

RISK FACTORS

Risks Related to Argentina

Overview

We are a stock corporation (*sociedad anónima*) incorporated under the laws of the Republic of Argentina and most of our revenues are earned in Argentina and most of our operations, facilities and customers are located in Argentina. We also have crude oil and natural gas operations outside Argentina, in Venezuela and Ecuador. Our financial condition and results of operations depend to a significant extent on macroeconomic, regulatory, political and financial conditions prevailing in Argentina, including growth, inflation rates, currency exchange rates, interest rates, and other local, regional and international events and conditions that may affect Argentina in any manner. For example, slower economic growth or economic recession could lead to a decreased demand for electricity in the service areas in which our subsidiaries operate or a decline in the purchasing power of our customers, which, in turn, could lead to a decrease in collection rates from our customers or increased energy losses due to illegal use of our services. Actions of the Argentine Government concerning the economy, including decisions with respect to inflation, interest rates, price controls, tariffs and other compensation of public services, foreign exchange controls and taxes, have had and may in the future have a material adverse effect on private sector entities, including us. For example, during the Argentine economic crisis of 2001, the Argentine Government froze electricity distribution margins and caused the pesification of electricity distribution tariffs, which had a materially adverse effect on our business and financial condition and led us to suspend payments on our financial debt at the time.

We cannot assure you that the Argentine Government will not adopt other policies that could adversely affect the Argentine economy or our business, financial condition or results of operations. In addition, we cannot assure you that future economic, regulatory, social and political developments in Argentina will not impair our business, financial condition or results of operations, or cause the market value of our ADSs to decline.

A global or regional financial crisis and unfavorable credit and market conditions may negatively affect our liquidity, customers, business, and results of operations

The effects of a global or regional financial crisis and related turmoil in the global financial system may have a negative impact on our business, financial condition and results of operations, which is likely to be more severe on an emerging market economy, such as Argentina. Such was the case in 2008, when the global economic crisis led to a sudden economic decline in Argentina in 2009, accompanied by inflationary pressures, depreciation of the Peso and a drop in consumer and investor confidence.

The effect of the economic crisis on our customers and on us cannot be predicted. Weak global and local economic conditions could lead to reduced demand or lower prices for energy, hydrocarbons and related oil product and petrochemicals, which could have a negative effect on our revenues. Economic factors such as unemployment, inflation and the unavailability of credit could also have a material adverse effect on demand for energy and, therefore, on our business financial condition and results of operations. The financial and economic situation in Argentina or in other countries in Latin America, such as Brazil, may also have a negative impact on us and third parties with whom we do, or may do, business. See "The Argentine economy could be adversely affected by economic developments in other markets and by more general "contagion" effects."

In addition, the global economic crisis that began in the fourth quarter of 2008, triggering an international stock market crash and the insolvency of major financial institutions, limited the ability of Argentine companies to access international financial markets as they had in the past or made such access significantly more costly. A similar global or regional financial crisis in the future could limit our ability to access the credit or capital markets at a time when we require financing, thereby impairing our flexibility to react to changing economic and business conditions (see "*Argentina's ability to obtain financing from international markets is limited, which may impair its ability to implement reforms and foster economic growth and, consequently, affect our business, results of operations and prospects for growth*" above). For these reasons, any of the foregoing factors could together or independently have an adverse effect on our results of operations and financial condition and cause the market value of our ADSs to decline.

The Argentine economy remains vulnerable and any significant decline could adversely affect our financial condition

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high levels of inflation and currency devaluation. Sustainable economic growth in Argentina is dependent on a variety of factors, including the international demand for Argentine exports, the stability and competitiveness of the Argentine Peso against foreign currencies, confidence among consumers and foreign and domestic investors and a stable rate of inflation.

The Argentine economy remains vulnerable, as reflected by the following economic conditions:

- according to the revised calculation of 2004, gross domestic product (“GDP”) published by the *Instituto Nacional de Estadística y Censos* (National Statistics and Census Institute or “INDEC”) on June 29, 2016, which forms the basis for the real GDP calculation for every year after 2004, and recent data published by the INDEC in 2017, for the year ended December 31, 2016, Argentina’s real GDP decreased by 2.1% compared to the same period in 2015. Argentina’s performance has depended to a significant extent on high commodity prices which, despite having favorable long-term trends, are volatile in the short-term and beyond the control of the Argentine Government and the private sector;
- Argentina’s public debt as a percentage of GDP remains high and the availability of long-term credit and international financing remains limited;
- continued increases in public expenditures have resulted and could continue to result in fiscal deficits and affect economic growth;
- inflation remains high and may continue at those levels in the future;
- investment as a percentage of GDP remains low to sustain the growth rate of the past decade;
- a significant number of protests or strikes could take place, as has occurred in the past, which could adversely affect various sectors of the Argentine economy;
- energy or natural gas supply may not be sufficient to supply increased industrial activity (thereby limiting industrial development) and consumption;
- unemployment and informal employment remain high; and

As in the recent past, Argentina’s economy may be adversely affected if political and social pressures inhibit the implementation by the Argentine Government of policies designed to control inflation, generate growth and enhance consumer and investor confidence, or if policies implemented by the Argentine Government that are designed to achieve these goals are not successful. These events could materially adversely affect our financial condition and results of operations, or cause the market value of our ADSs to decline.

We cannot assure you that a decline in economic growth, an increase in economic instability or the expansion of economic policies and measures taken or that may be adopted in the futures by the Argentine Government to control inflation or address other macroeconomic developments that affect private sector entities such as us, all developments over which we have no control, would not have an adverse effect on our business, financial condition or results of operations or would not have a negative impact on the market value of our ADSs.

The impact of the congressional and presidential elections on the future economic and political environment of Argentina remains uncertain, but likely to be material

Since taking office on December 10, 2015, the Macri administration has announced and implemented several significant economic and policy reforms, including:

- ***Electricity system state of emergency and reforms.*** The Macri administration declared the state of emergency of the national electricity system that will remain in effect until December 31, 2017. The state of emergency allows the Argentine Government to take actions designed to guarantee the supply of electricity. In addition, following the Macri administration's announcement that it would reexamine energy subsidy policies, the ME&M increased electricity rates for the wholesale market for purchases made between February 1 through April 30, 2016. This increase was used to reduce subsidies to the sector. On January 29, 2016, the ENRE, through Resolution No. 1/16 approved a new tariff structure which became effective on February 1, 2016, and introduced different prices depending on the categories of customers. Such resolution also contemplated a social tariff applicable to residential customers who comply with certain consumption requirements, which included a full exemption for monthly consumptions equal to or below 150 Kwh and other tariff benefits for customers who exceed such consumption levels but achieve a monthly consumption lower than that of the same period in the immediately preceding year. On the same date, through Resolution No. 2/2016, the ENRE partially repealed Resolution No. 347/2012, discontinuing the FOCEDA (a special trust account created by Resolution No. 347/2012) and ordered Empresa Distribuidora y Comercializadora Norte S.A. ("Edenor") to open a special bank account with a Central Bank of the Republic of Argentina (*Banco Central de la República Argentina* or the "Central Bank") authorized entity where the funds received pursuant to Resolution No. 347/2012 were be deposited through February 2016. By correcting tariffs, reducing subsidies and modifying the regulatory framework, the Macri administration aimed at correcting distortions in the energy sector and stimulating investment. Following the tariff increases, preliminary injunctions were requested by customers, and non-governmental organizations that defend customers' rights, some of which were granted by Argentine courts. Among others, two separate orders led to the suspension of end-user electricity tariff increases in the Province of Buenos Aires and in the entire territory of Argentina. However, on September 6 2016, the Argentine Supreme Court reversed the injunctions that had suspended end-user electricity tariff increases on the basis of formal objections and procedural defects and, therefore, as of the date of this annual report, increases to end-user electricity tariffs are no longer suspended. On September 12, 2016, pursuant to an Argentine Supreme Court decision, a public hearing conducted by the ME&M was held in relation to the approval of a new gas tariff schedule. In October 2016, such new gas tariff schedule was approved by the Macri administration establishing increases in tariffs ranging between 300% and 500%. On October 28, 2016, a non-binding public hearing was conducted by the ME&M and the ENRE to discuss tariff proposals submitted by distribution companies covering the greater Buenos Aires area (with approximately 15 million inhabitants), including Edenor, for the 2017-2021 period within the framework of the RTI. On February 1, 2017, the ENRE enacted several resolutions, which, among other policy changes, implemented a reduction of electricity tariff subsidies and an increase in electricity tariffs for their residential customers. Such increases ranged between 61% and 148%, according to the amount of electricity consumption.
- ***INDEC reforms.*** In light of questions raised by the International Monetary Fund ("IMF") regarding the reliability of the information produced by the INDEC, the Macri administration appointed Mr. Jorge Todesca, previously a director of a private consulting firm, as head of the INDEC. The INDEC has implemented certain methodological reforms and adjusted certain macroeconomic statistics on the basis of such reforms. On January 8, 2016, Decree No. 55/2016 was issued by the Argentine Government declaring a state of administrative emergency on the national statistical system and on the official agency in charge of the system, the INDEC, which remained in effect until December 31, 2016. Following the emergency declaration, the INDEC ceased publishing statistical data until a rearrangement of its technical and administrative structure was finalized. During the implementation of these reforms, however, the INDEC used official consumer price index ("CPI") figures and other statistics published by the Province of San Luis and the City of Buenos Aires. As of the date of this annual report, the INDEC has published certain revised data, including the CPI monthly data since May 2016 and foreign trade and balance of payment statistics. On June 29, 2016, the INDEC published a report including revised GDP data for the years 2004 through 2015. On September 22, 2016, the INDEC resumed publication of its essential goods and services basket assessment. On November 9, 2016, the IMF Executive Board lifted its censure on the Republic of Argentina, noting that the Republic of Argentina had resumed the publication of data in a manner consistent with its obligations under the Articles of Agreement of the IMF. Despite these reforms, there is uncertainty as to what effect such reforms and revised data will have on the Argentine economy and public accounts.

- *Foreign exchange reforms.* In addition, the Macri administration implemented certain reforms to the foreign exchange market regulatory framework that provided greater flexibility and easier access to the foreign exchange market. The principal measures adopted as of the date of this annual report included: (i) the elimination of the requirement to register foreign exchange transactions in the *Administración Federal de Ingresos Públicos* (Argentine Tax Authority or “AFIP”) database, (ii) the elimination of the requirement to transfer the proceeds of new financial indebtedness transactions into Argentina and settle such proceeds through the single and free-floating foreign exchange market (the “MULC”); (iii) a decrease from 30% to 0% of the registered, non-transferable and non-interest-bearing deposit required in connection with certain transactions involving foreign currency inflows; and (iv) the elimination of the requirement of a minimum holding period (72 business hours) for purchases and subsequent sales of the securities. In addition, on December 17, 2015, following the announcement of the lifting of a significant portion of exchange restrictions, the Peso depreciated approximately 36% against the U.S. Dollar. The exchange rate published by Banco Nación as of April 17, 2017, was Ps.15.2 to U.S.\$1.00.
- *Foreign trade reforms.* The Macri administration eliminated export duties on wheat, corn, beef and regional products, and reduced the export duty on soybeans by 5% to 30%. Further, the 5% export duty on most industrial exports and export duties on mining exports were eliminated. With respect to payments of existing debts for imports of goods and services, the Macri administration eliminated most of the restrictions on access to the MULC and eliminated the amount for any new transactions. In addition, importers were offered short-term debt securities issued by Argentina to be used to repay outstanding commercial debt for the import of goods.
- *Financial Policy.* Since taking office, the Macri administration reached agreements to settle outstanding claims with a large majority of holdout creditors. See “*Argentina’s ability to obtain financing from international markets is limited, which may impair its ability to implement reforms and foster economic growth and, consequently, affect our business, results of operations and prospects for growth.*”

As of the date of this annual report, the impact that these measures and any future measures to be taken by the Macri administration will have on the Argentine economy as a whole, and our business in particular, cannot be fully anticipated. While we believe that the effect of the planned liberalization of the economy will be positive for our business by stimulating economic activity, it is not possible to predict such effect with certainty and such liberalization could also be disruptive to the economy and fail to benefit or harm our business. Since assuming office, the Macri administration reformed energy and gas sector tariffs. In addition, as of the date of this annual report, political parties opposed to the Macri administration retain a majority of the seats in the Argentine Congress, which requires the Macri administration to seek political support from the opposition for its economic proposals and creates further uncertainty as to the ability of the Macri administration to pass any measure which it may expect to implement. In addition, legislative elections will be held in October 2017. We cannot assure you the impact that these measures or any future measures taken by the Macri administration will have on the Argentine economy, would not have an adverse effect on our business, financial condition or results of operations or would not have a negative impact on the market value of our ADSs.

If the high levels of inflation continue, the Argentine economy and our results of operations could be adversely affected

Inflation has, in the past, materially undermined the Argentine economy and the Argentine Government's ability to create conditions that allow growth. In recent years, Argentina has confronted inflationary pressures, evidenced by significantly higher fuel, energy and food prices, among other factors. According to data published by the INDEC, CPI inflation rates for July, August, September, October, November and December 2016, and January, February and March 2017 were 2.0%, 0.2%, 1.1%, 2.4%, 1.6%, 1.2%, 1.3%, 2.5% and 2.4% respectively. The wholesale price index ("WPI") increased by 34.5% in 2016. See *"The credibility of several Argentine economic indices was called into question, which may lead to a lack of confidence in the Argentine economy and, in turn, limit our ability to access credit and the capital markets"* below. The previous administration has in the past implemented programs to control inflation and monitor prices for essential goods and services, including by freezing the prices of supermarket products, and by executing price support arrangements with private sector companies in several industries and markets.

A high inflation rate affects Argentina's foreign competitiveness by diluting the effects of the Peso devaluation, negatively impacting employment and the level of economic activity and undermining confidence in Argentina's banking system, which may further limit the availability of domestic and international credit to businesses. In turn, a portion of the Argentine debt continues to be adjusted by the *Coefficiente de Estabilización de Referencia* (Stabilization Coefficient, or "CER"), a currency index, that is strongly related to inflation. Therefore, any significant increase in inflation would cause an increase in the Argentine external debt and consequently in Argentina's financial obligations, which could exacerbate the stress on the Argentine economy. A continuing inflationary environment could undermine our results of operations, adversely affect our ability to finance the working capital needs of our businesses on favorable terms; and it could adversely affect our results of operations and cause the market value of our ADSs to decline.

The credibility of several Argentine economic indices was called into question, which may lead to a lack of confidence in the Argentine economy and, in turn, limit our ability to access credit and the capital markets

In January 2007, the INDEC modified its methodology used to calculate the CPI, which is calculated as the monthly average of a weighted basket of consumer goods and services that reflects the pattern of consumption of Argentine households. Prior to 2015, the credibility of the CPI, as well as other indexes published by the INDEC were called into question.

On November 23, 2010, the Fernández de Kirchner administration began consulting with the IMF for technical assistance in order to prepare a new national CPI with the aim of modernizing the statistical system. However, Argentina was subsequently censured by the IMF in 2014 for failing to make sufficient progress in adopting remedial measures to address the quality of official data, including inflation and GDP.

In order to address the quality of official data, a new price index was put in place on February 13, 2014. Such new price index represented the first national indicator to measure changes in prices of final consumption by households. Unlike the previous price index, which only measured inflation in the urban sprawl of the City of Buenos Aires, the new price index was calculated by measuring prices of goods across the entire urban population of the 24 provinces of Argentina. Although this new methodology brought inflation statistics closer to those estimated by private sources, material differences between official inflation data and private estimates remained during 2015. In November 2015, the INDEC suspended the publication of the CPI and the WPI.

On January 8, 2016, based on its determination that the INDEC had failed to produce reliable statistical information, particularly with respect to CPI, GDP and foreign trade data, as well as with poverty and unemployment rates, the Macri administration declared a state of administrative emergency for the national statistical system and the INDEC that remained in effect through December 31, 2016. The INDEC suspended the publication of certain statistical data until a reorganization of its technical and administrative structure to recover its ability to produce reliable statistical information was finalized in June 2016. During the suspension period, the INDEC published CPI figures published by the City of Buenos Aires and the Province of San Luis for reference.

In June 2016, the INDEC began publishing an official inflation rate using a new methodology for calculating the consumer price index. The official CPI inflation rate for the period from May to December 2016 was 16.95%. The CPI inflation rates for July, August, September, October, November, December 2016, and January, February and March 2017 were 2.0%, 0.2%, 1.1%, 2.4%, 1.6%, 1.2%, 1.3%, 2.5% and 2.4%, respectively. The WPI increased by 34.5% in 2016.

Any future required correction or restatement of the INDEC indexes could result in decreased confidence in Argentina's economy, which, in turn, could have an adverse effect on our ability to access international capital markets to finance our operations and growth, and which could, in turn, adversely affect our results of operations and financial condition and cause the market value of our ADSs to decline.

Argentina's ability to obtain financing from international markets is limited, which may impair its ability to implement reforms and foster economic growth and, consequently, affect our business, results of operations and prospects for growth

The prospects for Argentine companies of accessing financial markets might be limited in terms of the amount of financing available, and the conditions and cost of such financing.

In 2005 and 2010, Argentina conducted exchange offers to restructure part of its sovereign debt that had been in default since the end of 2001. As a result of these exchange offers, Argentina restructured over 92% of its eligible defaulted debt. In April 2016, the Argentine Government settled U.S.\$4.2 billion outstanding principal amount of debt held by creditors who had not participated in the 2015 and 2010 restructurings.

As of the date of this annual report, litigation initiated by bondholders that have not accepted Argentina's settlement offer continues in several jurisdictions, although the size of the claims involved has decreased significantly. Although the vacatur of the pari passu injunctions removed a material obstacle to access to capital markets by the Argentine Government, future transactions may be affected as litigation with holdout bondholders continues, which in turn could affect the Argentine Government's ability to access international credit markets, and thus could have a material adverse effect on the Argentine economy and, in turn, on our business, results of operations and prospects for growth.

Fluctuations in the value of the Argentine Peso could adversely affect the Argentine economy, which could, in turn adversely affect our results of operations

Fluctuations in the value of the Peso may also adversely affect the Argentine economy, our financial condition and results of operations. The devaluation of the Argentine Peso could have a negative impact on the ability of certain Argentine businesses to service their foreign currency-denominated debt, lead to very high inflation, significantly reduce real wages, jeopardize the stability of businesses whose success depends on domestic market demand, including public utilities and the financial industry, and adversely affect the Argentine Government's ability to honor its foreign debt obligations. After several years of moderate variations in the nominal exchange rate, the Peso lost more than 30% of its value with respect to the US Dollar in each of 2013 and 2014, and in 2015, the Peso lost approximately 52% of its value with respect to the U.S. Dollar including a depreciation of approximately 34% mainly experienced after December 17, 2015 following the announcement of the lifting of a significant portion of foreign exchange restrictions. Since the devaluation in December 2015, the Central Bank has allowed the Peso to float and limited interventions to those needed to ensure the orderly functioning of the foreign exchange market. As of December 31, 2016, the exchange rate was Ps.15.89 to U.S.\$1.00 and the depreciation of the Peso with respect to the U.S. Dollar reached approximately 20% during 2016. We are unable to predict the future value of the Peso against the U.S. Dollar. If the Argentine Peso devalues further, the negative effects on the Argentine economy could have adverse consequences to our businesses, our results of operations and the market value of our ADSs, including as measured in U.S. Dollars.

On the other hand, a significant appreciation of the Argentine Peso against the U.S. Dollar also presents risks for the Argentine economy, including the possibility of a reduction in exports (as a consequence of the loss of external competitiveness). Any such increase could also have a negative effect on economic growth and employment, reduce the Argentine public sector's revenues from tax collection in real terms, and have a material adverse effect on our business, our results of operations and the market value of our ADSs as a result of the weakening of the Argentine economy in general.

Government intervention may adversely affect the Argentine economy and, as a result, our business and results of operations

In the recent past, the Fernández de Kirchner administration increased its direct intervention in the economy, including through the implementation of expropriation and nationalization measures, price controls and exchange controls.

In December 2008, Law No. 26,425 was passed by the Argentine Congress unifying the Argentine pension and retirement system into a system publicly administered by the *Administración Nacional de la Seguridad Social* (the National Social Security Agency, or the “ANSES”), and eliminating the pension and retirement system previously administered by private managers. In accordance with the new law, private pension managers transferred all of the assets administered by them under the pension and retirement system to the ANSES. With the nationalization of Argentina’s private pension funds, the Argentine Government, through the ANSES, became a significant shareholder in many of the country’s public companies. As of the date of this annual report, ANSES owns shares representing 16.62% of our capital stock, and also owns shares of capital stock of Edenor, Central Térmica Güemes S.A. (“Güemes” or “CTG”) and Compañía de Transporte de Energía Eléctrica en Alta Tensión S.A. (“Transener”).

Beginning in April 2012, the Fernández de Kirchner administration provided for the nationalization of YPF and imposed major changes to the legal framework in which oil companies operate, principally through the enactment of Law No. 26,741 and Decree No. 1,277/2012. Additionally, in December, 2012, the Fernández de Kirchner administration issued Decree No. 2,552/2012, pursuant to which it ordered the expropriation of the *Predio Rural de Palermo*. However, in January, 2013, the Federal Civil and Commercial Chamber granted an injunction that has temporarily blocked the enforcement of Decree No. 2,552/2012. Although the decision was appealed by the Argentine Government, the Supreme Court of Justice rejected such appeal and confirmed the Federal Civil and Commercial Chamber’s injunction subject to a decision on the merits.

Notwithstanding the measures recently adopted by the Macri administration, we cannot assure you that other measures that may be adopted by the current or any future Argentine Government, such as expropriation, nationalization, forced renegotiation or modification of existing contracts, new taxation policies, changes in laws, regulations and policies affecting foreign trade and investments will not have a material adverse effect on the Argentine economy and, as a consequence, adversely affect our financial condition, our results of operations or cause the market value of our ADSs to decline.

The implementation in the future of new exchange controls and restrictions on capital inflows and outflows could limit the availability of international credit and could threaten the financial system, adversely affecting the Argentine economy and, as a result, our business

During 2001 and the first half of 2002, Argentina experienced a mass withdrawal of deposits from the financial system as a result of a lack of confidence in the Argentine Government’s ability to repay its debt and sustain the parity between the Peso and the U.S. Dollar. This caused a liquidity crisis in the Argentine financial system, which led the Argentine Government to impose exchange controls and transfer restrictions, substantially limiting the ability of companies to retain foreign currency or make payments abroad. After 2002, these restrictions, including those requiring the Central Bank prior authorization for the transfer of funds abroad to pay principal and interest on debt obligations, were substantially eased through 2007. In addition to the foreign exchange restrictions applicable to outflows, in June 2005 the Argentine Government adopted various rules and regulations that established new restrictive controls on capital inflows into Argentina, including a requirement that, for certain funds remitted into Argentina, an amount equal to 30% of the funds must be deposited into an account with a local financial institution as a U.S. Dollar deposit for a one-year period without any accrual of interest, benefit or other use as collateral for any transaction.

Through a combination of foreign exchange and tax regulations from 2011 until President Macri assumed office in 2015, the Fernández de Kirchner administration significantly curtailed access to the foreign exchange market by individuals and private-sector entities. In addition, during the last few years under the Fernández de Kirchner administration, the Central Bank exercised a *de facto* prior approval power for certain foreign exchange transactions otherwise authorized to be carried out under applicable regulations, such as dividend payments or repayment of principal of inter-company loans as well as the import of goods, by means of regulating the amount of foreign currency available to financial institutions to conduct such transactions. The number of exchange controls introduced in the past and in particular after 2011, during the Fernández de Kirchner administration, gave rise to an unofficial U.S. Dollar trading market. The Peso/U.S. Dollar exchange rate in such market substantially differed from the official Peso/U.S. Dollar exchange rate. See “Item 3. Key Information–Exchange Rates” and “Item 10–Exchange Controls.”

Additionally, the level of international reserves deposited with the Central Bank significantly decreased from U.S.\$47.4 billion as of November 1, 2011 to U.S.\$25.6 billion as of December 31, 2015, resulting in a reduced capacity of the Argentine Government to intervene in the foreign exchange market and to provide access to such markets to private sector entities like us. The Macri administration has aimed at increasing the level of international reserves deposited with the Central Bank through the execution of different measures. As a result of the measures taken, the international reserves increased to U.S.\$ 40.0 billion as of December 31, 2016.

Notwithstanding the measures recently adopted by the Macri administration, in the future the Argentine Government could impose exchange controls, transfer restrictions or restrictions on the movement of capital or take other measures in response to capital flight or a significant depreciation of the Peso, which could limit our ability to access the international capital markets and impair our ability to make interest, principal or dividend payments abroad. Such measures could lead to renewed political and social tensions and undermine the Argentine Government’s public finances, which could adversely affect Argentina’s economy and prospects for economic growth and, consequently, adversely affect our business and results of operations and cause the market value of our ADSs to decline. As of the date of this annual report, however, the transfer of funds abroad to pay dividends is permitted to the extent such dividend payments are made in connection with audited financial statements approved by a shareholders’ meeting of the Company.

The Argentine economy could be adversely affected by economic developments in other markets and by more general “contagion” effects

Argentine financial and securities markets are influenced, to varying degrees, by economic and financial conditions in other markets and Argentina’s economy is vulnerable to external shocks, including those related or similar to the global economic crisis that began in 2008 and economic and financial conditions in Argentina’s major trading partners, in particular, Brazil. For example, the current devaluation of the Brazilian currency and the slowdown of its economy may negatively affect the Argentine economy, and in turn, our business and results of operations. Although economic conditions can vary from country to country, investors’ perception of the events occurring in other countries have substantially affected in the past, and may continue to substantially affect capital flows to other countries and the value of securities in other countries, including Argentina. The Argentine economy was adversely impacted by the political and economic events that occurred in several emerging economies in the 1990s, including those in Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998 and the Brazilian devaluation of its currency in January 1999.

In addition, international investors’ reactions to events occurring in one market sometimes demonstrate a “contagion” effect in which an entire region or class of investment is disfavored by international investors, Argentina could be adversely affected by negative economic or financial developments in other countries, which in turn may have material adverse effect on the Argentine economy and, indirectly, on our business, financial condition and results of operations, and the market value of our ADSs.

Application of certain laws and regulations is uncertain and could adversely affect our results of operations and financial condition

Law No. 26,854, which regulates injunctions in cases in which the Argentine Government is a party or has intervened, was promulgated on April 30, 2013 as part of a judicial reform bill approved by the Argentine Congress. Among the principal changes implemented pursuant to the judicial reform bill is a time limitation on injunctions imposed in proceedings brought against the Argentine Government and the creation of three new chambers of *Casación*, each of which must hear an appeal before the matter is considered by the Supreme Court of Justice of Argentina. In addition, Law No. 26,855, which became effective on May 27, 2013, modified the structure and functions of the Argentine *Consejo de la Magistratura* (judicial council), which has the authority to appoint judges, present charges against them and suspend or remove them. As of the date of this annual report, several aspects of this legislation have been struck down as unconstitutional by the Argentine Supreme Court.

On August 7, 2014, Law No. 26,944 on State Responsibility was enacted to regulate government actions. Said law governs the responsibility of the Argentine Government regarding the damages that its activity or inactivity may cause to individuals' properties or rights. Such law establishes that the Argentine Government's responsibility is objective and direct, that the provisions of the civil and commercial codes are not applicable to the actions of the Argentine Government in a direct or subsidiary manner and that no dissuasive financial penalties may be imposed on the Argentine Government, its agents or officers.

On September 18, 2014, the Argentine Congress enacted Law No. 26,991 amending Law No. 20,680 (the "Supply Law"), which became effective on September 28, 2014, to increase control over the supply of goods and provision of services. Such initiative includes the ability of the Argentine Government to regulate consumer rights under Article 42 of the Constitution and permits the creation of an authority to maintain the prices of goods and services (the "Observer of Prices of Goods and Services"). The Supply Law, as amended: (i) requires the continued production of goods to meet basic requirements; (ii) creates an obligation to publish prices of goods and services produced and borrowed; (iii) allows financial information to be requested and seized; and (iv) increases fines for judicial and fiscal persons. The reforms and creation of the Observer of Prices of Goods and Services could adversely affect our operations. An initiative to regulate questions of consumer rights was also approved, creating the *Conciliación Previa en las Relaciones de Consumo* (Prior Conciliatory Procedures For Consumer Relations, or the "COPREC"), where users and consumers may present claims free of charge and have them resolved within 30 days.

The Supply Law applies to all economic processes linked to goods, facilities and services which, either directly or indirectly, satisfy basic consumer needs ("Basic Needs Goods") and grants a broad range of powers to its enforcing agency. It also grants the enforcing agency the power to order the sale, production, distribution or delivery of Basic Needs Goods throughout the country in case of a shortage of supply.

On October 1, 2014, the Argentine Congress approved the reform, update and unification of the National Civil and Commercial codes. A single new National Civil and Commercial Code became effective on August 1, 2015.

The long-term impact of recently adopted legislation on Argentina's legal system and future administrative or judicial proceedings, including potential future claims by us against the Argentine Government, cannot be predicted.

Risks Relating to our Company

We operate a material portion of our business pursuant to public concessions granted by the Argentine Government, the revocation or termination of which would have a material adverse effect on our business

We conduct a significant part of our businesses pursuant to public concessions granted by the Argentine Government. These concessions contain several requirements regarding the operation of those businesses and compliance with laws and regulations. Compliance with our obligations under our concessions is, in certain cases, secured by a pledge of our shares in the concessionaires in favor of the Argentine Government. Accordingly, upon the occurrence of specified events of default under these concessions, the Argentine Government would be entitled to foreclose on its pledge of the concessionaire and sell our shares in that concessionaire to a third party. Such sale would have a severe negative impact on our ability to operate a material portion of our business, and as a result, our results of operations would be materially adversely affected. Finally, our concessions also generally provide for termination in the case of insolvency or bankruptcy of the concessionaire. If any of our concessions are terminated or if the Argentine Government forecloses its pledge over the shares we own in any of our concessionaire companies, such companies could not continue to operate as a going concern, and in turn our consolidated results of operations would be materially adversely affected and the market value of our shares and ADSs could decline.

We employ a largely unionized labor force and could be subject to an organized labor action, including work stoppages that could have a material adverse effect on our business

The sectors in which we operate are largely unionized. Although our relations with unions are currently stable, we cannot assure you that we or our operating subsidiaries will not experience work disruptions or stoppages in the future, which could have a material adverse effect on our business and revenues. In addition, our collective bargaining agreements generally expire after a one-year term. We cannot assure you that we will be able to negotiate new collective bargaining agreements on the same terms as those currently in effect, or that we will not be subject to strikes or work stoppages before or during the negotiation process. If we are unable to negotiate salary agreements or if we are subject to strikes or work stoppages, our results of operations, financial condition and the market value of our shares and ADSs could be materially adversely affected.

In the event of an accident or event not covered by our insurance policies, we could face significant losses that could materially adversely affect our business and results of operations

We carry insurance policies that are consistent with industry standards in each of our different business segments. Although we believe our insurance coverage is commensurate with international standards, no assurance can be given of the existence or sufficiency of risk coverage for any particular risk or loss. If an accident or other event occurs that is not covered by our current insurance policies in any of our business segments, we may experience material losses or have to disburse significant amounts from our own funds, which may have a material adverse effect on our net profits and our overall financial condition and the market value of our shares and ADSs.

We conduct a portion of our operations through joint ventures, and our failure to continue such joint ventures or resolve any material disagreements with our partners could have a material adverse effect on the success of these operations

We conduct a portion of our operations through joint ventures and as a result, the continuation of such joint ventures is vital to our continued success. In the event that any of our partners were to decide to terminate its relationship with us in any of such joint ventures or sell its interest in such joint ventures, we may not be able to replace our partner or obtain the necessary financing to purchase our partner's interest. Furthermore, in certain cases such as with respect to Transener and TGS, we are not able to acquire our partners' interests under applicable Argentine regulations. As a result, the failure to continue some of our joint ventures or to resolve disagreements with our partners could adversely affect our ability to conduct the business that is the subject of such joint venture, which would in turn negatively affect our financial condition and results of operations and the market value of our shares and ADSs.

Our performance is largely dependent on recruiting and retaining key personnel

Our current and future performance and the operation of our business are dependent upon the contributions of our senior management and our skilled team of engineers and other employees. We depend on our ability to attract, train, motivate and retain key management and specialized personnel with the necessary skills and experience. There is no guarantee that we will be successful in retaining and attracting key personnel and the replacement of any key personnel who were to leave could be difficult and time consuming. The loss of the experience and services of key personnel or the inability to recruit suitable replacements and additional staff could have a material adverse effect on our business, financial condition and results of operations.

If we are not able to effectively hedge our currency risk in full and a devaluation of the Peso occurs, there may be a material adverse effect on our results of operations and financial condition

Our revenues are mainly collected in Pesos pursuant to tariffs that are not indexed to the U.S. Dollar, while a significant portion of our existing financial indebtedness is denominated in U.S. Dollars, which exposes us to the risk of loss from devaluation of the Peso. If we are not able to effectively hedge all or a significant portion of our currency risk exposure, a devaluation of the Peso (as experienced in the last few years where the Peso lost more than 30% of its value with respect to the U.S. Dollar in each of 2013 and 2014, more than a 52% in 2015 and more than 20% in 2016), may significantly increase our debt service burden, which, in turn, may have a material adverse effect on our financial condition and results of operations.

We and our subsidiaries are involved in various legal proceedings which could result in unfavorable decisions and financial penalties for us

We and our subsidiaries are party to a number of legal proceedings, some of which have been pending for several years. We cannot be certain that these claims will be resolved in our favor, and responding to the demands of litigation may divert management's time and attention and our financial resources. See "Item 8. Legal Proceedings".

Downgrades in our credit ratings could have negative effects on our funding costs and business operations

Credit ratings are assigned to the Company and its subsidiaries. The credit ratings are based on information furnished by us or obtained by the credit rating agencies from independent sources and are also influenced by the credit ratings of Argentine Government bonds and general views regarding the Argentine financial system as a whole. The credit ratings are subject to revision, suspension or withdrawal by the credit rating agencies at any time. A downgrade, suspension or withdrawal in our credit ratings could result in, among others, the following: (i) increased funding costs and other difficulties in raising funds; (ii) the need to provide additional collateral in connection with financial market transactions; and (iii) the termination or cancellation of existing agreements. As a result, our business, financial condition and results of operations could be materially and adversely affected.

A cyber-attack could adversely affect our business, financial condition, results of operations and cash flows

Information security risks have generally increased in recent years as a result of the proliferation of new technologies and the increased sophistication and activities of cyber-attacks. Through part of our grid and other initiatives, we have increasingly connected equipment and systems to the Internet. Furthermore, we depend on digital technology, including information systems to process financial and operating data, analyze seismic and drilling information and oil and gas reserves estimates. Because of the critical nature of our infrastructure and the increased accessibility enabled through connection to the Internet, we may face a heightened risk of cyber-attack. In the event of such an attack, we could have our business operations disrupted, property damaged and customer information stolen; experience substantial loss of revenues, response costs and other financial loss; and be subject to increased regulation, litigation and damage to our reputation. A cyber-attack could adversely affect our business, results of operations and financial condition.

We may not be able to achieve adequate consideration for the disposition of assets or businesses

As part of our strategy and business plan, we may consider a number of measures designed to manage our business, asset levels or liquidity position, including potential business or asset sales. There can be no assurance that we will be successful in completing all or any of these transactions, because there may not be a sufficient number of buyers willing to enter into a transaction, we may not receive sufficient consideration for such businesses or assets, the process of selling businesses or assets may take too long to be a significant source of liquidity, or lenders or note holders with consent rights may not approve a sale of assets. These transactions, if completed, may reduce the size of our business and we may not be able to replace the volume associated with these businesses.

Our operations could cause environmental risks and any change in environmental laws could increase our operating costs

Some of our operations are subject to environmental risks that could arise unexpectedly and cause material adverse effects on our results of operations and financial condition. In addition, the occurrence of any of these risks could lead to personal injury, loss of life, environmental damage, repair and expenses, equipment damage and liability in civil and administrative proceedings. We cannot assure you that we will not incur additional costs related to environmental issues in the future, which could adversely affect our results of operations and financial condition. In addition, we cannot ensure that our insurance coverage is sufficient to cover the losses that could potentially arise from these environmental risks.

In addition, we are subject to a broad range of environmental legislation, both in Argentina and in the other countries in which we operate. Local, provincial and national authorities in Argentina and other countries in which we operate may implement new environmental laws and regulations and may require us to incur higher costs to comply with these standards. The imposition of more stringent regulatory and permit requirements in relation to these practices in Argentina could significantly increase the costs of our activity.

We cannot predict the general effects of the implementation of new environmental laws and regulations on our financial condition and results of operations.

CAMMESA and other clients in the sector could alter and delay payments to electricity generators and natural gas producers

Electricity generators receive, through CAMMESA, payments corresponding to the energy made available and the energy effectively supplied to the spot market and under the SE Resolution No. 220/07, but not compensation corresponding to the power and energy committed to the Market to Term ("MAT"), since these concepts are paid to each generator directly by each large user.

There is a growing deficit between the payments received by CAMMESA and the claims of generation companies against that entity. This is due to the fact that the price received by CAMMESA in relation to the electricity sold in the spot market is regulated by the Argentine Government and is lower than the marginal cost of electricity generation that CAMMESA must reimburse to generators. Notwithstanding the foregoing, the current intention of the Argentine Government seems to be oriented to establishing a balance between the price to be received by CAMMESA and the marginal cost, an objective that cannot be reached in the short-term.

The Argentine Government has been covering such deficit through reimbursable contributions from the treasury. As these treasury contributions are not enough to cover all of the generators' claims for their capacity and energy sales to the spot market, CAMMESA's debt to generators has grown over time. We cannot assure you that the gap between spot prices and electricity generation prices will not continue or will not increase in the future or that CAMMESA will be able to pay generators, both for energy and capacity sold in the spot market. Generators, such as us, inability to collect their credits from CAMMESA could have a material adverse effect on their income and, consequently, on the results of their operations and financial condition.

The CNDC could decide not to approve the consummation of the Acquisition

On May 13, 2016, we and Petrobras Argentina entered into the terms and conditions of the Acquisition. The consummation of the Acquisition, which closed on July 27, 2016, is subject to the (post-closing) approval of the Comisión Nacional de Defensa de la Competencia (the Argentine Competition Authority or the "CNDC"). We cannot assure that the CNDC will approve the Acquisition. If the CNDC does not approve the Acquisition, we may be required to divest our interest in all or certain assets of the former Petrobras Argentina.

We may not obtain the benefits we expect from the Merger in the anticipated timeframe

We have devoted significant resources toward the completion of the Merger, but we cannot assure that we will obtain the benefits we expect which may have an adverse effect on our financial condition and results of operations.

In addition, if the registration of the Merger is delayed, we may expend significant additional resources and such a delay may materially affect our business plans and operations. Any additional costs incurred or material change to our business plans may have an adverse effect on our financial condition and results of operations.

Certain of our outstanding financial indebtedness contains bankruptcy, reorganization proceedings and expropriation events of default, and we may be required to repay all of our outstanding debt upon the occurrence of any such events

As of the date of this annual report, certain expropriation and condemnation events with respect to us may constitute an event of default, which, if declared, could trigger the acceleration of our obligations under the notes and require us to immediately repay all such accelerated debt. In addition a significant part of our outstanding financial indebtedness contains certain events of default related to bankruptcy and voluntary reorganization proceedings ("*concurso preventivo*"). If we are not able to comply with certain payment obligations as a result of our financial situation and if the requirements set forth in the Argentine Bankruptcy Law No. 24,522 are met, any creditor, or even us, could file for our bankruptcy, or we could file for a voluntary reorganization proceeding ("*concurso preventivo*"). In addition, certain of our outstanding financial indebtedness also contains cross-default provisions or cross-acceleration provisions that could cause all of our debt to be accelerated if the debt containing expropriation or bankruptcy or reorganization proceeding events of default goes into default or is accelerated. In such a case, we would expect to actively pursue formal waivers from the corresponding financial creditors to avoid such potential situation, but in case those waivers are not timely obtained and immediate repayment is required, we could face short-term liquidity problems, which could adversely affect our results of operations and cause the market value of our ADSs to decline.

Covenants in our indebtedness could adversely restrict our financial and operating flexibility

Our future indebtedness may contain, and some of our current indebtedness contain, affirmative and restrictive covenants that limit our ability to create liens, incur additional debt, dispose of our assets, pay dividends or consolidate, merge or sell part of our businesses. These restrictions may limit our ability to operate our business and may prohibit or limit our ability to enhance our operations or take advantage of potential business opportunities as they arise. The breach of any of these covenants or the failure to meet any of such conditions could result in a default under the relevant indebtedness. Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions and the renegotiation of concessions and licenses used in our businesses.

Risks Relating to Our Businesses

There is uncertainty as to what other measures the Argentine Government will adopt in connection with tariffs on public services and their impact on the Argentine economy

As explained in other risk factors in this annual report, following the economic crisis of 2001-2002, the subsequent freeze on gas and electricity rates in Pesos and the significant devaluation of the Peso against the U.S. Dollar, there was a lack of investment in the supply and transport capacities of gas and energy and, at the same time, demand for natural gas and electricity increased substantially.

In response, the Macri administration announced several measures, including the revision of subsidy policies, Decree No. 134/2015 of December 16, 2015, which placed the national electricity system in a state of emergency until December 31, 2017 and Decree No. 367/2016 of February 16, 2016, which instructed the ministries, including the ME&M to continue the procedures related to the renegotiation of contracts related to the provision of public services and their Integral Tariff Revision (Revisión Tarifaria Integral, or "RTI"), among which are the distribution and transportation of gas and electricity.

In relation to gas, pursuant to the above, and after issuing Resolution No. 6/2016 on January 25, 2016 through which certain WEM prices were corrected, the ME&M issued Resolution No. 28/2016 and Resolution No. 31/2016, through which it applied a correction to the prices of natural gas at the supply point ("PIST") and to the tariffs of distribution and transportation of natural gas that reach residential and commercial users throughout the country, as well as the supply of compressed natural gas ("CNG") to service stations and instructed ENARGAS to carry out the RTI process and to apply the correction of natural gas distribution and transportation tariffs throughout the country as applicable, among others.

On April 13, 2016, ME&M Resolution No. 41/16 established new natural gas prices for the power plant market segment, with an approximate 100% increase and an average price of U.S.\$4.88/mmBtu. With a price of natural gas from the Neuquén basin at U.S.\$5.53/mmBtu.

Such measures represented large increases in gas bills paid by users, which resulted in various legal actions (*amparos*) by users and consumer associations. Following the decision of the Court of Appeals that suspended the validity of such resolutions on the grounds that they had been issued without conducting prior public hearings, the Argentine Government appealed and the Argentine Supreme Court issued a judgment on the matter on August 18, 2016.

The Argentine Government, through ENARGAS, convened public hearings through the issuance of Resolution No. 3,957/2016. After such public hearings took place between September 16 and 18, 2016, following the Supreme Court of Argentina's ruling dated August 18, 2016, the new tariff schedules for natural gas were updated through Resolution ME&M No. 212-E/2016.

Resolution No. 212-E/2016 instructed ENARGAS, based on the economic and financial situation of the licensing companies and on account of the applicable RTI, to apply an adjustment to transitional tariffs applicable to the public services of natural gas transportation and distribution.

In relation to the distribution of electricity, Resolution ME&M No. 7/16 repealed Resolution No. 32/15 of the former Secretariat of Energy (the "SE") and the ENRE was instructed to adopt all measures, within the scope of its competence, to conclude the RTI process. Pursuant to Resolution No 7/16, the ENRE issued Resolution No. 1/16 establishing a new tariff structure, which remained in force (with certain suspensions as a result of injunctions which are no longer in effect) until February 2017, when the RTI process was completed. On April 1, 2016, the ENRE issued Resolution No. 55/16, which approved the 2016 program for review of distribution tariffs, establishing the criteria and methodologies for completing the RTI process.

On September 5, 2016, by means of Resolution No. 55/16, Edenor submitted its rate schedule proposal for the following five-year period. On October 28, 2016, a public hearing was held to provide information and listen to the public opinion on the RTI.

On February 1, 2017, the ENRE issued Resolution No. 63/2017, through which it approved a new tariff scheme that established Edenor's new distribution added value (VAD) for the following five-year period.

There is uncertainty as to what other measures the Argentine Government will adopt in connection with tariffs and their impact on the Argentine economy.

Failure or delay to negotiate further improvements to the transmission tariff structure and/or to have the tariffs adjusted to reflect increases in the transmission costs in a timely manner or at all, has affected our capacity to perform our commercial obligations and could also have a material adverse effect on our capacity to perform our financial obligations

In January 2002, pursuant to the Public Emergency Law, tariffs for the provision of public services, including the transmission of electricity, were converted from their original U.S. Dollar values to Pesos (at a rate of Ps.1.00 per U.S.\$ 1.00) and frozen at those levels.

In May 2013, Transener and Empresa de Transporte de Energía Eléctrica por Distribución Troncal de la Provincia de Buenos Aires S.A. ("Transba") executed with the ENRE and the SE, a Renewal Agreement of the Instrumental Agreement (the "Renewal Agreement"), setting forth: (i) the recognition of Transener and Transba's rights to collect the amounts resulting from the variations of costs during the period from December 2010 to December 2012, (ii) the payment of outstanding balances from Addenda II (as defined herein), and (iii) a procedure for the updating and payment of cost variations incurred from January 1, 2013 to December 31, 2015, calculated biannually.

On September 2, 2014, Transener and Transba executed with CAMMESA the New Financing Agreements. The New Financing Agreements provided: (i) that the Financing Agreements, together with their Addendums I, II and III, are concluded; (ii) the granting to Transener and Transba of new loans in the amount of Ps.622.2 million and Ps.240.7 million, respectively, corresponding to receivables acknowledged by the SE and the ENRE on account of cost variations for the January 2013-May 2014 period; and (iii) the assignment as collateral of the receivables recognized on account of higher costs as at May 31, 2014 pursuant to the Renewal Agreement.

On March 17, 2015, Transener and Transba executed with CAMMESA new amendments to their New Financing Agreements (the "Addenda IV"), setting forth: (i) the granting to Transener and Transba of new loans in the amount of Ps.563.6 million and Ps.178.3 million, respectively, corresponding to (a) the outstanding amount due pursuant to the Financing Agreement as of January 2015, and (b) receivables acknowledged by the SE and the ENRE on account of cost variations for the June 2014-November 2014 period; and (ii) the assignment as collateral of the receivables recognized on account of higher costs as at November 30, 2014 pursuant to the Renewal Agreement.

In September 2015, Transener and Transba executed with the ENRE and the SE, an Amendment to the Renewal Agreement (the "Amendment to the Renewal Agreement"), setting forth the 2015 year financial - economic projection and investment plan in the amount of \$ 431.9 million and \$ 186.6 million for Transener and Transba, respectively, and granting additional non-reimbursable resources for the execution of such investment plan.

On November 25, 2015, Transener and Transba executed with CAMMESA the financing agreements for the implementation of the Amendment to the Renewal Agreement, setting forth: (i) the granting to Transener and Transba of new loans in the amount of Ps.508,9 million and Ps.317,6 million, respectively, corresponding to (a) receivables acknowledged by the SE and the ENRE on account of cost variations for the December 2014-May 2015 period; and (ii) the additional investments required pursuant to the Amendment to the Renewal Agreement.

As of December 31, 2016, the results generated by the recognition of cost variations by the SE and the ENRE have been recorded up to the amounts received through the Financial Agreements signed and/or in the process of being signed as indicated in the following paragraph. As a result, Transener has recognized sales revenues for Ps.244.1 million and Ps.567.8 million and interest earned for Ps.26.7 million and Ps.99.0 million for the nine-month periods ended September 30, 2016 and 2015, respectively. Likewise, Transba S.A. has recognized sales revenue for Ps.72.2 million and Ps.274.8 million and interest earned for Ps.5.8 million and Ps.21.0 million for the same periods, respectively. The liability for disbursements received up to the sum of credits recognized by higher costs, in accordance with the Instrumental Agreements and the Renewal Agreements, has been cancelled through the assignment of the credits mentioned.

Pursuant to the Renewal Agreement and the Amendment to the Renewal Agreement, Transener and Transba are currently in communication with the relevant authorities to implement a scheme that would better allow them to fund their business plan. This information consists of monthly cash flows, investments execution and implementation of funds requirements. The Public Emergency and Exchange Rate Regime Reform Act (Law No. 25,561) imposed a duty on public utilities, such as Transener and its subsidiary Transba, to renegotiate their agreements in force with the Argentine Government while continuing to supply electricity services. This situation has significantly affected Transener and Transba's economic and financial situation.

In May 2005, Transener and Transba signed with the UNIREN the Memorandums of Understanding specifying the terms and conditions for updating their concession agreements. The Memorandums of Understanding provided for the performance of a RTI before the ENRE and for the determination of a new tariff regime for Transener and Transba, which should have come into force in February 2006 and May 2006, respectively; as well as the recognition of increased operating costs occurring until the RTI-based new tariff regime came into force.

Since 2006, Transener and Transba have requested the ENRE to address the need to standardize compliance with the provisions set forth in the Memorandum of Understanding, pointing out ENRE's failure to comply with its commitments thereunder, the critical situation arising from such breach, and their availability to continue with the RTI process insofar as the remaining commitments undertaken by the Parties remained in force and a new RTI-based new tariff regime was decided upon. Furthermore, Transener and Transba timely filed their respective tariff claims pursuant to the provisions set forth in both Memorandums of Understanding and in Section 45 and related sections of Law No. 24,065, for its analysis, the holding of the relevant public hearing, and the definition of the new tariff scheme aiming at performing the expected RTI process.

In order to begin rectifying the tariff scenario, in December 2010 Transener and Transba entered into a Supplementary Instrumental Agreement to the UNIREN Memorandum of Understanding with the SE and the ENRE, which mainly provided for the acknowledgment of a credit claim to Transener and Transba for cost fluctuations recorded during the June 2005–November 2010 period calculated as per the IVC established in the Memorandum of Understanding. These receivables were assigned in consideration of disbursements by CAMMESA, which were executed through loan agreements.

After collecting these receivables and pending the RTI, on May 13, 2013 and May 20, 2013, Transener and Transba, respectively, executed a Renewal Agreement with the SE and the ENRE, effective through December 31, 2015, which, among others, acknowledged a credit claim for cost variations recorded during the December 2010–December 2012 period calculated as per the IVC.

In view of the repeated delays in the implementation of the RTI provided for in the Memorandum of Understanding, the SE and the ENRE successively extended the recognition of higher costs until November 2015. In May 2016, after the expiration of the Renewal Agreement and without any pending recognized credit claims, Transener and Transba continued disbursing under the loans granted by CAMMESA, which were disclosed as liabilities. Finally, on December 26, 2016, Transener executed a new agreement with the SE and the ENRE whereby the SE:

- recognized credit claims in favor of Transener in the amount of AR\$1,502.9 million and AR\$514.7 million, respectively, for the December 1, 2015–January 31, 2017 period;
- provided for an investment plan for the October 2016–March 2017 period in the amount of AR\$299.1 million for Transener and AR\$121.4 million for Transba.

Even though both agreements were in force until February 1, 2017, the RTI's tariff scheme effective date, as of December 31, 2016 the outstanding recognized credit claims amounted to Ps. 736 million and Ps.177 million for Transener and Transba, respectively.

Pursuant to the instruction provided by ME&M Resolution No. 196/16, on September 28, 2016 the ENRE passed Resolution No. 524/16 approving the program applicable to the RTI of the electric power transmission service during 2016, which provided for the entry into force of the resulting tariff scheme as from February 2017.

The public hearing for the defense of the proposal was conducted in December 2016, where Transener requested a capital base of Ps.12,214 million and Ps.6,157 million, as well as regulated operation and maintenance revenues in the amount of Ps. 4,173 million and Ps. 2,112 million for Transener and Transba, respectively.

These tariffs must be paid by users of the Transportation System. We cannot guarantee that they will have the ability and willingness to face such increases, and cannot make any assurances that Transener and/or Transba will receive the full amount recognized in the Instrumental Agreements, the Renewal Agreements and the Amendment to the Renewal Agreement or that similar adjustments will be made in the future.

On January 31, 2017, the ENRE issued Resolutions No. 66/17 and No. 73/17, which established the tariffs in effect for the 2017/2021 five-year period for Transener and Transba, respectively. The ENRE also established the mechanism for updating the remuneration, the quality of service and penalties regime, the awards regime and the investment plan to be carried out by both companies during that period.

However, we cannot guarantee you that these measures will be sufficient to address the structural problems created for us by the economic crisis and its aftermath. Our inability to cover the costs of Transener and Transba or to receive an adequate return on our asset base may further adversely affect our financial condition and results of operations, which could negatively impact the value of our shares or our ADSs.

Risks Relating to the Electricity Sector

The Argentine Government has intervened in the electricity sector in the past, and is likely to continue intervening

Historically, the Argentine Government has exerted a significant influence on the economy, including the energy sector, and companies such as us that operate in such sector have done so in a highly regulated context that aims mainly at guaranteeing the supply of domestic demand.

To address the Argentine economic crisis in 2001 and 2002, the Argentine Government adopted the Public Emergency Law and other regulations, which made a number of material changes to the regulatory framework applicable to the electricity sector. These changes severely affected electricity generation, distribution and transmission companies and included the freezing of distribution nominal margins, the revocation of adjustment and inflation indexation mechanisms for tariffs, a limitation on the ability of electricity distribution companies to pass on to the customer increases in costs due to regulatory charges and the introduction of a new price-setting mechanism in the WEM which had a significant impact on electricity generators and generated substantial price differences within the market. The Argentine Government has continued to intervene in this sector, by, for example, granting temporary nominal margin increases, proposing a new social tariff regime for residents of poverty-stricken areas, removing discretionary subsidies, creating specific charges to raise funds that are transferred to government-managed trust funds that finance investments in generation and distribution infrastructure and mandating investments for the construction of new generation plants and the expansion of existing transmission and distribution networks.

On December 17, 2015, the Argentine Government issued Decree No. 134/15 declaring the emergency of the national electricity sector until December 31, 2017, and instructing the ME&M to adopt any measure the ME&M deems necessary regarding the generation, transmission and distribution segments, to adjust the quality, and guarantee the provision of electricity.

On February 3, 2016, Resolution No. 22/16 of the ME&M established adjustments to the remuneration of generators to support the operation and maintenance of the generation plants until the regulatory measures currently under review by the Argentine Government are enacted and the operation of the WEM is normalized. As of the date of this annual report, however, the Argentine Government has implemented a new remuneration scheme through SEE Resolution 19/17, which improved margins, especially for “new energy” operators. See “Item 4. The Argentine Energy Sector—SEE Resolution No. 19/17: New Remuneration Scheme for Old Capacity”. As of such date, the Argentine Government, through the relevant agency enacted several resolutions to impose the penalties of the services and adjusting the tariffs. On February 1, 2017, the RTI process was completed and a new tariff scheme for the following five-year period was enacted.

Notwithstanding the recent measures adopted by the Macri administration, we cannot assure you that other measures that may be adopted by the Argentine Government will not have a material adverse effect on our business and results of operations or on the market value of our shares and the ADSs or that the Argentine Government will not adopt emergency legislation similar to the Public Emergency Law, or other similar regulations in the future that may increase our obligations, including increased taxes, unfavorable alterations to our tariff structures and other regulatory obligations, compliance with which would increase our costs and may have a direct negative impact on our results of operations and cause the market value of our ADSs to decline.

Electricity distributors, generators and transmitters were severely affected by the emergency measures adopted during the economic crisis, many of which remain in effect

Distribution and transmission tariffs include a regulated margin that is intended to cover the costs of distribution or transmission, as applicable, and provide an adequate return. Generators, which mostly depend on sales made to the spot market (the market created by the supply and demand of energy available for immediate delivery), used to have stable prices and were able to reinvest their profits to become more efficient and achieve better margins. Under Law No. 23,928 and Decree No. 529/91 (together, the "Convertibility Law"), which established a fixed exchange rate of one Peso per U.S. Dollar, distribution and transmission tariffs and electricity spot prices were calculated in U.S. Dollars and distribution and transmission margins were adjusted periodically to reflect variations in U.S. inflation indexes. In January 2002, pursuant to the Public Emergency Law, which authorized the Argentine Government to renegotiate its public utility contracts, provisions requiring price adjustments based on foreign inflation indexes and all other indexation mechanisms in public utility services agreements between the Argentine Government or any provincial government and the providers of those services (including us) were revoked, and the tariffs for the provision of such services were frozen and converted from their original U.S. Dollar values to Argentine Pesos at a rate of Ps.1.00 per U.S.\$1.00. These measures, coupled with the effect of high inflation and the devaluation of the Peso, led to a decline in revenues in real terms and an increase of costs in real terms, which could no longer be recovered through margin adjustments or market price-setting mechanisms. This situation, in turn, led many public utility companies to suspend payments on their financial debt (which continued to be denominated in U.S. Dollars despite the pesification of revenues), effectively preventing these companies from obtaining further financing in the domestic or international credit markets and making additional investments.

In recent years, the Argentine Government has granted temporary and partial relief to some distribution companies, including limited increases in distribution margins, temporary cost adjustment mechanism which was not fully implemented and the ability to apply certain additional charges to customers.

On February 1, 2017, the RTI process was completed. The ENRE approved a rate of return for Edenor of 12.46% before taxes. The income was established applying the Replacement Value ("NRV") methodology, but over a slightly lower base capital than the one we had submitted in Edenor's proposal, reaching an amount of Ps. 34 billion. The difference is mainly explained by the fact that the ENRE excluded the fully depreciated assets from the regulatory net asset base submitted. Moreover, the ENRE stated that Edenor's acknowledged remuneration was Ps. 12.5 billion as of December 2015, which adjusted to February 2017 reached to Ps. 17.2 billion. The ENRE also established a non-automatic mechanism to adjust Edenor's tariffs, as it had done within the original concession contract and the *Acta Acuerdo sobre la Adecuación del Contrato de Concesión del Servicio Público de Distribución y Comercialización de Energía Eléctrica* (the "Adjustment Agreement"), in order to preserve the economic and financial sustainability of Edenor in the event of prices fluctuations in the economy. This mechanism has a biannual basis and includes a combined formula of wholesale and consumer price indexes (WPI, CPI and salaries increases) which trigger the adjustment on tariff when the result is above 5%.

However, we cannot assure you that these measures will be sufficient to address the structural problems created for our Company by the economic crisis and in its aftermath. Our inability to cover our costs or to receive an adequate return on our asset base may further adversely affect our financial condition and results of operations.

Electricity demand may be affected by tariff increases, which could lead electricity companies, such as us, to record lower revenues

From 2012 through 2016, electricity demand in Argentina increased 12.1%, which reflects the relative low cost, in real terms, of electricity to customers due to the freezing of distribution margins, the establishment of subsidies in the purchase price of energy and the elimination of the inflation adjustment provisions in distribution concessions coupled with the devaluation of the Peso and inflation. As of the date of this annual report, the RTI process has been completed and tariffs have increased by approximately 60%, according to the category of customer as of February 2016. Although increases in electricity transmission and distribution margins, and the elimination of subsidies, which increased the cost of electricity to end users, have not had a significant negative effect on demand in the past, we cannot make any assurance that recent increases or any future increases in the cost of electricity will not have a material adverse effect on electricity demand or result in a decline in collections from customers (in 2016, the negative effect related to these provisional remedies was compensated by CAMMESA through credit notes). In this respect, we cannot assure you that these measures or any future measures will not lead electricity companies, like Edenor, to record lower revenues and results of operations, which may, in turn, have a material adverse effect on the market value of our ADSs.

If the demand for energy is increased suddenly, current levels of power generation and the difficulty in increasing the capacity of transmission and distribution companies in a short or medium term, could adversely affect the Company, which in turn could result in customer complaints and substantial fines

In recent years, the increase in electricity demand was greater than the structural increase in electricity generation, transmission and distribution capacities, which led, in certain occasions, to power shortages and disruptions. A sustained increase in electricity demand could generate future shortages.

The dispatch of electricity by generators could be substantially and adversely affected since the transmission line may lack sufficient capacity to transport the output of all connected power plants. As a result, our results of operations could be affected, as well our financial condition.

Additionally, according to Argentine law, distribution companies such as Edenor are responsible before their customers for any interruption in the supply of electricity. Consequently, customers can direct their claims to the distribution companies. Also, distribution companies can suffer fines and penalties for interruptions caused by power outages, unless the respective Argentine authorities determine that power outages are caused by force majeure events. As of the date of this annual report, Argentine authorities have not ruled on the conditions under which outages may constitute a case of force majeure. In the past, however, Argentine authorities have adopted a restrictive view of the concept of force majeure and have acknowledged its existence in limited circumstances, such as internal defects in the customer's location or extraordinary weather events (such as severe storms, tornadoes or floods). We cannot assure that we will not experience a lack in the supply of energy that could adversely affect our businesses' financial condition and results of operations and cause the market value of our ADSs and shares to decline.

Risks Relating to the Energy Distribution Business

Failure or delay to negotiate further improvements to Edenor's tariff structure, including increases in Edenor's distribution margin, and/or to have the tariff adjusted to reflect increases in Edenor's distribution costs in a timely manner, or at all, has affected Edenor's capacity to perform its commercial obligations and could also have a material adverse effect on Edenor's capacity to perform its financial obligations

Since the execution of the Adjustment Agreement, Edenor has been engaged in the RTI with the ENRE.

The Adjustment Agreement contemplated a cost adjustment mechanism for the transitional period during which the RTI was being conducted. This mechanism, known as the Cost Monitoring Mechanism (the "CMM"),

required the ENRE to review Edenor's actual distribution costs every six months (in May and November of each year) and adjust Edenor's distribution margins to reflect variations of 5% or more in Edenor's distribution cost base. Edenor could also request that the ENRE apply the CMM at any time that the variation in Edenor's distribution cost base was at least 10% or more. Any adjustments, however, were subject to the ENRE's assessment of variations in Edenor's costs, and the ENRE's approval of adjustments were not sufficient to cover Edenor's actual incremental costs in a timely manner. In the past, even when the ENRE approved adjustments to Edenor's tariffs, there was a lag between the time when Edenor actually experienced increases in the distribution costs and the time when Edenor received increased income following the corresponding adjustments to its distribution margins pursuant to the CMM.

As a result of the foregoing, during the years ended December 31, 2014, 2012 and 2011, Edenor recorded negative operating results and net results, and thus Edenor's working capital and liquidity levels were negatively affected (even in 2013), primarily as a result of the delay in obtaining a tariff increase and in having the tariff adjusted to reflect increases in the distribution costs, coupled with a constant increase in operating costs to maintain adequate service levels, all of which has affected Edenor's capacity to perform its commercial obligations. In this context and in light of the situation that affected the electricity sector, the ENRE issued Resolution No. 347/2012 in November 2012, which established the application of fixed and variable charges that have allowed Edenor to obtain additional revenue as from November 2012 through 2016. However, changes made by SE Resolution No. 250/2013 and Notes No. 6852/2013, No. 4012/2014, No. 486/2014 and No. 1136/2014 and the additional revenue obtained through SE Resolution No. 347/2012 were insufficient to make up Edenor's operating deficit, due to the constant increase in operating costs.

In March 2015, the SE issued Resolution No. 32/2015 pursuant to which it granted Edenor a temporary income increase through funds provided by CAMMESA, applicable retroactively as from February 1, 2015, to cover costs and investments associated with the regular provision of the public service of distribution of energy on account of the future RTI.

In January 2016, the ME&M issued Resolution No. 7/2016, pursuant to which the ENRE was instructed to implement a VAD adjustment to the tariff schedule on account of the future RTI in effect as of February 1, 2016.

In addition, such resolution: (i) abrogated the PUREE; (ii) repealed SE Resolution No. 32/2015 as from the date the ENRE resolution implementing the new tariff schedule becomes effective; (iii) discontinued the application of mechanisms that imply the transfer of funds from CAMMESA in the form of loan agreements with CAMMESA; (iv) ordered the implementation of the actions required to terminate the trusts created pursuant to Resolution No. 347/2012 of the ENRE and (v) prohibited the distribution of dividends in accordance with section 7.4 of the Adjustment Agreement.

Pursuant to Resolution No. 7/2016, the ENRE issued Resolution No. 1/2016 establishing a new tariff structure, which remained in force (with certain suspensions as a result of injunctions which are no longer in effect) until February 2017, when the RTI process was completed.

On April 1, 2016, the ENRE issued Resolution No. 55/16, which approved the program for the review of the distribution tariff scheme, establishing the criteria and methodologies for completing the RTI process.

On September 5, 2016, by means of Resolution No. 55/16, Edenor submitted its rate schedule proposal for the following five-year period. On October 28, 2016, a public hearing was held to provide information and listen to the public opinion on the RTI.

The RTI was completed on February 1, 2017, on which date the ENRE issued Resolution No. 63/2017, through which approved a new tariff scheme that established our new distribution added value (VAD) for the following five-year period.

On April 26, 2017, following the completion of the RTI process through the issuance of Resolution ENRE No. 63/17, Edenor was notified by the ME&M of an instruction sent to the SEE pursuant to which the SEE was instructed to determine (along with the participation of the Undersecretariat for Coordination of Tariff Policies and the ENRE) within 120 days if any obligations under the Adjustment Agreement were pending as of the date the new tariff schedule resulting from the RTI process came into effect. If the SEE determines that any such obligation is pending, the SEE shall define the treatment to be given to such obligation.

However, if Edenor is not able to recover all future cost increases, and/or if there is a significant lag of time between when Edenor incurs the incremental costs and when Edenor receive increased income Edenor may be unable to comply with its financial obligations, Edenor may suffer liquidity shortfalls and Edenor may need to restructure its debt to ease its financial condition, any of which, individually or in the aggregate, would have a material adverse effect on our business, financial condition and results of operations and may cause the value of our ADSs to decline.

Edenor's distribution tariffs may be subject to challenges by Argentine consumer and other groups

In recent years, Edenor's tariff have been challenged by Argentine consumer associations, such as the action brought against Edenor in December 2009, by an Argentine consumer association, (*Unión de Usuarios y Consumidores*), seeking to annul certain retroactive tariff increases, which was ultimately dismissed, on October 1, 2013, by the Argentine Supreme Court of Justice.

Since May 2016, Edenor was notified by several courts of the Province of Buenos Aires of certain provisional remedies granted to individual and collective customers against Resolution No. 6/16 and Resolution No. 1/16 issued by the ENRE (which authorized our new tariff schedule as from February 2016). Consequently, the tariff schedule, which included the WEM prices established by Resolution No. 6/16, were not applied during certain periods in 2016 to the entire concession area as a result of the injunctions issued in the "Abarca" case and to the districts of "Pilar" and "La Matanza" where provisional remedies remained in force until October 24 and November 11, 2016, respectively, when they expired. Therefore, as of those dates no provisional remedy has been in effect and tariff increases have been applied to all customers. If any future legal challenges were successful and prevented Edenor from implementing any tariff adjustments granted by the Argentine Government, Edenor could face a decline in collections from its customers, and a decline in its results of operations, which may have a material adverse effect in our financial condition and the market value of our shares and ADSs.

Our distribution business has been, and may continue to be, subject to fines and penalties that could have a material adverse effect on our financial condition and results of operations

We operate in a highly regulated environment and our distribution business has been and in the future may continue to be subject to significant fines and penalties by regulatory authorities, including for reasons outside our control, such as service disruptions attributable to problems at generation facilities or in the transmission network that result in a lack of electricity supply. Since 2001, the amount of fines and penalties imposed on our distribution business has increased significantly. As of December 31, 2016, 2015 and 2014, Edenor's accrued fines and penalties totaled Ps.3,700 million (including Ps.166.4 million under the ENRE settlement agreement), Ps. 1,253.1 million and Ps. 1,102.8 million, respectively (taking into account adjustments made to fines and penalties following the ratification of the Adjustment Agreement and recent regulations).

Although the Argentine Government has agreed to waive a portion of these accrued fines and penalties pursuant to the Adjustment Agreement and allowed Edenor to repay the remaining balance over time, this waiver and repayment plan is subject to a number of conditions, including compliance with quality of service standards, reporting obligations and required capital investments. If our distribution business fails to comply with any of these conditions, the Argentine Government may seek to obtain payment of these fines and penalties.

By means of Note No. 120,151, the ENRE established that all fines and penalties imposed by the ENRE after April 15, 2016, whether in respect of events occurring on or after such date or events occurring prior to the date thereof, but for which fines or penalties had not been imposed on Edenor by such date, must be valued according to the VAD or KWh values in effect as of the last day of the semester or period during which the event giving rise to the penalty occurred, including any increases or adjustments applicable to Edenor's "remuneration" at such date. In addition, the Note provides that fines and penalties that fall under the purview of the Note will accrue interest as from the day on which the event giving rise to the penalty occurs, until the day in which they are paid by them.

On October 19, 2016, by means of Note No. 123,091 the ENRE established the average rate values (Ps./KWh) to be applied as from December 2012, for the penalties payable to the Argentine Government. In accordance with the terms of the Concession Agreement, such values correspond to the average sale price of energy charged to customers. Since the amounts set forth in the Note are not consistent with such principle, on November 1, 2016, the Company submitted a claim to the ENRE requesting the rectification of the amounts informed as they were considered incorrect. At the date of this annual report, we have not received an answer.

In the case that the ENRE considers that the term “remuneration” under the Note includes all the amounts received, among other things government grants, the amount of the provision for penalties could increase significantly. However, we believe that such interpretation would be opposite to the terms of the Concession Agreement.

On February 1, 2017, the ENRE issued Resolution No. 63/17, through which it approved new parameters related to the quality rates, with the purpose of achieving by the end of the 2017-2021 period an acceptable quality level. In this regard, the ENRE established a penalty regime to be applied in the event of noncompliance with the requisite quality rates.

On March 29, 2017, through Note No. 125,248 the ENRE established a new methodology for the calculation of fines and penalties, determining that they must be valued according to the KWh values in effect as of the first day of the semester during which the event giving rise to the penalty occurred or the KWh values in effect as of the day of the occurrence of the event in the case of penalties arising from specific events.

In addition, fines and penalties, accrued since the date of issuance of the Note, through the completion of the RTI on February 1, 2017 (i.e., the period between April, 2016 and February, 2017) must be updated using the CPI that the Central Bank uses to elaborate the Multilateral Real Exchange Rate Index (“TCRM”), corresponding to the month prior to the semester during which the event giving rise to the penalty occurred or month prior to that on which the specific penalty event occurred, till the previous month to the day on which the penalty was imposed. Those fines and penalties accrued and imposed since the date of issuance of the Note No. 120,151 through the completion of the RTI on February 1, 2017 (i.e., the period between April, 2016 and February, 2017) must also be updated using the CPI.

We cannot assure that Edenor will have the ability to comply with the new quality standards set forth by Resolution No. 63/2017. In the case of penalties which had been imposed but are still unpaid, the 30-day interest rate of the *Banco Nación* corresponding to commercial discounts applies, as from the day when the penalty was imposed through the date of payment.

Despite the issuance of Resolution No. 63/2017, the treatment to be given to the penalties and reductions are pending to be settled.

We cannot we assure you that our distribution segment will not be subject to significant fines in the future, which could have a material adverse effect on our financial condition and results of operations, and the market value of our shares and ADSs.

If we are unable to control energy losses in our distribution business, our results of operations could be adversely affected

Our distribution concession does not allow our energy distribution business to pass through to our customers the cost of additional energy purchased to cover any energy losses that exceed the loss factor contemplated by the concession, which is, on average, 10%. As a result, if our energy distribution business experiences energy losses in excess of those contemplated by the concession, we may record lower operating profits than we anticipate. Prior to the 2001 and 2002 economic crisis in Argentina, Edenor were able to reduce the high level of energy losses experienced at the time of the privatization down to the levels contemplated (and reimbursed) under the concession. However, during the last years, Edenor’s level of energy losses, particularly Edenor’s non-technical losses, started to grow again, in part as a result of the increase in poverty levels and, in turn, the number of delinquent accounts and fraud. Although Edenor continues making investments to reduce energy losses, these losses continue to exceed the average 10% loss factor contemplated in the concession, and based on the current tariff schedule and the economic turmoil, we do not expect these losses to decrease in the near term. Energy losses in our distribution business amounted to 17.0% in 2016, 14.9 % in 2015 and 14.3% in 2014. We cannot assure you that energy losses will not continue to increase in future periods, which may lead to lower margins in our distribution segment and could adversely affect our financial condition and consolidated results of operations and the market value of our shares and ADSs.

The Argentine Government could foreclose on its pledge over Edenor's Class A shares under certain circumstances, which could have a material adverse effect on our business and financial condition

Pursuant to our distribution concession and the provisions of the Adjustment Agreement, the Argentine Government has the right to foreclose on its pledge over Edenor's Class A common shares and sell these shares to a third-party buyer if:

- the fines and penalties incurred in any given year exceed 20% of Edenor's gross energy sales, net of taxes (which corresponds to Edenor's energy sales);
- Edenor repeatedly and materially breaches the terms of its distribution concession and does not remedy these breaches upon the request of the ENRE;
- Electricidad Argentina S.A. ("EASA") (in process of merger by absorption with Central Térmica Loma de la Lata ("Loma de la Lata" or "CTLL"). See "Item 4.Recent Developments-Merger of CTLL, IEASA and EASA). Edenor's controlling shareholder, creates any lien or encumbrance over Edenor's Class A common shares (other than the existing pledge in favor of the Argentine Government);
- Edenor or EASA obstructs the sale of Class A common shares at the end of any management period under our distribution concession;
- EASA fails to obtain the ENRE's approval in connection with the disposition of Edenor's Class A common shares;
- Edenor's shareholders amend its articles of incorporation or voting rights in a way that modifies the voting rights of the Class A common shares without the ENRE's approval; and
- Edenor or any existing shareholders or former shareholders of EASA who have brought a claim against the Argentine Government in the ICSID do not desist from such ICSID claims following completion of the RTI and the approval of a new tariff regime.

On February 1, 2017, the ENRE issued Resolution No. 63/17 establishing the new tariff scheme resulting from the completion of the RTI process, for the following five-year period. In accordance with the provisions of the Adjustment Agreement, EASA and EDFI withdrew their ICSID claim, and on March 28, 2017, the ICSID acknowledged the discontinuance of the procedure.

On March 29, 2017, through Note No. 125,248 the ENRE established a new methodology for the calculation of fines and penalties, determining that they must be valued according to the KWh values in effect as of the first day of the semester during which the event giving rise to the penalty occurred or the KWh values in effect as of the day of the occurrence of the event in the case of penalties arising from specific events.

In addition, fines and penalties, accrued since the date of issuance of the Note, through the completion of the RTI on February 1, 2017 (i.e., the period between April, 2016 and February, 2017) must be updated using the CPI that the Central Bank uses to elaborate the Multilateral Real Exchange Rate Index ("TCRM"), corresponding to the month prior to the semester during which the event giving rise to the penalty occurred or month prior to that on which the specific penalty event occurred, till the previous month to the day on which the penalty was imposed. Those fines and penalties accrued and imposed since the date of issuance of the Note No. 120,151 through the completion of the RTI on February 1, 2017 (i.e., the period between April, 2016 and February, 2017) must also be updated using the CPI.

If the Argentine Government were to foreclose on its pledge over Edenor's Class A common shares, pending the sale of those shares, the Argentine Government would also have the right to exercise the voting rights associated with such shares. In addition, the potential foreclosure by the Argentine Government of the pledge on Edenor's Class A common shares may be deemed to constitute a change of control under the terms of Edenor's Senior Notes due 2022. See "Edenor may not have the ability to raise the funds necessary to finance a change of control offer as required by Edenor's Senior Notes due 2022." If the Argentine Government forecloses on its pledge over Edenor's Class A common shares, our results of operations and financial condition could be significantly affected and the market value of our shares and ADSs could be affected.

In 2016, Edenor's fines and penalties remained below the 20% of Edenor's gross energy sales.

Default by the Argentine Government could lead to termination of our distribution concession, and have a material adverse effect on our business and financial condition

If the Argentine Government breaches its obligations in such a way that Edenor cannot comply with its obligations under its distribution concession or in such a way that Edenor's service is materially affected, Edenor may request the termination of its distribution concession, after giving the Argentine Government 90 days' prior

notice in writing. Upon termination of Edenor's distribution concession, all its assets used to provide the electricity distribution service would be transferred to a new state-owned company to be created by the Argentine Government, whose shares would be sold in an international public bidding procedure. The amount obtained in such bidding would be paid to Edenor, net of the payment of any debt owed by Edenor to the Argentine Government, plus an additional compensation established as a percentage of the bidding price, ranging from 10% to 30% depending on the management period in which the sale occurs. Any such default could have a material adverse effect on our business and financial condition.

Edenor may be unable to import certain equipment to meet the growing demand for electricity, which could lead to a breach of Edenor's concession and could have a material adverse effect on its operations and financial position

Certain restrictions on imports that may be adopted in the future by the Argentine Government could limit or delay Edenor's ability to purchase capital goods that are necessary for its operations (including carrying out specific projects). Under Edenor's concession, it is obligated to satisfy all of the demand for electricity originated in its concession area, maintaining at all times certain service quality standards that have been established for its concession. If Edenor is not able to purchase significant capital goods to satisfy all of the demand or suffer unexpected delays in the import process, it could face fines and penalties, which may, in turn, adversely affect its activity, financial position and results of operations.

Edenor could incur material labor liabilities in connection with outsourcing in our distribution business that could have an adverse effect on our business and results of operations

Edenor outsources a number of activities related to our distribution business to third-party contractors in order to maintain a flexible cost base. As of December 31, 2016, Edenor had approximately 3,786 third-party employees under contract in our distribution business. Although Edenor has very strict policies regarding compliance with labor and social security obligations by contractors, Edenor is not in a position to ensure that contractors will not initiate legal actions to seek indemnification from us based upon a number of judicial rulings issued by labor courts in Argentina which have recognized joint and several liability between the contractor and the entity to which it is supplying services under certain circumstances. We cannot make any assurances that such proceedings will not be brought against Edenor or that the outcome of such proceedings would be favorable to Edenor. If we were to incur material labor liabilities in connection with the outsourcing of our distribution business, such liabilities could have an adverse effect on our financial condition and consolidated results of operations and the market value of our shares and ADSs.

A substantial number of Edenor's assets are not subject to attachment or foreclosure and the enforcement of judgments obtained against us by Edenor's shareholders may be substantially limited

A substantial number of Edenor's assets are essential to the public service Edenor provides. Under Argentine law, as interpreted by the Argentine courts, assets which are essential to the provision of a public service are not subject to attachment or foreclosure, whether as a guarantee for an ongoing legal action or in aid of enforcement of a court judgment. Accordingly, the enforcement of judgments obtained against Edenor by Edenor's shareholders may be substantially limited to the extent Edenor's shareholders seek to attach those assets to obtain payment on their judgment.

The loss of exclusivity to distribute electricity in Edenor's service area may be adversely affected by technological or other changes in the energy distribution industry, the loss of which would have a material adverse effect on our business

Although Edenor's distribution concession grants Edenor the exclusive right to distribute electric energy within Edenor's service area, this exclusivity may be revoked in whole or in part if technological developments would make it possible for the energy distribution industry to evolve from its present condition as a natural monopoly into a competitive business. In no case does the complete or partial revocation of Edenor exclusive distribution rights entitle Edenor to claim or to obtain reimbursement or indemnity. Although, to our knowledge,

there are no current projects to introduce new technologies in the medium or long term, which might reasonably modify the composition of the electricity distribution business, we cannot assure you that future developments will not enable competition in Edenor's industry that would adversely affect the exclusivity right granted by Edenor's concession. Any total or partial loss of Edenor's exclusive right to distribute electricity within Edenor's service area would likely lead to increased competition, and result in lower revenues in our distribution segment, which could have a material adverse effect on our financial condition and consolidated results of operations and the market value of our shares and ADSs.

A potential nationalization or expropriation of 51% of Edenor's capital stock, represented by its Class A shares, may limit the capacity of the Class B common shares to participate in the Board of Directors

As of the date of this annual report, the ANSES owns shares representing 26.8% of the capital stock of Edenor and appointed five Class B directors in the last shareholders' meeting. The remaining directors were appointed by the Class A shares.

If the Argentine Government were to expropriate 51% of Edenor's capital stock, represented by Edenor's Class A shares, the Argentine Government would be the sole holder of the Class A shares and the ANSES would hold the majority of the Class B shares. Certain strategic transactions require the approval of the holders of the Class A shares. Consequently, the Argentine Government and the ANSES would be able to determine substantially all matters requiring approval by a majority of Edenor's shareholders, including the election of a majority of Edenor's directors, and would be able to direct Edenor's operations.

If the Argentine Government nationalizes or expropriates 51% of Edenor's capital stock, represented by its Class A shares, our results of operations and financial condition could be adversely affected and this could cause the market value of our ADSs and Edenor's ADSs and Class B common shares to decline.

Edenor may not have the ability to raise the funds necessary to repay its commercial debt with CAMMESA, Edenor's major supplier

As of December 31, 2016, Edenor owed Ps. 5,469.5 million (including interest) to CAMMESA. Although Edenor submitted to CAMMESA a repayment plan in November 2015, as of the date of this annual report negotiations with CAMMESA continue with respect to a final repayment schedule. This commercial debt therefore remains due and unpaid and Edenor has not secured any waivers from CAMMESA. If CAMMESA requested that Edenor repay such debt in a single payment, Edenor may be unable to raise the funds necessary to repay it and, consequently, Edenor could be exposed to a cash attachment, which could in turn result in Edenor's filing for a voluntary reorganization proceeding (*concurso preventivo*), which could cause the market value of our ADSs and Class B common shares to decline.

Edenor may not have the ability to raise the funds necessary to finance a change of control offer as required by Edenor's Senior Notes due 2022

As of the date of this annual report, U.S.\$176.4 million of Edenor's financial debt is represented by its Senior Notes due 2022. Under the indenture for the Senior Notes due 2022, if a change of control occurs, Edenor must offer to repurchase any and all such notes that are outstanding at a purchase price equal to 100% of the aggregate principal amount of such notes, plus any accrued and unpaid interest thereon and additional amounts, if any, through the purchase date. Edenor may not have sufficient funds available to make the required repurchase of Senior Notes due 2022 upon a change of control. If Edenor fails to repurchase such notes in these circumstances, which may constitute an event of default under the indenture, which may in turn trigger cross-default provisions in other of Edenor's debt instruments then outstanding.

All of Edenor's outstanding financial indebtedness contains bankruptcy, reorganization proceedings and expropriation events of default, and Edenor may be required to repay all of its outstanding debt upon the occurrence of any such events

As of the date of this annual report, U.S.\$176.4 million of Edenor's financial debt is represented by its Senior Notes due 2022. Under the indenture for the Senior Notes due 2022, certain expropriation and condemnation events with respect to Edenor may constitute an event of default, which if declared could trigger the acceleration of our obligations under such notes and require Edenor to immediately repay all such accelerated debt. In addition, all of Edenor's outstanding financial indebtedness contains certain events of default related to bankruptcy and voluntary reorganization proceedings (*concurso preventivo*). If Edenor is not able to comply with certain payment obligations as a result of its current financial situation, and the requirements set forth in the Argentine Bankruptcy Law No. 24,522 are met, any creditor, or even Edenor, could file for its bankruptcy, or Edenor could file for a voluntary reorganization proceeding (*concurso preventivo*). In addition, all of Edenor's outstanding financial indebtedness also contains cross-default provisions or cross-acceleration provisions that could cause all of Edenor's debt to be accelerated if the debt containing expropriation or bankruptcy and/or reorganization proceeding events of default goes into default or is accelerated. In such a case, Edenor would expect to actively pursue formal waivers from the corresponding financial creditors to avoid such potential situation, but in case those waivers are not timely obtained and immediate repayment is required, Edenor could face short-term liquidity problems, which could adversely affect our results of operations and cause the market value of our shares and ADSs to decline.

Edenor could be required by law to undertake a mandatory capital stock reduction and may in the future be required to be dissolved and liquidated

As of December 31, 2016, Edenor's negative results exceeded 100% of its reserves and more than 50% of its capital stock, therefore in accordance with Section 206 of the Argentine Corporations Law, Edenor was required to mandatorily reduce its capital stock. As of the date of this annual report, in light of the recent conclusion of the RTI process, its board of directors is currently analyzing the impact thereof on Edenor's financial position, estimating that the expected future revenues will allow it to revert this situation. If Edenor's losses for any fiscal year exceed its reserves plus 50% or more of its capital stock at the end of any such year, Edenor falls under the purview of Section 206 of the Argentine Corporations Law and is required to mandatorily reduce its capital stock. Moreover, if Edenor's shareholders' equity becomes negative (that is, if its total liabilities exceed its total assets) at the end of any fiscal year, Edenor is required to dissolve and liquidate pursuant to Article 94 of the Argentine Corporations Law unless Edenor receives a capital contribution or expect future revenues or results of operations which would result in its assets exceeding its liabilities. On April 18, 2017, the shareholders' meeting of Edenor decided not to approve the capital stock reduction at that time. However, if the quarterly negative results of Edenor for the periods ended on March 31, 2017 and June 30, 2017 exceed 100% of its reserves and more than 50% of its capital stock, the board of directors of Edenor will convene an extraordinary shareholders' meeting to reconsider the capital stock reduction. A mandatory capital stock reduction can adversely affect Edenor's results of operations and financial conditions, and in turn our results of operations and financial conditions.

The New York Stock Exchange and/or the Buenos Aires Stock Exchange may suspend trading and/or delist Edenor's ADSs and Class B common shares, respectively, upon occurrence of certain events relating to Edenor's financial situation

The New York Stock Exchange ("NYSE") and/or the Buenos Aires Stock Exchange may suspend and/or cancel the listing of Edenor's ADSs and Class B common shares, respectively, in certain circumstances, including upon the occurrence of certain events relating to Edenor's financial situation. For example, the NYSE may decide such suspension or cancellation if its shareholders' equity becomes negative.

The NYSE may in its sole discretion determine on an individual basis the suitability for continued listing of an issue in the light of all pertinent facts. Some of the factors mentioned in the NYSE Listed Company Manual, which may subject a company to suspension and delisting procedures, include: "unsatisfactory financial conditions and/or operating results," "inability to meet current debt obligations or to adequately finance operations," and "any other event or condition which may exist or occur that makes further dealings or listing of the securities on the NYSE inadvisable or unwarranted in the opinion of NYSE."

The Buenos Aires Stock Exchange may cancel the listing of Edenor's Class B common shares if it determines that Edenor's shareholders' equity and Edenor's financial and economic situation do not justify Edenor's access to the stock market or if the NYSE cancels the listing of Edenor's ADSs.

We cannot assure you that the NYSE and/or Buenos Aires Stock Exchange will not commence any suspension or delisting procedures in light of Edenor's current financial situation, including if Edenor's shareholders' equity becomes negative. A delisting or suspension of trading of Edenor's ADSs or Class B common shares by the NYSE and/or the Buenos Aires Stock Exchange, respectively, could adversely affect Edenor's results of operations and financial conditions and cause the market value of Edenor's ADSs and Class B common shares to decline.

Changes in weather conditions or the occurrence of severe weather (whether or not caused by climate change or natural disasters), could adversely affect Edenor's operations and financial performance

Weather conditions may influence the demand for electricity, Edenor's ability to provide it and the costs of providing it. In particular, severe weather may adversely affect Edenor's results of operations by causing significant demand increases, which Edenor may be unable to meet without a significant increase in operating costs. This could strongly impact the continuity of Edenor's services and its quality indicators. For example, the exceptional thunderstorms that occurred in April and December of 2013 and a heat wave that occurred in December of 2013 affected the continuity of our services, both in the low voltage and medium voltage networks. Furthermore, any such disruptions in the provision of Edenor's services could expose Edenor to fines and orders to compensate those customers affected by any such power cuts, as has occurred in the past. Edenor's financial condition, results of operations and cash flows could therefore be negatively affected by changes in weather conditions and severe weather.

Risks Relating to the Oil and Gas Business

Oil and gas companies have been affected by certain measures taken by the Argentine Government and may be further affected by additional changes in their regulatory framework

Since December 2011, the Argentine Government has adopted a number of measures concerning repatriation of funds obtained as a result of exports of oil and gas and charges applicable to the production of liquid gas, which have affected the business of oil and gas producers and manufacturers. More recently, beginning in April 2012, the Argentine Government provided for the nationalization of YPF and imposed major changes to the system under which oil companies operate, principally through the enactment of Law No. 26,741, Decree No. 1277/2012 and Law No. 27,007. Further changes in such regulations may increase the adverse effect of such measures on the business, revenues and our result of operations and financial condition.

Argentine oil and gas production concessions and exploration permits are subject to certain conditions and may not be renewed or could be revoked

Law No. 17,319 the "Hydrocarbons Law" (as amended by Law No. 27,007) provides for oil and gas concessions to remain in effect for 25, 30 or 35 years, depending on the concession, as from the date of their award, and further provides for the concession term to be extended for periods of 10 additional years, subject to terms and conditions approved by the grantor at the time of the extension. The authority to extend the terms of current and new permits, concessions and contracts has been vested with the government of the province in which the relevant area is located (and the Argentine Government in respect of offshore areas beyond 12 nautical miles). In order to be eligible for an extension, any concessionaire and permit holder must (i) have complied with its obligations under the Hydrocarbons Law and the terms of the particular concession or permit, including evidence of payment of taxes and royalties, the supply of the necessary technology, equipment and labor force and compliance with various environmental, investment and development obligations, (ii) be producing hydrocarbons in the relevant concession area and (iii) submit an investment plan for the development of the areas as requested by the relevant authorities at least one year prior to the expiration of the original concession. In addition, concessionaires that request extensions under Law No. 27,007 have to pay additional royalties ranging from 3% to a maximum of 18%. Under the Hydrocarbons Law, non-compliance with these obligations and standards may also result in the imposition of fines and in the case of material breaches, following the expiration of applicable cure periods, the revocation of the concession or permit.

We cannot assure you that our concessions will be extended in the future as a result of the review by the relevant authorities of investment plans submitted for such purposes, or that additional requirements to obtain such concessions or permits will not be imposed.

In April 2012, the Argentine Congress passed Law No. 26,741, expropriating 51% of the shares of YPF owned by the Spanish energy company, Repsol YPF. Under the terms of the law, out of the 51% of total shares to be expropriated, 51% of such shares are held by the Argentine Government and the remaining 49% are held by oil-producing Argentine Provinces. Also, such law states that hydrocarbon activities (including, exploitation, industrialization, transportation and commercialization) in the territory of Argentina are deemed of “national public interest.” The law, entitled “Hydrocarbon Sovereignty of Argentina”, declares that its primary objective is to achieve Argentina’s self-sufficiency in oil and gas supply. We cannot assure you that these or other measures that may be adopted by the Argentine Government will not have a material adverse effect on the Argentine economy and, as a consequence, adversely affect our financial condition, our results of operations and the market value of our shares and ADSS.

Oil and gas reserves in Argentina are likely to decline

The possibility of replacing our crude oil and gas reserves in the future is dependent on our ability to access new reserves, both through successful exploration and reserve acquisitions. We consider exploration, which carries inherent risks and uncertainties, to be our main vehicle for future growth and reserves replacement.

Without successful exploration activities or reserves acquisitions, our proved reserves would decline as our oil and gas production would be forced to rely on our current portfolio of assets.

We cannot guarantee that our exploration, development and acquisition activities will allow us to offset the decline of our reserves. If we are not able to successfully find, develop or acquire sufficient additional reserves, our reserves and therefore our production may continue to decline and, consequently, this may adversely affect our future results of operations and financial condition.

Substantial or extended declines and volatility in the prices of crude oil, oil products and natural gas may have an adverse effect on our results of operations and financial condition

A significant amount of our revenue is derived from sales of crude oil, oil products and natural gas. Factors affecting international prices for crude oil and related oil products include: political developments in crude oil producing regions, particularly the Middle East; the ability of the Organization of Petroleum Exporting Countries (“OPEC”) and other crude oil-producing nations to set and maintain crude oil production levels and prices; global and regional supply and demand for crude oil, gas and related products; competition from other energy sources; domestic and foreign government regulations; weather conditions; and global and local conflicts or acts of terrorism. We have no control over these factors. Changes in crude oil prices generally result in changes in prices for related products. International oil prices have fluctuated widely in recent years, declining significantly since the second half of 2014.

Substantial or extended declines in international prices of crude oil and related oil products may have a material adverse effect on our business, results of operations and financial condition and the value of our proved reserves. In addition, significant decreases in the prices of crude oil and related oil products may require us to incur impairment charges in the future or cause us to reduce or alter the timing of our capital expenditures, and this could adversely affect our production forecasts in the medium-term and our reserves estimates in the future.

Export taxes and import regulations on our products negatively affected the profitability of our operations in the past

On March 1, 2002, the Argentine Government imposed a withholding tax on exports of hydrocarbons, initially lasting five years. The export tax was extended in 2006 by Law No. 26,217 and in 2011 by Law No. 26,732 and was in effect through 2015. This tax framework, prevented us from benefiting from significant increases in international prices for oil, oil related products and natural gas, hindered us from offsetting sustained increases in costs related to the energy industry, and materially affected our competitiveness and results of operations.

On January 1, 2017, the Argentine Government did not extend the resolutions that imposed a withholding tax on exports of hydrocarbons.

We cannot assure that the Argentine Government will reinsert or create new export and import regulations. We cannot predict the impact that any changes may have on our results of operations and financial condition.

Oil and gas prices could affect our level of capital expenditures

The prices that we are able to obtain for our hydrocarbon products affect the viability of investments in new exploration, development and refining activities, and as a result, the timing and amount of our projected capital expenditures for such purposes. We budget capital expenditures by taking into account, among other things, market prices for our hydrocarbon products. In the event that current domestic prices decrease, the ability to improve our hydrocarbon recovery rates, identify new reserves and carry out certain other capital expenditure plans is likely to be affected, which, in turn, could have an adverse effect on our results of operations.

Limits on exports of hydrocarbons and related oil products have affected and may continue to affect our results of operations

In recent periods, the Argentine Government has introduced a series of measures limiting exports and imports of hydrocarbons and related oil products, which have prevented oil and gas companies from profiting from prices on these commodities in the international markets, and materially affected the competitiveness and results of operations of those companies.

In April 2004, to facilitate the recovery of natural gas prices, the SE entered into an agreement with natural gas producers, requiring them to sell a specified amount of gas in the local regulated market. During 2006, the SE required producers to redirect gas earmarked for export to supply local thermal power plants and gas distribution companies. In January 2007, the SE confirmed that the ability to export hydrocarbons would be subject to the satisfaction of domestic demand and that exports would have to be authorized on a case-by-case basis by the SE. These measures prevented the oil and gas companies from benefiting from higher margins in the international markets. In 2007, upon the expiration of the aforementioned agreement, the Argentine Government and producers signed a new agreement effective until 2011 aimed at securing the domestic supply of gas. On January 5, 2012, the SE decided to extend the temporary allocation rules and other criteria established by Resolution No. 599/2007 to set obligations for the timely supply of natural gas, as established under the agreement with natural gas producers in effect from 2007 through 2011 until new legislation is passed.

Pursuant to SE Resolution No. 1,679/04, since December 2004, producers must obtain the approval of the Argentine Government prior to exporting crude oil or diesel. To obtain such approval, exporters must demonstrate that they have either satisfied local demand requirements or have granted the domestic market the opportunity to acquire oil or diesel under terms similar to current domestic market prices and, in the case of diesel, they must also demonstrate, if applicable, that commercial terms offered to the domestic market are at least equal to those offered to their own gas station network. Furthermore, in December 2006, through Resolution No. 1,338/06, the SE extended these regulations to the export of gasoline, fuel oil and fuel oil mixtures, aero kerosene, jet fuel, lubricants, asphalts, coke and by-products for use in the petrochemical industry. In January 2008, the Argentine Government temporarily prohibited exports of gasoline and diesel until the domestic market was fully supplied at the prices in force on October 31, 2007.

In relation to the crude oil market, the Ministry of Economy issued Resolution No. 394/2007, which imposed further restrictions on exports of crude oil by fixing their price, had the effect of leaving producers indifferent when deciding between serving the local or the international market as the state would capture any extraordinary revenue that the producer could earn on exports. The production of crude oil has shown a downward trend in recent years. Therefore, as was the case in the gas market, the government started a search for the tools and regulations that could serve to again find the path to growth.

On January 3, 2013, the Ministry of Economy issued Resolution No. 1/2013, which raised the cut off values of Resolution No. 394/2007 from U.S.\$ 42/Bbl. to U.S.\$ 70/ Bbl, thus increasing income accruing to the oil exporters.

On December 29, 2014, the Ministry of Economy issued Resolution No. 1,077/2014 which revoked Resolution No. 394/2007 and established new export tax rates which were linked to the international price of crude oil to be determined from the monthly Brent reference value minus eight Dollars per barrel (8.0 US \$ / Bbl.). The new regime set U.S.\$ 71 / Bbl. If the international price of oil does not exceed U.S.\$ 71 / Bbl. as the cutoff value, the producer had to pay export duties of 1% of that value. Above U.S.\$ 80 (which yield an international price of U.S.\$ 72 / Bbl.) variable deductions were established.

On July 13, 2015, the Argentine Government issued Decree No. 1330/2015, which terminated the Petróleo Plus Program (See -*"The Argentine Energy Sector- Oil & Gas-Crude Oil Market"*) and established a mechanism to pay back the tax credits of such program.

These restrictions may significantly and adversely affect the profitability of our companies and prevent us from capturing, in the event international prices so reflect it, the upside of export prices, and may negatively affect the total volume of refined products sold in the domestic market due to the need to regulate processed crude oil volumes in accordance with the storage capacity of our companies, adversely affecting our financial condition and results of operations.

We or our subsidiaries may not be the operating partners in all of the joint ventures (joint operations for accounting purposes) in which we or they participate, and actions undertaken by the operators in such joint ventures could have a material adverse effect on the success of these operations

We and our subsidiaries generally undertake their activities in exploration and exploitation of hydrocarbons in a particular area by entering into an agreement with third parties to participate in joint ventures (joint operations for accounting purposes). Under the terms and conditions of these agreements, one of the parties takes the role of operator of the joint venture, and thus assumes responsibility for executing all activities undertaken pursuant to the joint venture agreement. However, neither we nor our subsidiaries may assume the role of operator and therefore, in such cases, we are exposed to risks relating to the performance of and the measures taken by the operator to carry out the activities. Such actions could have a material adverse effect on the success of these joint ventures, and thus adversely affect our financial condition and results of operations.

We and our subsidiaries conduct most of the operations through joint ventures(joint operations for accounting purposes), and our or their failure to resolve any material disagreements with our or their partners or to continue such joint ventures could have a material adverse effect on the success of such operations

We and our subsidiaries conduct most of our and their oil and gas operations through joint ventures and as a result, the continuation of such joint ventures is vital to their success. In the event that any of our or their partners were to decide to terminate the relationship in respect of a joint venture or sell their interest in a joint venture, we or our subsidiaries may not be able to replace that partner or obtain the necessary financing to purchase that partner's interest. Accordingly, our or our subsidiaries' failure to resolve disagreements with our partners or to maintain our joint ventures could adversely affect our ability to conduct the underlying operations of such joint venture, which, in turn, could negatively affect our financial condition and results of operations.

Our or our subsidiaries' failure to comply with our or their commitments to make certain investments under our and their investment agreements could negatively affect our results of operations

Our subsidiaries have commitments to make certain investments under investment agreements. Failure to comply with such commitments in a timely manner could result in a breach of the relevant partnership agreement, foreclosure of any guarantees and/or the loss of all rights over the underlying area, which could have an adverse effect on our results of operations.

Oil and gas activities are subject to significant economic, environmental and operational risks

Oil and gas exploration and production activities are subject to particular economic and industry-specific operational risks, some of which are beyond our control, such as production, equipment and transportation risks, as well as natural hazards and other uncertainties, including those relating to the physical characteristics of onshore and offshore oil or natural gas fields. Our operations may be curtailed, delayed or cancelled due to bad weather conditions, mechanical difficulties, shortages or delays in the delivery of equipment, compliance with governmental requirements, fire, explosions, blow-outs, pipe failure, abnormally pressured formations, and environmental hazards, such as oil spills, gas leaks, ruptures or discharges of toxic gases. If these risks materialize, we may suffer substantial operational losses or disruptions in our operations. Drilling may be unprofitable, not only with respect to dry wells, but also with respect to wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs are taken into account.

Our results of operations are also dependent, to a significant extent, on the continued participation in two key government programs and the ability to collect payments under such programs

Our results of operations and financial condition also depend, to a significant extent, on the continued participation in two key programs established by the Argentine Government with the aim of generating higher levels of activity, investment and employment in the domestic natural gas sector.

We participate in the *Programa de Estimulo a la Inyección Excedente de Gas Natural* ("Natural Gas Surplus Injection Stimulus Program") and the *Programa Estimulo a la Inyección Excedente de Gas Natural para Empresas con Inyección Reducida* (Natural Gas Excess Injection Stimulus Program for Companies with Reduced Injection, and together, with the Natural Gas Surplus Injection Stimulus Program, the "Natural Gas Stimulus Programs"). Companies that participate in the Natural Gas Stimulus Programs agree to a minimum injection volume (the "Base Volume") to be sold at a fixed price (the "Base Price") and receive U.S.\$7.50 per mmBtu for any amount of natural gas produced in excess of the Base Volume (the "Surplus Injection"). The Argentine Government agrees to compensate participating companies, on a monthly basis, for: (i) any difference between U.S.\$7.50 per mmBtu and the price actually received for the sale of the Surplus Injection and (ii) any difference between the Base Price and the price actually received for the sale of the Base Volume.

As of the date of this annual report, we receive U.S.\$7.50 per mmBtu from the Argentine Government for any volume of natural gas that we produce in excess of an agreed threshold with respect to more than 90% of Petrolera Pampa S.A.'s ("Petrolera Pampa") total natural gas production and approximately 60% of Pampa's (in respect of former Petrobras Argentina's areas) and Petrolera Entre Lomas S.A. ("PELSA") total natural gas production. As of the date of this annual report, Petrolera Pampa has only collected payments from the Argentine Government through August 2016, and Pampa and PELSA, through March 2016. In the recent past when the Argentine Government has been delayed in the payment of such compensation, the relevant debt was cancelled with BONAR 2020 bonds, which have restrictions on their resale until December 31, 2017. Although the compensation is denominated in U.S. Dollars, it is billed in Pesos and converted at the prevailing exchange rate during the month in which the payment is made, thereby leaving us and our subsidiaries exposed to an exchange rate risk between the billing date and the collection date.

In addition, if we or our subsidiaries are unable to comply with our or their commitments under the Natural Gas Stimulus Programs, we or our subsidiaries may not receive any compensation for Surplus Injection and be removed from the program or pay fines, among other potential consequences.

We and our subsidiaries additionally face the risk of the Argentine Government suspending the Gas Plus Program and/or the Natural Gas Stimulus Programs, as was the case when the *Ministerio de Planificación Federal, Inversión Pública y Servicios* (Ministry of Federal Planning, Public Investment and Services) suspended the implementation of the “Oil Plus” program in February 2012 in response to market conditions. If the same were to occur to either of these key programs, our and our subsidiaries’ ability to generate revenues would be substantially impaired, which, in turn, would negatively affect our and our subsidiaries’ financial condition and results of operations.

Unless we replace our oil and gas reserves, such reserves and production will decline over time

Production from oil and gas fields declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Accordingly, the amount of proved reserves declines as these reserves are produced. The level of our future oil and natural gas reserves and production, and therefore our cash flows and income, are highly dependent on our success in efficiently developing current reserves, entering into new investment agreements and economically finding or acquiring additional recoverable reserves. While we have had success in identifying and developing commercially exploitable deposits and drilling locations in the past, we may be unable to replicate that success in the future. We may not identify any more commercially exploitable deposits or successfully drill, complete or produce more oil or gas reserves, and the wells that we have drilled and currently plan to drill may not result in the discovery or production of any further oil or natural gas. If we are unable to replace our current and future production, the value of reserves will decrease, and our results of operations could be negatively affected, as well as our financial condition and results of operations.

Our and our subsidiaries estimated oil and gas reserves are based on assumptions that may prove inaccurate

Our oil and gas reserves estimates as of December 31, 2016 are based on the year-end reserves report (the “Reserves Report”) by Gaffney, Cline & Associates (“Independent Reserves Engineers Firm”). Although classified as “proved reserves,” the reserves estimates set forth in the Reserves Report are based on certain assumptions that may prove inaccurate. The Independent Reserves Engineers Firm’s primary economic assumptions in estimates included oil and gas sales prices determined according to the guidelines described in the Reserves Report, future expenditures and other economic assumptions (including interests, royalties and taxes) provided by us and our subsidiaries.

The estimation process is initiated with an initial review of the assets by geophysicists, geologists and engineers. A reserves coordinator protects the integrity and impartiality of the reserves estimates through supervision and technical support to technical teams responsible for the preparation the reserves estimates. Our reserves estimates are approved by the director of Oil and Gas Production. Reserves engineering is a subjective process of estimating underground accumulations involving a certain degree of uncertainty. Reserves estimates depend on the quality of the available engineering and geological data as of the estimation date and on the interpretation and judgment thereof.

Oil and gas reserves engineering is a subjective process of estimating accumulations of oil and gas that cannot be measured in an exact way, and estimates of other engineers may differ materially from those set out in this annual report. Numerous assumptions and uncertainties are inherent in estimating quantities of proved oil and gas reserves, including projecting future rates of production, timing and amounts of development expenditures and prices of oil and gas, many of which are beyond our control. Results of drilling, testing and production after the date of the estimate may require revisions to be made. The estimate of our oil and gas reserves would be impacted if, for example, we were unable to sell the oil and natural gas we produced. Accordingly, reserves estimates are often materially different from the quantities of oil and gas that are ultimately recovered, and if such recovered quantities

are substantially lower than the initial reserves estimates, this could have a material adverse impact on our results of operations.

We face significant competition in the acquisition of exploratory acreage and oil and natural gas reserves

The Argentine oil and gas industry is extremely competitive. When we bid for exploration or exploitation rights with respect to a block, we face significant competition not only from private companies, but also public companies. In fact, the provinces of La Pampa, Neuquén and Chubut have formed companies to carry out oil and gas activities on behalf of their respective provincial governments. The state-owned energy companies Energía Argentina S.A. ("ENARSA"), YPF and other provincial companies (such as G&P and EDHPSA) are also major players in the Argentine oil and gas market. As a result, we cannot assure that we will be able to acquire new exploratory acreage or oil and gas reserves in the future, which could negatively affect our financial condition and results of operations. There can be no assurance that the participation of ENARSA or YPF (or any province-owned company) in the bidding processes for new oil and gas concessions will not influence market forces in such a manner that could have an adverse effect on our financial condition and results of operations.

We may incur significant costs and liabilities related to environmental, health and safety matters

Our operations, like those of other companies in the Argentine oil and gas industry, are subject to a wide range of environmental, health and safety laws and regulations. These laws and regulations have a substantial impact on our operations and could result in material adverse effects on our financial position and results of operations.

Environmental, health and safety regulation and case law in Argentina is developing at a rapid pace and no assurance can be provided that such developments will not increase our cost of doing business and liabilities. In addition, due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, new regulatory requirements to reduce greenhouse gas emissions, such as carbon taxes, increased efficiency standards, or the adoption of cap and trade regimes. If adopted in Argentina, these requirements could make our products more expensive as well as shift hydrocarbon demand toward relatively lower-carbon sources such as renewable energies.

Limitations on local pricing in Argentina may adversely affect our results of operations

In recent years, due to regulatory, economic and government policy factors, domestic crude oil, gasoline, diesel and other fuel prices have differed substantially from the prices for such products prevailing on the international and regional markets, and the ability to increase or maintain prices to adjust to international price or domestic cost variations has been limited. International crude oil and related oil product prices have declined significantly since the second half of 2014.

For the last quarter of 2016, and due to the gap between the local market prices and the Brent prices, local crude oil began trading closer to international prices, reaching December 2016 with Medanito and Escalante prices in the range of U.S. \$ 58.63 and U.S.\$ 49.41, respectively.

On January 11, 2017, the ME&M signed together with Argentine oil producers and refineries the Agreement for the Transition to International Price of the Argentine Hydrocarbons Industry, which, through a price transition, is aimed at driving the price of the barrel of crude oil produced and traded in Argentina closer to parity with respect to the international markets, during 2017.

In addition, the prices at which we sell natural gas in Argentina are subject to government regulations, including compensation schemes resulting in increases in the revenues of companies admitted to natural gas injection stimulus programs such as the "Stimulus Program for Companies with low Injection of Natural Gas".

We cannot assure that we will be able to maintain or increase the domestic prices of our products, and limitations on our ability to do so would adversely affect our financial condition and results of operations. Similarly, we cannot assure that hydrocarbon prices in Argentina will track increases or decreases in hydrocarbon prices in the international or regional markets. Discrepancies between domestic and international prices may adversely affect our financial condition and results of operations.

Our activities may be adversely affected by events in other countries in which we do business, particularly in Venezuela

We operate in Argentina, Ecuador and Venezuela but most of our operations are concentrated in Argentina. Latin America is a region that has experienced significant economic, social, political and regulatory volatility. In recent periods, many governments in Latin America have taken steps to assert greater control or increase their share of revenues from the energy sector, spurred by soaring oil and gas prices and nationalist policies.

Regarding our investments in mixed companies in Venezuela, the monetary and fiscal policies implemented by the Venezuelan government together with the significant drop in international oil prices since 2014 have eroded the ability of the mixed companies to efficiently operate the producing fields, creating greater uncertainty as to the risks of our investments in Venezuela.

The level of government intervention in the economy of Latin American countries has adversely affected our business and results of operations, including, by changing the terms and conditions of operating service agreements in Venezuela and by increasing tax rates. Even though our investment in Venezuela is valued at Ps. 0, we cannot assure that such intervention will not continue or increase, which could adversely affect our future business, results of operations and financial condition.

Under these agreements, temporary limits on certain natural gas exports have been imposed to avoid a crisis in the local supply of natural gas, depriving us of higher prices in the international markets.

Risks Relating to Our Generation Business

There are electricity transmission constraints in Argentina that may prevent us from recovering the full marginal cost of our electricity, which could materially adversely affect the financial results of our generation business

During certain times of the year, more electricity can be generated than can be transmitted. While under the remuneration scheme established by SE Resolution No. 19/2017, such constraints should not affect the price that is paid to the generator, our dispatch may nonetheless be affected by such transmissions constraints. We cannot make any assurance that required investments will be made to increase the capacity of the system. As a result of lower dispatch, our generation business may record lower operating profits than we anticipate, which could adversely affect our consolidated results of operations and financial condition and the market value of our shares and ADSs.

Changes in regulations governing the dispatch of generators may affect our generators

Pursuant to Note No. 5,129/13, the SE instructed CAMMESA to optimize the dispatch of WEM's generators according to the available fuels and their actual costs. Such modifications or any other modifications under the emergency established by Decree No. 134/15 or any other measures thereof may result in a lower dispatch of our generators and, in turn, could adversely affect our results of operations and financial conditions.

We may be unable to collect amounts due, or to collect them in a timely manner, from CAMMESA and other customers in the electricity sector, which could have a material adverse effect on our financial condition and results of operations

Electricity generators, including us and our subsidiaries, are paid by CAMMESA, which collects revenue from other WEM agents. Since 2012, a significant number of WEM agents -mostly distributors, including Edenor- defaulted in the payment of amounts they owed to the WEM or failed to pay in a timely manner (as of the date of

this annual report, Edenor's situation has been regularized) subject to the pending negotiation of a final repayment schedule), which adversely affected the ability of CAMMESA to meet its own payment obligations to generators or to pay them in a timely manner. This situation led to the creation of the *Fondo Transitorio de Reconstrucción de Cobranzas*— SE Notes No. 7588/12, 8147/12 and 8476/12 (the "Transitory Recovery Fund"), by means of which the SE instructed CAMMESA to collect the charges and interest accrued from distributors' defaults and renegotiate the terms of the payment of the defaulted amounts.

Additionally, the stabilization fund created by the SE to cover the difference between the spot price and the seasonal price of electricity recorded a permanent deficit. This difference was due to the intervention of the Argentine Government and the measures adopted pursuant to the Public Emergency Law.

The Argentine Government has intervened in the electricity sector in the past, and is likely to continue intervening, in order to reduce the distributors' debt with CAMMESA.

Resolution ME&M No. 197/2016, instructed CAMMESA to negotiate payment plans with distributors and large users for the repeal of injunctions that had suspended tariff increases. It further ordered that the payment plans be in four monthly installments, equal and consecutive free off interest or surcharges related to non-payment. The first installment expired in October 2016. Similarly, with respect to the amounts not paid by the users of Edenor and Edesur, it was also provided that such amounts were to be paid in four installments under same conditions.

We cannot provide assurance that the measures aimed at reducing the debt of distributors and large users will be implemented, that the difference between the spot price and the seasonal price will not increase in the future, that the Argentine Government will use funds of the National Treasury to cover any differences or that CAMMESA will be able to pay generators, both with respect to energy and capacity sold in the spot market.

Furthermore, as a consequence of the suspension of the incorporation or renewal of contracts in the term market, the revenues of electricity generators will depend on the payments received from CAMMESA. Additionally, due to the scheme implemented by SE Resolution No. 95/2013, the margin collected from Large Users derived from contracts in WEM's term market will be calculated based on the remuneration received from CAMMESA, which will impact the revenues of the generators.

The inability of generators, including certain of our subsidiaries, to collect their credits from CAMMESA or to collect them in a timely manner, may have a material adverse effect on the revenues of our generation subsidiaries and accordingly, on our results of operations and financial condition and the market value of our shares and ADSs.

New measures encouraging renewable energy generation projects may affect our generation assets sales

On October 15, 2015, Law No. 27,191 was enacted. Pursuant to such law, among others by December 31, 2025, 20% of the total domestic energy demand must be sourced from renewable energy sources. In order to meet such goal, the statute requires wholesale users and CAMMESA to cover their respective portion of domestic energy demand with renewable sources of energy at 8%, by December 31, 2017. The percentage required to be covered with renewable energy increases every two years reaching 20% by 2025. The statute also includes tax and other benefits for new renewable energy projects.

Law No. 27,191 was partially regulated by Decree No. 531/2016, and further regulation is required for its implementation. However, we cannot make any assurances that the implementation of this law and its regulation will not affect our generators sales, particularly our sales under the Energy Plus regime, which, in turn, could adversely affect our results of operations and financial condition.

Our ability to generate electricity in our thermal generation plants depends on the availability of natural gas, and fluctuations in the supply or price of gas could materially adversely affect our results of operations

The supply or price of gas used in our generation business has been and may from time to time continue to be affected by, among others, the availability of gas in Argentina, our ability to enter into contracts with local gas producers and gas transportation companies, the need to import a larger amount of gas at a higher price than the price applicable to domestic supply as a result of low domestic production, and gas redistribution mandated by the SE, given the present shortage of supply and declining reserves. Since 2009, the SE has applied a procedure by means of which generators assign in favor of CAMMESA the natural gas acquired from the producers. CAMMESA may assign those volumes to other generation plants.

Several of our generation facilities are equipped to run solely on gas and, in the event that gas becomes unavailable, these facilities will not be able to switch to other types of fuel in order to continue generating electricity. If we are unable to purchase gas at prices that are favorable to us, if the supply of gas is reduced, if the procedure described above is canceled or if CAMMESA does not provide gas to our generation facilities, our costs could increase or our ability to profitably operate our generation facilities could be impaired. Moreover, some of our generation units are included in the “Energy Plus” program under SE Resolution 1,281/2006 and/or have executed WEM Supply Agreements under SE Resolution No. 220/2007, and both regulations require the generator to assure the committed capacity with its own fuels through the execution of firm natural gas and transport contracts.

Notwithstanding the foregoing, as of the issuance of SE Resolution No. 95/2013, as amended, and more recently, SEE Resolution No. 19//2017, generators depend on the fuels that CAMMESA supplies them for their operations, since the SEE appointed CAMMESA through such resolution as the sole supplier of fuels for the generation sector.

Any disruption or an inability to acquire the necessary fuels for our generation business could, in turn, materially adversely affect our results of operations and financial condition and the market value of our ADSs.

Our ability to generate electricity using gas plus under the Gas Plus Program at CTLL depends on the recognition by CAMMESA of Gas Plus costs

CTLL has executed several natural gas provision agreements with producers whose production is included under the terms of the “Gas Plus” program (SE Resolution No. 24/2008). Under such program, the producers are able to sell their production at a price higher than the reference price (gas market value for generators). By virtue of the agreements executed with the SE, and the mechanism established in Note No. 7,585/10 of the SE, CAMMESA recognizes such costs to CTLL. CAMMESA has to recognize the Gas Plus cost to CTLL in order for CTLL to be able to make the corresponding payments to their natural gas suppliers. If CAMMESA does not recognize the Gas Plus cost or if such recognition is delayed, the ability of CTLL to pay the natural gas suppliers may be affected. Consequently, in such a situation, CTLL would have to renegotiate the terms and conditions previously agreed with its natural gas suppliers and, in case an agreement is not reached, any of the parties may terminate the contracts under which they committed to supply natural gas. In this respect, during 2012, due to a delay in collecting payments from CAMMESA, renegotiation ensued with natural gas producers in order to comply with CTLL’s obligations and keep the agreements in force. As a result, CTLL could need to search for alternative suppliers of natural gas, and if unsuccessful in reaching new agreements with natural gas suppliers, its ability to generate electricity using gas plus recognized under the Gas Plus Program could be affected.

However, as of the issuance of SE Resolution No. 95/2013, as amended, and more recently, SEE Resolution No. 19/2017, generators (except for those included in the Energy Plus program) depend on the fuels that CAMMESA through such resolution supplies them for their operations, since the SEE appointed CAMMESA as the sole supplier of fuels for the generation sector. Consequently, as of the termination of the current gas supply agreements, CTLL and EGSSA (now merged into CTG) will no longer need to have firm gas supply agreements with suppliers and request the recognition of costs thereunder to CAMMESA as it will depend on CAMMESA’s gas supply. In September 2015, CAMMESA informed CTLL that, in accordance with SE Resolution No. 529/14, after the first automatic renewal of the term of the natural gas supply agreements, CAMMESA will no longer acknowledge (i) any further automatic renewals of such agreements, and (ii) the costs associated to such supply, including the additional 10% of such costs established in the “*Convenio Marco para el Cierre del Ciclo Combinado de Loma de la Lata*” entered into between CTLL and the SE in December 2008. CTLL has taken the necessary measures to protect its interests. See (“*Legal proceedings—Generation—Legal proceedings involving CTLL*”).

We cannot assure you that any changes on the terms and conditions for the provision of natural gas under the Gas Plus Program and, particularly, the lack of recognition of costs associated with CTLL's supply pursuant to SE Resolution No. 529/14 described above, would not have an adverse effect on the operation of our generation facilities and the revenues derived from such activity.

Penalties may be applied under CTLL's and CTG's WEM Supply Agreements under SE Resolution No. 220/2007, which may adversely affect the revenues derived from such contracts

A breach of the availability commitments set forth in CTLL's and CTG's WEM Supply Agreements under SE Resolution No. 220/2007, allows CAMMESA to apply penalties to the generator that may adversely impact the revenues derived by the generator from such agreements, which in turn may adversely affect the generator's results.

Penalties may be applied under CTLL's and Pampa's wholesale demand agreements under SE Resolution No. 21/2016, which may adversely affect the revenues derived from such contracts, and a delay in the entry of commercial operations of the projects may result in the early termination of the wholesale demand agreements

A breach of the obligation of CTLL's and Pampa's projects to enter into commercial operations by a committed date, allows CAMMESA to apply penalties that may adversely impact the revenues derived by the generator from such agreements, which in turn may adversely affect the generator's (our subsidiary) results. Moreover, if the delay in the commercial operation extends for more than 180 days from the committed date, the wholesale demand agreements may be automatically terminated by CAMMESA and who may enforce the performance guarantee granted under such contracts. In such event the projects will be remunerated according to the general WEM remuneration scheme.

Additionally, once the project begins its commercial operations, a breach of the availability commitments set forth in CTLL's and Pampa's wholesale demand agreements under SE Resolution No. 21/2016 allows CAMMESA to apply penalties to the generator that may adversely impact in the revenues derived by the generator from such agreements, which in turn may adversely affect the generator's (our subsidiary) results.

Penalties may be applied under Greenwind's energy supply agreement with CAMMESA, which may adversely affect the revenues derived from such contract and, ultimately, the obligation to sell the assets involved in the operation of the wind farm, and a delay in the entry of commercial operations of the projects may result in the early termination of the energy supply agreement

A breach of the obligation of the Corti wind farm to enter into commercial operations by a committed date, allows CAMMESA to apply penalties that may adversely impact the revenues derived by the generator, which in turn may adversely affect the generator's (our subsidiary) results. If the delay extends for more than 180 days, CAMMESA may enforce the performance guarantee granted by CTLL under such contract. Moreover, if, as of the date of commercial operations, the committed energy availability of the Corti project does not reach at least 98%, CAMMESA may terminate the energy supply agreement (in such event the projects will be remunerated according to the general WEM early remuneration scheme) or the Argentine Government may proceed to the purchase the assets of the project.

Additionally, once the project begins its commercial operations, a breach of the energy delivery commitments set forth in Greenwind's energy supply agreements allows CAMMESA to apply penalties to the generator that may adversely impact the revenues derived by the generator from such agreements, which in turn may adversely affect the generator's (our subsidiary) results.

A breach of the availability commitment set forth in CPB's Loan Agreement with CAMMESA may adversely impact CPB's results of operations

On April 8, 2014, Central Térmica Piedra Buena S.A ("CPB" or "Piedra Buena") executed a loan agreement with CAMMESA for an amount equal to the Peso-equivalent of U.S.\$ 82.6 million plus the associated taxes and nationalization costs. On September 12, 2016, the parties executed an amendment to the loan agreement, which resulted in several changes, including a raise in the loan amount up to the Peso equivalent of U.S.\$ 99.2 million plus associated taxes and nationalization costs. This loan is to be repaid in 36 equal installments. As long as CPB's availability is higher than 80% (summer) or 83% (winter), CPB's payment obligations shall be limited to the revenue established to cover extraordinary maintenance works (SE Resolution No. 529/2014, as amended). If CPB's availability is below the abovementioned percentages, CPB shall pay the applicable installment. A breach of the availability commitments set forth in the loan agreement and a subsequent acceleration of the loan may adversely impact CPB's results of operations.

Our ability to generate electricity at our hydroelectric generation plants may be negatively affected by poor hydrological conditions, which could, in turn affect our results of operations

Prevailing hydrological conditions could adversely affect the operations of our hydroelectric generation plants owned by Hidroeléctrica los Nihuales S.A. ("HINISA"), Hidroeléctrica Diamante S.A. ("HIDISA") and Pichi Picún Leufú Hydroelectric Complex ("HPPL"), in a number of ways, which we cannot fully predict. For example, hydrological conditions that result in a low supply of electricity in Argentina could cause, among others, the implementation of broad electricity conservation programs, including mandatory reductions in electricity generation or consumption. Hydrological conditions since 2006, the year in which our units recorded the greatest intake to date, have been poor. In particular, in 2014, the water intake at HINISA and HIDISA available for electricity generation was 62% and 64% lower, respectively, as compared to 2006. A prolonged continuation of poor conditions could force the Argentine Government to focus its generation efforts on the use of other sources of electricity generation. In the event of electricity shortages, the Argentine Government could mandate the implementation of broad electricity conservation programs, including mandatory reductions in electricity generation or consumption; the government could also mandate increased production from thermal plants that use fossil fuels as their generation sources and preserve the available water resources for future electricity generation. Although such a shift in production could benefit our thermal generation plants, it would negatively affect our hydroelectric plants and any mandated reduction in electricity generation or consumption could reduce revenues in our generation business and lead to a decline in our consolidated results of operations, which may have a material adverse effect on our financial condition and the market value of our shares and ADSs.

Moreover, in a case where the water level of the dams of our hydroelectric facilities decreases to the minimums established in the applicable concession contract, the local water authority (i.e. the Province of Mendoza and Neuquén Irrigation General Department) would gain control of the amount of water that may be dispatched in order to assure the continuity of other water uses such as human consumption and irrigation.

Operational difficulties could limit our ability to generate electricity, which could adversely affect our results of operations

We may experience operational difficulties that could require us to temporarily suspend operations or otherwise affect our ability to generate electricity and, as a result, adversely impact our operating results. These difficulties may affect our generation equipment, electromechanical components or, in general, any of our assets required for the supply of electricity. We cannot make any assurances that events of such nature will not occur in the future. While we maintain comprehensive insurance for each of our facilities, we cannot make any assurances that the amounts for which we are insured or the amounts that we may receive under such insurance policies would cover all of our losses. If operational difficulties prevent our generation of electricity, the disruption may lead to reduced revenues from our generation business, which would have an adverse effect on our results of operations and may negatively affect the market value of our shares or ADSs.

We may no longer own a controlling interest in HINISA, one of our principal generation assets, if the Province of Mendoza sells its participation in HINISA

Our subsidiary, Nihuales, currently owns a 52.04% controlling stake in HINISA, a hydroelectric generation company in the Province of Mendoza, Argentina, and the Province of Mendoza, through EMESA, currently owns 47.96% of the capital stock of HINISA. In 2006, the Province of Mendoza publicly announced its intention to sell shares representing 37.75% of the capital stock of HINISA pursuant to HINISA's concession. If the Province of Mendoza sells these shares, Nihuales will be required to sell 20% of HINISA's capital stock and would no longer own a controlling 52.04% interest in HINISA. In addition, according to HINISA's by-laws, Nihuales would not be permitted to purchase any additional shares of HINISA.

We currently consolidate the results of operations of Nihuales. If Nihuales loses its controlling interest in HINISA, it may have a significant adverse effect on the value of our investment in Nihuales and on our consolidated results of operations and the market value of the Company. In addition, neither we nor Nihuales has any control over the timing of the Province of Mendoza's proposed sale or the price at which Nihuales would be required to sell its 20% of HINISA's shares. As a result, these shares may be sold at a time and price per share that are adverse to our interests and the return on our investment in Nihuales.

CPB could be exposed to third-party claims on real property utilized for its operations that could result in the imposition of significant damages, for which we have not established a provision in our consolidated financial statements for potential losses

At the time of CPB's privatization in 1997, the Province of Buenos Aires agreed to expropriate and transfer to CPB the real property on which the plant was built and to create administrative easements in favor of CPB over the third-party lands through which a gas pipeline and an electricity transmission line run. Although the Province of Buenos Aires is in the process of expropriating the property on which the plant is built, as of the date of this annual report, it has not transferred all of the real property with clear and marketable title to CPB. In addition, the Province of Buenos Aires has not created the administrative easements for CPB's gas pipeline or the electricity transmission line. In July 2008, CPB sued the Province of Buenos Aires seeking the creation of the administrative easements in favor of CPB. CPB has received several complaint letters from third parties seeking compensation for the use of this land. If the Province does not complete the expropriation process or the administrative easement process, CPB may be exposed to judicial claims by third parties seeking compensation or damages for which we have not established a provision in our consolidated financial statements. If CPB were required to pay material damages or compensation for the right to use this real property as a result of adverse outcomes from legal proceedings, we could be required to use cash from operations to cover such costs, which could have a materially adverse effect on our financial condition and consolidated results of operations and cause the market value of our ADSs to decline.

CPB could be subject to fines and penalties for not having a concession for the use of seawater for the refrigeration of its generation units

CPB uses seawater to refrigerate its generation units. According to applicable provincial law, such activity requires a concession to be granted by the provincial government. In the documentation that we received with the privatization of CPB, no concession was included. CPB consulted the regulatory authorities who informed that, according to their files, no such concession has been granted to CPB. The penalties for such infringement may vary from the application of up to a Ps.50,000 fine to the closing of the plant. While CPB considers that the likelihood of any such penalties being imposed is low, we cannot assure you that the operation of CPB would not be affected if such penalties were to be imposed.

The unfulfillment of the requirements of the Energy Plus Program or its modification or cancellation may affect CTG's and our profits

If CTG or us (regarding the Genelba Plus unit) do not comply with the requirements of the Energy Plus Program (SE Resolution No. 1281/2006) or if such program is modified or canceled, CTG and us would have to sell the production on the spot market, and also, eventually, under the remuneration scheme applicable under SEE Resolution No. 19E/17, which could affect CTG's and our revenues.

In October 2015, CAMMESA issued Note No. B-102407-4, pursuant to which it obliged CTG to sell its uncommitted production under the Energy Plus Program to the spot market under the price scheme established by SE Resolution No. 482/2015.

In Note No. 567/07, as amended, the SE established the "Cargo Medio Incremental de la Demanda Excedente" ("CMIEE") as a maximum fee for WEM users with a capacity higher than 300 KW ("WEM Large Users") for their surplus demand in the event that they do not have their demand backed with a contract under the Energy Plus Program. As of the date of this annual report, the CMIEE applicable to *Grandes Usuarios Mayores* (Major Large Users, or "GUMAS") and GUMES is equal to 650 Ps./MWh and for *Grandes Usuarios del Distribuidor* (Major Distribution Users or "GUDIS") 0 \$/MWh. The CMIEE implies an indirect maximum limit to the price that generators under the Energy Plus Program may charge. The detrimental effect that such limits could have on our generators would worsen if the Peso continues its devaluation. As a consequence, if the CMIEE is not adjusted or a higher devaluation of the Peso occurs, this could result in a fall in prices charged by our generators under their Energy Plus Program contracts or in a discontinuance of the Energy Plus contracts, forcing such generators to sell the capacity and energy unsold in the spot market at lower prices.

Risks Relating to our Shares and ADSs

Restrictions on the movement of capital out of Argentina may impair the ability of holders of ADSs to receive dividends and distributions on, and the proceeds of any sale of, the shares underlying the ADSs, which could affect the market value of the ADSs

The Argentine Government may impose restrictions on the conversion of Argentine currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Argentina. Argentine law currently permits the government to impose this kind of restrictions temporarily in circumstances where a serious imbalance develops in Argentina's balance of payments or where there are reasons to foresee such an imbalance. Beginning in December 2001, the Argentine Government implemented an unexpected number of monetary and foreign exchange control measures that included restrictions on the free disposition of funds deposited with banks and on the transfer of funds abroad, including dividends, without prior approval by the Central Bank, some of which are still in effect. Among the restrictions that are still in effect are those relating to the payment prior to maturity of the principal amount of loans, bonds or other securities owed to non-Argentine residents and the requirement for Central Bank approval prior to acquiring foreign currency for certain types of investments. Although the transfer of funds abroad in order to pay dividends no longer requires Central Bank approval to the extent such dividend payments are made in connection with audited financial statements approved by a shareholders' meeting, restrictions on the movement of capital to and from Argentina such as those that previously existed could, if reinstated, impair or prevent the conversion of dividends, distributions, or the proceeds from any sale of shares, as the case may be, from Pesos into U.S. Dollars and the remittance of such U.S. Dollars abroad. Also, certain of our indebtedness includes covenants limiting the payment of dividends. We cannot assure you that the Argentine Government will not take similar measures in the future. In such a case, the depositary for the ADSs may hold the Pesos it cannot otherwise convert for the account of the ADS holders who have not been paid. Nonetheless, the adoption by the Argentine Government of restrictions on the movement of capital out of Argentina may affect the ability of our foreign shareholders and holders of ADSs to obtain the full value of their shares and ADSs and may adversely affect the market value of our shares and ADSs.

ADS holders' ability to receive cash dividends may be limited

Our shareholders' ability to receive cash dividends may be limited by the ability of the depositary to convert cash dividends paid in Pesos into U.S. Dollars. Under the terms of our deposit agreement with the depositary for the ADSs, the depositary will convert any cash dividend or other cash distribution we pay on the common shares underlying the ADSs into U.S. Dollars, if it can do so on a reasonable basis and can transfer the U.S. Dollars to the United States. If this conversion is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. If the exchange rate fluctuates significantly during a time when the depositary cannot convert the foreign currency, shareholders may lose some or all of the value of the dividend distribution.

Under Argentine law, shareholder rights may be fewer or less well-defined than in other jurisdictions

Our corporate affairs are governed by our by-laws and by Argentine corporate law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the States of Delaware or New York, or in other jurisdictions outside Argentina. In addition, the rights of holders of the ADSs or the rights of holders of our common shares under Argentine corporate law to protect their interests relative to actions by our board of directors may be fewer and less well defined than under the laws of those other jurisdictions. Although insider trading and price manipulation are illegal under Argentine law, the Argentine securities markets are not as highly regulated or supervised as the U.S. securities markets or markets in some other jurisdictions. In addition, rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well-defined and enforced in Argentina than in the United States, putting holders of our common shares and ADSs at a potential disadvantage.

Holders of ADSs may be unable to exercise voting rights with respect to the common shares underlying the ADSs at our shareholders' meetings

Shares underlying the ADSs are held by the depositary in the name of the holder of the ADS. As such, we will not treat holders of ADSs as one of our shareholders and, therefore, holders of ADSs will not have shareholder rights. The depositary will be the holder of the shares underlying the ADSs and holders may exercise voting rights with respect to the shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. There are no provisions under Argentine law or under our by-laws that limit the exercise by ADS holders of their voting rights through the depositary with respect to the underlying shares. However, there are practical limitations on the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with these holders. For example, holders of our shares will receive notice of shareholders' meetings through publication of a notice in an official gazette in Argentina, an Argentine newspaper of general circulation and the daily bulletin of the Buenos Aires Stock Exchange, and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. ADS holders, by comparison, do not receive notice directly from us. Instead, in accordance with the deposit agreement, we provide the notice to the depositary. If we ask it to do so, the depositary will mail to holders of ADSs the notice of the meeting and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, ADS holders must then instruct the depositary as to voting the shares represented by their ADSs. Due to these procedural steps involving the depositary, the process for exercising voting rights may take longer for ADS holders than for holders of shares and shares represented by ADSs may not be voted as the holders of ADSs desire. Shares represented by ADSs for which the depositary fails to receive timely voting instructions may, if requested by us, be voted at the corresponding meeting either in favor of the proposal of the board of directors or, in the absence of such a proposal, in accordance with the majority.

Our shareholders may be subject to liability for certain votes of their securities

Because we are a limited liability corporation, our shareholders are not liable for our obligations. Shareholders are generally liable only for the payment of the shares they subscribe. However, shareholders who have a conflict of interest with us and who do not abstain from voting at the respective shareholders' meeting may be liable for damages to us, but only if the transaction would not have been approved without such shareholders' votes. Furthermore, shareholders who willfully or negligently vote in favor of a resolution that is subsequently declared void by a court as contrary to the law or our by-laws may be held jointly and severally liable for damages to us or to other third parties, including other shareholders.

Provisions of our bylaws and of Argentine securities laws could deter takeover attempts and have an adverse impact on the price of our shares and the ADSs

Our bylaws and Argentine securities laws contain provisions that may discourage, delay or make more difficult a change in control of our Company, such as the requirement, upon the acquisition of a certain percentage of our capital stock, to launch a tender offer to acquire a certain percentage of our capital stock, which percentage ranges from 10% to 100% depending on several factors. These provisions may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interest of our shareholders and may adversely affect the market value of our shares and ADSs. In addition, the provisions of our bylaws and of Argentine securities laws with respect to the obligation to launch a mandatory tender offer differ in certain respects; as of the date of filing of this annual report, it is unclear whether the provisions of our bylaws, which might be more beneficial to minority shareholders under certain circumstances than the provisions of Argentine securities laws in effect as of the date hereof, would prevail over the provisions of Argentine securities laws.

HISTORY AND DEVELOPMENT OF THE COMPANY

Pampa Energía S.A. (in English, Pampa Energy Inc.) is incorporated as a *sociedad anónima* under the laws of Argentina. Our principal executive offices are located at Maipú 1, City of Buenos Aires, Argentina (C1084ABA). Our telephone number is + 54 11 4344 6000. Our website address is www.pampaenergia.com. None of the information available on our website or elsewhere is included or incorporated by reference into this annual report.

We were incorporated on February 20, 1945, for a duration of 99 years, until June 30, 2044, under the name Frigorífico La Pampa S.A. In 2003, we suspended our former business activities, which were limited to the ownership and operation of a cold storage warehouse building. In 2005, Messrs. Damián Mindlin, Gustavo Mariani and Ricardo Torres acquired a controlling stake in us. Following such acquisition, we changed our corporate name to Pampa Holding S.A. We changed our corporate name again, to Pampa Energía S.A, in September 2008 and have operated under this name since then. As a result of several acquisitions made since 2006, we are currently a fully integrated energy company in Argentina and, through our subsidiaries and joint controlled companies, we are engaged in generation, transmission and distribution of electricity in Argentina and in oil and gas exploration and production, refining, petrochemicals and hydrocarbon commercialization and transportation in Argentina, and to a lesser extent in Ecuador and Venezuela. We operate our energy businesses in a highly regulated environment.

Our significant acquisitions have included EASA in September 2007 (currently in process of merger by absorption with CTLL), which owns a controlling stake in our distribution subsidiary, Edenor; Corporación Independiente de Energía S.A. (“CIE”) in August 2007 (now known as Inversora Piedra Buena S.A. or “IPB”), which owns our subsidiary Piedra Buena generation facilities; the assets comprising CTLL in May 2007; Pampa Inversiones S.A. (“PISA” or “Pampa Inversiones”) in January 2007; a direct interest in CTG; a direct interest in Inversora Nihuales S.A. (“Nihuales”) and Inversora Diamante S.A. (“Diamante”) in October 2006, which in turn own our two hydroelectric generation plants Hidroeléctrica Nihuales (through the company HINISA and Hidroeléctrica Diamante (through the company HIDISA, respectively, a direct interest in Petrolera Pampa in February 2009; and a joint controlling interest in Compañía Inversora en Transmisión Eléctrica Citelec S.A. (“Citelec”) in September 2006, which owns a controlling stake in Transener.

In July 2016, we acquired all of the shares of PPSL, which in turn owned, at such time, 67.2% of the shares of Petrobras Argentina, an integrated energy company, engaged in oil and gas exploration and production, refining, petrochemicals, electricity generation and transmission and hydrocarbon marketing and transportation. For more information, see (“Item 4. — Recent Developments”).

OUR BUSINESS

Overview

We are a fully integrated energy company in Argentina. As of December 31, 2016:

- our electricity generation installed capacity reached approximately 3,433 MW, making us a fully integrated energy company in Argentina, comprising 10% of Argentina’s total installed capacity, and have committed to developing projects that will increase our installed capacity by another 420 MW.
- our electricity distribution operations supplied electricity to over 2.9 million customers throughout the northern region of the City of Buenos Aires and northwest of the greater Buenos Aires area, making us the largest electricity distribution company in Argentina;