitative and Qualitative Disclosure about Market Risk Commodity Price Risk Crude Oil Price Swaps and Item 7. Major Shareholders and Related Party Transactions. See Note 13.k) to the Consolidated Financial Statements for a description of the treatment of the FOS transactions under U.S. GAAP.

The following provides an overview of the outstanding FOS transaction:

	FOS II
Date	June 24, 1998
Net proceeds (1)	US$ 299,967,289
SPE	Oil Enterprises Ltd.