

METROGAS S.A.

ANNUAL REPORT AND FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

METROGAS S.A.
ANNUAL REPORT

To the Shareholders:

Pursuant to applicable legal provisions and to the Company's bylaws, we submit for your consideration the documentation related to the Company's financial statements for the twentieth fifth fiscal year, ended on December 31, 2016.

1. MACROECONOMIC CONTEXT

Being MetroGAS S.A. ("MetroGAS" or the "Company") and its subsidiary, whose activities are basically focused in the Argentine market, runs its business based on the evolution of the main variables of the macroeconomic context of the country. In this setting and according to the latest information published in the Level Progress Report of the Activity made by the National Institute of Statistics and Census (INDEC), the temporary estimate of the economic activity reflected a 2.6% increase for 2015, while the same report showed a negative variation of 2.3% of the GDP (Gross Domestic Product) for the accumulated of the first nine months of the year 2016 compared to the accumulated index of the previous year.

According National and Urban Consumer Price Index ("IPCNU"), the inflation during the first ten months of 2015 was 11.9%, while this same indicator had showed 23.9% inflation for the whole of 2014. The state of administrative emergency of the National Statistic System and of its ruling body, the "INDEC", was declared by Decree No. 55/2016 of the National Executive Power ("PEN") on January 7, 2016. As from that moment the "IPCNU" was no longer reported and during the last two months of 2015 an alternative consumer price index was given. These indexes are elaborated by the General Directorate of Statistics and Census of the Autonomous City of Buenos Aires and by the Provincial Directorate of Statistics and Census of the Province of San Luis. They showed a 26.9% and 31.6% increase in consumer prices for the accumulated amount during 2015. In the first four months of 2016, these very alternative rates have shown a consumer price index of 19.1% and 14.1%, respectively. On June 15, 2016, INDEC started to publish again its own Consumer Price Index for the City of Buenos Aires and the counties that are part of the Greater Buenos Aires (IPC-GBA), which suffered a 7.4% increase for the May-June 2016 period, and increases of 3.3% and 5.3% for the third and fourth quarter of 2016, respectively.

In this context, the Central Bank of the Argentine Republic (BCRA), as stated in its Monetary Policy report, has provided for an anti-inflation policy, implemented through a positive interest rate in real terms. Particularly, the BCRA has established its monetary policy rate, on 35-day LEBAC during 2016, and passes as from 2017, so that it will be higher than the inflation trend expected for that period. In the second quarter of 2016, this policy resulted in a reduction of the reference rate from 38% to 30.25%, in the third quarter there was a further reduction to 26.75%, and in the fourth quarter it went further down to 24.75%, all of this while the monetary authority was leaving behind the impact of reordering relative prices, and beginning to consider lower registrations of expected inflation.

On December 17, 2015 the Ministry of Treasury and Finance announced the lifting of currency restrictions commonly known as "dollar clamp", resulting in a significant devaluation of the official exchange rate that converged with other kind of implicit changes up to that moment. This situation created a new reality in the economy of the country that impacted the entire industry. It should be noted that 95% of the financial debt is denominated in dollars, and is a long term debt (over one year at maturity).

METROGAS S.A.**ANNUAL REPORT**

In this respect, the peso/dollar rate had finished 2015 at 13.04 per dollar and it increased up to 15.89 pesos per dollar at the closing of 2016, about 21.9% higher than the price at the end of 2015 and 59.8% above, in average, the price in 2015.

2. COMPANY PROFILE

MetroGAS is the largest gas distribution company in Argentina in terms of number of customers and of delivered gas volumes. MetroGAS distributes approximately 17% (*) of the total natural gas supplied by the nine distribution companies licensed after the privatization of Gas del Estado in late 1992, and currently has approximately 2.3 million customers in its service area (Buenos Aires City and eleven municipalities in the south of Greater Buenos Aires), a densely populated area including major power plants and other industrial and commercial users.

During 2005, due to new rules, (see item 6.1), MetroGAS' Board decided to constitute MetroENERGÍA S.A ("MetroENERGÍA"); MetroGAS holds 95% of this corporation's share capital and its social objective is to act as a natural gas trading company and / or a gas transporting company on its own behalf, on third parties behalf or associated to third parties.

Since 1993 natural gas consumption in Argentina increased by approximately 100%. In that year consumption was approximately 21,828 MMm3 (millions of cubic meters) and it increased to 44,695 MMm3 in 2016 (*). This increase is due to natural gas low relative prices compared to other energy sources, an increased capacity of major gas pipelines and the expansion of distribution networks.

Argentina's proven gas reserves amount to 350,483 MMm3 (***). There are 19 known sedimentary basins in the country, 10 of which are on-shore, 3 are off-shore and 6 are both on and off-shore. Production is concentrated in 5 basins: the Northwest basin; the Neuquén and Cuyo basins in central Argentina; Gulf of San Jorge and Austral basins in the south of the country. The production of natural gas reached 44,988 MMm3 (**) during the period January - December 2016, which 25,970 MMm3 coming from the Neuquén basin. Also, to be able to satisfy the requirements of domestic demand, some 10,871 MMm3 had to be imported from Bolivia and Chile, and the Liquefied Natural Gas ("LNG") was regasified at the Escobar and Bahía Blanca plants.

Approximately 53% of all gas purchased by MetroGAS during 2016 came from the Neuquén basin and the remaining 47% from the Austral and Gulf of San Jorge basins.

There are different regimes promoted by the National Government aimed at enhancing the natural gas industry which, although initially do not have any direct impact on MetroGAS or impose any obligations on the company, could have favorable consequences considering that one of the main objectives of those is to increase the injection of natural gas (see item 6.3).

(*) According to the latest available information provided by the National Gas Regulatory Authority ("ENARGAS") – December 2016.

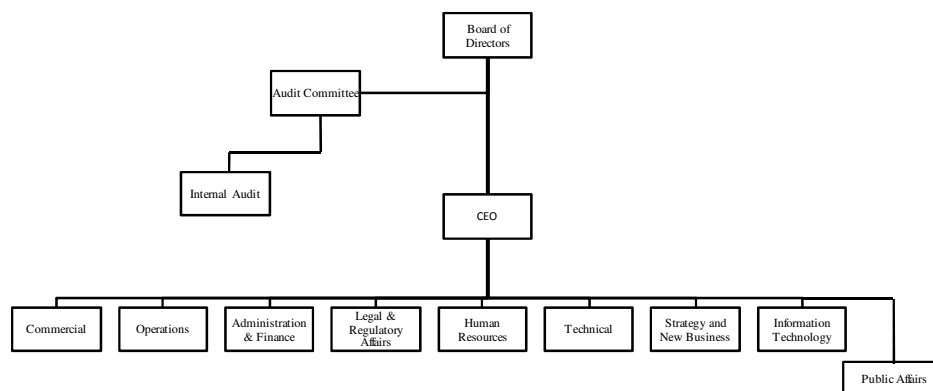
(**) According to the latest available information provided by the Ministry of Energy and Mining ("MINEM") - December 2016.

(***) According to the latest available information provided by the MINEM - December 2015.

METROGAS S.A.
ANNUAL REPORT

3. ORGANIZATIONAL STRUCTURE

MetroGAS' current organizational structure is as shown below



4. LICENSE CONTRACT RENEGOTIATION

The Public Emergency and Foreign-Exchange System Law No. 25,561 (the “Emergency Law”) published in the Official Gazette on January 7, 2002, affected the legal framework in force for license contracts of utility services companies.

The main provisions of the Emergency Law that have an impact on the License duly granted to MetroGAS by the National Government and that modify express provisions of Law No. 24,076 (the “Gas Law”) are the following: “pesification” of tariffs that were fixed in convertible dollars at the exchange rate specified in the Convertibility Law (Law No. 23,928), the prohibition of tariff adjustments based on any foreign index, thus not allowing the application of the international index specified in the Regulatory Framework (US Producer Price Index-PPI), and the aptitude in order to renegotiate the license granted to the Company in 1992.

Furthermore, the Emergency Law established the beginning of a renegotiation process of utility contracts granted by the National Executive Power (“PEN”) without detriment to the requirements that utility services companies must go on complying with all their obligations.

The Emergency Law, which originally expired in December 2003, it was successively extended until December 31, 2017. Also it was extending the period of renegotiation of public service concessions and licenses.

In the framework of the renegotiation process, the Company signed a series of agreements with different entities representing the National Government.

The agreements signed are described below.

METROGAS S.A.**ANNUAL REPORT****4.1 Provisional Agreement 2008**

A Provisional Agreement was signed with the Unit for the Renegotiation and Analysis of Public Services Contracts (“UNIREN”) on October 1, 2008, which was ratified by MetroGAS’ Shareholders Assembly on October 14, 2008 and approved by the PEN on March 26, 2009 through Decree No. 234/2009 (Official Gazette April 14, 2009). The Provisional Agreement 2008 established a Transition Tariff Regime as from September 1, 2008, with a readjustment of prices and tariffs that included variations in the price of gas, transportation and distribution. The amounts collected due to the increase of prices and tariffs resulting from the readjustment of distribution tariffs were to be deposited by the Company in a specific trust fund destined to the construction of infrastructure works within the License area.

The aforementioned Provisional Agreement was not implemented because the corresponding tariff tables were not issued.

4.2 Fund for Gas Distribution Consolidation and Expansion Works (“FOCEGAS”)

On November 21, 2012, the Company subscribed an Agreement Act with the ENARGAS. A fixed amount per invoice was established, stating a difference by customer category. The amounts for this concept collected by the Distributing Companies shall be deposited in a trust fund called FOCEGAS created to this effect and used to carry out infrastructure works, connection works, re-potentialion, expansion and/or technological modification of the systems of gas distribution through networks, security, reliability of the service and integrity of the network, as well as maintenance and any other related expense that may be necessary to provide the gas distribution public service within the service area. On the other hand, gas distributing companies will have to have the approval of an Execution Committee to be created within the trust fund, to implement a Plan of Consolidation and Expansion Investments expressed in physical and financial terms whose guidelines was determined in the trust fund contract entered into between the Company and Nacion Fideicomisos S.A.

On November 29, 2012 ENARGAS Resolution No. 2,407/2012 was published in the Official Gazette, specifying that Resolution No. 2,000/05 of the Ministry of Federal Planning, Public Investment and Services (“MPFIPyS”) had been complied with. As a consequence ENARGAS authorized Distribution Companies to collect the charge previously mentioned.

On December 11, 2012 the Company, Nación Fideicomisos S.A. and ENARGAS subscribed the contract of financial trust and private administration.

On February 1, 2013, MetroGAS submitted to the ENARGAS the Plan of Consolidation and Expansion Investments for its approval. On March 27, 2013, MetroGAS received notice that the Plan had been approved in its entirety by the Execution Committee at its meeting held on March 21.

On January 6, 2014 the Company submitted the 2014 Works Plan to the ENARGAS, including all information regarding works carried out according to the 2013 Plan and sent to Nación Fideicomisos S.A. the report of all expenses resulting from the alternative methodology of advanced-funds; all of this was approved in March 2014. On July 16, 2015 the 2015 Works Plan corresponding to Reliability, Maintenance and Expansion was introduced, which was approved in December 10, 2015.

On April 8, 2015 the Official Gazette published ENARGAS Resolution No. 3,249/2015 that repealed Articles 3 and 4 from ENARGAS Resolution No. 2,407/2012, by virtue of which the Company was requested to (i) deposit the fix amounts collected through invoicing into the trust

METROGAS S.A.**ANNUAL REPORT**

fund created for that purpose, acting MetroGAS as the Trustor and Nación Fideicomisos S.A. as the Trustee, and (ii) submit to approval a project investment annual plan for consolidation and extension works.

Consequently, due to the entry into force of ENARGAS Resolution No. 3,249/2015, from April 1, 2015 the fix amounts per invoice established by ENARGAS Resolution No. 2,407/2012 that the Company continued invoicing and collecting would not be allocated to the Administration and Finance Trust Fund entered into with Nación Fideicomisos S.A., but, on the contrary, they would be allocated by MetroGAS “only to activities related to the expansion and reliability of the systems, operation and maintenance tasks contributing to the compliance of the standards established by the governing code ‘Código Argentino de Gas – NAG’ and to commercial and administrative activities aimed at effectively providing service to customers within the operation area” and no less than 30% of the fix amounts shall be assigned to investments entailing system expansion within the framework of an investment plan to be authorized by ENARGAS.

On April 20, 2016 the Company submitted before the ENARGAS the Mandatory Investments Plan for fiscal year 2016. Fixed amounts per invoice stated by ENARGAS Resolution No. 2,407/2012 were assigned to cover expenditures related to this Investments Plan.

As a Consequence of Resolution No. 3,249/2015 the ENARGAS, Nación Fideicomisos S.A. and MetroGAS have started the necessary procedures to finally end with the FOCEGAS.

4.3 Provisional Agreement 2014

On March 26, 2014, the Company signed a Provisional Agreement with the UNIREN whereby a provisional tariff regime was agreed allowed to obtain additional funds to those resulting from the enforcement of ENARGAS Resolution No. 2,407/2012 of November 27, 2012.

The amounts that gas Licensees received as a consequence of the FOCEGAS and the Resolution referred to in the preceding paragraph were taken as a payment on account of the tariff adjustments stated in the Temporary Agreement approved by Decree No. 234/2009.

The Provisional Agreement 2014, ratified by Decree No. 445/2014 dated April 1, 2014 and published in the Official Gazette on April 7, 2014, established a provisional tariff regime as from April 1, 2014, consisting in readjust prices and tariffs considering the guidelines necessary to maintain the continuity of service and also sets forth common criteria applicable to all distribution licensees, in accordance with tariff regulations in force, and including changes in the gas price at the transmission system entry point (“PIST”).

The Provisional Agreement 2014 also contemplated the inclusion of pass through to tariffs resulting from changes in tax rules, except for the income tax, in accordance with a currently pending resolution. It also includes clauses related to costs oversight tariff revision based on operation and investment cost structure, and price indexes representative of such costs, which under certain premises triggers a revision procedure through which ENARGAS assessed the actual scale of variations in the licensee’s operating and investment costs, and thereby determine whether a distribution tariff adjustment was applicable.

The Company submitted to the ENARGAS three requests to update its tariffs by applying the Method for Costs Monitoring established in the Provisional Agreement 2014. None of these requirements have resulted in a readjustment of the Distribution tariffs to recognize the highest costs faced by the Company; however, the Energy Secretariat (“ES”) approved through Resolution No. 263/2015 a Temporary Economic Assistance, described in detail in 4.5.1.

METROGAS S.A.**ANNUAL REPORT**

The Provisional Agreement 2014 also provided that, from the execution date to December 31, 2015, the date on which Emergency Law 25,561 expired, UNIREN on behalf of the Grantor and the licensee shall reach a consensus with respect to the methodology, terms and timeline for the signing of the “Acta Acuerdo de Renegociación Contractual Integral” (the Comprehensive Contract Renegotiation Memorandum of Understanding). On November 3, 2015 the extension of The Emergency Law was approved until December 31, 2017.

On March 27, 2014, the National Government announced the reallocation of subsidies and on March 31, 2014 the ES issued ES Resolution No. 226/2014 pursuant to which new natural gas prices and a plan to encourage responsible use of the natural gas were established.

Within this framework, new natural gas prices are established for Residential customers and for Small General service (“SGP”) customers for each of the production basins and user categories. These new prices were applied by a mechanism of comparing consumption of same two-month/month period of current and previous year. Furthermore, a three-stage price revision is established to take effect on April 1, 2014, June 1, 2014 and August 1, 2014. For those customers that reduce their consumption over 20%, basin prices as of March 31, 2014 as per ES Resolution No. 1,417/2008 will remain the same. Customers whose reduction in consumption is between 5% and 20% will have a special and lower basin natural gas price compared to the price applied to those customers not able to reduce consumption or whose reduction is below 5%.

Through Note ENRG/SD No. 3097 dated April 7, 2014, ENARGAS notified Resolution No. I/2,851, from the same date, wherein new tariff charts are approved and are stated to take effect on April 1, 2014, June 1, 2014 and August 1, 2014. Such charts display changes in the final tariff of residential and full SGP customers. These include changes in the gas price at the PIST, as a result of the application of the new prices per basin established by the aforementioned ES Resolution No. 226/2014, the transportation tariff as a consequence of the new tariff chart effective for gas transportation companies that reflected the terms of their 2008 signed provisional agreements establish, and MetroGAS’ distribution margin after the signing of the Provisional Agreement 2014.

In accordance with the price scheme established through ES Resolution No. 226/2014 and the ENARGAS Resolution No. I/2,851/2014, three tariff levels were established for each period, which was to be applied to customers according to their consumption in a month/bimester period in relation to the same period of the previous year.

Customers that registered a decrease in consumption of over 20% would continue with the same tariff level as that in effect until March 31, 2014. Customers that achieved a reduction between 5% and 20% would be charged a tariff approximately 50% lower in relation with the actual price variation, which will be applied to customers unable to reduce their consumption or whose reduction is below 5%.

ENARGAS Resolution established that tariff charts in force until March 31, 2014, also applied to essential users (health care, public education religious institutions, etc.); and those users reached by the procedure established in MPFIPyS No. 10/2009 dated August 13, 2009. Under that mechanism, the Licensee also has different prices for the gas distribution service according to the customers’ consumption.

Through Note ENRG/SD No. 5,747 dated May 13, 2014, ENARGAS notified on Resolution No. I/2,904 from same date, whereby the methodology for the determination of user’s category based gas supply as from of April 1, 2014 is approved.

METROGAS S.A.**ANNUAL REPORT**

On June 8, 2015, the Official Gazette published Resolution No. I/3,349/2015 approving the new tariff charts effective as of May 1, 2015. The increase are connected with the rise of the transport component and reaches residential, commercial and industrial customers, with the exception of sub distributors, “waived” customers and those residential or commercial customers that saved more than 20% compared to the same two-month period of the previous year.

On the other hand, the new tariff charts include the amount corresponding to the FOCEGAS as a “Fix amount” in accordance with ES Resolutions I-2,407/2012 and I-3,249/2015.

4.4 Provisional Agreement 2016

On February 24, 2016, and within the framework of the public service contracts renegotiation process, as provided by Law No. 25,561 and complementary regulations, the Company signed with the MINEM and Economy and the Ministry of Economy and Public Finances a Provisional Agreement, which provided a temporary tariff schedule for the provision of additional resources to those received by the application of the ENARGAS Resolution No. I-2,407/2012 and for the Provisional Agreement 2014 (“The Provisional Agreement 2016”).

The Provisional Agreement 2016, which is not subject to ratification by the Argentine Executive Power, established a transition tariff schedule as from April 1, 2016, consisting of the re-adjustment of tariffs based on the guidelines required to maintain the service and criteria common to the remaining distribution companies, following the current tariff legislation and including gas price variations at the PIST.

The Provisional Agreement 2016 provided the incorporation of the transfer resulting from changes in tax rules, with the exception of the income tax, which were pending of resolution, and established for MetroGAS a Mandatory Investment. Also, established that, between the dates the agreement is entered into and December 31, 2016, the parties must agree on the modalities, deadlines and timeliness of the signature of the Comprehensive Letter of Understanding of Contractual Renegotiation.

On March 29, 2016, MINEM instructed ENARGAS through Resolution No. 31/2016 to carry out the Integral Tariff Review process as set forth in the Comprehensive Letter of Understanding of Contractual Renegotiation entered into with the Licensees within the framework of Emergency Law, amendments and supplements, which shall be completed within a term no more of one year as from March 29, 2016.

On March 28, 2016, MINEM established, effective from April 1, 2016, through Resolution No. 28/2016 the new prices for natural gas at city gate into the PIST and introduced a discount scheme for residential customers that register the same consumption or savings over 15% compared with the same period on previous year. For lower-income customers unable to pay the tariff charts, a differential tariff denominated “Social Tariff” was established.

Under the terms of the Provisional Agreement, on April 4, 2016, the Official Gazette published ENARGAS Resolution No. 3,726/2016, were approved, effective April 1, 2016, tariff schedules transition to be applied to MetroGAS customers. Through differential tariff, the ENARGAS Resolution No. 3,726/2016, determinate tariff schedules for residential customers with 15% or more saving in their consumption compared to the same period of the previous year as well as those to be applied to customers registered with the registry provided for in ENARGAS Resolution No. I-2,905/2014 with the amendments introduced by the provisions of section 5 of MINEM Resolution No. 28/2016 respect to the Social Tariff.

METROGAS S.A.**ANNUAL REPORT**

As to the Social Tariff, section 5 of MINEM Resolution No. 28/2016 established that a discount of one hundred percent (100%) of the price of natural gas or of propane gas shall be granted to customers included in the register stipulated by ENARGAS Resolution No. I-2,905/2014. On May 6, 2016, through ENARGAS Resolution No. 3,784/2016 the Waived Customers Register was adjusted to the National Government Subsidies Redirecting Policy.

Furthermore, the tariff schedules established to ENARGAS Resolutions No. 3,726/2016 (i) include the amounts corresponding to Fund for Gas Distribution Consolidation and Expansion Works ("FOCEGAS") as a "Fixed Amount", according to ENARGAS Resolutions No. I-2,407/2012 and I-3,249/2015 and (ii) instruct MetroGAS to discontinue the inclusion of amounts resulting from the charge provided for in Decree No. 2,067/2008. Regarding service bills which are issued every two months, MetroGAS was instructed that the collection of the service bills shall be effected as a monthly payment obligation, with two monthly payments each of them equivalent to 50% of the total amount of the bi-monthly bill, thirty days apart one from the other.

Finally, the Resolution stated that MetroGAS may not distribute dividends if the company has not previously proved before ENARGAS the integral fulfillment of the Mandatory Investment Plan.

In relation with the tariffs applicable to users of MetroGAS as well as to the users of the other Distributors these were limited by means of Resolutions MINEM No. 99/2016 and No. 129/2016.

The MINEM Resolution No. 129/2016 modified Resolution No. 99/2016 and instructed ENARGAS to take the necessary measures so that during 2016, the total amount including taxes of the invoices issued by gas distributors across the country to residential customers (R category and subcategories) and SGP customers for gas full service consumption as from April 1, 2016 does not exceed 400% and 500%, respectively, the total amount including taxes of the invoice issued for that same customer in relation with the same invoicing period of previous year. Therefore, invoices shall not exceed 5 or 6 times the total amount billed to that same customer for that same period on previous year.

Additionally, MINEM instructed ENARGAS to adopt the actions required in order to finish before December 31, 2016, the Integral Tariff Review process (mentioned in Section 1 of Resolution No. 31 dated March 29, 2016) to which end the public hearing therein provided for shall be conducted before October 31, 2016.

On July 27, 2016 ENARGAS informed through Note No. 6,877 that as a result of the decision in the case promoted by the Center of Studies for the Promotion of Equality and Solidarity ("CEPIS"), (See Note 2 to these financial statements) and until a final decision is reached in relation with the extraordinary appeal filed by MINEM, the application of ENARGAS Resolutions which implemented the tariff increase, which included ENARGAS' Resolutions No. 3,726/2016 and No. 3,843/2016 would not be feasible.

On August 18, 2016, the National Supreme Court ("C.S.J.N.") admitted the extraordinary appeal filed by MINEM in the CEPIS case and partially confirmed the appealed ruling as to the nullity of Resolutions No. 28/2016 and 31/2016 for residential consumers of natural gas, maintaining for them, and in the most beneficial way, the validity of the social tariff, founded on the absence of public hearings to establish the tariff increases. Therefore, and for residential customers, the tariff schedules established as from April 1, 2016, have been discarded.

METROGAS S.A.**ANNUAL REPORT**

As a result of the CSJN's ruling, steps were taken in order to hold the public hearings required by CSJN for PIST prices and with reference to the temporary Transportation and Distribution tariffs (ENARGAS Resolutions No. I-3,953/2016 and No. I-3,957/2016).

Based on CSJN's Resolution, MINEM issued Resolution No. 152-E/2016 which instructs ENARGAS on how to bill consumptions of residential and SGP customers as from April 1, 2016. On this matter, Resolution No. 3,961/2016 establishes that in order to bill residential customers for consumptions after April 1, 2016, the tariff schedules valid as at March 31, 2016 shall apply, and it repeals Article 1 of ENARGAS Resolution No. I-3,843/16, related to the bonus determined by MINEM Resolution No. 129/2016. Furthermore, ENARGAS issued Resolution No. 3,960/2016, instructing distributors about mechanisms for applying the bonus of MINEM Resolution No. 129/2016 to SGP customers.

After holding the public hearings demanded by MINEM (PIST prices) and ENARGAS (Transportation and Distribution Tariffs) and publishing the Final Report of the hearings (art. 21 ENARGAS Resolution No. 3,158/2005), on October 7 the Official Gazette published MINEM Resolution No. 212 – E/2016 (PIST prices), ENARGAS Resolution No. 4,044/2016 that describes tariff schedules for MetroGAS customers and ENARGAS Resolutions No. 4,053/2016 and 4,054/2016 with the tariff schedules for transportation companies Transportadora de Gas del Norte S.A. ("TGN") and Transportadora de Gas del Sur S.A. ("TGS"), respectively. In this respect, MINEM Resolution No. 212 – E/2016 provides a gradual increase of PIST prices tending to reduce the application of the subsidies provided by the National Government according to a price proposal to be prepared and subject to approval of MINEM by the Secretariat of Hydrocarbon Resources.

ENARGAS Resolution No. 4,044/2016 decided to: (i) declare Public Hearing No. 83 valid; (ii) approve as from October 7, 2016, the new tariff schedules to be applied to customers within MetroGAS license area; (iii) approve as from October 7, 2016, the new tariff schedules to be applied to customers within MetroGAS license area that have a 15% saving or above on their consumption with respect to the same period of the previous year; and (iv) approve as from October 7, 2016, the new tariff schedules to be applied to customers within MetroGAS license area registered with the Registry provided by ENARGAS Resolution No. I-2,905/14 (Social Tariff).

Furthermore, ENARGAS Resolution No. 4,044/2016 provides limits to increases for Residential and SGP users when the total amount of the invoice is above two hundred and fifty pesos (\$250). The difference between the final amount of the invoice plus taxes resulting from the application of the approved tariff schedules, and the amount actually invoiced in accordance with the limits of ENARGAS Resolution No. 4,044/2016, shall be deducted from the invoice issued to the customer in a separate line below the tariff items, under the heading "Bonus Res. MEyM No. XX/16". The sum of those bonuses shall be applied as a discount over the prices to be invoiced by the gas suppliers of the gas distribution companies. Such discount shall be applied proportionally by all gas suppliers based on the volume of gas provided to the distributor. In line with the provisions of ENARGAS Resolution No. 3,726/2016 the monthly invoice is maintained and the Mandatory Investment Plan ratified.

Finally, on October 31, 2016, ENARGAS approved valid as from October 7, 2016 the tariff charts corresponding to the category "Social Welfare Institutions" (ENARGAS Resolution No. 4,092/2016) under the terms of MINEM Resolution No. 218 - E/2016 and Law 27,218 which established the Specific Utilities Tariff Regime for Social Welfare Institutions.

Considering the aforementioned, the real impact will depend on a variable beyond the Company's control, which is the reduction in consumption customers may have, which also will

METROGAS S.A.**ANNUAL REPORT**

not only depend on their individual actions aimed at reducing the use of gas, but also on the effects of weather factors among others on the compared periods.

The Company hopes to reach a consensus with the National Government regarding the modalities, terms and timing of the signing of the Letter of Understanding for a Comprehensive Contract Renegotiation, so as to improve its economic-financial situation. In line with this process, on November 16, 2016, ENARGAS instructed the organization of a public hearing in order to consider a) MetroGAS' Integral Tariff Review; b) amendment proposals, prepared by ENARGAS, to the Transportation and Distribution Service Regulations approved by Decree No. 2,255/92 and, c) the methodology of six-month adjustments.

At the date of issue of these financial statements, and having published of the Closing Report of the Public Hearing, ENARGAS will expected to issue during the first half of 2017, a Final Resolution with the tariff schedules that will result from the analysis made by ENARGAS within the framework of the Integral Tariff Review, in compliance with Article 38 of Annex I of Decree No. 1,172/2003 and Resolution ENARGAS No. I-4,089/2016, Annex I, Chapter III, Article 24.

4.5 Temporary Economic Assistance**4.5.1 Resolution ES No. 263/2015**

On June 8, 2015, the Official Gazette published ES Resolution No. 263/2015 whereby ES approved the allocation of funds of 711 million as a temporary economic assistance to be paid in ten consecutive installments in benefit of MetroGAS and the rest of the natural gas distributors effective as from March 2015, in order to cover expenditures and investments related to the regular operation of the natural gas public service and in advance for the Comprehensive Tariff Revision to be carried out in due time.

Said Resolution establishes that the beneficiaries shall assign a portion of the funds received by each of the monthly installments to cancel unpaid past due debt as of December 31, 2014 with natural gas producers, moreover, that distributors would not take more debt resulting from the purchase of natural gas after the mentioned Resolution has become effective.

In the case of MetroGAS, ENARGAS established a need for exceptional for the year 2015 disbursable monthly according to the schedule between the months of March and December. Also was established that the company shall assign a portion of the temporary economic assistance to cancel debt with producers due at December 31, 2014 in 36 monthly, equal and consecutive installments, plus interest, as from January 2015, calculated using the current "Average Active Rate of Banco Nación for Commercial Discount Operations" (2.05 % monthly rate), and starting to pay the installments on March 2015.

Furthermore, ENARGAS considered that distributors shall be proceed to cancel gas purchase invoices with maturity during 2015, estimating payments within 30, 60 and 90 days in line with the perception of invoices by clients.

At the date of these consolidated financial statements, MetroGAS has received the temporary economic assistance mentioned. Also has entered into payment agreements with the producers in terms of ES Resolution No. 263/2015, and regular payments have been made.

METROGAS S.A.**ANNUAL REPORT****4.5.2 Resolution MINEM No. 312 – E/2016**

On December 30, 2016 MINEM Resolution No. 312 - E/2016 was published in the Official Gazette providing a temporary economic assistance to Licensees of Natural Gas distribution Service by networks for the period April – September 2016, in order to be able to afford compulsory investments established (for MetroGAS) in ENARGAS Resolutions No. 3,726 and No. 4,044, and the payment to gas producers; all of this on account of the Comprehensive Tariff Review.

According to the terms of the Resolution, the allocation of amounts assigned to MetroGAS of 759,200 shall be applicable as long as , according to the ENARGAS, the economic-financial situation of the Company that resulted in the temporary economic assistance is maintained; taking into account the availability of funds to fulfill its investment obligations and payments to gas producers.

In order to issue the funds of the temporary economic assistance, MetroGAS shall submit to the ENARGAS an affidavit – under the terms of ENARGAS Note No. 106/2017- about the purpose to which the required amounts shall be put. According to ENARGAS’ instructions, should the affidavits be in line with the provisions of Resolution MINEM No. 312 – E/2016, they shall be forwarded to the Secretariat of Hydrocarbon Resources reporting to MINEM to provide the transfer of the assistance. Furthermore, the Resolution provides that Licensees shall not be able to distribute dividends under the terms of MINEM Resolution No. 31/2016.

5. FINANCIAL DEBT**5.1 Negotiable Obligations**

As a consequence the mandatory debt exchange made on January 11, 2013, within the framework of reorganization proceedings requesting on December 2010 (the “Reorganization Proceedings”) MetroGAS issued the Series A and Series B Notes with maturity on December 31, 2018 (the “Notes”). Also, the Notes were issued to be delivered to any new unsecured creditors after their claims have been allowed pursuant to a judgment entered under the Reorganization Proceedings.

Said Notes had accrued a fixed interest rate of 8.875%. Interest is payable semiannually on June 30 and December 31 of each year. MetroGAS exercised its option to capitalize interest up to 100% as of June 30, 2013, and up to 50% as of December 31, 2013 and June 30, 2014.

Having the limit date (June 30, 2014, in accordance with the terms of the Trust Agreement), and no Triggering Event has been produced Series B Notes, which represented the withdrawal of the agreement with creditors under the Reorganization Proceedings, were canceled.

As of December 31, 2016, MetroGAS’ financial debt consists mainly of Series A Notes.

Under the terms and conditions for the issue of Notes, the Company and its subsidiaries shall comply with a series of restrictions which, among others, and in general terms, are those listed below.

- Incur or guarantee any debt;
- Make any restricted payments, including any payment of dividends;
- Effect any sale of assets;

METROGAS S.A.
ANNUAL REPORT

- Make investments of any kind;
- Carry out sale and leaseback transactions;
- Carry out transactions with related companies;
- Create or assume any liens;
- Make any mergers or consolidations; and
- Make any sale or lease all or substantially all their respective assets.

No event of default has occurred as of December 31, 2016.

During the fiscal year 2016, MetroGAS paid semiannual interest.

5.2 Related parties

On December 12, 2013, the Board of Directors of MetroGAS unanimously approved a contract with YPF S.A. (“YPF”) where YPF granted MetroGAS a “Non-Committed” credit facility for up to 180,000 for a period of 180 days as from the date of the proposal. This credit facility has a BADLAR cost plus an annual 6% spread and MetroGAS was entitled to request any drawdown as it deemed necessary up to the maximum amount of the credit facility and for the above mentioned period, and to make partial or total advance payments without penalty. Finally, an annual 10% default interest will be applied in the event of default. On February 26, 2015 an extension was granted for 365 days counted from its corresponding due dates in the same conditions, limiting the amount to 140,000. Dated February 25, 2016 and April 18, 2016, new extensions were granted being the new due dates of February 27, 2017, for the first drawdown request, and April 21, 2017 for the second. As of December 31, 2016, the Company has taken 90,000 and has capitalized interest by 36,043 of this credit facility.

6. REGULATORY FRAMEWORK

Natural gas distribution is a public service and therefore a regulated activity. ENARGAS, under the terms of the Gas Law, is the enforcement authority and its jurisdiction is extended to transportation, sale, storage and distribution of natural gas. Within its sphere of responsibilities, according to what is expressed in the Gas Law, the ENARGAS has to protect customers, pay attention to competition in the natural gas supply and demand and encourage long-term investments in the industry.

6.1 Unbundling of Natural Gas

Due to regulatory changes that have been made to the natural gas sector since 2005, the so called “natural gas unbundling” process took place, by which different categories of users had to purchase natural gas volumes at the PIST directly from producers and/or sellers of natural gas, leaving the regional distribution companies limited to exclusively give transportation and or distribution services of natural gas.

Additionally, and in the same year, a Mechanism for Assigning Natural Gas to CNG stations was established, by which CNG stations get natural gas by means of a mechanism of periodic assignments of natural gas volumes in the Electronic Gas Market (“EGM”).

In this context, in 2005 MetroENERGÍA was constituted by MetroGAS as a natural gas trading company with the aim of keeping the highest amount of customers possible and count on a proper tool in accordance with the new scenario where the Company had to perform.

METROGAS S.A.**ANNUAL REPORT**

MetroENERGÍA was authorized by the ENARGAS to act as a natural gas trading company and or gas transportation company, and is registered as agent of the EGM.

Actions taken by MetroENERGÍA since its formation made it possible to retain most of the industrial and commercial customers duly contemplated in the “unbundling” process of the Company’s area, thus being able to maintain the participation of these categories of customers within MetroGAS’ sales portfolio.

On April 1, 2016, through Resolution No. 34/2016, the MINEM ordered a new arrangement for the supply of CNG stations establishing the obligation regarding these users to purchase natural gas for supply to the distributor of its area or range so that they provide full service (gas, transportation and distribution).

MINEM Resolution No. 212 – E/2016 established new PIST prices for natural gas destined to the GNC filling stations effective from October 7, 2016. As a consequence, through ENARGAS Resolution No. 4,044/2016, new tariffs for GNC users were approved among others.

6.2 Complementary Agreement with Natural Gas Producers

On January, 2004, Decree No. 181/04 authorized the ES to negotiate with gas producers a price adjustment mechanism to supply industries and electricity generation companies. In this context, through MPFIPyS Resolution No. 208/2004 approved the “Agreement for Implementing the Schedule for the Normalization of Natural Gas Prices at Points of Entry into the Transportation System by Decree No. 181/2004”, signed on April 2, 2004 between the ES and natural gas producers.

On June 14, 2007, the Argentine ES published Resolution No. 599/07 in the Official Gazette approving the proposal for the “Agreement with Natural Gas Producers 2007-2011” (“Agreement 2007-2011”). The Agreement establishes the volumes to be injected at the PITS by natural gas producers prioritizing mainly the supply of residential demand and CNG through redirection mechanisms and additional demands. Also, the parameters of the natural gas price adjustments in a staggered form.

In accordance with the Agreement 2007-2011, producers and distribution companies had to enter into gas purchase and sales agreements reflecting the provisions included therein.

The Company did not enter into any of these agreements at the appropriate time because it understood that the offers received from the producers neither comply with the terms and conditions of the Agreement 2007-2011, nor would allow MetroGAS to guarantee the supply of natural gas to the Company’s consumers on an uninterruptible basis considering the volumes included in said offers.

On October 4, 2010, ENARGAS Resolution No. 1,410/2010 was published in the Official Gazette (later clarified by ENARGAS Note No. 13,934), which approved new rules named “Procedure for Gas Applications, Confirmations and Control”, which shall be complied with by certain participants of the natural gas industry, including natural gas distribution companies, with an impact on daily natural gas nominations, transportation and distribution.

The ENARGAS Resolution No. 1,410/2010 was issued aiming at complementing delivery standards in force in face of demand and transport capacity that were higher than natural gas offer and at preserving the operation of transport and distribution systems giving priority to the consumption of the urgent demand: residential customers, complete service customers (natural

METROGAS S.A.**ANNUAL REPORT**

gas, transportation and distribution is sold to them) and complete-service sub- distributing companies.

Once the Urgent Demand is met, producers will have to confirm volumes requested by the rest of the segments according to what is stated in the paragraph above, in the following order: 1) Natural Gas Stations, 2) uninterruptible customers (Unbundling), 3) i) Large Users, ii) Treatment Plants in and out of the system, and iii) Power Plants (according to Note ES No. 6,866/09) and 4) Exports.

On January 5, 2012, was published in the Official Gazette the ES Resolution No. 172/2012, which extended the effect of the ES Resolution No. 599/2007 for the allocation of natural gas volumes through transportation routes and basins based on the different categories of customers until the issuance of any new resolutions on that regard, which has not occurred at the date of issuance of these financial statements.

ES Resolution No. 599/2007 and ENARGAS Resolution No. 1,410/2010 have been complemented by MINEM Resolution No. 89/2016 that established natural gas volumes to be requested by distributing companies to meet the Prior Demand and by ENARGAS Resolution No. 3,833/2016 regarding the Procedure for Natural Gas Requests, Confirmations and Control.

Under the terms of MINEM Resolution No. 89/2016, a process of standardization of agreements was started; based on that MetroGAS entered into different agreements with gas producers, either from the Austral basin, or the Neuquina basin. These contracted volumes work out volumes from ENARGAS Resolution No. 1,410/2010 not only for the producer but also for the distributing company. Contracted volumes based on MINEM Resolution No. 89/2016 are paid by distributing companies at a price settled by the Ministry of Energy and Mining.

On October 6, 2016, the MINEM issued Resolution No. 212 – E /2016 and fixed a price path for natural gas, stipulating natural gas value on a gradual and biannual basis up to October 1, 2019 (for MetroGAS' License area)

6.3 Incentive Policies

Various schemes have been fostered by the National Government, to boost the natural gas industry which, although initially do not have any direct impact on MetroGAS or impose any obligations on the company, might actually have favorable consequences considering that one of their main objectives is to increase the injection of natural gas. The various schemes include: (i) the Gas Plus Program, regulated by ES Resolutions No. 24/08, No. 1,031/08 and No. 695/09; (ii) the Program to Encourage the Surplus Injection of Natural Gas, regulated by the Strategic Planning and Coordination Committee under the National Hydrocarbon Investment Plan No. 1/13, No. 60/13 and No. 185/15 and (iii) the Program to Encourage New Natural Gas Projects, regulated by Resolution No. 74/2016 of MINEM.

6.4 Trust Fund

As of the date of issuance of these financial statements, MetroGAS must invoice, collect and settle two specific charges, allocated differently. The Company carries this out on behalf of Nación Fideicomisos S.A. as fiduciary.

The specific charge I (ruled by Decree No. 180/2004 issued by the PEN, and related regulations) and the specific charge II (ruled by Law No. 26,095 and related regulations) are supported by the whole pool of users of the natural gas service other than the residential

METROGAS S.A.
ANNUAL REPORT

segment and are applied to the payment of infrastructure works for the expansion of the natural gas system of transportation.

It is important to point out that none of these two specific charges invoiced and collected by MetroGAS is incorporated to the Company's assets. On the contrary, once received, the Company is required to deposit them into the trust fund accounts designated from time to time by the Fiduciary, thus ending MetroGAS' actions in respect thereof.

6.5 Municipal rates

The regulatory framework in force and duly applicable to the distribution of natural gas contemplates to pass through to tariffs all new rates or levies or rate increases, and under certain circumstances, the free use of public space for purposes of laying natural gas pipelines.

As of the date of issuance of these financial statements the Company cannot pass through to its tariffs any payments made in respect thereof to certain municipalities in the Province of Buenos Aires and to the City of Buenos Aires, which as December 31, 2016 accumulated the sum of 355 million.

The Company is still negotiating the pass through of these rates to tariffs in accordance with the Provisional Agreement approved, described in item 4.3.

6.6 Regulatory Authority

The ENARGAS intervention originally stated by Decree No. 571/2007 for a 180 day-term was successively extended for equal periods; the last one was by means of Decree No. 844/2016 published in the Official Gazette on July 13, 2016.

By means of the same decree, the MINEM was requested to start the selection process for choosing the members of the Board of ENARGAS for the total number of positions. As stipulated in articles 53 and 54 of the Gas Law, the Board shall be composed of a President, a Vice-president and three members of the Board who shall be removed from their positions on a gradual basis. MINEM Resolution No. 142-E/2016 appointed the members of a Selection Committee that shall assess candidates and stipulated the deadline for the assessment of those candidates. In this way, a proposal was sent to the MINEM to be taken into consideration, but it has not been solved yet.

7. CORPORATE GOVERNANCE

MetroGAS complies with good practices of corporate governance, respecting principles such as total and full information, transparency, efficiency, protection of the investment parties, equal treatment among investors and protection of the stability of the entities and financial brokers.

Within the Company's Board of Directors, MetroGAS has an Audit Committee, composed of three independent Directors, thus the Company complies with local and international provisions in force related to this matter. The Board approved, among other measures related to the Corporate Governance, the Ethics and Conduct Code, the Fraud and Dishonest Practices Policy and the channel of anonymous complaints.

Furthermore, and in the terms of the recommendation established by the Corporate Governance Code the Company created the Compensation Committee.

METROGAS S.A.
ANNUAL REPORT

7.1 Authorities

At MetroGAS' Shareholders Meeting and Board Meeting, on April 29, 2016, Mr. Marcelo Adrián Núñez as Company President, was appointed as non-independent member. Mr. Alejandro Héctor Fernández was appointed Vice-president, subsequently resigned as Director and Vic-President of the Company, for personal reasons. On September 27, 2016, the Board accepted his resignation and Mr. Patricio Da Re assumed, in his place as Vice-President of the Company.

7.2 Decision Making and Internal Control System

The Company encourages delegation of authority, thus allowing quick and efficient replies to every activity, at the same time there is a clear and explicit definition of the scopes of such delegation by setting limits of approval implemented in a systematized way, which minimize risks.

Furthermore, MetroGAS has an Internal Audit area whose mission is to guarantee the Board of Directors, the Audit Committee, the Directorate Committee and the managerial level of the Company that there are effective and efficient processes of internal control to identify and handle the business' risks.

The existence of standardized processes, administrative proceedings, fluid communications, regular issues of reports on management planning and control, performance assessments, within the framework of policies set by the Directorate Committee, consolidate the internal control system, give reasonable certainty of achieving objectives, provide reliable financial information and ensure the compliance of regulations in force.

7.3 Policy of Compensation to the Board of Directors and to Managerial Staff

Compensation to the Board of Directors is fixed by the Ordinary Meeting of Shareholders.

Compensation to the CEO and to Executive Directors who report to him is fixed by the Compensation Committee conformed by three independent members of the Board, with the aim to look after the fulfillment of policies.

As of December 31, 2016, the compensation policy for managerial staff consists of a monthly fixed payment and a variable payment based on the fulfillment of objectives fixed on annual basis. The compensation policy neither provides for option plans over the Company's shares nor for long-term incentives.

7.4 Comprehensive Risk Management

The Company counts on a Business Risk Management Policy aligned to the best practices of risk management. It has a Management Risk Committee conformed by Executive Directors of the Company and the Internal Audit Director. This Group is the ultimate responsible for the monitoring and implementation of the present policy.

On a quarterly basis, the Audit Committee analyzes changes to business and fraud risks and reports to MetroGAS Board of Directors on any critical aspects related to risks management.

METROGAS S.A.**ANNUAL REPORT****8. DESCRIPTION OF OPERATIONS****8.1. Commercial Policy, Company Financial and Investment Planning**

According to the economic context and provisions issued by the National Government which include the modification of the standards regulatory framework, MetroGAS decides as long as it is financially viable, to focus its efforts on ensuring the business continuity, keeping the quality and reliability of all gas supply, complying with the License's basic rules, and finally based on the results of the renegotiation of the License Agreement, MetroGAS is going to define its new strategy towards the future and matters such as company planning, commercial policy and development of the investment plan.

As from the change of Government produced in December 2015, during 2016 began the process of Integral Tariff Review aimed at the normalization of the regulatory and tariff framework of the Company that will establish the bases and regulations for business development during the coming 5 years. As of the date of these financial statements, the Company has not signed the Integral Contract Renegotiation Agreement.

8.2. Gas purchase and transportation

In order to meet gas supply needs for full service users, until April 2016 MetroGAS requested daily only through the mechanism established by ENARGAS Resolution I/1,410/2010.

Since May 2016, from the instructions received from ENARGAS, a process of contractual standardization began, from which MetroGAS signed several contracts with gas producers in both the Austral and Neuquina basins. These contracted volumes deduct values from Resolution 1.410/2010 for both the producer and the distributor, in accordance with the provisions of Resolution No. 89/2016 of the MINEM.

In this manner MetroGAS is ensured a delivery of the gas volumes that it requires to supply its full service customers and at prices that it will subsequently be able to pass on to customers, through contracts with producers and, in addition, through the allocation of volumes defined by Resolution No. I/1.410/2010.

The prices that producers charge for delivered gas volumes are regulated and defined by the MINEM, which has established the prices currently in effect by Resolution No. 212/2016 of October 6, 2016 for the different categories of users.

On October 6, 2016, ENARGAS Resolutions No. I/4,053/16 and No. I/4,054/16 were published, which established a new tariff scheme to be applied to TGS and TGN as from April October 7, 2016.

In January 2016, MetroGAS made use of the option of not renewing 4.3 MMm3 of the firm transportation capacity contracted with TGS in the Neuquén GBA transport route that became effective on May 1, 2016. The TGS and TGN firm transport contracts are in force until April 30, 2017 with annual automatic renewal.

As of December 31, 2016, firm transportation capacity contracted up to the City Gate of MetroGAS' service area amounts to 19.49 MMm3/day, being 16.71 MMm3/day over TGS system and 2.78 MMm3/day over TGN system.

METROGAS S.A.
ANNUAL REPORT

8.3 Customers and Market

The Company's sales are highly influenced by Argentina's weather conditions. Demands for natural gas and as a result, MetroGAS' sales, are considerably higher during winter time (May to September) due to volumes of gas sold and the tariffs mix that affects sales profits and net margin.

A summary of the Consolidated Statements of Profit and Loss and Other Comprehensive Income for fiscal years ended on December 31, 2016 and 2015 is included below in order to reflect MetroGAS' seasonal variation of sales and its level of annual profitability.

2016 (thousands of pesos)					
For quarters ended on					Total fiscal year
	03-31	06-30	09-30	12-31	
Revenues	1,007,495	2,088,460	2,888,353	2,053,895	8,038,203
Gross profits	44,387	535,304	349,517	204,714	1,133,922
(Loss) Gain Operating income	(207,664)	170,549	(51,413)	465,880	377,352
(Loss) Income before income tax	(579,452)	(98,299)	(224,741)	231,557	(670,935)
Net and comprehensive result for the period/year	(586,123)	(95,533)	(205,053)	282,301	(604,408)

2015 (thousands of pesos)					
For the quarters ended on					Total fiscal year
	03-31	06-30	09-30	12-31	
Revenues	774,442	1,138,100	1,481,794	1,233,021	4,627,357
Gross Profits	178,832	83,936	294,584	316,269	873,621
(Loss) Gain Operating Income	(13,178)	221,143	241,573	204,844	654,382
(Loss) Income before income tax	(115,162)	36,444	86,646	(486,760)	(478,832)
Net and comprehensive result for the period/year	(119,464)	25,246	78,621	(545,111)	(560,708)

As mentioned above, MetroGAS provides distribution service to approximately 2.3 million customers within its service area, approximately 61% of which are in the Autonomous City of Buenos Aires ("CABA").

Sales to residential customers during 2016 and 2015 totaled 28.3% and 26.9%, of sales volume, respectively, and approximately 33.7% and 42.1% of net sales.

MetroGAS gas sales to residential customers increased by 39.3%, from Ps. 1,947,228 thousand to Ps. 2,712,024 thousand for the year ended on December 31, 2015 and 2016, respectively, mainly due to an increase in tariffs for the year ended December 31, 2016, as compared to the previous fiscal year, according to The Provisional Agreement described in 4.4.

MetroGAS strongly depends on its sales to electric power plants to maintain a high utilization of its firm transportation capacity (Load Factor), especially during warmer months, when

METROGAS S.A.**ANNUAL REPORT**

residential consumption is reduced. Among its customers MetroGAS has electric power plants with 22.1% of the total thermal power generated in the country's wholesale electricity market.

The growth of electric demand initiated in 2003 continued during 2016; however, the gas-based dispatch from MetroGAS's thermal generation park decreased by 1.53% with respect to 2015, due to an increased dispatch on the basis of liquid fuels on the grounds of new criteria adopted by Compañía Administradora del Mercado Mayorista Eléctrico S.A. ("CAMMESA") ended year 2013 in its consideration of actual costs of different fuels, for purposes of obtaining an optimal dispatch and minimizing operating costs.

Sales of the transportation and distribution service to electric power plants accounted for 36.5 % and 37.1% of delivered gas volume in 2016 and 2015, respectively.

Gas sales and sales of the transportation and distribution service to industrial and commercial customers and to public entities accounted for approximately 18.6% and 17.0% of the Company's sales volume in 2016 and 2015 respectively.

As from July 2013, MetroGAS discontinued the processing of natural gas to obtain hydrocarbons at the General Cerri plant. Subsequently, for the period August-December 2013, an agreement was reached with TGS to assign those hydrocarbons at the head of the TGS gas pipeline in Exchange of a monthly rate. This agreement has been renewed for the period July-April 2014 and was again renewed from May 2015 to April 2016. As from May 2016 this agreement was not renewed.

During 2016 all supply contracts with industrial customers, which expired during that same year, were renewed. According to preventive measures taken in the face of winter, the policy developed to date of the options that allowed a more operational flexibility in the face of potential supply difficulties, extending this concept to all contracts to be renewed during that year.

In line with the objectives set for this year, and regardless of existing external conditions that affect MetroGAS' operations, the Company has been able to continue in good terms with big industrial customers as well as in the market of Small and Medium sized Companies ("PYMES") and of commercial customers. Natural gas demand for these clients' segments was maintained as a result of general market conditions.

The CNG market represented approximately 7.5% and 7.7% of the Company's sales volume during 2016 and 2015, respectively. Starting with Resolution No. 34/2016 of the MINEM the supply of CNG stations establishing the obligation regarding these users to purchase natural gas for supply to the distributor of its area or range so that they provide full service (gas, transportation and distribution), leaving aside unbundling for this segment of users from May 1, 2016.

MetroENERGÍA gas sales during the year ended on December 31, 2016 amounted to Ps. 3,047,247 thousand as compared of the previous fiscal year amounted to Ps. 2,267,888 thousand, represented 37.9% and 49.0% of the Company's sales volume. This increase was mainly due to an increase in average prices, partially offset by a decrease in delivered volumes by 24.5%.

METROGAS S.A.**ANNUAL REPORT****8.4 Operation of the distribution system**

The economic situation of MetroGAS', has still been strongly conditioning the Company's operating activities; for this reason, the Company, has continued managing its resources in order to prioritize the distribution system's security.

During 2016, approximately 9,442 new services were installed, maintaining similar amounts to those recorded in 2015. As regards works financed by third parties, the Company controlled the construction of 141.50 Km of distribution networks.

Within the assets integrity program the Company continues to assess the 22 bar pressure system as a consequence of certain incidents that took place in 2007 and 2009, the result of these evaluations of the mentioned pressure system, defining from that results, a strategy for which will make it possible, for the next year, a) to reestablish the operating pressure of the 22 bar system, pressure that in some of its parts that had been reduced between a 15% and a 20% as a preventive measure, b) to solve and replace the necessary parts recommended in the assessment and c) to continue with confirming evaluations for the rest of the system.

Aiming at improving the Company's low-pressure system operation, through a quicker and stricter control of supply pressures, MetroGAS implements the "Tele-control of Profiling Units in Regulating Stations". In this way 80% of the total of the pressure regulating stations of the Company's low-pressure system has telecontrol profiling units to control pressure and besides counts on 64 extreme points with telemeasurement.

Moreover and complying with the new regulation issued by the ENARGAS for gas transmission lines (Part O NAG 100), MetroGAS continued with the base assessment, of the transmission lines, giving priority according to risks implied, which involved a series of preventive maintenance activities such as: replacement type DCVG (Direct Current Voltage Gradient) and CIS (Close Interval Survey) and a direct inspection of the mains.

Regarding corrective maintenance of the system, approximately 8,242 residential services have been replaced, among other actions intended for short-term maintenance of the distribution system.

The emergency call center registered an annual volume of approximately 59,282 claims, mainly about gas leaks, from which about 5,238 were classified by the Company as high priority.

Surveys have been carried out in 15,376 km of our low, medium and high pressure networks, complying with the standards required.

8.5 Capital Investment

The Company has optimized its capital investments, reducing them to levels that are compatible with the business continuity and the supply of a safe service in a short term. Detailed information on this issue is found in Notes 10 and 12 Properties, plant and equipment and Intangible Assets, respectively, of these consolidated financial statements.

8.6 Customer care and Services

During 2016, there were many regulatory changes regarding tariffs applicable to the segment of Residential users, which highly impacted on the area of Customer Care and Service.

First of all the ENARGAS issued Resolution No. 3,726/2016 by which it approved the enforcement of new tariff schemes as from April 1, 2016. After that, as a consequence of a

METROGAS S.A.**ANNUAL REPORT**

collective writ of protection filed before the Court by CEPIS, tariff schemes stipulated by the above mentioned Resolution were suspended by a precautionary measure. For this reason, all invoicing as from the month of July was suspended and it was resumed as from September 16 when, after the ruling of the CSJN as regards the CEPIS, the matter was finally settled.

In the face of a tariff raise there was an increase in our customers' demands through all our different service channels (Commercial Offices and Call Center), but afterwards, when tariffs increase was suspended, demands from our customers decreased during the rest of the year and resources were used to lower the number of accumulated claims.

Moreover, through ENARGAS Resolution No. 3,726/2016, the Company implemented a Social Tariff Scheme set forth by MINEM Resolution No. 28/2016 that replaced the Register of Exceptions to the Policy of Redirecting Subsidies from the National Government set forth by ENARGAS Resolution I /2,905/2014. Up to this date there are 445,000 users who get the Social Tariff and we are still getting requests from customers to get this tariff either in a direct way or through the ENARGAS.

While the project to change the commercial system regarding customer care and service is in progress, a number of improvements have been made within the framework of the project of Channels Strategy in order to make customer service run more efficiently: i) change of ownership through our Web, ii) opening of a new commercial office in Monte Grande, iii) improvements in our Web page for inquiries about tariffs and invoices, iv) extension of collecting channels, enabling customers to pay with credit card in 4 installments without interests, v) installation of self-consultation terminals in Commercial Offices.

Although the total annual growth of calls at our Call Center was lower than 2%, the increase of inquiries about tariffs during specific periods, made a negative impact on the indicator not allowing for a recovery during the rest of the year.

During 2016, customers with a bimonthly consumption started to pay on a monthly basis, dividing the invoice in 2 equal installments with due date on two periods; as a consequence there was not only a higher financial cost but also a higher administrative complexity.

8.7 Human Resources

Company headcount as of December 31, 2016 totals 1,176 employees, from which 5 of them belong to MetroENERGÍA and 68 have a fixed employment contract.

During 2016 the Company granted salary raises according to the market's average salary.

Modifications were made to the 2016 Performance Assessment process with the objective of optimizing this people management tool being implemented for the first time with ad hoc computer support.

The Directorate Committee worked on the process of Potential Assessment of Managers and Heads of departments, in order to update the Talent Mapping of the Company.

Regarding Internal Communications we should point out the Program "Cerca de Nuestra Gente" (Close to Our People), aimed at generating a regular exchange of communication among the Human Resources Department and leaders from other departments with the Company's personnel.

METROGAS S.A.**ANNUAL REPORT**

Employment Management emphasized the use of the social network for professionals, LinkedIn, as a recruiting tool, which in addition, makes MetroGAS more visible as an employment company.

The process involving internal recruiting was strengthened; then it was possible to fill 70% of the vacancies with the Company's own personnel, thus fostering our collaborators' development.

As regards the filling of leadership positions from the last 3 years it was 90% aligned with the identification expressed in the Replacement Program.

The search for professionals of the technological, technical and engineering areas was sustained.

Development activities were aimed at the continuity and follow up of Individual Development Plans. The 2015/16 Program for Leaders Development was continued addressed to Heads of Department and Supervisors.

Finally, a Virtual Learning Platform was implemented making it easier for the personnel to access educational content and the first part of a Technical Formation Program was developed, counting on mixed participation of the Company's own personnel and outsourced services, with the objective to strengthen competences within the areas of Safety and Technical Operations.

8.8 Health, Safety and Environment

During 2016 the Company reviewed and modified the Policy of Safety, Occupational Health and Environment in order to keep its commitment focused on the continuous improvement, aligned with the criteria set forth by YPF.

In order to comply with CABA Law No. 1,346, the Company carried out Evacuation Drills at all its offices located in the Autonomous City of Buenos Aires. Additionally the corresponding reports were submitted at Civil Defense.

The Company complied with Law No. 14,108 and its Regulatory Decree No. 801/141 about the creation of Mixed Committees of Health and Safety in the Province of Buenos Aires.

MetroGAS and the Workers Union from the Gas Industry ("STIGAS") had already created this committee at the beginning of the Company's activities, for this reason, they continued holding meetings, with their corresponding minutes so as to comply with the appropriate legal demands.

The Company has complied with all items required in the Program of Fatal Accidents Reduction (OCS Resolution-Occupational Risks Superintendence- No. 1,721/2004) related to the accident occurred with people from Inarteco S.A. on 459 Montes de Oca Avenue on August 3, 2016.

Furthermore, work with Contractors, STIGAS, Operational Sectors and ART (Workers Compensation Insurers) was intensified in order to minimize risks mainly associated to escape and emergency work, thus reaffirming MetroGAS commitment to safety and to preventing fatal accidents, such as the mentioned one.

According to the corporate objective to maintain the Certification of ISO Standards 14001:2004 and OHSAS 18001:2007 the Company carried out a number of activities so as to maintain the implementation of the Management System by means of internal audits.

METROGAS S.A.**ANNUAL REPORT**

As a result of a high level of compliance, the said standards were recertified by means of the external audit made by IRAM (Certifying Body) during October 2016.

In this way MetroGAS not only reasserts its commitment with the Safety, Occupational Health and Environment Policy (“SSOMA”) but also ensures a solid and consistent management as regards this issue focusing on an ongoing improvement.

The Company complied with Standard NAG 153 (Minimum Argentine Standards for Environmental Protection in the Transportations and Distribution of Natural Gas and Other Gases through Pipes) by means of the following activities:

- ✓ On August 31 and September 1, 2, and 5, 2016 the third Environmental Triennial Audit was performed by an External Consultant.
- ✓ On December 22, 2016 the Annual Environmental Drill stipulated by this standard was carried out aiming at timing access to the Buchanan City Gate by an alternative route.

The Program “MetroGAS+Verde” started to be implemented. This program has different stages. It was launched and it became known with the implementation of green stations located in all the buildings of the Company in 2016. According to this program, MetroGAS delivers all recyclable waste to El Trébol Cooperative, designated to Barracas neighborhood by the G.C.B.A..

8.9 Institutional Relationship

The Company continued with its communication strategy with its key audience focusing on consolidating all MetroGAS’ positive characteristics. As part of this, a public opinion survey was done by Sergio Berensztein consultancy. Its results were very significant. MetroGAS is better positioned than other public utility service companies and has a better image than the local governments Municipalities: it gets an average of 7.1 points. Half of its customers (48%) gives the Company 8 to 10 points.

During 2016 there was a change of Government, for this reason MetroGAS intensified its relationship with municipal authorities related to the service area. The objective was to generate or maintain a direct bond about points of interest between both parties. For that effect, the Company implemented a reconciliation plan with each Mayor by means of proactive meetings about needs assessment and submittance of corporate information. In addition, the program of training activities that MetroGAS develops about the prevention of monoxide related accidents together with personnel from the Federal Superintence of the Fire Brigade of the Argentine Federal Police, ENARGAS, and the Metropolitan Police was presented. During 2016 more than 1,000 people from the voluntary Fire Brigade, Civil Defense, Communal Police, hospitals, schools, and other institutions were trained. In addition, Firefighting Workshops were given at MetroGAS’ Technical Training Center to different safety areas.

As regards the institutional framework, the Company consolidated its presence at the Council of Communications Directors (“DirComs”), the Professional Council of Public Relations of the Argentine Republic, the IDEA Colloquium, the Argentine Business Council for Sustainable Development (“CEADS”), and the Argentine Petroleum and Gas Institute (“IAPG”). Besides, the Company worked on strengthening its bond with the media through its spokesperson at different events with the media and through the management of meetings with the press, street reporters and producers with the objective to spread news of interest for the Company: Internal Connections, Carbon Monoxide, Customer Care and Service, safety protocols during incidents at public spaces, among others.

METROGAS S.A.
ANNUAL REPORT

8.10 Community Service Activities

During 2016, MetroGAS continued working according to its renewed Sustainability strategy re-launched in 2015. By means of specific activities, it based its work on three main axes: education, safety and environment. These pillars constituted the foundations for a long term project focused on three levels of execution: the person, the family and the community aiming at fostering a cultural change as regards the safe use and responsible consumption of natural gas. As a consequence of joining these two variables there arises a more effective course of action that ensures the integration of each program into the sustainability strategy and into the business vision of the Company.

Under this triennial work plan, projects at great local impact were developed:

a) Level person:

- Training to students and teachers from Technical Schools: Workshop “Instalando Calor Seguro” Addressed to students at their last year of technical schools, given by Corporate Volunteers. Organized together with “Fundación Loma Negra” and “Asociación Conciencia” and Workshops of “Formación de Formadores”. (Training trainers).
- Program of Professionalizing Practices: New program for technical schools from the City of Buenos Aires, organized together with “Fundación Educativa Bachillerato Internacional Bélgica”.

b) Level Family

- Workshop “Hogar Cálido Hogar”: Forum theater play addressed to 7 to 9- year old children, organized together with the “Asociación Civil Circuito Cultural Barracas” (Barracas Cultural Civil Association). Its plot is focused on the importance of having a correct gas connection and on the function of the registered gasfitter. (www.metrogas.com.ar/hogarcaldohogar).

c) Level Community

- Program to get closer to communities,
- Training Program for communal police.
- Educational Program for firefighters, security forces, and civil defense groups, in charge of emergencies. .
- Corporate Volunteer Program: re-launched in 2015 and which continued during 2016. More than 10% of MetroGAS’ population has participated in at least one activity.

9. DIVIDEND POLICY

In the past, subject to the Company’s results and other relevant factors, the Board of Directors of MetroGAS recommended to pay dividends, during the last quarter of each year on a temporary basis, and in case of the Ordinary Shareholder’s Meeting, to pay the final dividend, within the limits set by the General Corporations Law and considering all restrictions established in the debt issue prospectus.

As from fiscal year 2002, and up to this date, the Company has maintained unappropriated accumulated deficit. For this reason, as from that moment on, there has been no distribution of dividends, and in the future, it shall not be possible to distribute them unless all losses from

METROGAS S.A.**ANNUAL REPORT**

previous fiscal years are covered, in compliance with what is stipulated by the General Corporations Law.

Additionally, pursuant to the terms and conditions of issuance of the Notes issued by MetroGAS, the distribution of cash dividends shall be subject to prior redemption, payment or repurchase by the Company of at least U\$S 75 million principal amount of Serie A Notes.

10. ISSUED CAPITAL STRUCTURE

Issued Capital as of December 31, 2016 is composed of 569,171,208 common shares classified in three different categories; Class "A", "B" and "C", each having a one peso par value and entitled to one vote per share.

Classes of shares	subscribed, registered and paid- in Thousands of Ps.
Class "A"	290,277
Class "B"	275,026
Class "C"	3,868
Capital Stock as of December 31, 2016	569,171

The total number of Class "A" shares, representing 51% of the Company's common stock is owned by Gas Argentino S.A. ("Gas Argentino"), and their transferability is subject to the approval of the regulatory authority.

As of this date YPF Inversora Energética S.A. ("YPFIESA") is owner of 100% of the shares of Gas Argentino. YPFIESA is a subsidiary of YPF S.A., which was part of the merger by absorption process by YPF S.A.

Class "B" shares represent 48% of the common stock. Of such percentage, 19% has been owned by Gas Argentino since the privatization process. The 29% was sold at public offering and is owned by approximately 1,802 investors.

On November 2, 1994, through Resolution No. 10,706 the Argentine Securities Commission ("CNV") authorized the Company to sell at public offer all shares of company common stock up to that date.

Class "C" shares which represent 10% of the common stock, and were assigned during the privatization process to the Employee Stock Ownership Plan (Programa de Propiedad Participada); the beneficiaries were employees from Gas Del Estado transferred to MetroGAS who continued working for the Company up to July 31, 1993, and who chose to participate in the above mentioned plan.

At the Class "B" and "C" shares General Extraordinary Meeting of MetroGAS shareholders dated on October 16, 2015 the partial conversion of Class "C" shares into Class "B" shares was approved by a majority of votes.

Pursuant Resolution No. 17,918, on December 4, 2015, the CNV decided to transfer the public offering authorization duly granted by MetroGAS to convert 53,049,640 ordinary book-entry Class "C" shares of nominal value Ps. 1.00 each and the right to one vote per share, into the same number of ordinary book-entry Class "B" shares.

METROGAS S.A.**ANNUAL REPORT**

The General Ordinary and Extraordinary Shareholders' Meeting of Gas Argentino on April 29, 2016 approved: i) the Merger by absorption of Gas Argentino and YPFIESA by YPF under the terms of Article 82, following and related provisions, of the General Corporations Law No. 19,550; ii) the Special Merger Balance of Gas Argentino and the Consolidated Merger Statements of Financial Position of YPFIESA, Gas Argentino, and YPF, closed on December 31, 2015, iii) the Prior Merger Commitment celebrated among YPFIESA, Gas Argentino and YPF, and iv) the Merger Prospect.

On December 22, 2016, the CNV approved by Resolution No. 18,415 the merger by absorption under the terms of article 82 of the General Corporations Law No. 19,550. Once the dissolution of the companies is registered at the IGJ, the company reorganization shall have retroactive effects as of January 1, 2016.

On December 28, 2016, MetroGAS received from the ENARGAS a note requesting to adapt the Company's share composition in accordance with the due date stipulated in the Emergency Law and in compliance with article No. 34 of Law No. 24,067. In that regard, it is worth pointing out that YPF S.A., after the merger with Gas Argentino S.A., is the owner of 70% of MetroGAS' shares. The Company has asked to examine all antecedents of the request from the ENARGAS and, as it considers that what has been requested mainly concerns its controlling shareholder, it has served notice in order to adopt those actions that are deemed appropriate.

11. INCOME ALLOCATION PROPOSAL

The Company's Board of Directors recommends approving as the Board of Directors' fees the amount of 2,714, which were allocated to the result of fiscal year 2016.

In the same way, the Company's Board of Directors recommends that the Shareholders' Meeting keeps in Accumulated Results the net loss attributable to the fiscal year ended on December 31, 2016, that amounted to 599,682.

On December 31, 2016, the Company registered a negative shareholders' equity attributable to controlling interest of 1,374,769, attributable to the owners of the acquirer, being affected by regulations from Art. 96, S. 5° and Art. 96 of the General Corporations Law.

12. ACKNOWLEDGEMENT

The Board of Directors would like to express its deepest appreciation to all MetroGAS' personnel for their co-operation in their daily tasks, as well as to its customers, suppliers and creditors for their support and their confidence in MetroGAS.

Autonomous City of Buenos Aires, March 8, 2017.

Marcelo Adrián Núñez
Chairperson

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE****GENERAL SPECIFICATIONS:**

- All those recommendations that led to “Total compliance” are supported by policies, procedures, practices, formal information channels, among other general working schemes of the Company.
- All those recommendations that led to “Partial Compliance “ or “Noncompliance”; the Company is assessing possible action resources to comply, to a greater extent, with the recommendations of this code.

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
PRINCIPLE I. TRANSPARENCY IN THE RELATIONSHIP AMONG THE ISSUER, THE ECONOMIC GROUP THAT IT LEADS AND/OR COMPOSES AND ITS RELATED PARTS.				
Recommendation I.1: The Administrative Body should guarantee to communicate all policies applicable to the relationship among the Issuer with the economic group that it leads and/or composes and with its related parts	X			
Recommendation I.2: To ensure the existence of mechanisms for the prevention of conflicts of interest	X			
Recommendation I.3: To prevent misuse of privileged information.	X			
PRINCIPLE II. TO LAY THE FOUNDATIONS FOR A SOLID ADMINISTRATION AND SUPERVISION OF THE ISSUER.				
Recommendation II. 1: To guarantee that the Administrative Body accepts responsibility for managing and supervising the Issuer and its strategic guidance.				
II.1.1 The Administrative Body approves: Provided it counts on these policies, to make a description of their main aspects.				
II.1.1.1 the strategic or business plan, as well as management objectives and annual budgets.	X			
II.1.1.2 investments policy (in financial assets and capital goods) , and financial policy		X		The Company counts on policies related to this recommendation approved by the Senior Management, and they are published on intranet, available for personnel consultation. Nevertheless, these policies are not formally approved by the Administrative Body.
II.1.1.3 policy of corporate		X		Although the Company does not

¹ In the case of total compliance, communicate in which way the Issuer complies with the principles and recommendations of the Corporate Governance Code.

² In the case of partial compliance or noncompliance, justify the reasons and state which the actions are planned by the Issuer's Administrative Body to incorporate those recommendations that are not taken in the next fiscal year or in subsequent actions.

³ Checkmark if it corresponds.

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
governance (compliance with the Corporate Governance Code)				count on a Corporate Governance Code, it has a number of policies aimed at strengthening the practices of good corporate governance, such as: the Code of Ethics and Conduct, the Policy of Conflicts of interest, the Policy of Information Security, among others.
II.1.1.4 policy of selection, assessments and compensation of first line managers.		X		The Company counts on policies related to this recommendation approved by the Senior Management and they are published on intranet, available for personnel consultation. Nevertheless, these policies are not approved by the Administrative Body. Moreover the Company counts on a Compensation Committee composed of 5 members of the Board, being 3 of them independent members who aim at safeguarding the compliance with the policies related to this recommendation.
II.1.1.5 policy of responsibility assignment to first line managers.		X		The Company counts on policies related to this recommendation approved by the Senior Management, and they are published on intranet, available for personnel consultation. Nevertheless, these policies are not formally approved by the Administrative Body.
II.1.1.6 la supervision of replacement plans for first line managers.		X		Among the responsibilities of the Compensation and Appointment Committee is this role. The update of the plan in question will be completed in 2017.
II.1.1.7 policy of enterprise social responsibility.		X		The Company counts on policies related to this recommendation approved by the Senior Management, and they are published on intranet, available for personnel consultation. Nevertheless, these policies are not formally approved by the Administrative Body.
II.1.1.8 policy of comprehensive risk management and internal control, and policy of prevention of fraud and dishonest practices.		X		The Company counts on policies related to this recommendation approved by the Senior Management, and they are published on intranet, available for personnel consultation. Nevertheless, these policies are not formally approved by the Administrative Body. The Board of Directors quarterly monitors the Company's risk.
II.1.1.9 policy of ongoing training for members of the		X		The Company counts on policies related to this recommendation

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
Administrative Body and for first line managers.				approved by the Senior Management, and they are published on intranet, available for personnel consultation. Nevertheless, these policies are not formally approved by the Administrative Body. The Audit Committee has an annual training plan and invites the Board of Directors and the Senior Management to participate in it.
II.1.2 If relevant, add other policies applied by the Administrative Body which have not been mentioned and describe in detail the most important points.				NOT APPLICABLE
II.1.3 The Issuer counts on a policy that aims at guaranteeing the availability of relevant information for its Administrative Body to take decisions and on a channel of direct enquiries for managerial levels, in a way that it is equally symmetrical for all of its members (executives, external or independent) and done in good time, so as to allow a proper assessment of its contents. Specify .		X		Although there is no specific policy related to this recommendation, the Company has as a good corporate practice, the submittance of relevant information to all the members of the Administrative Body, in good time.
II.1.4. All issues to be considered by the Administrative Body come together with an assessment of risks related to decisions that may be taken, taking into account the Enterprise risk level defined as acceptable by the Issuer. Specify.	X			The Company's Senior Management has internalized a strong risk management culture. As a consequence of this, every relevant decision to be approved by the Administrative Body entails an assessment of the risks involved.
Recommendation II.2: To ensure an effective Enterprise Management Control. The Administrative Body verifies :				
II.2.1 the compliance with the annual budget and with the business plan,	X			
II.2.2 The performance of first line managers and the fulfillment of objectives set to them (the level of expected profits versus the level of achieved profits, financial qualification, quality of the accounting report, market share, etc.). Make a description of the relevant aspects of the Issuer's policy of Management Control, specifying all techniques applied and the	X			The Senior Management performance is assessed on an annual basis. This assessment and the variable compensation resulting from such assessment are approved by the Compensation Committee. In relation to Management Control, the board is presented quarterly with the key management indicators, containing the value of each indicator and its annual variation and comparison with the budget.

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
frequency of the Administrative Body's monitoring.				
Recommendation II.3: To inform about the Administrative Body's performance assessment process and its impact.				
II.3.1 Each member of the Administrative Body complies with the Company Bylaws and, with the Administrative Body's Rules of procedure. Give detail of the main guidelines of the Rules of Procedure. Indicate the level of compliance with the Company Bylaws and the Rules of Procedure.	X			The Company Bylaws and the Board of Directors' Rules of Procedure are complied with; both agree with the legislation in force. In November 2016, MetroGAS Board reviewed its internal regulations. These regulations govern all matters related to meetings as well as other issues within their purview.
II.3.2 The Administrative Body shows the results of its management taking into account the objectives set at the beginning of the term, so that shareholders may assess the fulfillment level of those objectives that contain both financial and nonfinancial aspects. Moreover, the Administrative Body presents a diagnosis about the level of compliance with the policies mentioned in Recommendation II, item II.1.1 and II.1.2: Give detail of the main aspects of the Shareholders' General Assembly assessment of the Administrative Body's level of fulfillment of objectives set and of its compliance with the policies mentioned in Recommendation II, items II.1.1 and II.1.2, indicating the date when the General Assembly was held where such assessment was presented.		X		The Board of Directors records the results of the fiscal year in the Annual Report which is duly considered by the annual Assembly. The Board of Directors does not provide the Shareholders a formal diagnosis on the implementation of policies. The Annual Meeting approves the Management Board of Directors.
Recommendation II.4: That the number of external and independent members constitute a significant proportion in the Administrative Body.				
II.4.1 The proportion of executive members, external and independent (the latter defined according to regulations of this Committee) of the Administrative Body is related to the Issuer's capital structure. Specify	X			The Company's Board of Directors is currently composed of 11 Directors appointed by the Shareholders' Assembly. Of the 11 directors, one of them has executive functions in the Company; three are independent according to the criteria established by the CNV, the remaining 7 being external.
II.4.2 During the current year, at a General Assembly,		X	.	Although the Company does not count on a policy related to this

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
shareholders agreed on a policy aimed at keeping a proportion of at least 20% of independent members over the total number of members of the Administrative Body. Make a description of the relevant aspects of the said policy and of any shareholders' agreement that allows understanding the way in which members of the Administrative Body are appointed and for how long. Indicate if independence of the members of the Administrative Body was questioned during the year and if there has been any abstention due to conflicts of interest				recommendation, the Company complies with the standards of the CNV. To date, 30% of the members of the Board of Directors are independent.
Recommendation II.5: To commit to provide regulations and procedures related to the selection and appointment of members of the Administrative Body and first line managers.				
II.5.1. The Issuer counts on an Appointments Commission	X			The Company counts on a Compensation and Appointment Committee whose role is to deal with all matters related to compensations and appointments.
II.5.1.1 composed of at least three members of the Administrative Body, being their majority independent members,	X			The said Committee is composed of three members of the Directorate; 2 are non-independent ones.
II.5.1.2 chaired by an independent member of the Administrative Body,	X			Its chairman is an independent Director.
II.5.1.3 that counts on members who are qualified enough and who have the necessary experience on issues about human capital policies.	X			The members of the Committee are competent and experienced in human resources matters.
II.5.1.4 that meets at least twice a year.	X			
II.5.1.5 whose decisions are not necessarily binding on the Shareholders' General Assembly but have an advisory purpose as regards the selection of the Administrative Body's members.			X	The Compensation and Appointment Committee does not appoint or select members of the Board of Directors.
II.5. 2 Provided there is an Appointments Commission, it :				
II.5.2.1 verifies the annual revision and assessment of its	X			It is explicitly considered in the Regulations in force of the

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
rules of procedure and suggests changes to the Administrative Body for its approval,				Compensation and Appointment Committee.
II.5.2.2 suggests the criteria development (qualification, experience, professional reputation and ethics, among others) for selecting new members of the Administrative Body and first line managers,		X		The Compensation and Appointment Committee does not recommend any criteria to select members of the Board of Directors. The criteria to be considered for first line managerial level are analyzed at time of each incorporation.
II.5.2.3 Identifies candidates for members of the Administrative Body ,to be proposed by the Committee to the Shareholders' General Assembly,			X	The Compensation and Appointment Committee does not appoint members of the Board of Directors.
II. 5.2.4 suggests members of the Administrative Body who will compose the different Committees of the Administrative Body according to their background,			X	The Compensation and Appointment Committee does not appoint members of the Board of Directors.
II. 5.2.5 recommends the President of the Board of Directors not to be the General Manager of the Issuer,			X	In the course of this fiscal year, the Board of Directors appointed the Company's General Director as President. In the past, the company complied with the recommendation by appointing as Chairman of the Board of Directors a person other than the Director General.
II. 5.2.6 ensures that the curriculum vitae from members of the Administrative Body and first line managers will be available on the Issuer's web site, where there will be explicit record of the length of their term of office in the case of members of the Administrative Body,		X		The names of the members of the Board of Directors are published on the web page. Their curricula vitae are not included for confidentiality reasons.
II.5.2.7 confirms the existence of a replacement plan for members of the Administrative Body and for fist line managers.		X		The Compensation and Appointment Committee's sole function is to deal with succession planning of first line managers. This succession planning for first line managers will be completed in 2017.
II.5. 3 If relevant, add implemented policies carried out by the Issuer's Appointments Commission which have not been mentioned in the previous point.				NOT APPLICABLE
Recommendation II.6: To	X			It is explicitly considered in the

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
assess the convenience that members of the Administrative Body and/or members of the Supervisory Committee and/or of the Oversight Board work for different Issuers.				Regulations in force of the Compensation and Appointment Committee.
Recommendation II.7: To ensure Training and Development for the Issuer's Administrative Body members and first line managers.				
II.7.1 The Issuer counts on a program of ongoing training related to the Issuer's existing needs for members of the Administrative Body and first line managers, which includes issues about their roles and responsibilities, comprehensive enterprise risks management, specific business knowledge and its rules, the dynamic of Enterprise governance and issues on Enterprise social responsibility. In the case of members of the Audit Committee, international accounting standards, audit and internal control standards and specific regulations of the capital market. Describe all programs carried out during the year and their level of compliance.		X		<p>The Audit Committee has an annual Training Plan and invites the Board of Directors and the Senior Management to participate in its activities. Within the training activities developed during the year we can mention the following issues:</p> <ul style="list-style-type: none"> • Regulatory framework and tariffs • Functioning of the distribution system • Information systems • Commercial strategy • Fire prevention • Governance and transparency • Internal Audit • Human Resources
II.7.2. The Issuer encourages, by other means not mentioned in II.7.1, members of the Administrative Body and first line managers to keep a permanent training to supplement their education level so as to add value to the Issuer. Specify how it is done.		X		The Company's policies related to this recommendation refer to Managers. Members of the Administrative Body are not included.
PRINCIPLE III. TO SUPPORT AN EFFECTIVE POLICY OF IDENTIFICATION, MEASUREMENT, ADMINISTRATION AND COMMUNICATION OF ENTERPRISE RISKS				
Recommendation III: The Administrative Body has to count on a comprehensive Enterprise risk management policy and monitor its proper implementation.				
III.1 La The Issuer has Comprehensive Enterprise risk management policies (of fulfillment of strategic, operative and financial objectives, and objectives regarding accounting report, laws and regulations, among others). Give a description of the most relevant aspects of these policies.	X			The Company has a Business Risk Management Policy that is aligned with the best practices of risk management. It also counts on a Risk Management Committee, composed of the Company's Executive Directors and the Internal Audit's Director. This group is responsible for monitoring and implementing this policy. On a quarterly basis. MetroGAS' Board of Directors is notified of any critical

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
				issues related to risk management.
III.2 There is a Risk Management Committee within the Administration Body or the General Management. Notify of the existence of procedure manuals and give detail of the main risk factors which are specific to the Issuer and its activities and of implemented mitigating actions. If there is no such Committee, describe the supervision role of the Audit Committee as regards risks management. Moreover, specify the level of interaction between the Administrative Body or its Committees and the Issuer's General Management regarding comprehensive enterprise risk management.	X			See previous point.
III.3 There is an independent function within the Issuer's General Management that implements the comprehensive risk management policy (Function of the Risk Management Officer or equivalent) Specify	X			The Controller Directorate is responsible for the communication and follow- up of the Risk Management process.
III.4 Comprehensive risk management policies are permanently updated according to known recommendations and methodologies in this matter. Indicate them: (Enterprise Risk Management according to COSO-Committee of sponsoring organizations of the Treadway Commission-ISO 32000, IRAM standard 17551, section 404 of the Sarbanes-Oxley Act, among others).	X			The Policies are regularly evaluated, considering the best practices (COSO).
III.5 The Administrative Body informs in the financial statements and in the Annual Report, of the results of the supervision of risks management performed together with the General Management. Specify the main points of the concepts described above.	X			A note was include in the Financial Statements and an item in the Annual Report referred to comprehensive Risk Management.

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
PRINCIPLE IV. TO SAFEGUARD THE INTEGRITY OF FINANCIAL INFORMATION WITH INDEPENDENT AUDITS.				
Recommendation IV. To guarantee the Independence and transparency of the functions of the Audit Committee and the External Auditor.				
IV.1. At the time of selecting the members of the Audit Committee and taking into account that the majority has to be independent, the Administrative Body assesses if it is convenient to have an independent member as its president.	X			
IV.2 Within Internal Audit there is a function that reports to the Audit Committee or to the President of the Administrative Body and it is responsible of assessing the internal control system. Specify if the Audit Committee or the Administrative Body perform an annual assessment of the performance of the internal audit area and of the degree of independence of its professional practice, being understood that the professionals in charge of such function are independent from the rest of the operative areas and besides they comply with the requirements of independence as regards control shareholders or related entities who have a significant influence on the Issuer. In addition, specify if the Internal Audit’s function performs in compliance with the International Standards for the professional practice of internal auditing issued by the Institute of Internal Auditors. (IIA).	X			There is an Internal Audit’s function that reports to the Audit Committee and is responsible for assessing the Internal Control system. On an annual basis the Audit Committee assesses the performance of Internal Audit and its degree of independence. Internal Audit complies with the international standards for the professional practice of internal auditing issued by the Institute of Internal Auditors (“IIA”)
IV.3 Members of the Audit Committee make an annual assessment as regards competence, independence and performance of External Auditors, appointed by the Shareholders’ Assembly. Describe the relevant aspects of all procedures involved to carry out the said assessment.	X			The Audit Committee annually assesses the external auditor’s competence, independence and performance. In order to assess the external auditor’s competence, work methodology and performance, the Audit Committee takes into account the following: a) Background of the Auditing Company, b) The sworn statement by public accountant submitted

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
				<p>by the Partner in charge of the audit in compliance with the regulations of sect. 104 of Law 26,831 of Capital Markets.</p> <p>c) The guidelines of work methodology.</p> <p>d) The quality control policies submitted by the Auditing Company, including the working team who gives support in specific areas.</p> <p>e) The presentations made on main risks that were identified and assessed and their impact on the general planning of the audit and on the tasks performed by the said company.</p> <p>In order to assess the external auditor's Independence, the Audit Committee has:</p> <p>a) obtained a statement from auditors as regards their independence.</p> <p>b) made an assessment of the services rendered by the external auditor, verifying that none of these services compromises his independence.</p>
IV.4 The Issuer counts on a policy related to the rotation of members of the Supervisory Committee and/or of the External Auditor; and in relation to the latter, if the rotation includes the auditing company or if it only affects the auditors.	X			The Company counts on a policy regarding the rotation of partners of the auditing company, which conforms to the rules of the CNV policy.
PRINCIPLE V. TO RESPECT THE RIGHTS OF THE SHAREHOLDERS.				
Recommendation V.1: To ensure that shareholders have access to the Issuer's information.				
V.1.1 The Administrative Body encourages regular informative meetings with the shareholders coinciding with the presentation of intermediate financial statements. Specify the frequency and number of meetings held during the year.	X			Meetings are held with majority shareholders on a quarterly basis. Minority shareholders get the information by means of the Relevant Information communications to the Stock Exchange.
V.1.2 The Issuer counts on mechanisms of information to	X			The Company has a specific office to receive shareholders in order to

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
investors and on a specialized area to take care of their concerns. Moreover, it counts on a web site that can be accessed by shareholders, and that provides an access channel so that they can make contact with one another. Give details.				<p>respond to their concerns and questions, except for the ones that may affect the strategy or future plans of the Company</p> <p>The Company issues reports on those matters it considers relevant so that shareholders, social bodies and control authorities may be well-informed.</p> <p>The Company has its own Website (www.metrogas.com.ar); it is of free access and provides updated information and information of interest to different users (customers, suppliers, investors and public in general) in an easy way. Through this same channel the Company also receives questions and concerns from these users.</p>
Recommendation V.2: To encourage an active participation of all shareholders.				
V.2.1. The Administration Body adopts measures to encourage the participation of all shareholders in the Shareholders' General Assemblies. Specify, making a difference between measures imposed by law from the ones voluntarily offered by the Issuer to its shareholders.	X			<p>The Company adopts the necessary measures to encourage attendance and participation of minority shareholders in assemblies. Among other measures taken, the announcement for calling shareholders' meetings is published in several newspapers with national circulation, a copy of which is distributed among holders of ADS's (American Depositary Shares) and the accounting information to be considered by shareholders is made available to them, not only in writing but also through the Web page.</p> <p>These measures are the ones imposed by law.</p>
V.2.2 The Shareholders' General Assembly counts on Rules of Procedure that ensure information to be available in good time to shareholders, for decision taking. Describe the main guidelines of the Rules of Procedure			X	<p>Although the Assembly does not have its Rules of Procedure up to this date, the Company is considering writing them. Notwithstanding this, relevant information is available in sufficient time for decision-making.</p>
V.2.3 Mechanisms implemented by the Issuer are applicable so that minority shareholders put forward different issues to be discussed at the Shareholders' General Assembly in compliance with what is stipulated by the	X			<p>The Company accepts the participation of minority shareholders in accordance to regulations in force.</p>

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
regulations in force. Specify the results.				
V.2.4 the Issuer counts on stimulus policies to increase the participation of the most relevant shareholders, such as institutional investors. Specify.			X.	The participation previously mentioned includes institutional investors once it is complied with the requirements set forth by regulations in force as regards the publicizing related to the participation and access to the information. Notwithstanding that, the Company counts on specific stimulus policies
V.2.5. At Shareholders' Assemblies where members of the Administrative Body are proposed to be appointed, and prior to the voting, the following is informed: (i) the opinion of each of the candidates as regards the adoption or not of a Corporate Governance Code; and (ii) the reasons to support such opinion.			X	Its compliance will be assessed at appointing the next Board of Directors.
Recommendation V.3: to guarantee the principle of equality between share and vote.	X			The Company Bylaws guarantee equality as each share gives the right to one vote.
Recommendation V.4: To establish protection mechanisms for all shareholders in face of take overs.	X			Resolutions of regulations in force are applied (sect 90 of the Law N° 26,831)
Recommendation V.5: To increase the percentage of shares in circulation over the capital.	X			The Company has 29% of shares in the market complying with the recommended market share dispersion.
Recommendation V.6: To ensure that there is a transparent dividend policy				
V.6.1 The Issuer has a dividend distribution policy established in the Company Bylaws and approved by the Shareholders' Assembly, and it sets forth the conditions to distribute dividends in cash or in shares. Provided there is a policy, indicate criteria, frequency and conditions that have to be complied with for paying dividends.			X	The Company does not have a written policy as regards dividend distribution. However, until 2001 the Company paid dividends based on the results of each fiscal year, subject to investment plans, financial commitments undertaken by the Company, all these within a context of financial prudence At present the Company has unappropriated accumulated deficit, for this reason and given these circumstances, the Board of Directors considers that it is not necessary to elaborate a policy on

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
				dividends payment..
V.6.2 The Issuer counts on documented processes to prepare the income allocation proposal; income accumulated by the Issuer, which results in constituting legal, statutory and voluntary reserves, allocation to new fiscal year and/or payment of dividends. Explain these processes and give detail of the Shareholders' General Assembly Minute where the distribution of dividends was approved (in cash or in shares) or not, if it is not set forth in the Company Bylaws.	X			The Board of Directors makes up the proposal and takes it to the Annual Assembly for its approval.
PRINCIPLE VI. TO MAINTAIN A DIRECT AND RESPONSIBLE RELATIONSHIP WITH THE COMMUNITY.				
Recommendation VI: To provide the community with information related to the Issuer and a direct communication channel with the Company.				
VI.1 The Issuer counts on an updated free access web site which not only provides information related to the Company (Company Bylaws, economic group, composition of the Administrative Body, financial statements, Annual Report, among others) but also receives questions and concerns from customers in general.	X			
VI.2 The Issuer issues a Corporate Social and Environmental Responsibility Assessment on an annual basis, verified by an external independent auditor. Provided there is such assessment, indicate its scope or legal or geographical coverage and its availability. Specify which rules or initiatives have been adopted to carry out the Enterprise Social Responsibility Policy (Global Reporting Initiative and/or United Nations Global Compact, ISO 26,000, SA 8000, Millennium Development Goals, SGE 21-Forética, AA 1000, Equator Principles, among others).			X	The Company performs activities related to the ESR (Enterprise Social Responsibility), it has not been considered necessary to make an assessment of the ESR. Moreover, the Company gives account, in the Annual Report, of its Community Service activities during the year. During the current fiscal year, the Company began the process of preparing the Sustainability Report for the years 2015 and 2016. This report contemplates the details of ESR and sustainability actions developed by the company. Its publication is scheduled for mid-2017.

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
PRINCIPLE VII. TO GIVE FAIR AND RESPONSIBLE COMPENSATIONS.				
Recommendation VII: To set forth clear policies of compensation to the members of the Administrative Body and first line managers, specially paying attention to conventional or statutory limitations depending on the existence or nonexistence of profits.				
VII.1. The Issuer counts on a Compensation Committee:				
VII.1.1 composed of at least three members of the Administrative Body, and has a majority of independent members.	X			The Board of Directors constituted a Compensation Committee composed of 2 independent Directors and 1 majority shareholders' representatives.
VII.1.2 chaired by an independent member of the Administrative Body.	X			It is chaired by the President of the Audit Committee.
VII.1.3 counts on members who are qualified enough and who have the necessary experience on issues about human capital policies.	X			Counts on the permanent personal advice of the Human Resources Director and, if necessary, it may hire specialized consulting agencies.
VII.1.4 that meets at least twice a year.	X			
VII.1.5. whose decisions are not necessarily binding on the Shareholders' General Assembly or on the Oversight Board but have an advisory purpose as regards the compensation of the Administrative Body's members	X			
VII. 2 Provided there is a Compensation Committee, it :				
VII.2.1 ensures a clear relationship between the performance of key personnel and their fixed and variable compensation, taking into account all risks taken and how they are handled.	X			The Compensation Committee assesses and approves the variable compensation and the fulfillment of business objectives and evaluates salaries depending on the market's values.
VII.2.2 Supervises that the variable portion of the compensation to the members of the Administrative Body and to first line managers ,is related to the medium and/or long term performance of the Issuer.		X		The Compensation Committee is only in charge of first line Managers' variable compensations To date there is no variable remuneration scheme for the Board of Directors.
VII.2.3 examines the competitiveness of the Issuer's	X			The Compensation Committee analyzes issues related to

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
policies and practices regarding compensations and benefits of similar Enterprises, and recommends or not, some changes,				compensations and benefits by means of market surveys requested to specialized consultants, in accordance to the guidelines of the Compensation Policy.
VII.2.4 defines and communicates the policy of retention, promotion, dismissal and suspension of key personnel.	X			The Compensation Committee's Rule of Procedure establishes it within its functions.
VII.2.5 Communicates the guidelines to establish retirement plans for the members of the Administrative Body and for first line managers of the Issuer.				NOT APPLICABLE
VII.2.6 Regularly reports to the Administrative Body and the Shareholders' Assembly on actions taken and on all issues analyzed at those meetings.		X		It finds out information (suggests/ advices) each time it is considered necessary and without any pre-established regularity.
VII.2.7 guarantees the presence at the Shareholders' General Assembly of the President of the Compensation Committee who approves compensations to the Administrative Body so that he explains the Issuer's policy as regards the redistribution of the members of the Administrative Body and first line managers.	X			The president of the Compensation Committee always attends the Shareholders' Assembly although it is not compulsory for him as he is not the President of the Company. He always attends meetings of the Board of Directors and of the Committees he chairs: the Compensation Committee and the Audit Committee
VII. 3 If relevant, indicate the policies applied by the Issuer's Compensation Committee that have not been mentioned in the previous point.				NOT APPLICABLE
VII. 4 In case there is no Compensation Committee; explain how functions described in VII.2 are carried out within the Administration Body itself.				NOT APPLICABLE
PRINCIPLE VIII. TO ENCOURAGE ENTERPRISE ETHICS				
Recommendation VIII: To guarantee ethical behavior within the Issuer.				
VIII.1 The Issuer has an Enterprise Code of Conduct.	X		.	The Company has a Code of Ethic and Conduct that stipulates that

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
Indicate the main guidelines and if it is known by the public in general. The said Code is signed, at least, by the members of the Administrative Body and first line managers. Indicate if its application is extended to suppliers and customers.				MetroGAS S.A. will, without exceptions, run its businesses in the most ethical way not only at an internal level but also as regards its relationship with customers, suppliers, registered gasfitters, contractors and government organizations complying with all the laws and regulations in force, with a total and absolute transparency towards its shareholders, investors, creditors, employees, customers, suppliers, registered gasfitters, contractors and the community. This Code of Conduct is applicable to the members of MetroGAS S.A. Board of Directors, the members of MetroGAS S.A. Supervisory Commission, Executive Directors, Managers and to all MetroGAS S.A. employees. In the same way, it is applicable to suppliers, contractors, representatives and any third party acting on behalf and /or order of MetroGAS S.A. In strengthening the detailed above, in the year 2015 the Company has created the figure of the Ethics and Compliance Officer.
VIII.2 The Issuer counts on mechanisms to receive complaints for every illicit or unethical conduct, which can be made in person or through electronic means guaranteeing that all information given is subject to the highest standards of confidentiality and integrity, for registration and conservation purposes. Indicate if the service of reception and evaluation of complaints is rendered by the Issuer's personnel or by external and independent professionals in order to offer a higher degree of protection to the complainant.	X			The Company counts on different mechanisms to receive complaints, including an outsourced anonymous and confidential complaint line.
VIII.3. The Issuer counts on policies, processes and systems for the management and solution of complaints mentioned in VIII.2. Make a description of their most relevant aspects and indicate	X			The Company counts on a detailed protocol for the reception, management and disposition of all complaints received.

METROGAS S.A.**EXHIBIT REQUIRED BY RESOLUTION No. 606/01 ISSUED BY THE NATIONAL SECURITIES COMMISSION – CORPORATE GOVERNANCE**

	Compliance		Noncompliance ³	Notify ¹ or Explain ²
	Total ³	Parcial ³		
the degree of involvement of the Audit Committee as regards these solutions, especially of those complaints related to issues of internal control for accounting reports and to the behavior of members of the Administrative Body and first line managers.				
PRINCIPIO IX: TO EXTEND THE SCOPE OF THE CODE				
Recommendation IX: To encourage the inclusion of provisions that lead to the best practices of a good governance in the Company Bylaws.			X	<p>The Board of Directors does not plan to incorporate the provisions of the Corporate Governance Code in the Company Bylaws, as both the above mentioned provisions as well as the general and specific responsibilities of the Board of Directors are included in the Company's policies and in the Board of Directors' Rules of Procedure.</p> <p>The Company Bylaws do not contain rules regarding conflicts resulting from personal interests of the Directors. However, the Company counts on a Code of Conduct and a Policy of Conflicts of Interests which ensure that directors are obliged to inform of their personal interests related to decisions that are under their responsibility, in order to avoid conflicts of interests.</p>

Marcelo Adrián Núñez
Chairperson

METROGAS S.A.

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016 AND 2015

TABLE OF CONTENTS

LEGAL INFORMATION.....	1
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION.....	2
CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME.....	3
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY	4
CONSOLIDATED STATEMENTS OF CASH FLOWS	5
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	
1. GENERAL INFORMATION	6
2. ECONOMIC AND FINANCIAL POSITION AND REGULATORY FRAMEWORK	6
3. BASIS FOR PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS	26
4. ACCOUNTING POLICIES	28
5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS.....	58
6. FINANCIAL RISK MANAGEMENT	62
7. FINANCIAL INSTRUMENTS	65
8. INTERESTS IN SUBSIDIARIES	66
9. SEGMENT REPORTING	68
10. PROPERTIES, PLANT AND EQUIPMENT.....	69
11. INVESTMENT PROPERTIES	70
12. INTANGIBLE ASSETS.....	71
13. TRADE RECEIVABLES.....	72
14. OTHER RECEIVABLES.....	74
15. CASH AND CASH EQUIVALENTS.....	75
16. SHAREHOLDERS' EQUITY AND ISSUED CAPITAL.....	76
17. OTHER TAXES PAYABLES.....	79
18. FINANCIAL DEBT	80
19. REORGANIZATION LIABILITIES	82
20. PROVISIONS.....	82
21. TRADE PAYABLES	85
22. SALARIES AND SOCIAL SECURITY	86
23. OTHER ACCOUNTS PAYABLE	87
24. REVENUES	87
25. EXPENSES BY NATURE.....	88
26. OTHER INCOME AND EXPENSES	88
27. NET FINANCIAL RESULTS.....	89
28. INCOME TAX AND MINIMUM PRESUMED INCOME TAX	89
29. NET RESULT PER SHARE	92
30. BALANCES AND TRANSACTIONS WITH RELATED PARTIES	92
31. CONTRACTUAL COMMITMENTS.....	97
INFORMATIVE SUMMARY OF ACTIVITY.....	101
INDEPENDENT AUDITORS' REPORT	

METROGAS S.A.

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

LEGAL INFORMATION

Legal Address: Gregorio Aráoz de Lamadrid 1360, Ciudad Autónoma de Buenos Aires, Argentina.

Fiscal Year: No. 25 (initiated on January 1, 2016).

Financial Statements Consolidated: as of December 31, 2016 and comparatives.

Company's Principal Business: provision of natural gas distribution public services

Registration with the Public Registry of Commerce: December 1, 1992

Expiry Date of the Articles of Incorporation: December 1, 2091

Last Amendment of the By-Laws: October 16, 2015

Parent Company: YPF S.A.

Legal Address of the controlling company: Macacha Güemes 515, Ciudad Autónoma de Buenos Aires, Argentina.

Principal Business of the controlling company: study, exploration and exploitation of liquid and/or gaseous hydrocarbons and other minerals, as well as the industrialization, transportation and marketing of these products and their byproducts, also including petrochemical products, and non-fossil fuels and chemicals, biofuels and their components, electric power generation based on hydrocarbons, telecommunication services, as well as production and industrialization, processing, marketing, conditioning services, grain transportation and storage and their byproducts.

Percentage of votes held by parent company: 70%

Composition in Common Stock as of 12.31.16:

Classes of Shares	Subscribed, Registered and Paid-in
Outstanding	
Common Certified Shares of Ps. 1 Par Value and 1 Vote each:	
Class "A"	290,277
Class "B"	275,026
Class "C"	3,868
Issued Capital as of 12.31.16	569,171

Marcelo Adrián Núñez
Chairperson

METROGAS S.A.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2016 AND 2015 *(stated in thousands of pesos)*

	Notes	12.31.16	12.31.15
Assets			
Non current Assets			
Properties, plant and equipment	10	2,436,979	2,076,672
Intangible assets	12	125,295	69,899
Deferred tax assets	28	157	9,375
Investment properties	11	2,333	2,394
Other receivables	14	7,299	9,519
Total Non current assets		2,572,063	2,167,859
Current assets			
Inventories		2,696	-
Trade receivables	13	2,731,286	1,031,403
Other receivables	14	943,824	230,012
Cash and cash equivalents	15	357,904	596,223
Total Current assets		4,035,710	1,857,638
Total assets		6,607,773	4,025,497
Shareholders' Equity			
Issued capital	16	569,171	569,171
Accumulated results (losses)		(1,943,940)	(1,344,258)
Equity attributable to the owners of the parent		(1,374,769)	(775,087)
Non-controlling interest		2,591	7,317
Total Shareholders' Equity	16	(1,372,178)	(767,770)
Liabilities			
Non current Liabilities			
Trade payable	21	57,631	172,055
Financial debt	18	2,740,933	2,135,949
Deferred tax liabilities	28	115,957	223,161
Reorganization liabilities	19	10,269	13,642
Other taxes payable	17	4,180	5,647
Provisions	20	260,998	116,258
Total Non current Liabilities		3,189,968	2,666,712
Current Liabilities			
Trade payable	21	4,120,568	1,611,215
Salaries and social securities	22	173,071	128,329
Income tax and minimum presumed income tax ("MPIT")		-	43,113
Other taxes payable	17	327,490	176,217
Financial debt	18	153,661	144,858
Other accounts payable	23	15,193	22,823
Total Current Liabilities		4,789,983	2,126,555
Total Liabilities		7,979,951	4,793,267
Total Liabilities and Shareholders' Equity		6,607,773	4,025,497

The accompanying notes 1 to 31 are an integral part of and should be read together with these statements.

Marcelo Adrián Núñez
Chairperson

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(stated in thousands of pesos)

	Notes	For the years ended,	
		12.31.16	12.31.15
Revenues	24	8,038,203	4,627,357
Operating costs	25	(6,904,281)	(3,753,736)
Gross profit		1,133,922	873,621
Administration expenses	25	(610,164)	(426,317)
Selling expenses	25	(732,018)	(499,754)
Other income and expenses	26	(173,588)	(4,168)
Result before Temporary Economic Assistance		(381,848)	(56,618)
Temporary Economic Assistance	2.2.2.5	759,200	711,000
Operating income		377,352	654,382
Finance income	27	140,810	50,294
Finance cost	27	(1,189,097)	(1,183,508)
Net financial results		(1,048,287)	(1,133,214)
Result before income tax and MPIT		(670,935)	(478,832)
Income tax and MPIT	28	66,527	(81,876)
Net result for the year		(604,408)	(560,708)
Other comprehensive result		-	-
Net and comprehensive result for the year		(604,408)	(560,708)
Net and comprehensive result for the year attributable to controlling interest		(599,682)	(564,901)
Net and comprehensive result for the year attributable to non-controlling interest		(4,726)	4,193
Net and comprehensive result for the year		(604,408)	(560,708)
Net result per share			
Basic and diluted	29	(1.05)	(0.99)

The accompanying notes 1 to 31 are an integral part of and should be read together with these statements.

Marcelo Adrián Núñez
Chairperson

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 *(stated in thousands of pesos)*

	Issued capital	Accumulated results	Equity attributable to the owners of the parent	Non-controlling interest	Total Shareholders' Equity
Balance as of December 31, 2014	569,171	(779,357)	(210,186)	3,124	(207,062)
Net and comprehensive result for the year ended December 31, 2015	-	(564,901)	(564,901)	4,193	(560,708)
Balance as of December 31, 2015	569,171	(1,344,258)	(775,087)	7,317	(767,770)
Net and comprehensive result for the year ended December 31, 2016	-	(599,682)	(599,682)	(4,726)	(604,408)
Balance as of December 31, 2016	569,171	(1,943,940)	(1,374,769)	2,591	(1,372,178)

The accompanying notes 1 to 31 are an integral part of and should be read together with these statements.

Marcelo Adrián Núñez
Chairperson

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (stated in thousands of pesos)

	12.31.16	12.31.15
Cash flows generated by operating activities		
Net result for the year	(604,408)	(560,708)
Adjustments to arrive to the net cash flow from operating activities		
Income tax and MPIT	(66,527)	81,876
Temporary Economic Assistance	(759,200)	(711,000)
Depreciation of properties, plant and equipment and investment properties and intangible assets	101,222	93,985
Net book value of disposals of properties, plant and equipment and investment properties	20,656	5,730
Net charge on provisions	239,241	54,843
Net financial results	1,150,311	1,136,530
Changes in assets and liabilities		
Trade receivables	(1,807,400)	(434,631)
Other receivables	64,412	558,127
Inventories	(2,696)	-
Other non current investments	-	1,066
Trade payable	2,317,003	740,160
Salaries and social securities	44,742	27,748
Income tax and MPIT liability	(5,015)	-
Other taxes payable	143,452	59,424
Provisions	(21,306)	(10,792)
Other accounts payable	(4,265)	(7,789)
Income tax and MPIT paid in the year	(44,114)	(7,893)
Interest paid	-	-
Net cash flows generated by operating activities	766,108	1,026,676
Cash flows used in investing activities		
Increase in properties, plant and equipment	(486,164)	(231,297)
Increase in intangible assets	(59,665)	(70,157)
Proceeds from sales of investment properties	-	2,908
Net cash flows used in investing activities	(545,829)	(298,546)
Cash flows used in financing activities		
Financial debt interest payment	(284,935)	(175,414)
Commercial debt interest payment	(175,256)	(57,804)
Net cash flows used in financing activities	(460,191)	(233,218)
Net (decrease) increase in cash and cash equivalents	(239,912)	494,912
Cash and cash equivalents at the beginning of year	596,223	97,586
Exchange differences on cash and cash equivalents	1,593	3,725
Cash and cash equivalents at the end of the year (1)	357,904	596,223
Net (decrease) increase in cash and cash equivalents	(239,912)	494,912

(1) As of December 31, 2016 and 2015, funds collected and pending to be deposited for Trust Funds and Resolution I-2,621/2013 amount to 45,428 and 59,593, respectively.

The main transactions that do not generate cash movements are described in Note 18.

The accompanying notes 1 to 31 are an integral part of and should be read together with these statements.

Marcelo Adrián Núñez
Chairperson

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

1. GENERAL INFORMATION

MetroGAS S.A. (“MetroGAS” or the “Company”) is a sociedad anónima organized under the laws of the Republic of Argentina. The registered office and principal place of business is located at Gregorio Aráoz de Lamadrid 1360 – Ciudad Autónoma de Buenos Aires.

The Company was created in 1992 and on December 1, 1992 it was registered as a corporation pursuant the laws of the Republic of Argentina at the Public Registry of Commerce under number 11,670, Book 112, Volume A of Sociedades Anónimas. The term of duration of the Company expires on December 1, 2091 and its principal business is the provision of natural gas distribution public services.

On November 2, 1994, the Argentine Securities Commission (“CNV”), pursuant to Resolution No. 10,706, authorized to public offering on Buenos Aires Stock Exchange (“BCBA”) all the Company's outstanding shares that at such date composed the capital stock.

MetroGAS’ controlling shareholder is YPF S.A. (“YPF”) whose principal business is the study, exploration and exploitation of liquid and/or gaseous hydrocarbons and other minerals, as well as the industrialization, transportation and marketing of these products and their byproducts, also including petrochemical products, and non-fossil fuels and chemicals, biofuels and their components, electric power generation based on hydrocarbons, telecommunication services, as well as production and industrialization, processing, marketing, conditioning services, grain transportation and storage and their byproducts (see Note 16).

At December 31, 2015, the parent company of MetroGAS was Gas Argentino S.A. (“Gas Argentino”), whose merger with YPF was approved by the Board of Directors of said Company on March 3, 2016 with effect to January 1, 2016 (See Note 16).

MetroGAS controls MetroENERGÍA S.A. (“MetroENERGÍA”) a *sociedad anónima* formed under the laws of Argentina, whose principal business is the purchase and sale of natural gas and/or transport on its own behalf or on account of third parties in Argentina.

With respect to General Resolution No. 629 of CNV, please be informed that the backup documents of the Company’s operations are filed with Iron Mountain Argentina S.A. warehouses at Amancio Alcorta 2482, City of Buenos Aires.

2. ECONOMIC AND FINANCIAL POSITION AND REGULATORY FRAMEWORK

As from December 2001, the National Government adopted a number of measures designed to act in the face of the difficult economic, financial and social conditions prevailing in the country, which entailed a significant change in the economic policies then being applied.

The most salient of those measures included: (1) implementing a floating rate of exchange, which resulted in a significant devaluation of the Argentine peso during the first months of 2002, (ii) the conversion to Argentine pesos of some foreign-exchange denominated assets and liabilities kept within the country, and (iii) the conversion to Argentine pesos of the rates and tariffs of public services.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

As part of the above measures, Public Emergency and Foreign-Exchange System Law No. 25,561 (the "Emergency Law") was enacted on January 9, 2002. This law was subsequently supplemented by other statutes, executive decrees and regulations issued by different governmental agencies. This set of rules involved a substantial change in the terms of MetroGAS License under which the Company had been operating, and in the relationship between the Company and the National Government, as it modified the tariff system established under Law No. 24,076 (the "Gas Law") and supplementary regulations.

The Argentine Executive Power ("PEN") has been authorized to renegotiate public service agreements on the basis of the following factors: a) the impact of service rates on economic competitiveness; b) the quality of services and any investment plans contemplated in the relevant agreements; c) users' interests and service accessibility; d) the safety of any systems involved; and e) the profitability of the companies involved.

Note 2.2.2 describes the evolution of the tariff renegotiation process carried out between the Company and the National Government.

Since 2001 up to the present, the Company's operation costs have increased much more than the increases of MetroGAS' distribution margin established in the agreements mentioned in Note 2.2.2 not turning them enough to restore the company's economic-financial situation.

Additionally, the Company was unable to generate sufficient liquid funds to make payments under its financial debt which were due on June 30, 2010, and some trade payables and tax obligations. Consequently on June 17, 2010, the Board of Directors decided to rely on the protection afforded under these circumstances by Argentine Law No. 24,522, and filed a petition for Reorganization Proceedings on behalf of MetroGAS. The Company on February 1 and February 13, 2013, submitted before the intervening Court the compliance of the debt exchange and the issuance of the new notes. On November 8, 2013, the intervening Court issued a resolution stating that the reorganization proceedings had been completed upon the debtor's compliance with its arrangement with creditors.

Note 2.1 describes the MetroGAS' Reorganization Proceeding.

Funds corresponding to: (i) the Letter of Understanding subscribed on November 21, 2012 with the Ente Nacional Regulador del Gas ("ENARGAS") described in Note 2.2.2.2, (ii) the Provisional Agreement subscribed on March 26, 2014 ("Provisional Agreement 2014") with the Unit for the Renegotiation and Analysis of Public Services Contracts ("UNIREN") described in Note 2.2.2.3, (iii) the temporary economic assistance granted by the Energy Secretariat ("ES") through Resolution No. 263/2015 dated on June 8, 2015 described in Note 2.2.5.1, (iv) the Provisional Agreement signed on February 24, 2016 with the Ministries of Energy and Mining ("MINEM"), and Economy and Public Finances ("Provisional Agreement 2016") described in Note 2.2.2.4, and (v) the temporary economic assistance granted by the MINEM Resolution No. 312 - E/2016 dated on December 28, 2016 described in Note 2.2.2.5.2, have not allowed, up to this date, to restore the economic and financial position of the Company.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

As of December 31, 2016, the Company recorded accumulated losses for 1,943,940 and kept a consolidated negative working capital of 754,273. As a consequence of the magnitude of accumulated losses registered as of that date, the Company registered a negative Shareholders' equity attributable to controlling interest of 1,374,769, being subject to the provisions of Article 94, paragraph 5, and Article 96 of the General Corporations Law.

The Company estimates that during the next year the financial situation of MetroGAS will gradually recover once the Integral Tariff Review process is concluded in the Comprehensive Letter of Understanding of Contractual Renegotiation Agreement in accordance with the guidelines set forth in the Annex to the Provisional Agreement 2016.

However as mentioned above, the Company cannot ensure that its estimates, previously mentioned, finally will be implemented or be implemented in the provided terms. In this regard, the Company's Board of Directors is evaluating different alternatives in order to regularize the Company's economic and financial situation, with a view to adopting the most appropriate option at the appropriate time.

These consolidated financial statements have been prepared using accounting standards applicable to a going concern.

2.1 MetroGAS Reorganization Proceeding

On account of various circumstances that significantly affected the Company's ability to generate sufficient cash flows in order to meet its obligations as to suppliers and financial creditors, on June 17, 2010 the Board of Directors of MetroGAS filed a petition for reorganization proceedings in National Commercial Court No. 26, Clerk's Office No. 51, and file No. 56,999. A Shareholders' Meeting of the Company held on August 2, 2010 ratified this decision of the Board of Directors.

After the different procedural steps prescribed by the Argentine Bankruptcy Law ("ABL") had been completed, on May 22, 2012 the Company filed a complete and final proposal for an arrangement with unsecured creditors holding allowed and provisionally admitted claims. The proposal which contemplated payment of any allowed and provisionally admitted unsecured claims by means of a delivery, in exchange for and lieu of payment of those claims, of two classes of notes (the "New Notes") due December 31, 2018.

On September 6, 2012, the acting court issued an order by which it approved the Company's reorganization proceedings and declared it terminated under the ABL. Also, it ordered the creation of the final committee of creditors.

The debt exchange and issuance of the New Notes were implemented by the Company on January 11, 2013 with respect to unsecured creditors holding allowed and provisionally admitted claims.

The Company on February 1 and February 13, 2013, submitted before the intervening Court the compliance of the debt exchange and the issuance of the New Notes as well as capitalization and interest payments in order to obtain the removal of all general inhibitions and the legal declaration of the accomplishment of the proceeding within the terms and conditions of Section 59 of the ABL.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

On September 9, 2013, MetroGAS made a formal presentation in the reorganization file requesting the reorganization proceedings be declared complied with.

On November 8, 2013, the acting Court issued a resolution stating that the reorganization proceedings had been satisfactorily completed upon the debtor’s compliance with its arrangement with creditors. Court notices were published as evidence that the order restraining the debtor’s disposition of party had been lifted, and fees were assessed for the bankruptcy syndics.

Also, the Company is currently holding negotiations with preferred creditors in relation to the payment of their respective claims, which are registered as of December 31, 2016 in “Reorganization liabilities”, along with certain litigious reorganization liabilities or late verification debts pending of resolution by the bankruptcy judge.

2.2 Regulatory framework

The natural gas distribution system is regulated by the Gas Law which, together with Decree No. 1,738/92 issued by the Executive Power, other regulatory decrees, the specific bidding rules (“Pliego”), the Transfer Agreement and the License, establishes the regulatory framework for the Company’s business.

The License, the Transfer Agreement and the regulations promulgated pursuant to the Gas Law contain certain requirements regarding the quality of service, capital expenditures, restrictions on transfer and encumbrance of assets, restrictions on cross ownership among gas production, transportation and distribution companies and restrictions on transfers of common stock of MetroGAS.

The Gas Law and the License establish ENARGAS as the regulatory entity to administer and enforce the Gas Law and the applicable regulations. ENARGAS’ jurisdiction extends to transportation, marketing, storage and distribution of natural gas. Its mandate, as stated in the Gas Law, includes the protection of consumers, the fostering of competition in the supply of and demand for gas, and the encouragement of long-term investments in the gas industry.

Tariffs for gas distribution services were established in the License and are regulated by ENARGAS.

2.2.1 Distribution License

Under the License, MetroGAS is entitled to render the public service of gas distribution for a term of 35 years. The Gas Law provides that MetroGAS may, upon expiration of the original 35-year term, apply to ENARGAS for a renewal of the License for an additional 10-year term. ENARGAS is required at that time to evaluate the Company’s performance and make a recommendation to the PEN. MetroGAS is entitled to such extension of its License unless ENARGAS can prove that MetroGAS is not in substantial compliance with all its obligations stated in the Gas Law and applicable regulations and decrees and the License.

At the end of the 35-year or 45-year term, as the case may be, the Gas Law requires that a new competitive bidding be held for said license, in which MetroGAS will have the option, in case it

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

has complied with its obligations, to match the best bid offered to National Government by any third party.

As a general rule, upon termination of all periods of the License, MetroGAS will be entitled to receive the lower of the value of specified assets of MetroGAS or the proceeds paid by the successful bidder in a new competitive bidding process (Note 2.7.1).

MetroGAS has various obligations under the Gas Law, including the obligation to comply with all reasonable requests for service within its service area. A request for service is not considered reasonable if it would be uneconomic for a distribution company to undertake the requested extension of service. MetroGAS also has the obligation to operate and maintain its facilities in a safe manner. Such obligation may require certain investments for the replacement or improvement of facilities as set forth in the License.

The License details other obligations of MetroGAS, which include the obligation to provide distribution service, to maintain continuous service, to operate the system in a prudent manner, to maintain the distribution network, to carry out a Mandatory Investment program, to keep certain accounting records and to provide periodic reports to ENARGAS.

The License may be revoked by the National Government upon the recommendation of ENARGAS under the following circumstances:

- Serious and repeated failure by the Company to meet its obligations.
- Total or partial interruption of not interruptible service for reasons attributable to the Company of duration in excess of the periods stipulated in the License within a calendar year.
- Sale, disposition and transfer of the Company's Essential Assets or encumbrances thereon without ENARGAS' prior authorization, unless such encumbrances serve to finance extensions and improvements to the gas pipeline system.
- Bankruptcy, dissolution or liquidation of the Company. The reorganization proceeding did not affect the normal course of the operations of the Company or, consequently, would a cause of revocation of the Company's license.
- Ceasing and abandoning the provision of the licensed service, attempting to assign or unilaterally transfer the License in full or in part (without ENARGAS' prior authorization) or giving up the License, other than as permitted therein.
- Transfer of the Technical Assistance Agreement or delegation of the functions granted in said Agreement without ENARGAS' prior authorization, during the first ten years from license granting.

Regarding the restrictions, the License stipulates that the Company cannot assume the debts of its parent or grant loans or encumber assets to secure debt of, or grant any other benefit to creditors of its parent.

2.2.2 Tariff Renegotiation

The Emergency Law published in the Official Gazette on January 7, 2002, modified the legal framework in force for license contracts of public services.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The main provisions of Emergency Law that have an impact on the License duly granted to MetroGAS by the National Government and that modify express provisions of the Gas Law are the following: “pesification” of tariffs that were fixed in convertible dollars at the exchange rate specified in the Convertibility Law (Law No. 23,928), the prohibition of tariff adjustments based on any foreign index, thus not allowing the application of the international index specified in the Regulatory Framework (US Producer Price Index-PPI) and the renegotiation of the License granted to the Company in 1992.

Moreover, the Emergency Law established the beginning of a renegotiation process of public utility services agreements granted by the PEN without detriment to the requirements that utility services companies must go on complying with all their obligations.

The Emergency Law, which was originally to be due in December 2003, was extended several times until December 31, 2017. The terms for renegotiating licenses and public services concessions were also extended.

In the framework of the renegotiation process, the Company signed a series of agreements with different entities representing the National Government.

The agreements signed are described below.

2.2.2.1 Provisional Agreement 2008

On October 1st, 2008, MetroGAS signed a Provisional Agreement with the UNIREN which was ratified by its Shareholder’s Meeting on October 14, 2008 and approved by the PEN on March 26, 2009 by Decree No. 234/2009 (Official Gazette on April 14, 2009). The Provisional Agreement 2008 established a Transitional Tariff Regime as from September 1, 2008, with a readequacy of prices and tariffs included price variation of gas, transportation and distribution services. The amounts resulting from the increase effectively received in distribution tariffs should be deposited by the Company in a specific trust fund created to carry out infrastructure works in the License area.

The Provisional Agreement mentioned had not been applied, due to the fact that rate schedules did not issue.

2.2.2.2 Fund for Gas Distribution Consolidation and Expansion Works (“FOCEGAS”)

On November 21, 2012, the Company subscribed an Agreement with ENARGAS. In such agreement a fixed amount per invoice is agreed, stating a difference by customer category. The amounts collected in respect thereof by the Distribution Companies will be deposited in a trust fund called FOCEGAS created to this effect and used to carry out infrastructure works, connection works, repowering, expansion and/or technological modification of the systems of gas distribution through network, security, reliability of the service and integrity of the network, as well as maintenance and any other related expense that may be necessary to provide the gas distribution public service, up to the amount of the funds actually available so as to be applied within the service area. On the other hand, gas distribution companies shall obtain the approval of the Execution Committee created under the trust fund to implement an Investment Plan of

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Consolidation and Expansion expressed in physical and monetary terms which guidelines shall be determined in the trust fund agreement to be entered into between the Company and Nación Fideicomisos S.A.

On November 29, 2012 ENARGAS Resolution No. 2,407/12 was published in the Official Gazette, specifying that MPFIPyS Resolution No. 2,000/05 had been complied with. As a consequence ENARGAS authorized Distribution Companies to collect the charge previously mentioned.

On December 11, 2012 a financial trust fund and private administration contract was signed by MetroGAS, Nación Fideicomisos S.A and the ENARGAS.

On January 16, 2013 the Operative Manual was executed with ENARGAS in accordance with the form duly sent by the regulatory authority.

The Trust Fund Contract and the Operative Manual provided the general guidelines for the management of the deposited funds. Distribution Companies had to deposit, on a monthly basis, the amounts collected from customers together with a Sworn Statement which must be filed with ENARGAS and Nación Fideicomisos S.A.. In addition, an annual Investment Plan of Consolidation and Expansion would had to be submitted to the Execution Committee for its approval. Upon obtaining approval thereof and of any modifications thereto, and once the Sworn Statement shall have been examined together with the progress of improvement works, the Execution Committee was responsible for approving the funds availability in order that Nación Fideicomisos S.A. may make the corresponding payments to suppliers for and on behalf of the Distribution Companies.

On February 1, 2013, MetroGAS submitted to ENARGAS the Investment Plan of Consolidation and Expansion for its approval. On March 27, 2013, MetroGAS received notice that the Plan had been approved in its entirety by the Execution Committee at its meeting held on March 21.

On January 6, 2014 the Company submitted the 2014 Works Plan to the ENARGAS, including all information regarding works carried out according to the 2013 Plan and sent to Nación Fideicomisos S.A. the report of all expenses resulting from the alternative methodology of advanced-funds; all of this was approved in March 2014. On July 16, 2015 the 2015 Works Plan corresponding to Reliability, Maintenance and Expansion was introduced, which was approved in December 10, 2015.

On April 8, 2015 the Official Gazette published ENARGAS Resolution No. 3,249/2015 that repealed Articles 3 and 4 from ENARGAS Resolution No. 2,407/2012, by virtue of which the Company was requested to (i) deposit the fix amounts collected through invoicing into the trust fund created for that purpose, acting MetroGAS as the Trustor and Nación Fideicomisos S.A. as the Trustee, and (ii) submit to approval a project investment annual plan for consolidation and extension works.

Consequently, due to the entry into force of ENARGAS Resolution No. 3,249/2015, from April 1, 2015 the fix amounts per invoice established by ENARGAS Resolution No. 2,407/2012 that the Company continues invoicing and collecting shall not be allocated to the Administration and Finance Trust Fund entered into with Nación Fideicomisos S.A., but, on the contrary, they must be

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

allocated by MetroGAS "only to activities related to the expansion and reliability of the systems, operation and maintenance tasks contributing to the compliance of the standards established by the governing code "Código Argentino de Gas – NAG" and to commercial and administrative activities aimed at effectively providing service to customers within the operation area" and no less than 30% of the fix amounts shall be assigned to investments entailing system expansion within the framework of an investment plan to be authorized by ENARGAS.

On April 20, 2016 the Company submitted before the ENARGAS the Mandatory Investments Plan for fiscal year 2016. Fixed amounts per invoice stated by ENARGAS Resolution No. 2,407/2012 were assigned to cover expenditures related to this Investments Plan.

As a Consequence of the ENARGAS Resolution No. 3,249/2015, Nación Fideicomisos S.A. and MetroGAS have started the necessary procedures to finally end with the FOCEGAS.

2.2.2.3 Provisional Agreement 2014

On March 26, 2014, the Company signed a Provisional Agreement with the UNIREN, whereby a provisional tariff regime was agreed in order to obtain additional funds to those resulting from the enforcement of ENARGAS Resolution No. 1/2,407/2012 dated November 27, 2012.

The amounts that the gas licensees received on account of FOCEGAS and the Resolution mentioned in the previous paragraph were taken into account of the tariff adjustments provided for in the Provisional Agreement approved by Decree No. 234/2009.

The Provisional Agreement 2014, ratified by Decree No. 445/2014 (published in the Official Gazette on April 7, 2014), establishes a provisional tariff regime as from April 1, 2014, consisting in readjust prices and tariffs considering the guidelines necessary to maintain the continuity of service and also sets forth common criteria applicable to all distribution licensees, in accordance with tariff regulations in force, including changes in the gas price at the transmission system entry point.

The Provisional Agreement 2014 also contemplated the inclusion of pass through to tariffs resulting from changes in tax rules, except for the income tax, pending of resolution and it also includes clauses related to costs oversight tariff revision based on operation and investment cost structure, and price indexes representative of such costs, which under certain premises triggers a revision procedure through which ENARGAS assessed the actual scale of variations in the licensee's operating and investment costs, and thereby determine whether a distribution tariff adjustment is applicable.

The Company submitted to the ENARGAS three requests to update its tariffs by applying the Method for Costs Monitoring established in the Provisional Agreement 2014. None of these requirements have resulted in a readjustment of the Distribution tariffs to recognize the highest costs faced by the Company; however, through the Resolution No. 263/2015 a Temporary Economic Assistance has approved, described in detail in 2.2.2.5.1.

The Provisional Agreement 2014 also provided that, from the execution date to December 31, 2015, the date on which Emergency Law expired, the National Government through the UNIREN on behalf of the Grantor and the licensee shall reach a consensus with respect to the methodology,

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

terms and timeline for the signing of the Comprehensive Letter of Understanding of Contractual Renegotiation. On November 3, 2015 the extension of The Emergency Law was approved until December 31, 2017.

On March 27, 2014, the National Government announced the reallocation of subsidies and on March 31, 2014 the ES issued ES Resolution No. 226/14 pursuant to which it considers necessary to determine a set of new prices for natural gas and a scheme that seeks rational use of it, encouraging savings to generate a responsible use.

Within this framework, new natural gas prices are established for Residential customers and for Small General Service customers ("SGP") for each of the production basins and user categories. These new prices will be applied by a mechanism of comparing consumption of same two-month/month period of current and previous year. Furthermore, a three-stage price revision is established to take effect on April 1, 2014, June 1, 2014 and August 1, 2014. For those customers that reduce their consumption over 20%, basin prices as of March 31, 2014 as per ES Resolution No. 1417/2008 will remain the same. While customers whose reduction in consumption is between 5% and 20% will have a special and lower basin natural gas price compared to the price applied to those customers not able to reduce consumption or whose reduction is below 5%.

Through Note ENRG/SD No. 3097 dated April 7, 2014, ENARGAS notified Resolution No. I/2,851, from the same date, wherein new tariff charts are approved and are stated to take effect on April 1, 2014, June 1, 2014 and August 1, 2014. Such charts display changes in the final tariff of residential and full general service customers. These include changes in the gas price at the transmission system entry point, as a result of the application of the new prices per basin established by the aforementioned ES Resolution No. 226/14, the transportation tariff as a consequence of the new tariff chart effective for gas transportation companies that reflect the terms of their 2008 signed provisional agreements establish, and MetroGAS' distribution margin after the signing of the Provisional Agreement 2014.

In accordance with the price scheme established through ES Resolution No. 226/14 and the ENARGAS Resolution No. I/2,851, three tariff levels are established for each period, which are to be applied to customers according to their consumption in a month/two-month period in relation to the same period of the previous year.

Customers that registered a decrease in consumption of over 20% would continue with the same tariff level as that in effect until March 31, 2014. Customers that achieved a reduction between 5% and 20% will be charged a tariff approximately 50% lower in relation with the actual price variation, which will be applied to customers unable to reduced their consumption or whose reduction is below 5%.

ENARGAS resolution established that the current tariff charts March 31, 2014 shall still be applied to essential users (health care, public education religious institutions, etc.); and consumers eligible pursuant to Notes MPFIPyS No. 10/2009 dated August 13, 2009. Under that mechanism, the Licensee also had different prices for the gas distribution service according to the customers' consumption.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Through Note ENRG/SD No. 5,747 dated May 13, 2014, ENARGAS notified on Resolution No. I/2,904 from same date, whereby the methodology for the determination of user’s category based gas supply as from of April 1, 2014 is approved.

On June 8, 2015, the Official Gazette published Resolution No. I/3,349 approving the new tariff charts effective as of May 1, 2015. The increase are connected with the rise of the transport component and reaches residential, commercial and industrial customers, with the exception of sub distributors, “waived” customers and those residential or commercial customers that saved more than 20% compared with the same bimester of the previous year.

On the other hand, the new tariff charts included the amount corresponding to the FOCEGAS as a “Fix amount” in accordance with ES Resolutions I-2,407/2012 and I-3,249/2015.

2.2.2.4 Provisional Agreement 2016

On February 24, 2016, the Company signed with the MINEM and Economy and the Ministry of Economy and Public Finances a Provisional Agreement, which provided a temporary tariff schedule for the provision of additional resources to those received by the application of the ENARGAS Resolution No. I/2,407/2012 dated November 27, 2012 and the Provisional Agreement 2014 (“Provisional Agreement 2016”).

The Provisional Agreement 2016, which is not subject to ratification by the Argentine Executive Power, established a transition tariff schedule as from April 1, 2016, consisting of the re-adjustment of tariffs based on the guidelines required to maintain the service and criteria common to the remaining distribution companies, following the current tariff legislation and including gas price variations at the point of entry into the transportation system (“PIST”).

The Provisional Agreement 2016 provided the incorporation of the transfer resulting from changes in tax rules, with the exception of the income tax, which were pending of resolution, and established for MetroGAS a Mandatory Investment. Also, established that, between the date the agreement is entered into and December 31, 2016, the parties must agree on the modalities, deadlines and timeliness of the signature of the Comprehensive Letter of Understanding of Contractual Renegotiation.

On March 29, 2016, MINEM instructed ENARGAS through Resolution No. 31/2016 to carry out the Integral Tariff Review process as set forth in the Comprehensive Letter of Understanding of Contractual Renegotiation entered into with the Licensees within the framework of Emergency Law, which shall be completed within a term no more of one year as from March 29, 2016.

On March 28, 2016, MINEM established, effective from April 1, 2016, through Resolution No. 28/2016 the new prices for natural gas at city gate into the PIST and introduced a discount scheme for residential customers that register the same consumption or savings over 15% compared with the same period on previous year. For lower-income customers unable to pay the tariff charts, a differential tariff denominated “Social Tariff” was established.

Under the terms of the Provisional Agreement, on April 4, 2016, the Official Gazette published ENARGAS Resolution No. 3,726/2016, were approved, effective April 1, 2016, tariff schedules transition to be applied to MetroGAS customers. Through differential tariff, the ENARGAS

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Resolution No. 3,726/2016, determinate tariff schedules for residential customers with 15% or more saving in their consumption compared to the same period of the previous year as well as those to be applied to customers registered with the registry provided for in ENARGAS Resolution No. I-2,905/2014 with the amendments introduced by the provisions of section 5 of MINEM Resolution No. 28/2016 respect to the Social Tariff.

As to the Social Tariff, section 5 of MINEM Resolution No. 28/2016 established that a discount of one hundred percent (100%) of the price of natural gas or of propane gas shall be granted to customers included in the register stipulated by ENARGAS Resolution No. I-2,905/2014. On May 6, 2016, through ENARGAS Resolution No. 3,784/2016 the Waived Customers Register was adjusted to the National Government Subsidies Redirecting Policy.

Furthermore, the tariff schedules established to ENARGAS Resolutions No. 3,726/2016 (i) include the amounts corresponding to Fund for Gas Distribution Consolidation and Expansion Works ("FOCEGAS") as a "Fixed Amount", according to ENARGAS Resolutions No. I-2,407/2012 and I-3,249/2015 and (ii) instruct MetroGAS to discontinue the inclusion of amounts resulting from the charge provided for in Decree No. 2,067/2008. Regarding service bills which are issued every two months, MetroGAS was instructed that the collection of the service bills shall be effected as a monthly payment obligation, with two monthly payments each of them equivalent to 50% of the total amount of the bi-monthly bill, thirty days apart one from the other.

Finally, the Resolution stated that MetroGAS may not distribute dividends if the company has not previously proved before ENARGAS the integral fulfillment of the Mandatory Investment Plan.

In relation with the tariffs applicable to users of MetroGAS - as well as to the users of the other Distributors - they were limited by means of Resolutions MINEM No. 99/2016 and No. 129/2016.

The MINEM Resolution No. 129/2016 modified Resolution No. 99/2016 and instructed ENARGAS to take the necessary measures so that during 2016, the total amount, including taxes, of the invoices issued by gas distributors across the country to residential customers (R category and subcategories) and General Service P ("SGP") customers for gas full service consumption as from April 1, 2016 does not exceed 400% and 500%, respectively, the total amount including taxes of the invoice issued for that same customer in relation with the same invoicing period of previous year. Therefore, invoices shall not exceed 5 or 6 times the total amount billed to that same customer for that same period on previous year.

Additionally, MINEM instructed ENARGAS to adopt the actions required in order to finish before December 31, 2016, the Integral Tariff Review process (mentioned in Section 1 of Resolution No. 31 of MINEM) to which end the public hearing therein provided for shall be conducted before October 31, 2016.

On July 27, 2016 ENARGAS informed through Note No. 6,877 that as a result of the decision in the case promoted by the Center of Studies for the Promotion of Equality and Solidarity ("CEPIS"), and until a final decision is reached in relation with the extraordinary appeal filed by MINEM, the application of ENARGAS Resolutions which implemented the tariff increase, which included ENARGAS' Resolutions No. 3,726/2016 and No. 3,843/2016 would not be feasible.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

On August 18, 2016, the National Supreme Court (“CSJN.”) admitted the extraordinary appeal filed by MINEM in the CEPIS case and partially confirmed the appealed ruling as to the nullity of MINEM Resolutions No. 28/2016 and No. 31/2016 for residential consumers of natural gas, maintaining for them, and in the most beneficial way, the validity of the Social Tariff, founded on the absence of public hearings to establish the tariff increases. Therefore, and for residential customers, the tariff schedules established as from April 1, 2016, have been discarded.

As a result of the CSJN.’s ruling, steps were taken in order to hold the public hearings required by CSJN. for PIST prices and with reference to the temporary Transportation and Distribution tariffs (ENARGAS Resolutions No. I-3,953/16 and No. I-3,957/16).

Based on CSJN.’s Resolution, MINEM issued Resolution No. 152-E/2016 which instructs ENARGAS on how to bill consumptions of residential and SGP customers as from April 1, 2016. On this matter, Resolution No. 3,961/2016 establishes that in order to bill residential users for consumptions after April 1, 2016, the tariff schedules valid as at March 31, 2016 shall apply, and it repeals Article 1 of ENARGAS Resolution No. I-3,843/2016, related to the bonus determined by MINEM Resolution No. 129/2016. Furthermore, ENARGAS issued Resolution No. 3,960/2016, instructing distributors about mechanisms for applying the bonus of MINEM Resolution No. 129/2016 to SGP users.

After holding the public hearings demanded by MINEM (PIST prices) and ENARGAS (Transportation and Distribution Tariffs) and publishing the Final Report of the hearings (art. 21 ENARGAS Resolution No. 3,158/2005), on October 7 the B.O published MINEM Resolution No. 212 – E/2016 (PIST prices), ENARGAS Resolution No. 4,044/2016 that describes tariff schedules for MetroGAS customers and ENARGAS Resolutions No. 4,053/2016 and 4,054/2016 with the tariff schedules for transportation companies Transportadora de Gas del Norte S.A. and Transportadora de Gas del Sur S.A., respectively. In this respect, MINEM Resolution No. 212 – E/2016 provides a gradual increase of PIST prices tending to reduce the application of the subsidies provided by the National Government according to a price proposal to be prepared – and subject to approval of MINEM - by the Secretariat of Hydrocarbon Resources.

ENARGAS Resolution No. 4,044/2016 decided to: (i) declare Public Hearing No. 83 valid; (ii) approve as from October 7, 2016, the new tariff schedules to be applied to customers within MetroGAS license area; (iii) approve as from October 7, 2016, the new tariff schedules to be applied to customers within MetroGAS license area that have a 15% saving or above on their consumption with respect to the same period of the previous year; and (iv) approve as from October 7, 2016, the new tariff schedules to be applied to customers within MetroGAS license area registered with the Registry provided by ENARGAS Resolution No. I-2,905/14 (Social Tariff).

Furthermore, ENARGAS Resolution No. 4,044/2016 provides limits to increases for Residential and SGP customers when the total amount of the invoice is above two hundred and fifty pesos (\$250). The final amount of the invoice plus taxes resulting from the application of the approved tariff schedules, and the amount actually invoiced based on the referred limit, shall be deducted from the invoice issued to the customer in a separate line below the tariff items, under the heading “Bonus Res. MEyM No. XX/16”. The sum of those bonuses shall be applied as a discount over the prices to be invoiced by the gas suppliers of the gas distribution companies. Such discount shall be applied proportionally by all gas suppliers based on the volume of gas provided to the distributor.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

In line with the provisions of ENARGAS Resolution No. 3,726/2016 the monthly payment of the invoices shall be maintained and the Mandatory Investment Plan ratified.

Finally, on October 31, 2016, ENARGAS approved – valid as from October 7, 2016 – the tariff charts corresponding to the category “Social Welfare Institutions” (ENARGAS Resolution No. 4,092/2016) under the terms of MINEM Resolution No. 218 - E/2016 and Law 27,218 which established the Specific Utilities Tariff Regime for Social Welfare Institutions.

Considering the above, the real impact on the Company’s revenue and costs levels will depend on a variable outside its control, which is the reduction of consumption that its user may have, which will not depend exclusively on the action that each individual can perform to reduce their consumption, but also on the effects by changes in the climatic variables between both periods of comparison.

The Company believes it will reach an agreement with the National Government with respect to the guidelines of the Annex to Provisional Agreement 2016 as to modalities, deadlines and timeliness of the signature of the Comprehensive Letter of Understanding of Contractual Renegotiation, in order to enable the remediation of the Company’s economic-financial situation.

In line with this process, on November 16, 2016, ENARGAS instructed the organization of a public hearing in order to consider a) the Company’s Integral Tariff Review; b) amendment proposals, prepared by ENARGAS, to the Transportation and Distribution Service Regulations approved by Decree No. 2,255/92 and, c) the methodology of semiannual adjustments.

The Public Hearing took place on December 7, 2016.

At the date of preparation of these consolidated financial statements, and after the publishing of the Closing Report of the Public Hearing, ENARGAS will issue a Final Resolution with the tariff schedules that will result from the analysis made by ENARGAS within the framework of the Integral Tariff Review, in compliance with Article 38 of Annex I of Decree No. 1,172/2003 and ENARGAS Resolution No. I-4,089/2016, Annex I, Chapter III, Article No. 24.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

2.2.2.5 Temporary Economic Assistance

2.2.2.5.1 Resolution. ES No. 263/2015

On June 8, 2015, the Official Gazette published Resolution No. 263/2015 whereby ES approved the allocation of funds as a temporary economic assistance to be paid in ten consecutive installments in benefit of MetroGAS and the rest of the natural gas distributors effective as from March 2015, in order to cover expenditures and investments related to the regular operation of the natural gas public service and in advance for the Comprehensive Tariff Revision to be carried out in due time.

Said Resolution establishes that the beneficiaries shall assign a portion of the funds received by each of the monthly installments to cancel unpaid past due debt as of December 31, 2014 with natural gas producers, moreover, that distributors shall not take more debt resulting from the purchase of natural gas after the mentioned Resolution has become effective.

In the case of MetroGAS, ENARGAS established a need for exceptional funds amount to 711,000 for the year 2015 disbursable monthly according to the schedule between the months of March and December. Also was established that the company shall assign a portion of the temporary economic assistance to cancel debt with producers due at December 31, 2014 in 36 monthly, equal and consecutive installments, plus interest, as from January 2015, calculated using the current "Average Active Rate of Banco Nación for Commercial Discount Operations" (2.05 % monthly rate), and starting to pay the installments on March 2015.

Furthermore, ENARGAS considered that distributors would be proceed to cancel gas purchase invoices with maturity during 2015, estimating payments within 30, 60 and 90 days in line with the perception of invoices by clients.

At the date of these consolidated financial statements, MetroGAS has received the temporary economic assistance mentioned. Also has entered into payment agreements with the producers in terms of ES Resolution No. 263/2015, and regular payments have been made.

2.2.2.5.2 Resolution MINEM No. 312 – E/2016

On December 30, 2016 MINEM Resolution No. 312 - E/2016 was published in the Official Gazette providing a temporary economic assistance to Licensees of Natural Gas distribution Service by networks for the period April – September 2016, in order to be able to afford compulsory investments established (for MetroGAS) in ENARGAS Resolutions No. 3,726 and No. 4,044, and the payment to gas producers; all of this on account of the Comprehensive Tariff Review.

According to the terms and conditions of the Resolution, the allocation of amounts assigned to MetroGAS (759,200) shall be applicable as long as , according to the ENARGAS, the economic-financial situation of the Company that resulted in the temporary economic assistance is maintained; taking into account the availability of funds to fulfill its investment obligations and payments to gas producers.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

In order to issue the funds of the temporary economic assistance, MetroGAS shall submit to the ENARGAS an affidavit, under the terms of ENARGAS Note No. 106/2017, about the purpose to which the required amounts shall be put. According to ENARGAS’ instructions, should the affidavits be in line with the provisions of MINEM Resolution No. 312 – E/2016, they shall be forwarded to the Secretariat of Hydrocarbon Resources reporting to MINEM to provide the transfer of the assistance. Furthermore, the Resolution provides that Licensees shall not be able to distribute dividends under the terms of MINEM Resolution No. 31/2016. On January 27, 2017, the Company submitted the affidavit to the ENARGAS.

As described in Note 4.5.1 of these consolidated financial statements, it has recognized in the line “Temporary Economic Assistance” of Statements of Profit and Loss and Other Comprehensive Income of 759,200 and 711,000 as of December 31, 2016 and 2015, respectively and a credit of 759,200 and 149,310 for the amounts pending of collection has been registered in the line “Other current credits” as of December 31, 2016 and 2015, respectively.

2.2.3 Injunctions

Following the Provisional Agreement 2016 and the tariff charts established therein, a significant number of legal actions (provisional remedies, injunctions, etc.) were registered across the Nation against the tariff charts in force (ENARGAS Resolution No. 3,726/2016).

After the decision of the CSJN in the CEPIS case, MetroGAS expects no new legal actions to be filed to prevent the application of the tariff charts issued by ENARGAS.

2.2.4 Unbundling of Natural Gas

Due to regulatory changes that have been made to the natural gas sector since 2005, the so called “natural gas unbundling” process took place, by which different categories of users had to purchase natural gas volumes at the PIST directly from producers and/or sellers of natural gas, leaving the regional distribution companies limited to exclusively give transportation and or distribution services of natural gas.

Additionally, and in the same year, a Mechanism for Assigning Natural Gas to CNG stations was established, by which CNG stations get natural gas by means of a mechanism of periodic assignments of natural gas volumes in the Electronic Gas Market (“EGM”).

In this context, in 2005 MetroENERGÍA was constituted by MetroGAS as a natural gas trading company with the aim of keeping the highest amount of customers possible and count on a proper tool in accordance with the new scenario where the Company had to perform.

MetroENERGÍA was authorized by the ENARGAS to act as a natural gas trading company and or gas transportation company, and is registered as agent of the EGM.

Actions taken by MetroENERGÍA since its formation made it possible to retain most of the industrial and commercial customers duly contemplated in the “unbundling” process of the Company’s area, thus being able to maintain the participation of these categories of customers within MetroGAS’ sales portfolio.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

On April 1, 2016, through Resolution No. 34/2016, the MINEM ordered a new arrangement for the supply of CNG stations establishing the obligation regarding these users to purchase natural gas for supply to the distributor of its area or range so that they provide full service (gas, transportation and distribution).

MINEM Resolution No. 212 – E/2016 established new PIST prices for natural gas allocated to GNC filling stations effective from October 7, 2016. As a consequence thereof, through ENARGAS Resolution No. 4,044/2016, new tariffs for GNC users were approved among others.

2.2.5 Complementary Agreement with Natural Gas Producers

On January, 2004, Executive Order No. 181/04 authorized the ES to negotiate with gas producers a price adjustment mechanism to supply industries and electricity generation companies. In this context, through MPFIPyS Resolution No. 208/2004 approved the “Agreement for Implementing the Schedule for the Normalization of Natural Gas Prices at Points of Entry into the Transportation System by Executive Order No. 181/2004”, signed on April 2, 2004 between the ES and natural gas producers.

On June 14, 2007, the Argentine SE published Resolution No. 599/07 in the Official Gazette approving the proposal for the “Agreement with Natural Gas Producers 2007-2011” (“Agreement 2007-2011”). The Agreement establishes the volumes to be injected at the PITS by natural gas producers prioritizing mainly the supply of residential demand and CNG through redirection mechanisms and additional demands. Also, the parameters of the natural gas price adjustments in a staggered form.

In accordance with the Agreement 2007-2011, producers and distribution companies had to enter into gas purchase and sales agreements reflecting the provisions included therein.

The Company did not enter into any of these agreements at the appropriate time because it understood that the offers received from the producers neither comply with the terms and conditions of the Agreement 2007-2011, nor would allow MetroGAS to guarantee the supply of natural gas to the Company’s consumers on an uninterruptible basis considering the volumes included in said offers.

On October 4, 2010, ENARGAS Resolution No. 1,410/2010 was published in the Official Gazette (later clarified by ENARGAS Note No. 13,934), which approved new rules named “Procedure for Gas Applications, Confirmations and Control”, which shall be complied with by certain participants of the natural gas industry, including natural gas distribution companies, with an impact on daily natural gas nominations, transportation and distribution.

The ENARGAS Resolution No. 1,410/2010 was issued aiming at complementing delivery standards in force in face of demand and transport capacity that were higher than natural gas offer and at preserving the operation of transport and distribution systems giving priority to the consumption of the urgent demand: residential customers, complete service customers (natural gas, transportation and distribution is sold to them) and complete-service sub- distributing companies.

Once the Urgent Demand is met, producers will have to confirm volumes requested by the rest of the segments according to what is stated in the paragraph above, in the following order: 1) Natural

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Gas Stations, 2) uninterruptible customers (Unbundling), 3) i) Large Users, ii) Treatment Plants in and out of the system, and iii) Power Plants (according to Note ES No. 6,866/09) and 4) Exports.

On January 5, 2012, was published in the Official Gazette the ES Resolution No. 172/2012, which extended the effect of the ES Resolution No. 599/2007 for the allocation of natural gas volumes through transportation routes and basins based on the different categories of customers until the issuance of any new resolutions on that regard, which has not occurred at the date of issuance of these financial statements.

ES Resolution No. 599/2007 and ENARGAS Resolution No. 1,410/2010 have been complemented by MINEM Resolution No. 89/2016 that established natural gas volumes to be requested by distributing companies to meet the Prior Demand and by ENARGAS Resolution No. 3,833/2016 regarding the Procedure for Natural Gas Requests, Confirmations and Control.

Under the terms of MINEM Resolution No. 89/2016, a process of standardization of agreements was started; based on that MetroGAS entered into different agreements with gas producers, either from the Austral basin, or the Neuquina basin. These contracted volumes work out volumes from ENARGAS Resolution No. 1,410/2010 not only for the producer but also for the distributing company. Contracted volumes based on MINEM Resolution No. 89/2016 are paid by distributing companies at a price settled by the Ministry of Energy and Mining.

On October 6, 2016, the MINEM issued Resolution No. 212 – E /2016 and fixed a price path for natural gas, stipulating natural gas value on a gradual and biannual basis up to October 1, 2019 (for MetroGAS’ License area).

2.2.6 System for the Resolution of Consumption Conflicts

Law No. 26,993 about Resolution of Consumption Conflicts, which partially amends Law No. 24,240 of Consumer Defense, was enacted on September 17, 2014. The Law No. 26,993 establishes specific rules which will govern the administrative and judicial proceedings for claims based on the protection of user and/or consumer rights. Therefore, and depending on the amount and purpose of the claim, the Law determines: (i) a Prior Settlement System in Consumption Relationships for claims below the equivalent amount of 55 minimum, vital and mobile wages (“SMVM”) and, (ii) an audit in Consumption Relationships for claims about responsibility for damage, as provided for in Chapter X of Title I of Law No. 24,240, not above the equivalent value of 15 SMVM. Finally, Law No 26,993 establishes the creation of a special jurisdiction which, through its own process regulations, will deal with claims made for non-fulfillment of Law No. 24,240, not above the value equivalent to 55 SMVM.

2.3 Bankruptcy petition

On September 18, 2015 MetroGAS was aware of the existence of bankruptcy petitions promoted by Pan American Sur S.A., Pan American Fuego S.A. and Pan American Energy LLC Sucursal Argentina pending before National Commercial Court No. 26, Clerk’s Office No. 51, Ciudad Autónoma de Buenos Aires.

To date, the bankruptcy petitions indicated have been withdrawn and therefore declared as completed.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

2.4 Incentive Policies

There are various schemes fostered by the National Government to boost the natural gas industry which, although initially have no direct impact on MetroGAS, nor do they impose any obligations on the company, might actually have favorable consequences considering that one of their main objectives is to increase natural gas injections.

2.4.1 Gas Plus

The ES established by Resolution No. 24/08, issued on March 13, 2008 a program called “Gas Plus” to encourage production of natural gas in virtue of which every new gas volume produced under the said program shall neither be considered part of the volumes included in the 2007-2011 Agreement nor it shall be under its price conditions and such agreement.

The ES by Resolution ES No. 1,031/2008 amended Resolution ES No. 24/2008, establishing the personal conditions that the requesting producers must have to request their inclusion in the program. Subsequently, through Resolution ES No. 695/2009 certain conditions were modified, requiring producers to comply with certain commitments previously assumed

On July 10, 2013, ENARGAS issued Resolution I-2,621/2013 that provided that the regional distributors should be invoice the volumes injected by ENARSA on behalf of the latter together with the billing for the natural gas distribution and transportation service, and shall then render all accounts for the amounts thus invoiced. The Resolution specifically states that the higher costs that the invoicing on behalf of ENARSA generates to Distributors may not be passed through to consumers but they will eventually be covered within the framework of specific agreements that shall be negotiated and agreed between the Distributors and ENARSA resulting from that regulation. The operation in question applies to the volumes injected by ENARSA as from June 2013. As of the date of issuance of these consolidated financial statements no agreement was reached with ENARSA in relation to the higher costs.

2.4.2 Program to Encourage the Surplus Injection of Natural Gas

On February 14, 2013, Resolution No. 1/2013 of the Strategic Planning and Coordination Committee under the National Hydrocarbon Investment Plan (the “Committee”) was published in the Official Gazette, which created the Program for the Promotion of Surplus Natural Gas Injection. Under the terms of the resolution, gas producers could submit to the Commission and before June 30, 2013 projects to increase the total injection of natural gas in order to receive compensation of up to 7.5 US\$/MBTU injection.

In line with this program, through Resolution No. 60/2013, the Commission regulated the situation of those gas producers that could not present their program of additional injection of natural gas before June 30, 2013, setting a price range with respect to the injection surplus of between 4 US\$/MBTU and 7.50 US\$ MBTU.

Subsequently, under the terms Commission Resolution No. 185/2015, the program was adjusted in respect of those producers that had not recorded gas production at the time this new resolution was issued.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

2.4.3 Programa de Estímulo a los Nuevos Proyectos de Gas Natural

On May 18, 2016, the MINEM through Resolution No. 74/2016 invalidated Resolution No. 185/2015 of the Committee setting up the Incentive Program for New Projects of Natural Gas. This new program is addressed to all those producers who are not benefited with programs set forth through Resolutions No. 1/2016 and 60/2013 of the Committee and recognizes an incentive price of 7.50 US\$/MBTU to gas producers whose “New Projects” would have been approved.

2.5 Trust Funds

As of the date of issuance of these financial statements, MetroGAS must invoice, collect and settle two specific charges, allocated differently. The Company carries this out on behalf of Nación Fideicomisos S.A. as fiduciary.

The specific charge I (ruled by Decree No. 180/2004 issued by the PEN, and related regulations) and the specific charge II (ruled by Law No. 26,095 and related regulations) are supported by the whole pool of users of the natural gas service other than the residential segment and are applied to the payment of infrastructure works for the expansion of the natural gas system of transportation.

It is important to point out that none of these two specific charges invoiced and collected by MetroGAS is incorporated to the Company’s assets. On the contrary, once received, the Company is required to deposit them into the trust fund accounts designated from time to time by the Fiduciary, thus ending MetroGAS’ actions in respect thereof.

2.6 Municipal Rates

The regulatory framework in force and duly applicable to the distribution of natural gas contemplates to pass through to tariffs all new rates or levies or rate increases, and under certain circumstances, the free use of public space for purposes of laying natural gas pipelines.

As of the date of issuance of these financial statements the Company cannot pass through to its tariffs any payments made in respect thereof to certain municipalities in the Province of Buenos Aires and to the City of Buenos Aires (“CABA”), which as December 31, 2016 accumulated the sum of 355,147.

The Company is still negotiating the pass through of these rates to tariffs in accordance with the Provisional Agreement approved, described in Note 2.2.2.3.

2.7. Obligations and restrictions upon privatization

2.7.1 Restricted assets

A substantial portion of the assets transferred by Gas del Estado (“GdE”) are defined in the License as “Essential Assets” for the performance of the relevant licensed service. The Company is thus obliged to identify and maintain any such Essential Assets, and any future improvements, in accordance with certain standards defined in the License.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The Company shall not, for any reason, dispose of, encumber, lease, sublease or lend any Essential Assets for purposes other than rendering the service under the License, without prior authorization of ENARGAS. Any extensions or improvements that the Company may make to the gas distribution system may only be encumbered as security for the loans due after more than one year and used to finance any such extensions or improvements.

Upon expiration of the License, MetroGAS shall transfer to the Argentine Government or its designee all Essential Assets listed in an inventory updated as of such date, free of charges and encumbrances.

As a general rule, upon expiration of the License, the Company will be entitled to collect the lesser of the following two amounts:

- a) The value of the Company's Properties, plant and equipment, as determined on the basis of the price paid by Gas Argentino, and the original cost of subsequent investments carried in United States Dollars and adjusted by the PPI, net of accrued depreciation.
- b) The proceeds of a new competitive bidding, net of any expenses and taxes paid by the successful bidder.

2.7.2 Restrictions on the distribution of profits

The Company is required to keep in effect the authorization to offer the Company's Common Stock to the public and the relevant authorization for the shares to be listed on Argentine authorized exchange markets for a minimum period of fifteen years as from the respective dates on which such authorizations were granted.

Any voluntary reduction, redemption or distribution of the Company's equity, other than the payment of dividends, will require the prior authorization of ENARGAS.

In accordance with the General Corporate Law, the Company's By-laws and the Resolution No. 434/03 of the CNV, 5% of the Company's net income for the year plus (less) prior year adjustments must be transferred to the Company's Legal Reserve, until it reaches 20% of the issued capital including the adjustments to Issued Capital.

Pursuant to the terms and conditions of issuance of the New Notes issued by MetroGAS as set forth under Note 18, any distribution of cash dividends shall be subject to prior redemption, payment or repurchase by the Company of at least U\$S 75 million principal amount of Class A Notes.

Likewise, under the terms of the provisional agreements signed as well as under the conditions established in the temporary economic assistance, the Company may not distribute dividends without the prior accreditation of ENARGAS after compliance with the established conditions.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

2.7.3 Limitation on the transferability of shares the controlling company

The Pliego contemplates the controlling shareholder of MetroGAS, may sell part of its shareholding in the Company, provided it shall retain 51% of MetroGAS’ share capital.

Any transfer as a result of whom the controlling company shall hold less than 51% of its shares in MetroGAS shall be subject to prior approval of ENARGAS. The Pliego establishes that any such prior approval shall be granted not earlier than three years after the Takeover date, provided that:

- Sales implying 51% of the share capital, or, if the proposed transaction is not a sale, the capital reduction shall result in a purchase of not less than 51% of the shares by other investment company,
- There is sufficient evidence that the transaction will not affect the operating quality of the service rendered under the License.

The General Ordinary and Extraordinary Shareholders’ Meeting of Gas Argentino on April 29, 2016 approved: i) the Merger by absorption of Gas Argentino and YPFIESA (“YPFIESA”) by YPF under the terms of Article 82, following and related provisions, of the General Corporations Law No. 19,550; ii) the Special Merger Balance of Gas Argentino and the Consolidated Merger Statements of Financial Position of YPFIESA, Gas Argentino, and YPF, closed on December 31, 2015, iii) the Prior Merger Commitment celebrated among YPFIESA, Gas Argentino and YPF, and iv) the Merger Prospect. The process of company reorganization was timely informed to ENARGAS.

On December 22, 2016, the CNV approved by Resolution No. 18,415 the merger by absorption under the terms of article 82 of the General Corporations Law No. 19,550. Once the dissolution of the companies is registered at the IGJ, the company reorganization shall have retroactive effects as of January 1, 2016.

Under the terms and conditions of article 82 of the General Corporations Law No. 19,550, the merger implies Gas Argentino to be dissolved without liquidation so that the approved process of reorganization is possible according to the restrictions of the said Document.

3. BASIS FOR PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been issued in accordance with the Technical Resolution (“TR”) No. 26 and 29 of the Argentine Federation of Professional Councils in Economic Sciences (“FACPCE”) which adopt the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and the interpretations issued by the International Financial Reporting Standards Committee (“IFRIC”) for entities included in the public offer regime of Law No. 17,811 due to their capital stock or to their notes, or those that have applied to be included in said regime.

On January 24, 2012, in order to evaluate the applicability and impact of Interpretation No. 12 “Service Concession Arrangements” (“IFRIC 12”) for registrant licensees of the public service of natural gas transport and distribution, as well as, their controlling companies, the CNV issued

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Resolution No. 600 extending the enforcement of the IFRS to the fiscal year beginning on January 1, 2013. Afterwards, on December 20, 2012, the CNV issued Resolution No. 613 establishing reasons and cause on which the licensees of the public service of natural gas transport and distribution and their controlling companies are not included in the scope of the IFRIC 12. See "Critical Accounting Estimates and Judgments" in Note 5.

Consequently, the application of IFRS is mandatory for the Company as from fiscal year commenced on January 1, 2013, being transition date to the IFRS for the Company, as established in the IFRS 1 "First Time Adoption of IFRS", January 1, 2012.

In accordance to what has been stipulated by professional accounting standards, applicable before adopting IFRSs, the Company has recognized the effects of the variations in the currency's purchasing power until March 1, 2003 and following the method of restatement stipulated by TR No. 6 of the FACPCE. As of that date, and in compliance with Executive Order No. 664/03 from the PEN, the Company suspended the preparation of the financial statements in homogeneous currency.

IAS 29, "Financial Reporting in hyperinflationary economies", requires financial statements of an entity whose functional currency is that of a hyperinflationary economy to be expressed in terms of the current unit of measure on the date of closure of the fiscal year that is being reported. To that purpose, in general terms, inflation generated since the date of acquisition or since the date of revaluation must be calculated on nonmonetary items, as appropriate. . The standard details a series of quantitative and qualitative factors to be considered in order to determine if an economy is or not hyperinflationary. Taking into account the decreasing trend of inflation, the inexistence of qualitative indicators that lead to a definitive conclusion and the inconsistency of tax indexes from the past that were published by the INDEC, the Board of Directors of the Company has concluded that there is not enough evidence to consider Argentina an inflationary country as of December 2016, within the framework of guidelines set forth in IAS 29. For this reason, the restatement criteria of the financial reporting stipulated in the mentioned standard have not been applied to the current fiscal year.

During the last years, certain macroeconomic variables that impact on the Company's businesses, such as wage cost, loan rates and types of exchange, have suffered considerable variations. If the restatement of financial statements into homogeneous currency were applicable, the adjustment will have to be resumed based on the last date when the Company adjusted its financial statements to reflect the effects of inflation, as it is stipulated in the applicable regulation. Both circumstances have to be taken into account by users of the present financial statements.

These consolidated financial statements are presented in thousands of pesos, except where expressly stated otherwise.

These consolidated financial statements have been approved by the Board of Directors for issuance on March 8, 2017.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

4. ACCOUNTING POLICIES

The accounting policies adopted for these consolidated financial statements are detailed below and are based on the IFRS as issued by the IASB effective as of December 31, 2016.

4.1 Basis of preparation

4.1.1 Classification of current and non-current

The presentation of the statement of financial position distinguishes current and non-current assets and liabilities. Current assets and liabilities are assets and liabilities expected to be recovered or canceled within the twelve months following the end of the reporting period.

Current and deferred income tax assets and liabilities are presented separately and apart from other assets and liabilities.

The Company offsets income tax assets and income tax liabilities if, and only if, the entity:

- a) has a legally enforceable right to set-off any recognized amounts; and
- b) intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

Deferred tax assets or liabilities are classified as non-current assets (liabilities).

4.1.2 Presentation currency

The consolidated financial statements are presented in thousands of Argentine pesos. Unless otherwise stated or required by the context, references to “amounts in pesos” or “Ps.” refer to Argentine pesos, and references to “U\$S” or “U.S. dollars” refer to united states dollars.

4.1.3 Accounting criteria

The consolidated financial statements have been prepared on the basis of historical cost, except for financial assets and liabilities recognized at fair value through profit or loss.

4.1.4 Cash flows

The Company presents its cash flows from operating activities by the indirect method. The payments of interests related to financial and commercial debts are presented within financing activities. The interests received are within investment activities.

4.1.5 Use of estimates

Preparation of financial statements as of a specified date requires that the Company makes estimates and judgments that affect the amount of recorded assets and liabilities and of contingent assets and liabilities disclosed at such date, as well as expenses and revenues for the fiscal year. Actual future results may differ from the estimates and assessments made at the date of preparation

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

of these financial statements. More complex areas, which require professional judgment or significant assumptions and estimations, are described in Note 5.

4.2 New issued standards and revised standards

4.2.1 Amendments to IFRSs became mandatorily effective in the current year

This year, the Company has adopted some of the amendments to IFRSs issued by the IASB that are mandatorily effective for annual periods beginning on or after 1 January 2016

As required by IAS 8, we shall introduce and briefly summarize the standards or interpretations issued by the IASB whose application is mandatory at the closing date of these consolidated financial statements and therefore have been adopted by the Company.

IFRS 14- Regulated Activities

In January 2014, the IASB approved IFRS 14 “Regulated Activities”, that is applicable to fiscal years started on or as from January 1, 2016, with earlier application permitted. The scope of this standard is limited to first-time adopters of IFRSs, which recognized the deferral account balances that arise from rate-regulated activities in their financial statements in compliance with their previous GAAP. The first financial statements that MetroGAS submitted under IFRS were as of December 31, 2013 and the standard was issued on January 2014, thus the Company did not apply this standard to its financial statements.

Amendments to IFRS 11 - Accounting for acquisition of interests in joint arrangements

On May 2014, the IASB modified IFRS 11 “Joint Arrangements”, that is applicable to fiscal years beginning on or as from January 1, 2016, with earlier application permitted.

The amendments to IFRS 11 provide a guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income Taxes regarding recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

Entities should be apply the amendments prospectively to acquisitions of interest in joint operations (in which the activities of the joint operations constitute business as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016.

The amendments to IFRS 11 had no effect over the Company’s financial statements; the Company does not carry out these operations.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Amendments to IASs 16 and 38 - Methods of depreciation and amortization

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 with earlier application permitted.

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of Property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The presumption can only be rebutted in the following two limited circumstances:

- When the intangible asset is expressed as a measure of revenue; or
- When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The application of these amendments to IASs 16 and 38 had no effect on the present Company's financial statements; as it does not carry out this type of operations.

Amendments to IASs 16 and 41 - Agriculture- Bearer Plants.

The amendments to IAS 16 "Property, plant and equipment" and IAS 41 "Agriculture" define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. In terms of the amendments, bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16.

The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with earlier application permitted. As a transitional provision, entities need not disclose the quantitative information required by paragraph 28 (f) of IAS 8 for the current period. However, quantitative information for each prior period presented is still required. Also, on the initial application of the amendments, entities are permitted to use the fair value of items of bearer plant as their deemed cost as the beginning of the earliest period presented. Any difference between the previous carrying amount and the fair value should be recognized in retained earnings at the beginning of the earliest period presented.

The application of these amendments to IASs 16 and 41 had no effect on the present Company's financial statements, as it does not carry out this type of operations.

Amendments to IAS 27 - Separate Financial Statements

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 with earlier application permitted.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The amendments focus on separate financial statements and allow the use of the equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- At cost;
- In accordance with IFRS 9 (or IAS 39 for entities that have not yet adopted IFRS 9); or
- Using the equity method as described in IAS 28 Investments in Associates and Joint Ventures.

The same accounting must be applied to each category of investments.

The amendments also clarify that when a present ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs.

The application of these amendments to IAS 27 had no significant effect on the Company's financial statements, as the Company applied the equity method to measure investment in its controlled company under the CNV standards.

Annual improvements to IFRSs - Cycle 2012-2014

In September 2014, the IASB issued the 2012-2014 annual improvements for fiscal years started on or as from January 1, 2016, with earlier application permitted.

Standard	Objective of the modification	Description
IFRS 5 Non-current assets Held for Sale and Discontinued Operations	Amendments in the methods of disposal of assets.	The amendment introduces a specific guide in IFRS 5 to be used when reclassifying an asset (or asset group) held for sale or distribution to owners (or vice versa). The amendment specifies that such change is considered as a continuity of the original plan of the regulation and therefore, a company must not apply paragraphs 27 to 29 included in IFRS 5 regarding changes in a sale plan, in these circumstances.
IFRS 7 Financial Instruments: Information to be revealed (with changes resulting from amendments to IFRS 1)	(i) Service contracts. (ii) Applicability of amendments to IFRS 7 when disclosing compensations in interim condensed accounting statements.	The amendment provides an additional guide to clarify if a service contract corresponds to continuous participation when transferring an asset based on such asset's information to be disclosed. Besides it explains that compensations' disclosures are not specifically required for all interim periods. However, it is possible to include in interim condensed financial statements all disclosures in order to satisfy requirements from IAS 34 Interim Financial Information.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

IAS 19 Employee Benefits	Discount rate: Regional market issues.	The amendment explains that the rate used to discount liabilities due to post-employment benefits has to be determined with reference to high quality corporate bonds yield at the end of the reported period. The conclusions regarding the amendments also explain that the depth of market of high quality corporate bonds has to be assessed at currency level being consistent with the currency to be used to pay those benefits. Foreign currencies that do not have a depth of market of high quality corporate bonds have to be determined with reference to government bonds yield (at the end of the reported period) denominated at that same foreign currency.
IAS 34 Interim Financial information	Information disclosure included somewhere else in the interim financial information.	The amendment explains all requests related to information demanded by paragraph 16A of IAS 34 that is found in some other part of the interim financial information but not in the interim financial statements themselves. The amendment requires that such information has to be included in the interim financial statements or incorporated by a cross reference based on the interim financial statements into some other part of the interim financial information that is available to users in the same conditions and at the same time that the interim financial statements.

The application of these improvements to IFRSs had no significant effect on the present Company's financial statements.

Amendments to IAS 1 - Presentation of Financial Statements – Disclosure Initiative

The amendments to IAS 1 which are effective for fiscal years beginning on or after January 1, 2016, with earlier application permitted.

The amendments were a response to comments that there were difficulties in applying the concept of materiality in practice as the wording of some of the requirements in IAS 1 had in some cases been read to prevent the use of judgment. Certain key highlights in the amendments are as follow:

- An entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

- An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material.
- In the other comprehensive income section of a statement of profit or loss and other comprehensive income, the amendments require separate disclosures for the following items:
 - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss; and
 - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will be reclassified subsequently to profit or loss.

The amendments to IAS 1 are related to the following subjects:

Materiality: an entity shall not reduce comprehensibility of financial statements by adding or disaggregating information in a way that hides useful information, for example by aggregating items that have different characteristics or disclose a lot of irrelevant details. When it is determined that the information is material, the IAS 1 requires assessing if the disclosure of that information is to be presented, and if additional information is required to meet the needs of the users or the disclosure objectives of this standard.

Disaggregation and subtotals: amendments clarify additional subtotals in the statement of financial position or in the statement of profit and loss and in other comprehensive incomes. IAS 1 clarifies which additional subtotals are acceptable and how they shall be presented.

Additional subtotals:

- be comprised of line items made up of amounts recognized and measured in accordance with IFRS;
- be presented and labeled in a manner that makes the line items that constitute the Subtotal clear and understandable;
- be consistent from period to period; and
- not be disclosed with more prominence than the subtotals and totals currently required in IFRS 1.

Additional subtotals must be reconciled with subtotals or totals required by IAS 1.

Notes: entities should consider the understandability and comparability when deciding on the order in which they present the notes to financial statements. They are not required to present the said notes in a specific order. This flexibility, already permitted by IAS 1, may allow a better understanding of the entity.

Disclosure of accounting policies: the amendments clarify how to identify an accounting policy when removing unhelpful examples from IAS 1.

Other comprehensive income arising from equity accounted investments: IAS 1 requires that the share of other comprehensive income of associates and joint ventures accounted for by using the

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

equity method must be presented in aggregate as a single line item to be classified between those items that will or will not be subsequently reclassified to profit or loss. Each group must then be presented as an individual line in the statement of other comprehensive income.

The application of these amendments to IAS 1 had no significant effect on the present Company’s financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Consolidation Exception for Investment Entities

In December 2014, the IASB issued amendments to IFRS 10, IFRS 12 and IAS 28 that are effective for fiscal years beginning on or as from January 1, 2016, with earlier application permitted.

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS10. Consequential amendments have also been made to IAS 28 to clarify that the exception from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value.

The amendments further clarify that the requirements for an investments entity to consolidate a subsidiary providing services related to the former’s investment activities applies only to subsidiaries that are not investment entities themselves.

Moreover, the amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity. An investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries.

Lastly, clarification is also made that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by IFRS 12 “Disclosures of interests in Other Entities”.

The application of these amendments had no significant effect on the present Company’s financial statements.

4.2.2 New and revised IFRSs issued have not been adopted by the Company

Amendments to IFRS 10 and IAS 28 - Sales or contribution of Assets between an Investor and its Associate or Joint Venture

On September 2014, the IASB modified IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”.

The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. IAS 28 and IFRS 10 are amendment, as follows:

IAS 28 has been amended to reflect the following:

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

- Gains and losses resulting from transactions involving assets that do not constitute a business between an investor its associate or joint venture are recognized to the extent of unrelated investor's interests in the associate or joint venture.
- Gains or losses from downstream transactions involving assets that constitute a business between an investor and its associate or joint venture should be recognized in full in the investor's financial statements.

IFRS 10 has been amended to reflect the following:

Gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with the associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interest in the new associate or joint venture.

On August 10, 2015, the IASB issued a proposal to indefinitely postpone the effective date of these modifications depending on the result of its investigation project about the participation method of accounting, which was approved on December 17, 2015.

The company estimates that the applications of these amendments will not a significant effect on the Company's financial statements.

Amendments to IFRS 9 – Financial Instruments

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 (as revised en 2014 is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted), will supersede IAS 39 Financial Instruments: Recognition and Measurement expire after the effective date of the latter.

Phase 1: classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced. All recognized financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortized cost or fair value under IFRS 9. Specifically:

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortized cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss ("FVTPL") under the fair value option;
- A debt instrument that (i) is held within a business model whose objective is achieved both the collecting contractual cash flows and selling financial assets and (ii) has contractual

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at fair value through other comprehensive income ("FVTOCI"), unless the asset is designated at FVTPL under the fair value option;

- All other debt instruments must be measured at FVTPL.
- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognized in profit or loss except that if take an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognized in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge and accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Phase 2: impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for the credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The work on macro hedging by the IASB is still at a preliminary stage (a discussion paper was issued in April 2014 to gather preliminary views and direction from constituents with a comment period which ended on 17 October 2014). The project is under redeliberation as of the date of issuance these financial statements.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

- 1- The presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, and
- 2- Hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

An entity may early apply the earlier versions of IFRS 9 instead of the 2014 version if the entity's date of initial application of IFRS 9 is before 1 February 2015. The date of initial application is the beginning of the reporting period when an entity first applies the requirements of IFRS 9.

IFRS 9 contains specific transitional provisions for i) classification and measurement of financial assets; ii) impairment of financial assets; iii) hedge accounting.

The Company has adopted IFRS 9 as from the transition date in early form according in with the regulations in force in 2013. The Company is also evaluating the effects of the revised version in 2014 of IFRS 9.

IFRS 15 – Revenues from Contracts with Customers

IFRS 15 is effective for an entity's first annual IFRS financial statements for annual periods beginning on or after 1 January 2018, with earlier application permitted. Entities can choose to apply the Standard retrospectively or to use a modified transition approach, which is to apply the Standard retrospectively only to contracts that are not completed contracts at the date of initial applications.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and interpretations upon its effective date:

- IAS 18 "Revenue";
- IAS 11 "Construction Contracts";
- IFRIC 13 "Customer Loyalty Programs";
- IFRIC 15 "Agreements for the Construction of Real Estate";
- IFRIC 18 "Transfers of Assets from Customers"; and
- SIC 31 "Revenue-Barter Transactions Involving Advertising Services".

As suggested by the title of the new revenue standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are not

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" (or IFRS 9 "Financial Instruments", if IFRS 9 is early adopted).

As mentioned above, the new revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The new revenue Standard introduces a five steps approach to revenue recognition and measurement:

- 1- Identify the contract with customer
- 2- Identify the performance obligations in the contract
- 3- Determine the transaction price
- 4- Allocate the transaction price to the performance obligations in the contract
- 5- Recognize revenue when (or as) the entity satisfies a performance obligation

Far more prescriptive guidance has been introduced by the new revenue Standard:

- Whether or not a contract (or a combination of contracts) contains more than one promised good or service, and if so, when and how the promised goods or services should be unbundled.
- Whether the transaction price allocated to each performance obligation should be recognized as revenue over time or at a point in time. Under IFRS 15, an entity recognizes revenue when the performance obligation is satisfied, which is when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Unlike IAS 18, the new Standard does not include separate guidance for "sales of goods" and "provision of services"; rather, the new standard requires entities to assess whether revenue should be recognized over time or a particular point in time regardless of whether revenue relates to "sales of goods" or "provision of services".
- When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognized. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performances bonuses, penalties and contingency arrangements. The new Standard introduces a high hurdle for variable consideration to be recognized as revenue – that is, only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
- When cost incurred to obtain a contract and cost to fulfill a contract can be recognized as an asset.

Extensive disclosures are required by the new Standard.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The Company is assessing the impact that this standard might have on the Company’s financial statements.

IFRS 16 – Leases

IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 with early application permitted for entities that apply IFRS 15 Revenues from Contracts with Customers at or before the date of initial application of IFRS 16

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The changes incorporated it impact mainly on the accounting of the lessees.

It will supersede the following lease Standard and Interpretations upon its effective date:

- IAS 17 “Leases”;
- IFRIC 4 “Determining whether an arrangement contains a lease”;
- SIC-15 “Operating Leases – incentives”; and
- SIC-27 “Evaluating the substance of transactions involving the legal form of a lease”.

This standard applies to all leases, including leases of right-of-use assets in a sublease, except for:

- Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;
- Leases of biological assets within the scope of IAS 41 “Agriculture” held by a lessee;
- Service concession arrangements within the scope of IFRIC 12 Service Concession Arrangements;
- Licenses of intellectual property granted by a lessor within the scope of IFRS 15 “Revenue from Contracts with Customers”; and
- Rights held by a lessee under licensing agreements within the scope of IAS 38 “Intangible Assets” for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

A lessee may, but is not required to, apply IFRS 16 to leases of intangible assets other than those described in paragraph 3(e).

The new leasing standard has introduced many more prescriptive indications:

- Measurement of the right-of-use asset

The cost of the right-of-use asset shall comprise:

- (a) the amount of the initial measurement of the lease liability (as described below);
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the lessee; and

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

Subsequently, a lessee shall measure the right-of-use asset applying a cost model, or applies the revaluation model in IAS 16; (which recognizes therefore the amortization and impairment in profit and loss account and in case of application of the revaluation model, revaluations in equity). However, IFRS 16 requires that the measure the right-of-use of investment property be measure to a fair value under the provisions of IAS 40 Investment property for the investment property that it holds.

- Measurement of the lease liability

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

The lease liability comprises the following:

- (a) fixed payments (including essentially fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (for example, payments linked to a consumer price index, payments linked to a benchmark interest rate, such as LIBOR, or payments that vary to reflect changes in market rental rates.) at the commencement date;
- (c) amounts expected to be payable by the lessee under residual value guarantees;
- (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease (there is reasonable certainty about it).

Subsequently, a lessee shall increasing the carrying amount to reflect interest on the lease liability (recognizes in profit and loss); reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised "in-substance" fixed lease.

- Reassessment of the lease liability

A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:

- there is a change in the amounts expected to be payable under a residual value guarantee.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review.
- there is a change in the lease term, as a result of a change in the non-cancellation period of the lease (for example, if the lessors does not have an option previously included in the determination of the lease term); or
- there is a change in the assessment of an option to purchase the underlying asset.

- **Lessor accounting**

IFRS 16 required lessors to classify their leases as either finance leases or operating leases. A lease is classified as a finance lease if it transfers substantially risks and rewards inherent in ownership of an underlying asset. The lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

- **Sale and leaseback transactions**

This aspect is treated from the point of view of the seller-lessee as buyer-lessor. The fundamental aspect of dealing with these transactions depends on the transfer of the asset in the question and criteria of IFRS 15 Revenue from Contracts with Customers, for recognition as a sale.

The new model requires extensive disclosures.

The Company is assessing the impact that this standard might have on the Company's financial statements.

Amendments to IAS 7 – Disclosure Initiative

On January 2016, the IASB modified IAS 7 that is applicable to fiscal years beginning on or after 1 January 2017 with earlier application permitted.

The amendments to Disclosure Initiative require an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities (and certain assets) arising from financing activities.

The explanation for the changes should differentiate "changes from cash flows from financing" to "changes other than cash".

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Also, to the extent necessary to satisfy the requirement of disclosure, an entity shall disclose the following changes in liabilities arising from financing activities: (i) changes arising from obtaining or losing control of subsidiaries or other businesses; (ii) the effect of changes in foreign exchange rates; (iii) changes in fair values; and (iv) other changes (with separate identification of any variation deemed relevant).

The IASB defines the liabilities arising from financing activities "are liabilities for which cash flows were or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". In addition, the disclosure requirement also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if they comply the same definition.

One way to accomplish the new disclosure objective by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments establish that changes in liabilities arising from financing activities should be disclosed separately from changes in other assets and liabilities.

The Company do not expect that applying these amendments shall have a significant effect over the Company's financial statements.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

On January 2016, the IASB modified IAS 12 that is applicable to fiscal years beginning on or after 1 January 2017 with earlier application permitted.

The amendments to IAS 12 provides that when an entity assesses whether taxable profits will be available against which it can utilize a deductible temporary difference, it considers whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences. However, if tax law restricts the utilization of losses to deduction against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

The company estimates that the applications of these amendments will not a significant effect on the Company's financial statements.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

On May 2016, the IASB modified IFRS 2 that is applicable to fiscal years beginning on or after 1 January 2018 with earlier application permitted.

The amendments to IFRS 2 clarify the following:

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

- For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability, subject to the requirements of this standard. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.
- Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, vesting conditions, other than market conditions, shall be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction. Accordingly, the entity shall recognise an amount for the goods or services received during the vesting period. That amount shall be based on the best available estimate of the number of awards that are expected to vest.
- If the terms and conditions of a cash-settled share-based payment transaction are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification. Specifically: (a) The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date. The equity-settled share-based payment transaction is recognised in equity on the modification date to the extent to which goods or services have been received. (b) The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date. (c) Any difference between the carrying amount of the liability derecognized and the amount of equity recognised on the modification date is recognised immediately in profit or loss.

The company estimates that the applications of these amendments will not a significant effect on the Company's financial statements.

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

On September 2016, the IASB modified IFRS 4 that is applicable to fiscal years beginning on or after 1 January 2018.

The amendments to IFRS 4 clarify the following:

- permits insurers that meet specified criteria to apply a temporary exemption from IFRS 9;
- permits insurers to apply the overlay approach to designated financial assets; and
- permits insurers to reclassify in specified circumstances some or all of their financial assets so that the assets are measured at fair value through profit or loss.

The company estimates that the applications of these amendments will not a significant effect on the Company's financial statements.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB approved IFRIC Interpretation 22 “Foreign Currency Transactions and Advance Consideration”, that is applicable to fiscal years started on or as from January 1, 2018, with earlier application permitted. The scope of this interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it). This Interpretation does not apply when an entity measures the related asset, expense or income on initial recognition: (a) at fair value; or (b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

The company does not expect that applying this interpretation shall have a significant effect over the Company’s financial statements.

Annual improvements to IFRSs - Cycle 2014 - 2016

In December 2016, the IASB issued the 2014 - 2016 annual improvements for fiscal years started on or as from January 1, 2018, with earlier application permitted.

Standard	Objective of the modification	Description
IFRS 1 - First-time Adoption of International Financial Reporting Standards	Deletion of short-term exemptions for first-time adopters..	The amendment introduces the elimination of paragraphs that consider the limited exemption from comparative IFRS 7 disclosures for first-time adopters, information disclosure of transfers of financial assets and paragraph 39AA consider the annual improvements to IFRS standards 2014–2016 Cycle
IFRS 12- Disclosure of Interests in Other Entities	Clarification of the scope of the Standard.	The amendment introduces a change in the scope of the standard, considering that the requirements of the standard apply to interests of an entity listed in paragraph 5 classified (or included in a group for disposal that is classified) as held for sale or discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
IAS 28 - Investments in Associates and Joint Ventures	Measuring an associate or joint venture at fair value.	The amendment introduces changes in relation to the exemption and the procedures to be applied the equity method , an entity that applies in this exemption or the method separately for each of the associates or joint venture, in the case of the exemption in the

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

		initial recognition of the joint venture partnership, and with the subsequent date method among the following: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.
--	--	--

The company does not expect that applying these improvements shall have a significant effect over the Company’s financial statements.

Amendments to IAS 40 – Investment Property

On December 2016, the IASB modified IAS 40 that is applicable to fiscal years beginning on or after 1 January 2018.

IAS 40 has been amended to reflect that in relation to transfers an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use, evidenced by. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use.

The company does not expect that applying these amendments shall have a significant effect over the Company’s financial statements.

4.3 Segment reporting

Segment reporting is presented on a consistent basis with internal information provided to the Chief Operating Decision Maker (CODM). The CODM is responsible for the allocation of resources and establishing the performance of the entity’s operating segments, and has been identified as the body that implements the Company’s strategic decisions.

The Company examines operating segments on a consolidated basis, and therefore provides information thereon in Note 9.

4.4 Foreign currency conversion

4.4.1 Functional currency and currency of presentation

The items included in the Company’s financial statements are measured in the currency of the primary economic environment where the entity operates (the “functional currency”), which is the Argentine peso, according to the criterion established in IAS 21. The consolidated financial statements are presented in thousands of Argentine pesos, which is the Company’s currency of presentation.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

4.4.2 Foreign-currency denominated transactions and balances

Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing on their respective dates. Any profits and losses from exchange differences derived from each transaction and upon the conversion of foreign-currency denominated monetary assets and liabilities at the end of the fiscal year are recognized as income or loss for the fiscal year.

4.5 Revenue recognition

Revenues are measured at fair value of the consideration received or to be received, taking into account the estimated amount of any discounts, bonuses or commercial rebates that may be granted by the Company.

The Company recognized revenues when it can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and when specific criteria of the activities have been met. The Company makes estimates based on historical experience, considering type of clients, transaction and specific characteristics of each agreement.

The Company recognizes sales revenues on the basis of deliveries of gas and their transportation and distribution to customers, including any estimated amounts of gas delivered but not yet billed at the end of each fiscal year. Revenues from gas distribution and transmission are recognized for accounting purposes at the time the service is provided.

Effectively delivered amounts have been determined on the basis of purchased gas volumes and other data. Sales not yet invoiced at the end of a period are recognized on the basis of management estimates.

Interest income is recognized based on the proportion of time elapsed by the effective interest method. When a receivable amount is impaired, the Company reduces its book value to the applicable recoverable amount, which is the estimated future cash flow discounted at the original effective interest rate of such instrument, and continues to reverse that discount as interest income. Interest income from loans or placements that have been provided for is recognized at the original effective interest of the instrument.

As a result of the delays in the invoicing process to residential customers, caused by the regulatory changes described in Note 2.2.2.4 of this financial statement, estimations covered the period July-December 2016.

According to the hereinabove mentioned, the Company estimated its revenue for the sale of gas and transport and distribution service, as well as the cost of the gas and transport supply as of December 31, 2016, applying, (i) for consumptions prior to October 7, 2016 to residential customers tariffs in force as of March 31, 2016 pursuant to ENARGAS Resolution No. 3,961/2016 and for all other categories of customer, the company applied Resolution No. 3,726/2016 with and increase cap of 500% for SGP customers as established by Resolution 129/2016 in accordance with ENARGAS Resolution No. 3,960/2016, (ii) for consumptions subsequent to October 7, 2016, tariffs in force at that date were used in accordance with ENARGAS Resolution No. 4.044/2016 (see Note 2.2.2.4).

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

4.5.1 Income recognition from the Temporary Economic Assistance

The Temporary Economic Assistance granted by the National ES through Resolution No. 263/2015 and the Resolution No. 312 E/2016 issued by MINEM are within the scope of International Accounting Standard 20 “Government Grants”, being it intended to fund expenditures and investments related to the regular operation of the natural gas distribution public service, preserving the payment chain to natural gas producers until completing the Comprehensive Tariff Revision.

The recognition of this income is carried out at a fair considering the existence of assurance regarding its collection.

This item has been disclosed in the line “Temporary Economic Assistance Resolution” within the Consolidated Statements of Profit and Loss and Other Comprehensive Income.

4.6 Properties, Plant and Equipment

As of the transition date, the Company has elected to consider the cost of Properties, plant and equipment as its deemed cost, which is restated in constant currency in accordance with the method used before the adoption of IFRS (Argentine GAAP).

The cost of Properties, plants and equipment balances include the following:

In respect of assets received at the time the License was granted, the overall transfer value as defined in the Contract of Transfer has been taken for Argentine GAAP purposes as the original value of fixed assets, which arises as the counterpart of any contributions made and any restated transferred liability.

On the basis of a special work conducted by independent experts in 1993, the overall original value referred to in the preceding paragraph has been allocated to the different asset categories included therein, assigning them a useful life equivalent to the remaining years of service as estimated by the Company based on the type of asset, state of repair and any renewal and maintenance plans related thereto.

Any assets acquired after the date when the License was granted have been valued at their purchase cost, except in the case of distribution networks built by third parties (various associations and cooperatives), which are valued under IFRIC 18. Such value is the amount equivalent to a specified number of cubic meters of gas decided by the ENARGAS determined to compensate to those third parties.

Any subsequent costs (larger maintenance works and reconstruction costs) are included in the value of assets or recognized as a separate asset, as the case may be, only if it is probable that any future benefits associated with the respective assets will flow to the Company, and the costs involved may be reliably measured and the condition of assets will be improved by the investment with respect to its original condition. Any other maintenance and repair expenses are recognized as expense for the fiscal year in which they are incurred.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Any work in progress is valued based on the stage of completion. Works in progress carried at cost less any recognized impairment loss, if applicable. Costs include any expenses attributable to construction, including the cost of any loans capitalized under IFRS, where such expenses are part of the cost incurred for purposes of purchasing, building or producing Properties, plant and equipment that requires a considerable period of time until being ready for use. Financial costs cease to be capitalized when the respective asset is substantially completed or suspended, in case the development thereof is in this latter condition. Any costs attributable to activities conducted for the planning, execution and control of investments in Properties, plant and equipment are charged to assets by the Company. Depreciation of these assets begins when they are economically fit ready for use.

As explained in Note 2.7.1, a substantial portion of the assets transferred by GdE have been defined under the License as "Essential Assets" for the provision of the licensed service and are subject to restrictions and limitations.

Depreciation, based on a principle involving components, is calculated on a straight line basis during the useful life of assets, as detailed below for the major components of Properties, plant and equipment:

	Estimated useful life
• Medium and low pressure mains	42-50
• High pressure mains	45
• Pressure regulating stations	25
• Consumption measurement	20
• Other technical installations	15
• Computer and telecommunications equipment	5
• Buildings and civil constructions	50
• Machinery, equipment and tools	5-15
• Vehicles	5-10
• Furniture and fixtures	10

Land is not subject to depreciation. The residual value and useful life of assets are reviewed and adjusted if applicable, not less frequently than at the end of each fiscal year.

Income from sales of Properties, plant and equipment are accounted for when all significant risks and benefits have been transferred to the purchaser. Any gain or loss from sales is determined by a comparison of any amounts received, net of direct selling expenses, and the carrying value of the asset, and is recognized under other expenses and income in the consolidated statement of profit and loss and other comprehensive income.

The Company evaluates the recoverability of its long term assets annually or upon the occurrence of events or changes in circumstances that may be a possible indication of impairment of those assets with respect to their recoverable value, it measured as the higher of value in use and fair value less costs to sell.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The value in use is determined on the basis of projected and discounted cash flows with the use of discount rates that reflect the time value of money and any specific risks involved in the assets under consideration.

Cash flows are prepared on the basis of estimates of the future behavior of certain sensitive variables for the determination of recoverable value, including: (i) nature, opportunity and form of tariff increases and recognition of cost adjustments; (ii) projected gas demand; (iii) evolution of costs to be incurred; and (iv) macroeconomic variables such as growth rates, inflation rates, exchange rates, among others.

When the carrying amount of an asset is higher than its estimated recoverable value, the carrying amount thereof is reduced to its recoverable value as described in Note 4.9.

Notwithstanding the current economic and financial condition described in Note 2, the Company has prepared its projections in the understanding that it will be granted tariff improvements adapted to the prevailing circumstances. The Company, however, is not able to give any assurance that the future behavior of the premises it used to prepare its projections will be in line with its estimates, and consequently those premises may differ significantly from any estimates and assessments made as of the date of preparation of these consolidated financial statements. See Note 5 – Critical accounting estimates and judgments.

4.7 Investment Properties

Investment Properties includes certain properties that the Company keeps in order to obtain revenues from long-term rent and also from the appreciation thereof, and which are not currently occupied by the Company for its own operations.

The Company has adopted the cost method for all its investment properties. Therefore, investment properties are recorded at cost, less accumulated depreciation and impairment, if any.

Under the cost method, an investment properties is impaired if its book value exceeds its recoverable value. When the individual components of investment properties have different useful lives, they are separately accounted for and depreciated. The depreciation based on a component criterion is calculated via the straight line method during the estimated useful life of assets. Any costs incurred subsequent to initial recognition are included into the carrying amount of the relevant asset or recognized as a separate asset, as it may correspond, only if it is probable that such costs will generate an economic benefit for the Company in the future and such benefit can be reliably measured. These costs may include the cost of improvement or of replacement of parts which meet capitalization requirements. The carrying amount of any replaced part is derecognized.

Investment property is recorded at cost less any accumulated depreciation and any accumulated impairment loss.

4.8 Intangible assets

Intangible assets include the acquisition and development of new systems. The Company has adopted the cost method for intangible assets according to IAS 38, therefore intangible assets are

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

recorded at cost, less accumulated depreciation and impairment loss, if any. The depreciation is calculated using the straight line method during the estimated useful life of assets.

4.9 Impairment test of non-current assets

The Company reviews the book value of its properties, plant and equipment, investment properties and intangible assets at the closing date of each fiscal year in order to determine whether there is any indication that such assets may not be recoverable.

The impairment policy for non-current assets is described in Note 5 – Critical accounting estimates and judgments.

4.10 Financial Assets

The Company has adopted IFRS 9 as from the transition date, since this accounting principle provides for relevant disclosures of more reliable information so that users may evaluate figures, time and uncertainty of future cash flows.

Financial assets and liabilities are recognized when a Company's entity becomes a party to the contractual provisions of the instrument involved.

Financial assets and liabilities are initially measured at fair value. The costs of the transaction which are directly attributable to the purchase or issuance of financial assets and liabilities (other than financial assets and liabilities designated at fair value through profit and loss) are added to or deducted from the fair value of the respective financial assets and liabilities, when appropriate, at the time of initial recognition. The costs of the transaction directly attributable to the purchase of financial assets and liabilities designated at fair value through profit and loss are immediately recognized as profits or losses.

4.10.1 Classification

The Company classifies financial assets into the following categories: assets which are measured at their fair value and assets which are measured at their amortized cost. This classification depends on whether the financial asset is an investment in a debt or an equity instrument. In order for a financial asset to be measured at amortized cost, the two criteria described below must be met; otherwise financial assets are measured at fair value. IFRS 9 requires that all investments in equity instruments be measured at fair value.

a) Financial assets at amortized cost

Financial assets are measured at amortized cost if the following conditions are met:

- i) the objective of the Company's business model is to hold the assets to collect the related contractual cash flows; and
- ii) the contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on its outstanding amount.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

As of December 31, 2016 and 2015, the Company's financial assets measured at their amortized cost are cash and cash equivalents, except for mutual funds, trade receivables and other receivables.

b) Financial assets at fair value

If either of the two criteria mentioned above is not met, financial assets are measured at fair value through profit or loss.

As of December 31, 2016 and 2015, the Company's financial assets measured at their fair value through profit or loss are mainly mutual funds.

4.10.2 Recognition and Measurement

The regular purchase or sale of financial assets is recognized on the trade date, i.e. the date on which the Company agrees to acquire or sell the asset. Financial assets are derecognized when the rights to receive the cash flows from the investments have expired or been transferred and the Company has transferred substantially all the risks and rewards of the ownership of the assets.

Financial assets are initially recognized at their fair value plus, in the case of financial assets not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition thereof.

4.10.3 Impairment of Financial Assets

At the end of each year, the Company assesses whether there is objective evidence that the value of a financial asset or Company of financial assets measured at amortized cost is impaired. The value of a financial asset or Company of financial assets is impaired, and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can be reliably estimated.

Impairment tests may include evidence that the debtors or Company of debtors are undergoing significant financial difficulties, have defaulted on interest or principal payments or made them after they had come due, the probability that they will enter bankruptcy or other financial reorganization, and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in payment terms or in the economic conditions that correlate with defaults.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the impairment loss is recognized in the Consolidated Statement of Profit and Loss and Other Comprehensive Income. As a practical suggestion, the Company may measure the impairment on the basis of the fair value of an instrument using an observable market price. If in a subsequent period the amount of the impairment loss decreases, and such decrease is objectively related to an event occurring after

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

impairment recognition (such as, for example, an upgrade of the debtor's credit rating) the previously recognized impairment loss is reversed to the extent of the decrease in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

4.10.4 Offsetting of Financial Instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

4.11 Trade Receivables

Any receivables arising from services billed to customers but not collected as well as those arising from services rendered but unbilled at the closing date of each financial year are recognized at fair value and subsequently measured at amortized cost using the effective interest rate method less any impairment. Interest income is recognized applying the effective interest rate, except for such accounts receivable in a short term in case that recognition of the interest is not substantial.

Trade receivables include any services rendered but unbilled at the end of the financial year.

Trade receivables are recorded net of the allowance for doubtful accounts, which is based on a recoverability analysis made by the Company.

4.12 Other Receivables

Other receivables are initially recognized at fair value (generally the original billing/settlement amount) and subsequently measured at amortized cost, using the effective interest rate method, and when significant, adjusted by the time value of the money.

The Company records a provision for impairment when there is objective evidence that the Company will not be able to collect all the amounts owed to it in accordance with the original terms of the receivables.

Other receivables are recorded net of the allowance for doubtful accounts, which is based on a recoverability analysis made by the Company.

4.13 Cash and Cash Equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less as from their date of acquisition.

4.14 Inventories

Inventories include natural gas and carbon monoxide detectors. Inventories are valued by the lowest value between cost and net realizable value. Cost includes purchasing costs (excluding discounts, returns or similar), transformation costs and any other cost incurred regarding stock location and conditions to be commercialized.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

4.15 Trade Payables

Trade payables are payment obligations with suppliers for the purchase of goods and services in the ordinary course of business. Trade payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

The line item "Trust Funds" within this account include collected amounts which deposit was pending at the end of each year corresponding to any charges under Note 2.5.

4.16 Other accounts payable

The other liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

4.17 Additional information on non-cash transactions

The principal non-cash transactions were related with interest capitalization as detailed in Note 18.

4.18 Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are those assets that take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of such assets until such time as they are in condition to be used or sold.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized as an expense in the period in which they are incurred.

4.19 Income Tax and Minimum Presumed Income Tax

The income tax expense for the year is comprised of the current tax and the deferred tax. Income tax is recognized in the statement of profit and loss, except to the extent that the tax relates to items recognized in other comprehensive income or directly in equity, in which case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws in effect or which are substantially approved as of the end of each year. The Company records provisions on the basis of the amount expected to be paid to tax authorities.

Income tax is recognized applying the deferred tax method, on the temporary differences arising between the tax base of assets and liabilities and their carrying amounts. The deferred tax is determined using the tax rate in effect or substantially approved at the end of each year, and is expected to apply when the deferred tax assets are realized or the deferred tax liabilities are settled.

Deferred tax assets are recorded when the existence of future taxable income against which temporary differences may be offset is probable.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Argentine entities are subject to Income Tax and Minimum Presumed Income Tax (“MPIT”). Pursuant to tax laws currently in effect, an entity is required to pay the higher of the income tax or the MPIT. The Company creates a provision for MPIT for each individual entity by applying the current rate of 1% and based on each company’s taxable assets at year-end, as defined under Argentine laws. Should the MPIT exceed the income tax, such excess may be computed as a payment on account of any future income tax payable during a period of 10 years. When the Company believes that it is probable that the MPIT charge will be used as an advance payment of the income tax obligation, the Company records the MPIT as a current or noncurrent receivable, as applicable, under Advance payments in the statement of financial position, otherwise it charges the MPIT to profit or loss under “Income tax” in the statement of profit and loss and other comprehensive income.

In accordance with Law No. 25,063, enacted in December 1998, any dividends distributed, whether in cash or in kind, in excess of the taxable income accumulated at the end of the fiscal year immediately prior to the date of the relevant payment or distribution shall be subject to a 35% income tax withholding as sole and final payment, with the exception of dividends distributed to shareholders resident in countries with which double taxation agreements are in effect, which shall be subject to withholding at a lower rate.

Law No. 26,893 was enacted on September 20, 2013. This law amended the Income Tax Law and among other things established a sole and final payment for such tax, equivalent to 10% of any dividends distributed in cash or in kind – other than in shares of stock or equity interests – to beneficiaries domiciled abroad and to individuals resident in the country, notwithstanding the above mentioned 35% withholding. The provisions of this law came into force on September 23, 2013, its date of publication in the Official Gazette.

On July 22, 2016 Law No. 27,260 “National Plan of historical Remedial for retired and pensioned workers” was published in the Official Gazette; it includes a fiscal amnesty system, tax extension and tax modifications. Among other modifications, the said Law No. 27,260 invalidates the 10% tax on dividends distributed by companies in cash or in kind-except in shares of stock or equity interests- to beneficiaries abroad and residents in the country being in a definitive and lump-sum payment.

4.20 Salaries and Social Securities

Bonus granted to employees is recorded as a liability and expense due to bonus payments under the terms and according to the standards set forth by the Company. A provision is created when the Company is required under the contract or when past practices reflect that the Company is impliedly required to act accordingly.

Severance payments are recorded as a liability and expense upon termination of employer-employee relationship by decision of the employer before the corresponding retirement date, or upon an employee voluntarily accepting his retirement in change of a compensation payment.

The Company does not sponsor any defined contributions plans in addition to its contributions to the Social Security System under applicable regulations in Argentina, or any defined benefits plans. Also, the Company does not maintain any share-based payment plan.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

4.21 Reorganization Liabilities

The reorganization liabilities include any liabilities subject to the reorganization proceeding filed by the Company on June 17, 2012, as detailed under Note 2.1. Liabilities, under provision of IFRS 9, were valued at their amortized cost incorporating, when applicable, financial interest accrued until the date of filing of the reorganization proceeding, on which, according to Article 19 of the ABL, interest ceased to accrue. Foreign-currency denominated liabilities have been valued at the rate of exchange prevailing at the end of the fiscal year.

After the court decision approving the proposal to creditors under the reorganization proceedings entered on September 6, 2012, liabilities under the reorganization proceedings include any allowed and provisionally admitted outstanding debts as to preferred creditors and litigious debts or late verification debts pending of resolution by the bankruptcy judge.

4.22 Financial debt

Financial debt is initially recognized at fair value, net of any incurred transaction costs. As the Company does not have any financial liabilities that based on their description require accounting at fair value under the IFRS currently in force, after initial recognition its financial debt has been valued at amortized cost.

In order to account for the exchange of liabilities under the reorganization proceedings for new notes consummated on January 11, 2013, the Company has applied the guidelines established by IFRS 9 – Financial Instruments: Recognition and Measurement.

IFRS 9 provides that where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms this transaction must be accounted for as an extinguishment of the original financial liability and the consequent recognition of a new financial liability. The difference between the book value of the extinguished financial liability and the consideration paid therefor, including any assigned assets other than the assumed cash or liability, will be recognized in profit or loss for the fiscal year. The Company considered that the terms of the liabilities included in the reorganization proceedings and subject to exchange were substantially different from those of the new notes, and has consequently recorded this debt exchange pursuant to the above guidelines. Also, pursuant to IFRS 9 the new notes were initially recognized at fair value, net of incurred transaction costs, and will be subsequently measured at amortized cost.

The fair value of the new issued debt has been estimated through the use of the discounted cash flow method for purposes of its initial recognition, in the absence of an active market with quoted prices that may be representative of the amount issued.

4.23 Provisions

Provisions are recognized when in respect of a present obligation undertaken by it, whether legal or constructive, arising as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimation can be made in respect thereof. No provisions for future operating losses are recognized.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The amount recognized as provision is the best estimate of the expenditure required to settle the present obligation, at the end of the reporting period, taking into account the corresponding risks and uncertainties. When a provision is measured using the estimated cash flow to settle the present obligation, the carrying amount represents the present value of such cash flow. This present value is obtained by applying a pre-tax discount rate that reflects market conditions, the time value of money and the specific risks of the obligation.

Provisions have been created and included in liabilities in order to face any contingency which could originate future payment obligations. To estimate their amount and the likelihood of an outflow of resources, the opinion of the Company's legal advisors has been taken into account.

When the recovery of some or all of the financial benefits required to cancel a provision is expected, a receivable account is recognized as an asset if there is virtual certainty that payment will be received and the receivable amount can be reliably measured.

4.24 Leases

An agreement is or contains a lease depending on the nature of the agreement at the time of its execution, if performance thereof depends on the use of one or more specific assets or if the agreement assigns the right to use the asset.

Those leases in which a significant portion of the risks and benefits deriving from ownership are kept by lessor are classified as operating leases. As of December 31, 2016, the Company has only lease agreements that are classified as operating leases.

a. As lessee

Operating lease payments are recognized as operating expenses in the Statement of Profit and Loss and Other Comprehensive Income on a straight-line basis throughout the term of the lease.

b. As lessor

Those leases in which the Company does not transfer substantially all the risks and benefits inherent to the ownership of the asset are classified as operating leases.

Operating lease collections are recognized as income in the Statement of Profit and Loss and Other Comprehensive Income on a straight-line basis throughout the term of the lease.

4.25 Balances with Related Parties

Receivables and liabilities with related parties are initially recognized at fair value and subsequently measured at amortized cost in accordance with the terms agreed upon by the parties involved.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

4.26 Shareholders' Equity

Items included in shareholders' equity are valued pursuant to accounting principles in effect on the transition date. Changes in shareholders' equity have been recorded in accordance with shareholders' resolutions and legal rules and regulations, and even when any such items would have reflected a difference balance in case IFRS had been applied in the past.

a) Issued capital and adjustment to issued capital

Issued capital is composed of contributions made by shareholders and represented by shares, and comprises outstanding shares at their par value. Issued capital has been recorded at its nominal value and any adjustment arising from monetary restatements made in accordance with Argentine GAAP on the transition date to the IFRS is recorded under Adjustment to issued capital.

In accordance with Argentine GAAP in force before the implementation of the IFRS, equity items were restated to reflect the effects of changes in currency purchasing power until March 1st, 2003, following the restatement method set forth by TR No. 6 issued by the FACPCE. As from such date on, and in compliance with Decree No. 664/03 issued by the PEN, the Company discontinued the preparation of financial statements in constant currency.

b) Legal reserve

In accordance with the provisions of the Argentine Corporate Law No. 19,550, the Company has to appropriate to the legal reserve no less than 5% of the sum of net income for the year, prior year adjustments, transfers from other comprehensive income to retained earnings and accumulated losses from previous years, until such reserve reaches 20% of the Issued Capital plus Adjustments to issued capital. As of December 31, 2013 the legal reserve was fully funded.

MetroGAS' shareholders have decided, at the Shareholders meeting held on the 28th of April of 2014, to proceed to a mandatory reduction of the company's issued capital. Therefore, Accumulated results (losses) as of December 31, 2013 were partially affected against the Legal reserve for 45,376 and against Adjustments to issued capital for the sum of 684,769, keeping a negative balance of 147,937 in Accumulated results (losses) as of such date.

4.27 Net result per share

Basic net result per share are calculated by dividing the gain attributable to the controlling interest of the equity instruments of the company, by the weighted average number of common shares outstanding during the period, excluding treasury stock purchased by the Company.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

As of the date of issuance of these consolidated financial statements, MetroGAS has not issued equity instruments which give rise to potential common shares. As a result, the calculation of diluted net result per share coincides with the calculation of the basic net result per share.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Significant accounting policies of the Company are described in Note 4. Not all significant accounting policies require that the Company applies subjective criteria or complex estimates. The following section provides an understanding of the policies that the Company considers critical given their degree of complexity or the criteria or estimates involved in their application and their impact on the consolidated financial statements. Those criteria include forward-looking assumptions or estimates. Actual results may differ from these estimates.

For a better understanding of the manner in which the Company forms its judgments about future events, including the variables and assumptions underlying the estimates, and how sensitive those judgments are in respect of different variables and conditions, comments have been included in relation to each critical accounting policy described below:

- 5.1. Impairment of properties, plant and equipment and intangible assets;
- 5.2. Recognition of revenues and trade receivables;
- 5.3. Provisions;
- 5.4. Deferred income tax and MPIT;
- 5.5. Application of IFRIC 12 “Service Concession Arrangements”.

5.1 Impairment of properties, plant and equipment and intangible assets

The Company reviews the book value of its properties, plant and equipment and intangible assets as of the date of closing of each fiscal year in order to detect any indication that such assets may not be recoverable. Also, the Company assesses the book value of its long term assets based on the recovery value thereof from time to time, when any events or change of circumstances indicate that the carrying value of an asset is not recoverable.

Indications of impairment to be observed in this analysis include, among others, any existing physical damage to or significant changes in the use of assets, deterioration in the expected level of asset performance or a significant drop in revenues. When an asset ceases to generate cash flows independently from other assets, the Company estimates the recoverable amount of the cash generating unit (“CGU”) that the asset belongs to.

If the recoverable amount of the assets of this CGU is lower than the carrying amount, the carrying amount of the respective asset or CGU is reduced to its recoverable amount. Impairment losses are immediately recognized in the Statement of Profit.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The recoverable amount is determined on the basis of projected and discounted cash flows, applying discount rates that reflect the time value of money and the specific risks involved in the assets under analysis.

The Company believes that its accounting policy in relation to Properties, plant and equipment and Intangible assets impairment is a "critical accounting policy" for the reasons set forth below:

- 1) the current economic-financial condition of the Company, referred to in Note 2, given the current situation about tariffs renegotiation process and cost increases, requires making changes from period to period in the estimation of the recoverable value of assets due to Company must update its estimates, future revenues and costs as a result of advances of such situations; and
- 2) a recognition or reversion of an impairment or recoverable amount has a significant impact on the assets disclosed in the Company's separate financial statements and results of operations. Estimated future revenues and discount rate definition as well as other relevant assumptions (like exchange rate or annual inflation rate) require that the Company form essential judgments, as actual revenues have experienced in the past and are expected to continue experiencing fluctuations, in particular due to the currently rate renegotiation process.

5.1.1 Impairment test for the fiscal year ended December 31, 2016

As it is mentioned in Note 2.2.2.4, during 2016 the Company:

- a) Subscribed with the MINEM and the Ministry of Treasury and Finance a Provisional Agreement by which they established a transition tariff scheme in order to obtain additional resources to those that were being perceived by ENARGAS Resolution No. I-2,407/2012 and the Provisional Agreement 2014.
- b) As from October 7, and after the public hearings, new tariff schemes were in force for all MetroGAS users.
- c) On December 2016 public hearings regarding MetroGAS' Integral Tariff Review were carried out.

As a consequence, for fiscal year ended on December 31, 2016, the Company has not identified deterioration indicators for property, plant and equipment and intangible assets in accordance with the IFRS.

The Company considers it may reach consensus with the National Government during the 1° semester in 2017, as regards method, term and opportunity of the subscription of the Letter of Understanding of Comprehensive Contractual Renegotiation, so as to facilitate the restore of the economic-financial situation of the Company.

However, in accordance with what is set forth in the Company's policies (see Notes 4.7 and 4.10) a deterioration test was performed comparing the book value of property, plant and equipment and intangible assets to their recoverable value, determining the present value of the future flow of funds to be generated by those assets. The estimate was performed taking into account tariffs in

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

force as of the end of the fiscal year; these tariffs were approved by the ENARGAS and would be applied as from April 2017 as a consequence of the Integral Tariff Review in progress according to their occurrence probability. As the estimate of the value of the discounted future flow of funds significantly surpasses the accounting value of those assets, the Company determined that they were not deteriorated.

5.1.2 Impairment test for the fiscal year ended December 31, 2015

For fiscal year ended on December 31, 2015, the Company has identified indicators of impairment and has carried out an impairment assessment of properties, plant and equipment and intangible assets in accordance with the IFRS Based on such assessment, the books value of properties, plant and equipment and intangible assets was compared to the present value of the future cash flow to be generated by those assets; this estimate was made according to a probability approach under three possible scenarios, considering the background available at that time. As the estimate of the discounted future cash flow value is higher, in these fiscal years, than the book value of those assets, the Company determined that no impairment had occurred.

5.2 Revenue recognition and trade receivables

Revenues are recognized on an accrual basis upon delivery to customers. This includes estimates of delivered gas or liquids amounts not yet billed at the end of each fiscal year, its transportation and distribution, if applicable. Amounts effectively delivered are estimated on the basis of purchased volumes and other historical information. These volumes are assigned to each type of customer, segment and level of savings for its valuation depending on the applicable tariff that is carried out based on historical information of segments and levels of savings for each monthly invoice.

The Company is exposed to bad debt losses. The allowance for doubtful accounts is created on the basis of estimated payments received by the Company. While the Company uses available information to make such estimations, these provisions may possibly have to be adjusted in the future if future economic conditions differ substantially from the assumptions used in their preparation. The relevant charge is shown under selling expenses; no adjustments are made to revenues. In order to estimate the allowance for doubtful accounts, the Company permanently assesses the amount and nature of any trade receivables, including the age thereof and users' financial condition.

5.3 Provisions

The Company has certain contingent liabilities in relation to actual or threatened claims, lawsuits and other proceedings. A liability is accrued by MetroGAS when future costs are likely to be incurred and they may be reasonably estimated.

Such accruals are based on estimates arrived at on the basis of available data, Management estimates of results in relation to the issues involved and the opinion of legal counsel. These basic forward-looking presumptions and other key sources of uncertainty in estimates at the end of the reporting period involve a significant risk that material adjustments may be required in the book value of assets and liabilities during the next financial periods.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

5.4 Deferred income tax and minimum presumed income tax

The Company establishes the accounting charge for the income tax according to the deferred tax method, which considers the effect of temporary differences resulting from the various bases for measuring assets and liabilities under accounting and tax criteria and the tax loss carried forward and unused tax credits which may be deducted from future tax gains, computed at the current tax rate, which at present amounts to 35%.

In addition, the Company determines the MPIT by applying the current rate of 1% of assets to be considered at the close of every fiscal year. This tax is complementary of the income tax obligation. This tax is determined by application of an effective 1% rate on the tax basis of certain assets. The final tax liability will be the higher of income tax or MPIT. However, if MPIT is higher than income tax for any fiscal year, the excess amount may be computed as a payment on account of any excess income tax over MPIT that may arise for any of the ten subsequent fiscal years.

The Company evaluates the recoverability of deferred income tax and MPIT taking into account the probability that some or all deferred tax assets or claims may not be realized. For purposes of this evaluation, the Company considers the scheduled reversion of deferred income tax liabilities, projected future tax profits, tax planning strategies and any objective evidence of recovery.

5.5 Application of IFRIC 12 “Service Concession Arrangements”

Interpretation No. 12 “Service Concession Arrangements” (IFRIC 12) establishes some accounting guidelines for private entities that provide public services under a service concession agreement or similar arrangement. IFRIC 12 is applicable to license holders depending, among other things, on the extent to which the grantor controls or regulates the services and any significant residual interest in the assets at the end of the term of the arrangement.

Considering that IFRIC 12 establishes general guidelines and principles, judgment is required to determine whether it is applicable due to the specific nature of each service concession or license and the complexity inherent in the different notions included in its interpretation.

The Company has examined the characteristics, conditions and terms currently in effect under its natural gas distribution License and the guidelines established by IFRIC 12. On the basis of such analysis, the Company concluded that its license is outside the scope of IFRIC 12, primarily because of the features of its license renewal, which give a result similar to the possible outcome of a perpetual right for the operation of infrastructure. In this same respect and coincidentally, the CNV issued Resolution No. 613 on December 20, 2012, which sets forth the reasons and grounds on which in its opinion natural gas transportation and distribution services concession holders and their controlling entities are not within the scope of IFRIC 12.

Any change in license conditions should be analyzed in order to consider if it also represents a change in the analysis made.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

6. FINANCIAL RISK MANAGEMENT

6.1 Financial Risk Factors

The Company has in place several financial risk management policies that enable it to mitigate its exposure to the market risks involved in its business activity (including risks associated to fluctuations in exchange rates, interest rates and the price of the products sold by it), credit risk and liquidity risk.

The Company does not trade financial instruments, including derivative financial instruments for speculative purposes.

6.1.1 Market Risk

The Company is primarily exposed to financial risks related to fluctuations on exchange rate (see a) below) and interests rate (see b) below).

There have been no changes in the Company's exposure to market risks or in which these risks are managed and measured.

a) Exchange risk

The Company made transactions in foreign currency; consequently it is exposed to exchange rate fluctuations. The Company is primarily exposed to fluctuations in U.S. dollar (U\$S) – Argentine peso (\$) rate of exchange.

In accordance with the Emergency Law, enacted in January 2002, the rates charged by the Company for its natural gas distribution services have been translated to Argentine pesos and consequently most Company revenues are denominated in pesos.

On the other hand, the Company's financial debt, related with Notes, is denominated in U.S. dollars. It amounted to U\$S 172,638 thousand as of December 31, 2016, and to a nominal amount of U\$S 194,495 thousand.

As of December 31, 2015, the Company's net monetary liabilities position amounted to U\$S 168,446 thousand.

In Notes 13, 14, 15, 17, 18, 19, 21, 22 and 23 where shows the composition of currencies.

The Company estimates that considering the accounting value of debts, each 10% increase or decrease of the Argentine peso – U.S. dollar exchange rate would give rise to a Ps. 274 million loss or profit before taxes. This is a hypothetical sensitivity analysis, as the real impact of such fluctuations might differ significantly and change in the course of time.

b) Interest rate risk

MetroGAS has a limited exposure to risks associated with interest rate fluctuations, because 94% of its financial indebtedness bears interest at a fixed rate.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

On the other hand, the Company seeks to conduct financial transactions with top-level entities; these transactions include mutual fund investments. As of December 31, 2016, current investments in mutual funds amounted to 203,519. Such placements of funds bear interest at variable rates.

c) Price risk

The Company is not exposed to a commodity price risk in its gas distribution segment because the rates currently charged by MetroGAS to its customers are subject to regulation, and the regulatory framework contemplates a mechanism for the transfer of gas purchase costs to rates. (See Note 2.2).

Also, the prices of natural gas for industrial use in the sales segment are determined solely on the basis of local and domestic supply and demand.

MetroENERGÍA in particular subscribes natural gas forward sales contracts for a maximum one-year term. For this purpose, MetroENERGÍA purchases gas from producers and suppliers pursuant to the terms arising from availability and market conditions at the relevant time. However, most natural gas volumes under contracts with industrial customers are obtained from suppliers pursuant to the same terms as to delivery time, while any remaining quantities are derived from shorter-term purchases based on price and availability conditions at each gas basin.

6.1.2 Credit risk

Credit risk is the risk that counterparty will default on its contractual obligations, with a consequent financial loss to the Company. This risk is primarily derived from economic and financial factors, or the possibility of counterparty's default or more strictly technical, commercial or administrative factors.

As regards the credit risk involved in trade receivables derived from the Company's commercial activities, this risk has been historically limited given the short term for collection from customers, which implies that no significant individual amounts are accumulated. The Company has the power to cut supply in case of a customer's failure to make payment; this tool is used and makes the process of credit risk assessment and control easier.

Allowances for doubtful accounts are recorded (i) for the exact amount of any claims representing an individual risk (risk of bankruptcy, customers involved in legal proceedings against the Company); (ii) for claims other than those described in (i), provisions are recorded for customer segments taking into account the age of claims and historical charges for uncollectible amounts. According to the policy in force, the Company provides for 100% of any unpaid claims overdue for more than one year for MetroGAS and more than six months for MetroENERGÍA. Total overdue balances not covered by provisions for bad debts amount to 118,930 as of December 31, 2016, and to 297,838 as of December 31, 2015.

The Company has a wide range of customers, including residential, commercial, industrial – small and big – customers and governmental entities. The concentration of credit risk with any customer exceeds 5% of gross monetary assets at any time of the year.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Also, credit risk affects cash and cash equivalents, and bank and financial entity deposits, the Company do its financial operations in first rate entities.

The Company's maximum exposure to credit risk, broken down by type of financial instrument, is detailed below:

	Maximum exposure as of	
	12.31.16	12.31.15
Cash and cash equivalents	357,904	596,223
Trade receivables	2,731,286	1,031,403
Other receivables	951,123	239,531

As of December 31, 2016 and 2015, the allowance for doubtful accounts amounts to 115,814 and 68,466, respectively. This provision represents the best Company's estimate of losses incurred in relation to receivables and other receivables.

Note 13 and 14 details the aging of trade receivables and other receivables, respectively.

6.1.3 Liquidity risks

Liquidity risk represents the Company's inability to meet its short and long-term financial commitments.

At present the Company's liquidity is one of the main items on which Management's attention is focused, due to the difficulties that the Company is going through. The absence of rate increases, constantly increasing operating costs and the lack of certainty as to the effective implementation of rate increases are factors that have a direct impact on MetroGAS liquidity.

As of December 31, 2016 MetroGAS recorded a consolidated negative working capital of 754,273.

If current circumstances continue, the Company has contemplated a number of actions to be taken in order to mitigate the impact of its financial condition, including to:

- Continuing the claims for rate increases (including the transfer thereto of any municipal taxes) before Argentine authorities;
- procuring the strict management of cash-flow and control our expenditures;
- requiring additional capital contributions from the Company shareholders;
- evaluate payment conditions with our principal suppliers; and
- analyze eventual financing from third parties.

In spite of the fact that the Company is already taking some of the actions referred to above, its future remains uncertain.

No financial liability bears interest, other than Financial Debt and payment agreements with producers (See Notes 18, 2.2.2.5.1.).

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Maturities of financial assets are detailed in Notes 13, 14 and 15 and maturities of financial liabilities are detailed in notes 18, 19, 21, 22 and 23.

6.2 Capital risk management

The main goal of the Company's capital management is to preserve credit quality and capital ratios so as to be able to sustain its business and maximize value for its shareholders.

The capital structure of the Company includes its net indebtedness (the financial debt detailed in Note 18 offset by cash balances and cash equivalents) and the Shareholder's equity.

In the table below the debt rate for the years reported is as follows:

	12.31.16	12.31.15
Financial debt	2,894,594	2,280,807
Cash and cash equivalents	(357,904)	(596,223)
Net financial debt	2,536,690	1,684,584
Equity	(1,372,178)	(767,770)
Debt rate	(185)%	(219)%

7. FINANCIAL INSTRUMENTS

Financial assets and liabilities are classified and measured entirely at amortized cost, except for Mutual funds that are classified and measured at fair value through profit or loss (See Note 15).

7.1 Determination of fair value

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When estimating the fair value of an asset or liability, the Company takes into account the features of such asset or liability if those features are considered by market participants when valuing such asset or liability at the measurement date. Fair value for purposes of measurement and/or disclosure in these consolidated financial statements is determined on such basis, except for any leasing transactions, within the scope of IAS 17 and measurements that have certain similarities to, but are not the same as, fair value, such as the realizable value under IAS 2 or the value in use under IAS 36. All the financial instruments recognized at fair value are assigned to one of the levels of the value measurement hierarchy under IFRS 7. This measurement hierarchy has three levels. The initial basis for allocation is the "economic investment class". Pursuant to IFRS 7, fair value must be determined with the use of value measurement techniques that maximize the use of observable data.

Fair-value measurement of MetroGAS financial instruments is classified according to the three levels established by IFRS 7 based on the degree at which entries for measurements of reasonable value are noticeable and the relevance of said entries for measurements of reasonable value as a whole, which are described below:

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

- Level 1: Fair value is determined on the basis of observed prices in an active market for identical assets or liabilities that the Company may take as benchmark at the end of the fiscal year. An active market is a market with a high level of trading, and sufficient permanently available information on prices. As an observed price in an active market is the most reliable indicator of fair value, this price, if available, is always to be used.

- Level 2: Fair value is determined on the basis of observable information other than observed prices mentioned in Level 1 for financial asset or liabilities, whether directly (for instance, prices) or indirectly (for instance, derived from prices).

- Level 3: Fair value is determined through unobservable indicators and the company is required to develop its own hypotheses and premises. This is only allowed to the extent no market information is available. Any data included reflect the estimates that a market participant would take into account to set prices. The Company uses the best available information, including in-company data. MetroGAS does not have any financial instruments qualifying as Level 3 instruments.

The only financial assets of the Company that are measured at fair value at the end of the reporting period are mutual funds, the fair value of which is determined by their quoted prices (Level 1).

There are not financial liabilities subsequently measured at fair value.

The Company believes that the book value of its financial assets as recognized in its financial statements is near their respective fair value.

The Company believes that the book value of its financial liabilities as recognized in its financial statements is near their respective fair value, with respect to financial debt related to negotiable obligations are approximately 11% below from their fair value.

Total profits for the fiscal year include a profit of 136,522 and 43,898 for years 2016 and 2015, respectively, in relation to financial assets measured at fair value.

8. INTERESTS IN SUBSIDIARIES

The table below shows the Company's consolidated controlling interest:

Directly controlled company	Percentage of capital stock and voting rights held	
	12.31.16	12.31.15
MetroENERGÍA	95%	95%

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Company.

The company has used for the purposes of consolidation, the latest separate financial statements of MetroGAS and MetroENERGÍA as of December 31, 2016.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

MetroENERGÍA's corporate purpose is to carry out purchase and sales transactions and/or transportation services of natural gas for its own account, on behalf of or in association with third parties.

MetroENERGÍA's General Ordinary Shareholders' Meeting held on April 15, 2015, decided the distribution of the profit for the year 2014 to 62,174 to the payment of a dividend in cash, in the opportunity that the Boards of Directors is deemed relevant, taking into account cash availability and financial conditions of the business and any other factor deemed the organ of Administration. In this meeting, the representatives of YPFIESA decided to maintain their commitment by means of which they have renounced for the collection of dividends for as long as the financial debt of MetroGAS arising as a result of the restructuring and/or refinancing of the outstanding debt, is cancelled, pursuant to which the dividends approved shall be paid in full to the major shareholder MetroGAS.

According to the provisions of MetroENERGÍA's Board of Directors on August 21, 2015 and on May 11, 2016, considering cash flow availability and the financial conditions of the business, total dividends for the amount of 20,000 and for 42,174, respectively, were made available to the company's main shareholder, MetroGAS, and cancelled considering that the minority shareholder has resigned to collect these dividends.

General Ordinary Shareholders' Meeting held on April 29, 2016, decided the distribution of the profit for the year 2015 to 146,030 to the payment of a dividend in cash, in the opportunity that the Boards of Directors is deemed relevant, taking into account cash availability and financial conditions of the business and any other factor deemed the organ of Administration. In this meeting, the representatives of YPFIESA decided to maintain their commitment by means of which they have renounced for the collection of dividends for as long as the financial debt of MetroGAS arising as a result of the restructuring and/or refinancing of the outstanding debt, is cancelled, pursuant to which the dividends approved shall be paid in full to the major shareholder MetroGAS.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

9. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting prepared by the Chief Operating Decision Maker, for the purpose of resource allocation and performance assessment of the segment.

The primarily segments operated by the Company relate to the provision of the service of distribution of gas and, through MetroENERGÍA, of commercialization and/or transportation of natural gas for its own account, on behalf of or, in association with third parties.

12.31.16				
	MetroGAS Distribution	MetroENERGÍA Trading	Eliminations	Total
Revenues	5,063,479	3,047,274	(72,550)	8,038,203
Operating income	326,801	106,783	(56,232)	377,352
Results of interest in subsidiaries	56,232	-	(56,232)	-
Finance income	110,685	30,125	-	140,810
Finance cost	(1,155,875)	(33,222)	-	(1,189,097)
Result before income tax	(718,389)	103,686	(56,232)	(670,935)
Income tax and MPIT	118,707	(52,180)	-	66,527
Net and comprehensive result for the year	(599,682)	51,506	(56,232)	(604,408)
Total assets	6,311,782	510,786	(214,795)	6,607,773
Total liabilities	7,686,551	458,969	(165,569)	7,979,951
Depreciation of properties, plant and equipment, Investment properties and Intangible assets	(101,222)	-	-	(101,222)
Increase in properties, plant and equipment	486,164	-	-	486,164
Increase in Intangible Assets	57,434	2,231	-	59,665
Investments in subsidiaries	49,226	-	(49,226)	-

12.31.15				
	MetroGAS Distribution	MetroENERGÍA Trading	Eliminations	Total
Revenues	2,387,941	2,267,888	(28,472)	4,627,357
Operating income	563,053	233,166	(141,837)	654,382
Results on investments in subsidiaries	141,838	-	(141,838)	-
Finance income	35,132	15,162	-	50,294
Finance cost	(1,159,842)	(23,666)	-	(1,183,508)
Result before income tax	(561,657)	224,662	(141,837)	(478,832)
Income tax and MPIT	(3,244)	(78,632)	-	(81,876)
Net and comprehensive result for the year	(564,901)	146,030	(141,837)	(560,708)
Total assets	3,635,757	581,975	(192,235)	4,025,497
Total liabilities	4,410,844	435,634	(53,211)	4,793,267
Depreciation of properties, plant and equipment and Investment properties	(93,985)	-	-	(93,985)
Increase in properties, plant and equipment	231,297	-	-	231,297
Increase in Intangible Assets	70,157	-	-	70,157
Investments in subsidiaries	139,024	-	(139,024)	-

The accounting policies for these reporting segments are the same ones followed by the Company and detailed in Note 4.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

10. PROPERTIES, PLANT AND EQUIPMENT

MAIN ACCOUNT	ORIGINAL VALUE					DEPRECIATION				NET BOOK VALUE 12.31.16	NET BOOK VALUE 12.31.15
	AT BEGINNING OF YEAR	INCREASES	TRANSFERS	RETIREMENTS	AT END OF YEAR	ACCUMULATED AT BEGINNING OF YEAR	RETIREMENTS	INCREASES	ACCUMULATED AT END OF YEAR		
Land	15,654	-	-	-	15,654	-	-	-	-	15,654	15,654
Building and civil constructions	72,000	-	-	-	72,000	29,238	-	1,425	30,663	41,337	42,762
High pressure mains	387,634	-	38	(30)	387,642	210,515	(11)	6,430	216,934	170,708	177,119
Medium and low pressure mains	2,109,883	-	149,980	(4,169)	2,255,694	730,572	(2,541)	49,258	777,289	1,478,405	1,379,311
Pressure regulating stations	82,627	-	-	(233)	82,394	49,702	(136)	2,721	52,287	30,107	32,925
Consumption measurement installations	374,599	-	13,561	(5,880)	382,280	213,664	(3,877)	14,704	224,491	157,789	160,935
Other technical installations	59,839	-	2,015	-	61,854	50,035	-	995	51,030	10,824	9,804
Machinery, equipment and tools	36,991	-	2,115	-	39,106	29,142	-	1,299	30,441	8,665	7,849
Computer and telecommunications equipment	254,796	-	23,452	(27,647)	250,601	214,760	(26,018)	17,265	206,007	44,594	40,036
Vehicles	14,888	-	20,355	(63)	35,180	11,493	(62)	1,601	13,032	22,148	3,395
Furniture and fixtures	6,240	-	235	-	6,475	5,504	-	83	5,587	888	736
Materials	59,180	90,707	(58,602)	(16,977)	74,308	-	-	-	-	74,308	59,180
Gas in pipelines	214	-	-	-	214	-	-	-	-	214	214
Work in progress	100,227	395,457	(156,390)	-	339,294	-	-	-	-	339,294	100,227
Distribution network extensions constructed by third parties	72,628	-	3,241	-	75,869	20,435	-	1,486	21,921	53,948	52,193
Subtotal	3,647,400	486,164	-	(54,999)	4,078,565	1,565,060	(32,645)	97,267	1,629,682	2,448,883	2,082,340
Allowance for obsolescence of materials	(1,386)	(5,186)	-	131	(6,441)	-	-	-	-	(6,441)	(1,386)
Allowance for disposal of properties, plant and equipment	(4,282)	(3,123)	-	1,942	(5,463)	-	-	-	-	(5,463)	(4,282)
Total as of December 31, 2016	3,641,732	477,855	-	(52,926)	4,066,661	1,565,060	(32,645)	97,267	1,629,682	2,436,979	
Total as of December 31, 2015	3,424,874	225,350	-	(8,492)	3,641,732	1,474,156	(2,762)	93,666	1,565,060		2,076,672

As mentioned in Note 2.7.1 according to the license a substantial portion of the Properties, plant and equipment are defined as “Essential Assets” and there are certain restrictions over them described in the mentioned note.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

11. INVESTMENT PROPERTIES

MAIN ACCOUNT	ORIGINAL VALUE		DEPRECIATION				NET BOOK VALUE 12.31.16	NET BOOK VALUE 12.31.15
	AT BEGINNING OF YEAR	AT END OF YEAR	ACCUMULATED AT BEGINNING OF YEAR	ANNUAL RATE	INCREASES	ACCUMULATED AT END OF YEAR		
Land	729	729	-	-	-	-	729	729
Building	3,049	3,049	1,384	2.00%	61	1,445	1,604	1,665
Total as of December 31, 2016	3,778	3,778	1,384		61	1,445	2,333	
Total as of December 31, 2015	3,778	3,778	1,323		61	1,384		2,394

As of December 31, 2016, the fair value amounted to 37,200.

The fair value of investment properties of the Company at December 31, 2016 was obtained by independent valuers not related to MetroGAS.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

12. INTANGIBLE ASSETS

MAIN ACCOUNT	ORIGINAL VALUE					DEPRECIATION					NET BOOK VALUE 12.31.16	NET BOOK VALUE 12.31.15
	AT BEGINNING OF YEAR	INCREASES	TRANSFERS	DECREASE	AT END OF YEAR	ACCUMULATED AT BEGINNING OF YEAR	ANNUAL RATE	INCREASES	DECREASE	ACCUMULATED AT END OF YEAR		
Software development in progress	54,673	59,665	(10,926)	-	103,412	-		-	-	-	103,412	54,673
Software	15,484	-	10,926	(450)	25,960	258	20%	3,894	(75)	4,077	21,883	15,226
Total as of December 31, 2016	70,157	59,665	-	(450)	129,372	258		3,894	(75)	4,077	125,295	
Total as of December 31, 2015	-	70,157	-	-	70,157	-		258	-	258		69,899

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

13. TRADE RECEIVABLES

	12.31.16	12.31.15
Current		
Trade receivables	1,040,771	536,275
Unbilled revenues	1,701,937	416,493
Related parties	79,891	128,643
Tax on banking transactions to be recovered	22,317	17,168
Allowance for doubtful accounts	(113,630)	(67,176)
Total Current	2,731,286	1,031,403

The aging analysis of the trade receivables is as follows:

	12.31.16	12.31.15
-Past due		
under 3 months	60,157	85,932
from 3 to 6 months	21,169	51,208
from 6 to 9 months	14,269	28,861
from 9 to 12 months	14,019	10,655
from 1 to 2 years	61,966	16,393
more than 2 years	42,542	18,309
Subtotal	214,122	211,358
-Becoming due		
under 3 months	2,613,010	873,943
from 3 to 6 months	6,473	4,694
from 6 to 9 months	5,732	4,292
from 9 to 12 months	5,579	4,292
Subtotal	2,630,794	887,221
Allowance for doubtful accounts	(113,630)	(67,176)
Total	2,731,286	1,031,403

The carrying amount of the Company's trade receivables is denominated in the following currencies:

	12.31.16	12.31.15
Pesos	2,371,242	662,678
US Dollars	360,044	368,725
Total	2,731,286	1,031,403

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The roll forward of the allowance for doubtful accounts for trade receivables and other receivables is as follow:

	<u>12.31.16</u>	<u>12.31.15</u>
Balance at beginning of year	68,466	28,983
Revaluation of foreign currency	(9,748)	12,599
Increases (*)	68,493	31,140
Decreases	(3,708)	(4,256)
Uses	<u>(7,689)</u>	<u>-</u>
Balance at end of year	<u>115,814</u>	<u>68,466</u>

(*) Charged to Doubtfull account expenses (see Note 25 - Expenses by nature).

The Company has a broad range of customers, including residential, commercial, industrial (small and large) and government entities customers. When determining the recoverability of a trade receivable, the Company takes into account any changes in the credit quality of such account as from the date when credit was initially granted to the end of the reporting period. There is a limited concentration of credit risk because the Company has a wide base of independent customers.

Due to the terms under which the Company provides a public service, no analysis with internal or external credit ratings is carried out, particularly for residential customers whose credits considered individually are not significant. Note 6.1.2 includes a description of the credit risk and the analysis carried out by the Company in connection with trade receivables.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

14. OTHER RECEIVABLES

	12.31.16	12.31.15
Non current:		
Social security and tax credits	7,271	9,171
Expenses paid in advance	28	348
Total non current	7,299	9,519
Current:		
Advances to employees	791	569
Insurance paid in advance	47	303
Expenses paid in advance	4,012	2,275
Trust Fund Resolution No. 2,407	1,351	1,474
Social security and tax credits	85,344	18,308
Recoverable expenses	14,188	13,961
Related parties	3,058	7,760
Advances to suppliers	26,773	11,432
Temporary Economic Assistance - Related parties	759,200	149,310
Advances and anticipated purchases of gas	9,622	15,742
Management service for third parties constructions	9,382	3,365
Miscellaneous	32,240	6,803
Allowance for doubtful accounts	(2,184)	(1,290)
Total current	943,824	230,012
Total	951,123	239,531

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The aging analysis of the other receivables is as follows:

	12.31.16	12.31.15
-Past due		
under 3 months	14,585	152,592
from 3 to 6 months	2,830	771
from 6 to 9 months	736	235
from 9 to 12 months	287	33
from 1 to 2 years	1,249	615
more than 2 years	935	700
Subtotal	20,622	154,946
-Without due	785,973	25,667
-Becoming due		
under 3 months	94,783	46,198
from 3 to 6 months	35,894	7,516
from 6 to 9 months	4,777	2,195
from 9 to 12 months	3,959	471
from 1 to 2 years	20	802
more than 2 years	7,279	3,026
Subtotal	146,712	60,208
Allowance for doubtful accounts	(2,184)	(1,290)
Total	951,123	239,531

The carrying amount of the Company's other receivables is denominated in the following currencies:

	12.31.16	12.31.15
Pesos	946,548	235,115
US Dollars	3,095	4,244
Euros	1,480	172
Total	951,123	239,531

15. CASH AND CASH EQUIVALENTS

In order to be considered for the consolidated statements of cash flows, cash and cash equivalents is as follows:

	12.31.16	12.31.15
Cash and banks	154,385	79,702
Mutual funds	203,519	516,521
Total	357,904	596,223

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The carrying amount of the Company's cash and cash equivalents is denominated in the following currencies:

	12.31.16	12.31.15
Pesos	353,988	593,937
US Dollars	3,916	2,161
Sterling pound	-	77
Euros	-	28
Reales	-	20
Total	357,904	596,223

As of December 31, 2016 and 2015, fund collected and pending to be deposit for Trust Funds and Resolution I-2,621/2013 amount to 45,428 and 59,593, respectively.

16. SHAREHOLDERS' EQUITY AND ISSUED CAPITAL

As of December 31, 2016, the capital stock of MetroGas amounts to 569,171, which is fully subscribed, registered and paid-in and it is composed of the following classes of shares:

Classes of shares	Subscribed, registered and paid in
Outstanding:	
Common Certified Shares, of Ps. 1 Par Value and 1 Vote each:	
Class "A"	290,277
Class "B"	275,026
Class "C"	3,868
Issued Capital at 12.31.16	569,171

Seventy per cent (70%) of the whole capital stock belonged to Gas Argentino S.A. ("Gas Argentino") as of December 31, 2015. In the meeting on March 3, 2016 Gas Argentino approved the merger by absorption by YPF of YPFIESA and of Gas Argentino, therefore, the latter shall be dissolved without liquidation effective January 1, 2016. Furthermore, on that same date YPF, as absorbing company, and YPFIESA and Gas Argentino, as absorbed companies, signed a Commitment Prior to Merger, under which YPF shall incorporate YPFIESA and Gas Argentino, effective January 1, 2016, based on the individual annual financial statements of each of the companies as at December 31, 2015, which shall be used as Special Merger Balance, and on the Consolidated Merger Statement of Financial Position as at the same date.

As of December 31, 2016, MetroGAS owns 95% of MetroENERGÍA, with the remaining 5% owned by YPF Inversora Energética S.A. During the fiscal year 2016 YPF S.A. initiated a merger by absorption of YPF Inversora Energética S.A., which was not yet registered in the IGJ. The company reorganization shall have retroactive effects as of January 1, 2016.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The General Ordinary and Extraordinary Shareholders' Meeting of Gas Argentino on April 29, 2016 approved: i) Merger by absorption of Gas Argentino and YPFIESA by YPF under the terms of Article 82, following and matching ones in the General Corporation Law No. 19,950; ii) the Special Merger Balance of Gas Argentino and the Consolidated Merger Statements of Financial Position of YPFIESA, Gas Argentino and YPF, closed on December 31, 2015, iii) the Merger Commitment celebrated between YPFIESA and Gas Argentino and YPF, and iv) the Merger Prospect.

On December 22, 2016, the CNV approved by Resolution No. 18,415 the merger by absorption under the terms of article 82 of the General Corporations Law No. 19,550. Once the dissolution of the companies is registered at the IGJ, the company reorganization shall have retroactive effects as of January 1, 2016.

As of December 31, 2015, the Company recorded accumulated losses for 1,344,258 and kept a negative Shareholders' equity attributable to the controlling interest of 775,087, being subject to the provisions of Article 94, paragraph 5, and Article 96 of the General Corporations Law. Considering the aforementioned, having discussed the issue at the Shareholders Meeting held on April 29, 2016, the shareholders of MetroGAS estimates that the Company's economic-financial situation will gradually improve through the implementation of the Provisional Agreement subscribed on February 24, 2016 with the MINEM and the Ministry of Economic and Public Finances (see Note 2.2.2.4), regarding the terms include the subscription of an Comprehensive Letter of Understanding of Contractual Renegotiation, in order to facilitate the recomposition of the economic-financial situation of the Company.

As a consequence of the important amount of accumulated losses, as of December 31, 2016, the Company registered a negative Shareholders' equity attributable to controlling interest of 1,374,769, being affected by regulations from Art. 96, S. 5° and Art. 96 of the General Corporations Law.

On December 28, 2016, MetroGAS received from the ENARGAS a note requesting to adapt the Company's share composition in accordance with the due date stipulated in the Emergency Law and in compliance with article No. 34 of Law No. 24,067. In that regard, it is worth pointing out that YPF S.A., after the merger with Gas Argentino S.A., is the owner of 70% of MetroGAS' shares. The Company has asked to examine all antecedents of the request from the ENARGAS and, as it considers that what has been requested mainly concerns its controlling shareholder, it has served notice in order to adopt those actions that are deemed appropriate.

16.1 Employee Stock Ownership Plan

PEN Decree No. 1,189/92, which provides for the creation of the Company, establishes that 10% of the capital stock represented by Class "C" shares has to be included in the Employee Stock Ownership Plan ("ESOP"), as required by Law No. 23,696, Chapter III, whose instrumentation was approved on February 16, 1994 by PEN Decree No. 265/94. The Class "C" shares shall be held by a trustee for the benefit of the employees of GdE transferred to MetroGAS, who remain being employed by MetroGAS on July 31, 1993 and who elect to participate in the ESOP.

In addition, the Company's By-laws provide for the issuance of profit sharing bonds as defined in Section 230 of Law No. 19,550 in favor of all regular employees, distributing 0.5% of the net

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

earnings of each year among the beneficiaries of this program. Accrued amounts will be deductible as expenses in the statement of profit and loss and other comprehensive income for each year, in so far as there are appropriated retained earnings.

ESOP participants acquired their shares from the National Government for Ps. 1.10 per share, either paying in cash or applying the dividends on any such shares and a 50% of their Profit-sharing bonds to the purchase price. The trustee will maintain the Class “C” shares in custody until they are paid in full.

Once Class “C” shares are fully paid, they may be converted into Class “B” shares at the request of the holders.

On July 28, 2015, the Executive Committee of MetroGAS’ ESOP (Employee Stock Ownership Plan) sent a note to the Company requesting to perform and implement all necessary actions to convert Class “A” shares into Class “B” shares. According to Resolution N° 194/2015 from the Ministry of Economy and Public Finance (“Resolution No.194/2015”), Resolution N° 297/2015 of the Legal and Administrative Secretariat (“Resolution No. 297/2015”) and the General Ordinary Meetings of Shareholders Class “C” from MetroGAS’ ESOP (Employee Stock Ownership Plan) dated on May 29 , 2014 and April 21, 2015. The requested conversion of shares had to be done over 53,049,640 ordinary book-entry Class “C” shares of nominal value Ps. 1.00 each, and the right to one vote per share over a total of 56,917,120 ordinary book-entry Class “C” shares of nominal value Ps. 1.00 each, and the right to one vote per share.

On August 4, 2015, the Board of Directors authorized to start proceedings in order to convert the said shares before the CNV, the “Mercado de Valores de Buenos Aires S.A” through the BCBA in virtue of exercising the powers conferred upon the BCBA by “Merval” in compliance with Resolution No. 17,501 of the CNV and Caja de Valores S.A under the terms and conditions from Resolution No. 194/2015 and Resolution No. 297/2015.

At the Class “B” and “C” shares General Extraordinary Meeting of MetroGAS ´shareholders dated on October 16, 2015 the partial conversion of Class “C” shares into Class “B” shares was approved by a majority of votes.

As a consequence of that, on December 4, 2015, the CNV decided to transfer the public offering authorization duly granted by MetroGAS to convert 53,049,640 ordinary book-entry Class “C” shares of nominal value Ps. 1.00 each and the right to one vote per share, into the same number of ordinary book-entry Class “B” shares.

As of this date, 3,867,480 MetroGAS Class “C” shares are owned by some MetroGAS’ employees by a Residual Employee Stock Ownership Plan

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

17. OTHER TAXES PAYABLES

	12.31.16	12.31.15
Non current:		
Others taxes	4,180	5,647
Subtotal non current	4,180	5,647
Current:		
Value added tax	66,180	32,761
GCABA study, revision and inspection of works in public space levy	86,012	57,052
GNC Tax	43,149	6,102
Turnover tax	46,589	26,917
Provincial and municipal taxes	56,497	49,360
Hydric infrastructure rate	10,630	2,231
Withholding to third parties	16,258	-
Others taxes	2,175	1,794
Subtotal current	327,490	176,217
Total	331,670	181,864

The carrying amount of the Company's other taxes payables are denominated in pesos.

The aging analysis of other taxes payables is as follows:

	12.31.16	12.31.15
-Without due	130,600	93,975
-Becoming due		
under 3 months	195,897	81,053
from 3 to 6 months	326	521
from 6 to 9 months	331	334
from 9 to 12 months	336	334
from 1 to 2 years	748	1,011
more than 2 years	3,432	4,636
Subtotal	201,070	87,889
Total	331,670	181,864

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

18. FINANCIAL DEBT

	12.31.16	12.31.15
Non current:		
Negotiable Obligations ("Notes")	2,678,537	2,087,326
Related parties ("Notes")	62,396	48,623
Subtotal Non current	2,740,933	2,135,949
Current:		
Interest to be paid ("Notes")	2,284	1,587
Related parties (Line of credit)	151,377	143,271
Subtotal Current	153,661	144,858
Total	2,894,594	2,280,807

As of December 31, 2016, financial debt denominated in U.S. dollars amounted to U\$S 2,743,217 thousand and financial debt denominated in pesos amounted to 151,377. As of December 31, 2015, financial debt denominated in U.S. dollars amounted to U\$S 2,137,536 thousand and financial debt denominated in pesos amounted to 143,271.

The table below shows the changes occurred in the balance of financial debt as of December 31, 2016 and 2015:

	12.31.16	12.31.15
Balance at beginning of year	2,280,807	1,445,776
Accrued interest at effective interest rate - Notes (1)	381,634	234,169
Accrued interest on YPF line of credit	35,568	35,029
Exchange difference	481,520	741,247
Interest payment	(284,935)	(175,414)
Balance at end of year	2,894,594	2,280,807

(1) Includes accrued interest on notes issued to YPF and YSUR Energía Argentina S.R.L..

The aging analysis of financial debt is as follows:

	12.31.16	12.31.15
-Becoming due		
under 3 months	86,239	74,504
from 3 to 6 months	67,422	70,354
from 1 to 2 years	2,740,933	-
more than 2 years	-	2,135,949
Subtotal	2,894,594	2,280,807
Total	2,894,594	2,280,807

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

18.1 Negotiable Obligations

As a consequence the mandatory debt exchange made on January 11, 2013, within the framework of reorganization proceedings requesting on December 2010 (the “Reorganization Proceedings”) MetroGAS issued the Series A and Series B Notes with maturity on December 31, 2018 (the “Notes”). Also, the Notes were issued to be delivered to any new unsecured creditors after their claims have been allowed pursuant to a judgment entered under the Reorganization Proceedings.

Said Notes had accrued a fixed interest rate of 8.875%. Interest is payable semiannually on June 30 and December 31 of each year. MetroGAS exercised its option to capitalize interest up to 100% as of June 30, 2013, and up to 50% as of December 31, 2013 and June 30, 2014.

Having the limit date (June 30, 2014, in accordance with the terms of the Trust Agreement), and no Triggering Event has been produced Series B Notes, which represented the withdrawal of the agreement with creditors under the Reorganization Proceedings, were canceled.

As of December 31, 2016, MetroGAS’ financial debt consists mainly of Series A Notes.

Under the terms and conditions for the issue of Notes, the Company and its subsidiaries shall comply with a series of restrictions which, among others, and in general terms, are those listed below.

- Incur or guarantee any debt;
- Make any restricted payments, including any payment of dividends;
- Effect any sale of assets;
- Make investments of any kind;
- Carry out sale and leaseback transactions;
- Carry out transactions with related companies;
- Create or assume any liens;
- Make any mergers or consolidations; and
- Make any sale or lease all or substantially all their respective assets.

No event of default has occurred as of December 31, 2016.

During the fiscal year 2016, MetroGAS paid semiannual interest.

18.2 Related parties

On December 12, 2013, the Board of Directors of MetroGAS unanimously approved a contract with YPF where YPF granted MetroGAS a “Non-Committed” credit facility for up to 180,000 for a period of 180 days as from the date of the proposal. This credit facility has a BADLAR cost plus an annual 6% spread and MetroGAS was entitled to request any drawdown as it deemed necessary up to the maximum amount of the credit facility and for the above mentioned period, and to make partial or total advance payments without penalty. Finally, an annual 10% default interest will be applied in the event of default. On February 26, 2015 an extension was granted for 365 days counted from its corresponding due dates in the same conditions, limiting the amount to 140,000.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Dated February 25, 2016 and April 18, 2016, new extensions were granted being the new due dates of February 27, 2017, for the first drawdown request, and April 21, 2017 for the second. As of December 31, 2016, the Company has taken 90,000 and has capitalized interest by 36,043 of this credit facility.

19. REORGANIZATION LIABILITIES

	<u>12.31.16</u>	<u>12.31.15</u>
Non current:		
Taxes payable	9,910	13,283
Trade payables	23	23
Salaries and social security	336	336
Total Non current	<u><u>10,269</u></u>	<u><u>13,642</u></u>

The carrying amount of the Company's reorganization liabilities are denominated in pesos and have not maturity.

On December 13, 2016 the Company signed the acceptance to the Exceptional Regularization Plan, Law No. 5,616 in the Federal Administration of Public Revenues for its insolvency debt regarding public spaces Levy.

20. PROVISIONS

Provisions	Civil, labor and other claims	Tax claims and other fines	Regulatory claims and interpretation disagreements	Claims against The Government	Total
Balance at 12.31.15	69,610	32,196	14,452	-	116,258
Net increases of the year (*)	45,633	(8,593)	1,883	123,758	162,681
Reclassification to other accounts payable	-	-	3,365	-	3,365
Decreases of the year	(1,960)	(19,346)	-	-	(21,306)
Balance at 12.31.16	113,283	4,257	19,700	123,758	260,998

(*) Charge to Other income and expenses (see Note 25).

20.1 Civil liability, labor and other claims

As of the date of issuance of these financial statements, some civil liability and labor claims by contractors' employees, worker's compensation claims, etc. have been brought against the Company. As of December 31, 2016, the Company recorded a provision of 113,283, of which 51,548 correspond to labor lawsuits and 53,586 to civil liability claims for damages, while 8,149 corresponds to mediation proceedings. During the fiscal year ended December 31, 2016, the Company increased the provision for these items of 45,633.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

20.2 Tax claims and other fines

As of the date of issuance of these financial statements, the Company claims keeps of turnover taxes of the Province of Buenos Aires, which amount to 2,206 as of December 31, 2016 and 2,051 fines from GCBA.

As regards gross income claims, on March 3, 2008, MetroGAS was notified by Resolution No. 96/08, No. 95/08 and No. 97/08 about the Tax Determinations given by the Tax Authority of the Province of Buenos Aires regarding the Gross Income Tax corresponding to periods January-March 2004, June-September 2004 and October 2004-October 2005, respectively. Claims are based on the tax rate increase applied by the Company as well as the expenses ratios regarding cost treatment for gas transportation.

On March 27, 2008, MetroGAS brought an appeal against the said Resolution before the Tax Court of the Province of Buenos Aires

On September 5, 2014, MetroGAS was notified of the Tax Court Resolution from August 26, 2014 regarding Resolution No. 96/08 that determined to partially proceed with the Appeal brought by MetroGAS with respect to the rate increase ruled by Provincial Law No. 12,727 and in addition to partially proceed with the tax authority’s determination with respect to expenses ratios.

On February 24, 2015, MetroGAS filed a complaint before the Administrative Courts of Appeal of La Plata against the Province of Buenos Aires regarding tax issues where the Tax Court confirmed the tax expectation.

On October 13, 2015, the Administrative Court of Appeals rejected the Company’s complaint and ruled that the Company had to comply with the requirement of the previous payment of the amount stipulated by “ARBA” (the Tax collection Agency of the Province of Buenos Aires) under penalty of rejecting their request for being unacceptable.

On October 20, 2015 the Company filed an Administrative appeal for Review against the said Resolution before the Administrative Court of Appeals which was dismissed on December 1, 2015.

In order to continue discussions on the Tax Court’s resolution as regards unfavorable issues to the interests of the Company, MetroGAS complied with the payment of all amounts requested for that period and confirmed it thus complying to what was ruled by the Administrative Court of Appeals in order to accept the appeal against the Tax Court Resolution.

On December 14, 2015, the Company was notified of the sentence of the Tax Court, dated on December 1, 2015, in connection to Resolution No. 95/08 corresponding to period June - September 2004 which confirms the adjustment of the ratio of expenses made by the tax authority.

In order to continue discussions on this issue before the court of the Province of Buenos Aires, MetroGAS will have to comply with the rule “solve et repete” and pay all amounts requested. However, the company’s legal advisors assume that it is possible for the Company to obtain a favorable ruling at final instance regarding the matter at issue.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

20.3 Regulator claims and interpretation disagreements

At the date of issue of these financial statements, the Company has several interpretative disagreements with the aforementioned regulatory authorities with respect to various legal issues.

At December 31, 2016, the provision for these items amounted to 19,700; no having significant changes in the fiscal year ended 2016.

20.4 Payment of Court Fee – Lawsuit against the National Government

In 2011, MetroGAS filed an interruptive action of prescription against the National Government ("MetroGAS S.A. vs./ National Government on/ damages" Case Record 50,141/2011) aiming at, once all possibilities regarding administrative claims were exhausted, demanding the National Government to compensate all damages caused to MetroGAS, resulting from the Emergency Law due to the non-fulfillment of the agreement's obligations to keep the economic-financial equation of this distributing company according to the terms and conditions of the regulatory framework stipulated by Law No. 24,076.

As a complementary action and once exhausted the administrative way, in 2013 the claim was extended and the amount was fixed at 4,125,167 (as of December 31, 2011) and a request to Waive Court Fees and Costs was filed ("BLSG") (Article 78 and following ones of the Civil and Commercial Code of Argentina) - aiming at the exemption of payment of court fees and costs (Court Fees –Law No. 23,898) as a consequence of the lawsuit for damages. Once the Waiver of Court fees and Costs was implemented, MetroGAS was exempted from court fees at the time of initiating the main action and until the resolution of the Waiver of Court fees and Costs.

At present, and according to the ratification made by the Board of Directors of MetroGAS on August 3, 2016, court actions mentioned have been suspended until the Comprehensive Tariff Review is completed according to the terms and conditions of the Transitory Agreement signed among MetroGAS and the Ministry of Energy and Mining, and the Ministry of Treasury and Finance dated on February 24, 2016, in order to avoid unnecessary expenses.

As regards the Comprehensive Tariff Review, and according to certain precedents, the National Government has requested the withdrawal of all proceedings that MetroGAS would have filed as a consequence of the Emergency Law; then MetroGAS is waiting to receive the draft from the Comprehensive Agreement that the National Government wants to subscribe and in which the expected withdrawal is included. –Considering this assumption, tax authorities could compel MetroGAS to pay court fees that, under the terms of Law No. 23,898, is three percent (3%) of the claim's amount.

As of December 31, 2016 the Company registered an entry as regards these concepts of 123,758 in accordance with the guidelines of IAS 37.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

21. TRADE PAYABLES

	<u>12.31.16</u>	<u>12.31.15</u>
Non current:		
Gas creditors	23,057	18,478
Related parties	34,574	153,577
Total Non current	<u>57,631</u>	<u>172,055</u>
Current:		
Gas and transportation creditors	2,055,147	860,435
Other purchases and services creditors	250,523	128,220
Trust Funds	45,007	56,666
Related parties	1,769,470	562,967
Resolution I-2,621/2013	421	2,927
Total current	<u>4,120,568</u>	<u>1,611,215</u>
Total	<u>4,178,199</u>	<u>1,783,270</u>

The carrying amount of the Company's trade payables are denominated in the following currencies:

	<u>12.31.16</u>	<u>12.31.15</u>
Pesos	3,876,778	1,464,731
US Dollars	300,448	317,615
Euros	973	924
Total	<u>4,178,199</u>	<u>1,783,270</u>

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The aging analysis of the trade payables is as follows:

	12.31.16	12.31.15
-Past due		
under 3 months	983,560	672,485
from 3 to 6 months	823,930	-
from 6 to 9 months	201	7
from 9 to 12 months	33,193	-
from 1 to 2 years	145,600	1,149
more than 2 years	167	117
Subtotal	1,986,651	673,758
-Becoming due		
under 3 months	1,980,699	856,461
from 3 to 6 months	47,989	25,268
from 6 to 9 months	51,010	26,859
from 9 to 12 months	54,219	28,869
from 1 to 2 years	57,631	133,322
more than 2 years	-	38,733
Subtotal	2,191,548	1,109,512
Total	4,178,199	1,783,270

22. SALARIES AND SOCIAL SECURITY

	12.31.16	12.31.15
Salaries	19,993	19,253
Social securities	33,626	24,091
Related parties	13,624	9,773
Vacation provision	69,863	46,754
Bonus provision	35,753	28,262
Others	212	196
Total	173,071	128,329

The carrying amount of the Company's salaries and social security are denominated in pesos.

The aging analysis of the salaries and social security is as follows:

	12.31.16	12.31.15
-Becoming due		
under 3 months	131,979	99,554
from 3 to 6 months	13,698	9,485
from 6 to 9 months	13,697	9,485
from 9 to 12 months	13,697	9,805
Subtotal	173,071	128,329
Total	173,071	128,329

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

23. OTHER ACCOUNTS PAYABLE

	12.31.16	12.31.15
Payables for works on behalf of third parties	10,686	10,739
ENARGAS' Fines	2,346	2,386
GCBA' Fines	1,406	9,234
Miscellaneous	755	464
Total	15,193	22,823

The carrying amount of the Company's other accounts payable is denominated in pesos.

The aging analysis of the other accounts payables is as follows:

	12.31.16	12.31.15
-Without due	2,346	2,386
-Becoming due		
under 3 months	4,265	7,813
from 3 to 6 months	8,442	5,189
from 6 to 9 months	140	4,567
from 9 to 12 months	-	2,868
Subtotal	12,847	20,437
Total	15,193	22,823

24. REVENUES

	For the years ended,	
	12.31.16	12.31.15
Gas sales	4,524,748	2,107,549
MetroENERGÍA's gas sales and transportation	3,038,142	2,259,100
Transportation and distribution services	378,117	206,053
Other sales	86,570	41,918
Natural gas liquids processing	1,494	3,949
MetroENERGÍA's other revenues	9,132	8,788
Total	8,038,203	4,627,357

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

25. EXPENSES BY NATURE

	For the years ended,				
	12.31.16			12.31.15	
	OPERATING COSTS	ADMINISTRATION EXPENSES	SELLING EXPENSES	TOTAL	TOTAL
Payroll and other employees benefits	269,882	258,814	178,424	707,120	518,434
Social security contributions	59,248	40,811	38,660	138,719	91,842
Cost of natural gas	5,592,688	-	-	5,592,688	2,920,741
Transportation of natural gas and natural gas liquids processing	612,499	-	-	612,499	324,686
Directors and Supervisory committee fees	-	2,714	-	2,714	2,341
Fees for professional services	1,213	13,720	5,559	20,492	11,496
Sundry materials	24,732	-	-	24,732	12,880
Fees for sundry services	60,467	19,925	89,302	169,694	124,375
Post and telephone	2,096	8,036	52,921	63,053	54,584
Rent and leases	288	68	4,152	4,508	3,952
Transportation and freight charges	-	8,550	-	8,550	8,734
Office materials	1,122	2,046	2,774	5,942	4,094
Travelling expenses	1,286	1,041	585	2,912	2,307
Insurance premium	-	18,084	2	18,086	12,366
Properties, plant and equipment maintenance and repair	112,318	74,486	788	187,592	165,315
Properties, plant and equipment, Investment properties and Intangible assets depreciation	78,529	22,693	-	101,222	93,985
Taxes, rates and contributions	81,984	135,996	256,752	474,732	260,645
Publicity	-	-	11,842	11,842	5,660
Doubtful accounts	-	-	68,493	68,493	31,140
Bank expenses and commissions	-	1,044	19,548	20,592	21,840
Others expenses	5,929	2,136	2,216	10,281	8,390
Total as of December 31, 2016	6,904,281	610,164	732,018	8,246,463	
Total as of December 31, 2015	3,753,736	426,317	499,754		4,679,807

The expenses included in the above table are net of the Company's own expenses capitalized in properties, plant and equipment for 33,819 at December 31, 2016 and for 26,319 at December 31, 2015.

26. OTHER INCOME AND EXPENSES

	For the years ended,	
	12.31.16	12.31.15
GCBA' Fines	(13,419)	-
Publicity	303	754
Contractors penalties	2,429	1,628
Management service for third parties constructions	1,696	5,198
Other (expenses) / income	(3,246)	2,697
Revenues from rendering services to Controlling Company	1,330	3,311
Increases in provisions for claims and contingencies and others	(162,681)	(17,756)
Total	(173,588)	(4,168)

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

27. NET FINANCIAL RESULTS

Finance income

	For the years ended,	
	12.31.16	12.31.15
Financial assets at fair value	136,522	43,898
Exchange difference on cash and cash equivalents	1,593	3,725
Other financial expenses	2,695	2,671
	<u>140,810</u>	<u>50,294</u>

Finance costs

	For the years ended,	
	12.31.16	12.31.15
Exchange difference on financial debt	481,520	741,247
Accrued interest on financial debt	381,634	234,169
Accrued interest on YPF line of credit	35,568	35,029
Accrued interest on commercial debt	253,182	143,278
Other financial expenses	37,193	29,785
	<u>1,189,097</u>	<u>1,183,508</u>

28. INCOME TAX AND MINIMUM PRESUMED INCOME TAX

The following table shows the changes and breakdown of deferred income tax assets and liabilities:

MetroGAS

Deferred income tax assets

	Trade receivables and Other receivables	Provisions	Total deferred tax assets
Balances at 12.31.15	100,917	26,221	127,138
Movements of the year	30,951	45,036	75,987
Balances at 12.31.16	<u>131,868</u>	<u>71,257</u>	<u>203,125</u>

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Deferred income tax liabilities

	Properties, plant and equipment	Financial debt	Cash and cash equivalents	Others	Total deferred tax liabilities	Total net deferred tax liabilities
Balances at 12.31.15	(207,040)	(139,437)	(3,923)	101	(350,299)	(223,161)
Movements of the year	10,861	17,879	2,658	(181)	31,217	107,204
Balances at 12.31.16	(196,179)	(121,558)	(1,265)	(80)	(319,082)	(115,957)

MetroENERGÍA

Deferred income tax assets

	Trade receivables	Others	Total
Balances at 12.31.15	10,090	(715)	9,375
Movements of the year	(10,090)	872	(9,218)
Balances at 12.31.16	-	157	157

The net consolidated position as of December 31, 2016 accounted for a deferred income tax asset amounting to 157, as regards MetroENERGÍA, and a deferred income tax liability amounting to 115,957, as regards MetroGAS, and as of December 31, 2015; a deferred income tax asset amounting to 9,375, as regards MetroENERGÍA, and a deferred income tax liability amounting to 223,161, as regards MetroGAS.

Below is the reconciliation between the income tax charged to results and the amount resulting from the application of the corresponding tax rate to the accounting result before income tax:

	For the years ended,	
	12.31.16	12.31.15
Income tax expense on result before income tax	234,827	167,591
<u>Tax effect due to:</u>		
Net non deductible expenses and non taxable income	(17,659)	(1,689)
Tax loss carry forwards not recognized	(162,145)	(247,778)
Minimum presumed income tax recognized	11,503	-
Total income tax credit / (charged) to results	66,527	(81,876)

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission (“CNV”).
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Below is the reconciliation between the tax charged to results and the income tax determined for fiscal purposes:

	For the years ended,	
	12.31.16	12.31.15
Income tax determined for fiscal purposes MetroGAS	155,228	247,778
Current income tax MetroENERGÍA	(42,962)	(83,387)
Temporary differences	97,986	1,511
2015 Tax loss carry forward adjustment	6,917	-
Minimum presumed income tax recognized	11,503	-
Tax loss carry-forward not recognized	(162,145)	(247,778)
Total income tax (charged) / credit to results	66,527	(81,876)

The remaining tax losses carry-forward as of December 31, 2016 amounted to 716,312, considering the current fiscal year result, and were not recognized in the financial statements at the end of the year. That tax loss carry-forward could be offset against future results expiring 67,290, 239,099, 254,695 and 155,228 in 2017, 2019, 2020 and 2021, respectively.

As of December 31, 2016, as well as in 2015, the Company has not determined MPIT since assets are not considered to have potential to produce taxable income subject to this tax in the current year.

On the other hand, during the fiscal year 2016, the MPIT credit for fiscal year 2009 was recognized by 11,502 (3,791 as current credit and 7,711 as non-current credit) under the AFIP resolution dated November 23, 2016, which resulted in the claim Administrative appeal filed by the Company in 2014.

As of December 31, 2016, the tax credit on MPIT not recognized in the financial statements amounted to 78,760, expiring between the years 2017 and 2024.

On July 22, 2016 Law No. 27,260 “National Plan of historical Remedial for retired and pensioned workers” was published in the Official Gazette.; it includes a fiscal amnesty system, tax extension and tax modifications. Among other modifications, the said Law No. 27,260 invalidates the 10% tax on dividends distributed by companies in cash or in kind-except in shares of stock or equity interests- to beneficiaries living abroad and residents in the country being in a definitive and lump-sum payment.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

29. NET RESULT PER SHARE

The following table shows the net results and the number of shares that have been used to calculate the net basic result per share:

	For the years ended,	
	12.31.16	12.31.15
Net and comprehensive result for the period attributable to controlling interest	(599,682)	(564,901)
Average of common shares outstanding	569,171	569,171
Net basic and diluted result per share	(1.05)	(0.99)

30. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

MetroGAS carries out operations and transactions with related parties according to general market conditions, which are part of the normal operation of the company, with respect to their purposes and conditions.

The sale of transportation from MetroGAS to MetroENERGÍA was made on the basis of the tariffs applicable by MetroGAS for its commercial operations with third parties, in compliance with the regulations in force.

There are, at the same time, agreements for the rendering of Professional Services provided by MetroGAS to MetroENERGÍA related to administrative, accounting, tax, financial, and legal aspects and all those that contribute to the common operations of MetroENERGÍA.

The information described in the following charts shows the balances with related companies as of December 31, 2016 and December 31, 2015, as well as operations with these companies for the years ended on December 31, 2016 and 2015.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The transactions shown below have been made with related parties:

	For the years ended,										
	12.31.16										
	Gas & transportation sales	Gas purchases	Fee for sundry services and supplies	Sundry material - Operating cost	Other income and expenses	Insurance premium	Finance costs on loans	Finance costs on commercial debt	Post and telephone expenses	Temporary Economic Assistance	Salaries and others employee benefits
Controlling company:											
YPF	1,507	1,200,263	2,085	3,605	1,330	-	35,568	106,669	-	-	-
Other related parties:											
YSUR Energía Argentina S.R.L.	-	176,842	-	-	-	-	-	4,593	-	-	-
YSUR Petrolera Argentina S.A.	-	38,636	-	-	-	-	-	-	-	-	-
Central Dock Sud S.A.	62,710	-	-	-	-	-	-	-	-	-	-
Operadora de Estaciones de Servicio S.A.	40,574	-	-	-	-	-	-	-	-	-	-
A-Evangelista S.A.	1,793	-	-	-	-	-	-	-	-	-	-
ENARSA S.A. ("ENARSA")	-	397,185	-	-	-	-	-	47,160	-	-	-
Profertil S.A.	625,417	-	-	-	-	-	-	-	-	-	-
YPF Energía Eléctrica S.A	-	113,997	-	-	-	-	-	-	-	-	-
Nación Seguros S.A.	-	-	-	-	-	6,620	-	-	-	-	-
Correo Argentino S.A.	-	-	-	-	-	-	-	-	1,007	-	-
MINEM	-	-	-	-	-	-	-	-	-	759,200	-
Compañía Administradora del Mercado Mayorista Eléctrico S.A.	5,868	-	-	-	-	-	-	-	-	-	-
Others (1)	1,468	-	-	-	-	-	-	-	-	-	-
Key directors and management:	-	-	-	-	-	-	-	-	-	-	42,002
	739,337	1,926,923	2,085	3,605	1,330	6,620	35,568	158,422	1,007	759,200	42,002

(1) Includes balances with Aerolíneas Argentinas S.A. and the Ministerio del Interior y Transporte.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

	For the years ended,										
	12.31.15										
	Gas & transportation sales	Gas purchases	Fee for sundry services and supplies	Sundry material - Operating cost	Other income and expenses	Insurance premium	Finance costs on loans	Finance costs on commercial debt	Post and telephone expenses	Temporary Economic Assistance	Salaries and others employee benefits
Controlling company:											
Gas Argentino	-	-	-	-	3,311	-	-	-	-	-	-
Other related parties:											
YSUR Energía Argentina S.R.L.	-	51,514	-	-	-	-	-	1,671	-	-	-
YPF	249	709,089	709	2,482	-	-	35,029	46,124	-	-	-
Central Dock Sud S.A.	23,127	-	-	-	-	-	-	-	-	-	-
Operadora de Estaciones de Servicio S.A.	6,071	-	-	-	-	-	-	-	-	-	-
A-Evangelista S.A.	2,081	-	-	-	-	-	-	-	-	-	-
ENARSA	-	125,344	-	-	6	-	-	20,744	-	-	-
Profertil S.A.	466,106	-	-	-	-	-	-	-	-	-	-
YPF Energía Eléctrica S.A	-	92,084	-	-	-	-	-	-	-	-	-
Nación Seguros S.A.	-	-	-	-	-	5,822	-	-	-	-	-
Correo Argentino S.A.	-	-	-	-	-	-	-	-	1,004	-	-
MINEM	-	-	-	-	-	-	-	-	-	711,000	-
Compañía Administradora del Mercado Mayorista Eléctrico S.A.	4,938	-	-	-	-	-	-	-	-	-	-
Others (1)	2,129	-	-	-	-	-	-	-	-	-	-
Key directors and management:	-	-	-	-	-	-	-	-	-	-	30,260
	504,701	978,031	709	2,482	3,317	5,822	35,029	68,539	1,004	711,000	30,260

(1) Includes balances with Aerolíneas Argentinas S.A. and the Ministerio del Interior y Transporte.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

The balances shown below are outstanding with related parties:

	12.31.16						
	Trade receivables	Other receivables	Trade payable		Financial debt		Salaries and social securities
	Current	Current	Current	Non current	Current	Non current	Current
Controlling company:							
YPF	1,677	3,058	977,253	23,267	151,377	59,918	-
Other related parties:							
YSUR Energía Argentina S.R.L.	-	-	52,165	843	-	2,478	-
YSUR Petrolera Argentina S.A.	-	-	8,853	-	-	-	-
Central Dock Sud S.A.	19,767	-	-	-	-	-	-
Operadora de Estaciones de Servicio S.A.	3,258	-	-	-	-	-	-
A-Evangelista S.A.	256	-	-	-	-	-	-
ENARSA	5	-	714,825	10,464	-	-	-
Profertil S.A.	50,862	-	-	-	-	-	-
YPF Energía Eléctrica S.A.	-	-	14,763	-	-	-	-
Nación Seguros S.A.	-	-	1,611	-	-	-	-
MINEM	-	759,200 ⁽²⁾	-	-	-	-	-
Compañía Administradora del Mercado Mayorista Eléctrico S.A.	4,055	-	-	-	-	-	-
Others (1)	11	-	-	-	-	-	-
Key directors and management:	-	-	-	-	-	-	13,624
	79,891	762,258	1,769,470	34,574	151,377	62,396	13,624

(1) Includes balances with Aerolíneas Argentinas S.A. and the Ministerio del Interior y Transporte.

(2) Disclosed in the line "Temporary economic assistance - Related parties".

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

	12.31.15						
	Trade receivables	Other receivables	Trade payable		Financial debt		Salaries and social security
	Current	Current	Current	Non current	Current	Non current	Current
Controlling company							
Gas Argentino	-	910	-	-	-	-	-
Other related parties:							
YSUR Energía Argentina S.R.L.	-	-	14,056	3,743	-	1,930	-
Central Dock Sud S.A.	11,360	-	-	-	-	-	-
OPESSA	183	-	-	-	-	-	-
YPF S.A.	(8)	3,058	389,986	103,352	143,271	46,693	-
A-Evangelista S.A.	76	-	-	-	-	-	-
ENARSA	5	-	136,568	46,482	-	-	-
Profertil S.A.	115,179	-	-	-	-	-	-
YPF Energía Eléctrica S.A	-	-	22,324	-	-	-	-
Nación Seguros S.A.	-	3,792	33	-	-	-	-
Secretaría de Energía	-	149,310 ⁽²⁾	-	-	-	-	-
Compañía Administradora del Mercado Mayorista Eléctrico S.A.	1,829	-	-	-	-	-	-
Others (1)	19	-	-	-	-	-	-
Key directors and management:	-	-	-	-	-	-	9,773
	128,643	157,070	562,967	153,577	143,271	48,623	9,773

(1) Includes balances with Aerolíneas Argentinas S.A. and the Ministerio del Interior y Transporte.

(2) Disclosed in the line "Temporary economic assistance - Related parties".

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

In the same way, YPF provided MetroGAS with the professional services for setting up, installing and starting up the new system SCADA (Supervisory Control and Data Acquisition in real time). The amount invoiced for services in the year ended as of December 31, 2016 amounted to 338; these were capitalized under Intangible assets (Note 12).

Outstanding amounts have not been guaranteed and will be paid in cash. No guarantees have been given or received. No expenses have been recognized in the current or former periods with respect to uncollectible or doubtful accounts in relation to amounts owed by related parties.

Additionally, in the ordinary course of business, and considering that the Licensee operates the gas distribution service within the south and east area of the Great Buenos Aires, including the City of Buenos Aires, the Company's customer/supplier portfolio includes entities of the private as well as of the national, provincial and municipal sectors.

Also, as mentioned in Note 2.4.1 and pursuant to Resolution No. I-2,621/2013 of ENARGAS, MetroGAS currently bills on behalf and for the account of ENARSA the injected volumes in relation to CNG as from June 2013. The net balance of this operation as of December 31, 2016 and 2015 is shown in Note 21.

Furthermore, as explained in Note 2.5 MetroGAS must invoice, collect and settle two specific charges, with different appropriations, which are done for the order and account of Nación Fideicomisos S.A. Balances of this operation are stated in Note 21.

31. CONTRACTUAL COMMITMENTS

In order to satisfy the demand of gas and provide the licensed service efficiently, MetroGAS has entered into various long-term contracts from the commencement of the concession to ensure certain purchasing and transportation capacity of gas.

31.1 Purchases of Gas

The main suppliers of the Company are: YPF S.A., Total Austral, Wintershall Energía, Pan American Energy, and other producers of Tierra del Fuego, Neuquén and Santa Cruz.

On June 14, 2007, the Argentine SE published Resolution No. 599/07 in the Official Gazette approving the proposal for the "Agreement with Natural Gas Producers 2007-2011" ("Agreement 2007-2011"). The Agreement 2007-2011 establishes the volumes to be injected at the points of entry to the transportation system by natural gas producers, prioritizing mainly the supply of residential and CNG demand through redirection mechanisms and additional demands. It also sets the parameters of natural gas price adjustments in a step-by-step manner (See Note 2.2.5).

ES Resolution No. 599/07 and ENARGAS Resolution No. 1,410/10 have been complemented by MINEM Resolution No. 89/2016 that established natural gas volumes to be requested by distributing companies to meet the Prior Demand and by ENARGAS Resolution No. 3,833/2016 regarding the Procedure for Natural Gas Requests, Confirmations and Control.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Under the terms of MINEM Resolution No. 89/2016, a process of standardization of agreements was started; based on that MetroGAS entered into different agreements with gas producers, either from the Austral basin, or the Neuquina basin. These contracted volumes work out volumes from ENARGAS Resolution No. 1,410/2010 not only for the producer but also for the distributing company. Contracted volumes based on MINEM Resolution No. 89/2016 are paid by distributing companies at a price settled by the MINEM.

On October 6, 2016, the MINEM issued Resolution No. 212 – E /2016 and fixed a price path for natural gas, stipulating natural gas value on a gradual and biannual basis up to October 1, 2019 (for MetroGAS' License area)

The annual estimated valuation for purchases of gas to be paid by the Company under these contracts is stated below:

<u>Periods</u>	<u>Contractual Commitments</u> (Millions of Pesos)
2017	1,379.0
2018	80.30
2019	33.22

Once MetroENERGÍA was registered in the Marketeers' Register, it entered into natural gas supply agreements with different agents of the market in order to supply users that had to acquire gas from third parties. At present, MetroENERGÍA has different purchasing agreements to supply natural gas to industries and stores, up to April 2017 or up to December 2017. The approximate annual value of firm gas purchase to be paid by MetroENERGÍA during 2017 amounts to millions of 606.24

31.2 Gas Transportation

MetroGAS has entered into various transportation contracts, with expiration dates ranging between 2016 and 2027, with TGS, TGN and other companies, in order to ensure a firm transportation capacity of 19.49 MMCM per day, taking into account the ongoing contracts as of December 31, 2016.

The annual estimated valuation for firm transportation capacity to be paid by the Company under these contracts is stated below:

<u>Periods</u>	<u>Contractual Commitments</u> (Millions of Pesos)
2017	260.62
2018	10.53
2019	10.53
2020	10.53
2021/27	12.15

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

Contracts entered into by the MetroGAS with gas transportation companies could be subject to amendment pursuant to the Emergency Law provisions applicable to contracts for public utility services, including transportation of natural gas. At the issue date of these financial statements, the potential impact of any such modifications, if implemented, cannot be assessed.

On October 6, 2016 ENARGAS Resolutions No. I/4,053/16 and No. I/4,054/16 were published respectively, which established a new tariff scheme to be applied to TGS and TGN as from October 7, 2016.

31.3 Sales and transportation gas

MetroGAS entered into agreements which generates firm transportation with industries and GNC to sell and transport natural gas and GNC. The annual estimated valuation for firm transportation capacity to be collected to the Company under these contracts is stated below:

<u>Periods</u>	<u>Contractual Commitments</u> <u>(Millions of Pesos)</u>
2017	602.36
2018	37.58
2019	33.49

MetroENERGÍA entered into natural gas supply agreements with large SGG and SGP users, according to the different dates when those users had to purchase natural gas from other suppliers rather than the licensees of the distribution service. These agreements were renewed according to the ones entered into with natural gas suppliers. The approximate annual value of firm gas sale to be collected by MetroENERGÍA during 2017 amounts to 934.65 million.

30.4 Mandatory Investments Plan

According to what is stipulated in the Provisional Agreement 2016 described in Note 2.2.2.4, dated January 29, 2016 MetroGAS submitted to the ENARGAS the Investments Plan designed for 2016, which included a fund outlay of 715 of millions. The Plan covers the period between April 2016 and March 2017.

The said Plan involves infrastructure works, connection works, re-potentiating, expansion and/or technological modification of the systems of gas distribution through networks, safety, reliability of the service and integrity of the network, as well as maintenance and any other related expense that may be necessary to provide the gas distribution public service.

The amount of investments made as of December 31, 2016 based on the Mandatory Investments Plan amounts to 336.8 of millions. There are 378.5 of million pesos pending to be invested.

English translation of the financial statements originally filed in Spanish with the Argentine Securities Commission ("CNV").
In case of discrepancy, the financial statements filed with the CNV prevail over this translation.

METROGAS S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS OF DECEMBER 31, 2016 AND COMPARATIVE INFORMATION

(amounts in thousands of pesos, except where expressly stated otherwise)

31.5 Leases

a. As lessee

As of December 31, 2016, the future minimum payments related to operating leases, are detailed below:

<u>Periods</u>	<u>Contractual Commitments</u> <u>(Millions of Pesos)</u>
2017	2.32
2018	0.32
2019	0.21
Total minimum payments	<u>2.85</u>

31.6 Other Contractual Commitments

As of December 31, 2016 MetroGAS is committed with third parties by means of service contracts (such as software, insurance, communications) for an approximate amount of 511,86 of million; from which 401,76 of million with due date during 2017, 94 million during 2018, 10.2 million during 2019, and 5.9 million during 2020.

Marcelo Adrián Núñez
Chairperson

METROGAS S.A.

INFORMATIVE SUMMARY OF ACTIVITY

RESOLUTION No. 368/01 OF THE ARGENTINE SECURITIES COMMISSION

Argentine Economic Context and its impact on the Company

Note 2 to the consolidated financial statements includes a detailed description of the economic and regulatory context and of the impact of Emergency Law and regulations decrees on MetroGAS S.A. (“MetroGAS” or “the Company”).

These circumstances have been taken into account by the Management of the Company when making any significant accounting estimates included in these consolidated financial statements. See Note 5.

General considerations

Company’s sales have been highly influenced by weather conditions prevailing in Argentina. Natural gas demand, and consequently sales, are considerably higher during winter months (from May to September) due to the gas volumes sold and the rates mix affecting sales revenues and gross margin.

On account of regulatory changes (see Note 2.2.4), on April 20, 2005 the Board of Directors of MetroGAS resolved to create MetroENERGÍA S.A. (“MetroENERGÍA”), a corporation whose equity is owned 95% by MetroGAS and whose corporate purpose is to engage, on its own account and on behalf of or in association with third parties, in the sale and purchase and/or transportation of natural gas.

On March 26, 2014 the Company signed a Provisional Agreement with the Unit for the Renegotiation and Analysis of Utility Contracts (“UNIREN”) whereby a provisional tariff regime was agreed in order to obtain additional funds to those resulting from the enforcement of ENARGAS Resolution No. I/2,407/2012 dated November 27, 2012.

The Provisional Agreement 2014, ratified by Decree No. 445/2014 published in the Official Gazette on April 7, 2014, established a provisional tariff regime as from April 1, 2014, consisting in readjust prices and tariffs considering the guidelines necessary to maintain the continuity of service and also sets forth common criteria applicable to all distribution licensees, in accordance with tariff regulations in force, and including changes in the gas price at the transmission system entry point.

On June 8, 2015, the Official Gazette published Resolution No. I/3,349/2015 approving the new tariff charts effective as of May 1, 2015. The increases are connected with the rise of the transport component and reaches residential, commercial and industrial customers, with the exception of sub distributors, “waived” customers and those residential or commercial customers that saved more than 20% compared with the same two-month period of the previous year.

On February 24, 2016, the Company signed a Provisional Agreement with MINEM and the Ministry of Finance and Public Finance, which established a transition rate regime for obtaining additional resources from those that, were being received by application of ENARGAS Resolution No. 2,407/2012 and by the Provisional Agreement 2014.

Under the terms of the Provisional Agreement, on April 4, 2016, the ENARGAS Resolution No. 3,726/2016 was published in the Official Gazette to approve, as from April 1, 2016, transition tariffs of application to users of MetroGAS (See Note 2.2.2.4 of these consolidated financial statements as of December 31, 2016).

On October 7, 2016, the ENARGAS Resolution No. 4,044/2016 was published in the Official Gazette detailing tariff schedules for MetroGAS users.

METROGAS S.A.**INFORMATIVE SUMMARY OF ACTIVITY**

RESOLUTION No. 368/01 OF THE ARGENTINE SECURITIES COMMISSION

Analysis of transactions in the years ended December 31, 2016 and 2015

The sales of the Company for the fiscal year ended December 31, 2016 increased by 73.7%, and operating costs rose by 83.9% as compared with the previous fiscal year, as a result of which gross profit increased by 260,301, to 1,133,922 during the year ended on December 31, 2016, as compared with 873,621 shown for the preceding fiscal year.

Administrative expenses increased by 43.1%, from 426,317 during the year ended on December 31, 2015, as compared with 610,164 shown for the present fiscal year, and selling expenses increased by 46.5%, from 499,754, during for the year ended December 31, 2015, to 732,018 shown for the present fiscal year.

During the year ended December 31, 2016 an income was recorded as the Temporary Economic Assistance for 759,200 as compared with 711,000 recorded in the previous fiscal year.

Consequently, during the year ended December 31, 2016 an operating income of 377,352 was recorded, as compared to an operating income of 654,382 for the previous fiscal year.

During the year ended December 31, 2016 net financial results was a loss of 1,048,287, as compared with a loss of 1,133,214 sustained in the previous fiscal year.

Consequently, the Company's net loss for the year ended December 31, 2016 amounted to 604,408, as compared to a net loss of 560,708 for the previous fiscal year.

Results of Operations and Financial Condition**Sales**

Total consolidated sales increased by 73.7% during the year ended December 31, 2016, and amounted to 8,038,203, as compared with 4,627,357 shown for the previous fiscal year.

The increase in sales for the year ended on December 31, 2016, was mainly due to increase in MetroENERGÍA's sales and MetroGAS' sales to residential and Compressed Natural Gas ("CNG") customers.

MetroGAS' gas sales to residential customers increased by 39.3%, from 1,947,228 to 2,712,024 for the year ended on December 31, 2015 and 2016, respectively, mainly due to the increase in tariffs for the Resolution No. 4,092/2016, effective as of October 7, 2016, and an increase in volumes delivered to this category of customers by 3.9%.

MetroGAS' gas sales to industrial and commercial customers and governmental entities increased by 310.5%, to 658,073 during the year ended on December 31, 2016 from 160,321 during the previous fiscal year, mainly due to the increase in the tariff in Resolution No. 3,726/2016 with the limit of 500% increase for SGP users provided by Resolution No. 129/2016, to increase the tariff according to Resolution No. 4,092/2016 effective as of October 7, 2016, and an increase in volumes delivered to this category of customers by 18.2%.

On the other hand, sales of transportation and distribution services to industrial and commercial customers and governmental entities increased by 118.6%, from 69,315 during the year ended on December 31, 2015 to 151,511 for the present fiscal year, mainly on account of an increase to the tariff according to Resolution No. 4,092/2016 effective as of October 7, 2016 and an increase of the volumes delivered to this customer category by 2.0%.

Gas sales to CNG stations amounted to 1,154,651 during the year ended December 31, 2016, with no sales of this type recorded in the same prior year, due to the fact that resolution No. 34/2016 in effect

METROGAS S.A.**INFORMATIVE SUMMARY OF ACTIVITY****RESOLUTION No. 368/01 OF THE ARGENTINE SECURITIES COMMISSION**

from May 1, 2016, established a new regime applicable to CNG supply stations establishing the obligation for these users to purchase natural gas for supply by the distributor in their area or distribution area in a manner that they provide the complete service (gas, transportation and distribution).

Consequently, sales of transportation and distribution services to CNG stations decreased 35.1% from 39,669 during the year ended December 31, 2015 to 25,738 during the present fiscal year.

Sales of transportation and distribution services to power stations increased by 106.9%, from 97,069 during the year ended on December 31, 2015, to 200,868 for the present fiscal year, mainly on account of an increase to the tariff according to Resolution No. 4,092/2016 effective as of October 7 Of 2016, partially offset by a decrease of the volumes delivered to this customer category by 2.3%.

On July 2014, the agreement with Transportadora Gas del Sur S.A. (“TGS”) to assign hydrocarbons at the head of the TGS gas pipeline in exchange of a monthly rate has been renewed. On April 29, 2015 an addendum to the agreement that set a new duration and prices until April 2016 is performed. As of May 2016, this agreement was not renewed. During the year ended on December 31, 2015 sales were recorded in relation with the processing of natural gas amounted to 3,949, while during the year ended on December 31, 2016 revenue was amounted to 1,494, which shows a decrease of 62.2%.

MetroENERGÍA’s gas sales during the year ended on December 31, 2016 amounted to 3,047,274 as compared to the previous fiscal year amounted to 2,267,888. This increase was mainly due to an increase in average prices, partially offset by a decrease delivered volumes of the 24.5%.

METROGAS S.A.**INFORMATIVE SUMMARY OF ACTIVITY**

RESOLUTION No. 368/01 OF THE ARGENTINE SECURITIES COMMISSION

The table below shows the consolidated sales of the Company by type of service and customer categories for the year ended on December 31, 2016 and 2015, in thousands of pesos:

	Revenues			
	For the years ended December 31,			
	2016		2015	
	Thousands of Ps.	% of Total Sales	Thousands of Ps.	% of Total Sales
MetroGAS				
<i>Gas sales:</i>				
Residential	2,712,024	33.7 %	1,947,228	42.1 %
Industrial, Commercial and Governmental entities	658,073	8.2 %	160,321	3.5 %
Compressed Natural Gas	1,154,651	14.4 %	-	0.0 %
Subtotal	4,524,748	56.3 %	2,107,549	45.6 %
<i>Transportation and Distribution Services</i>				
Power Plants	200,868	2.5 %	97,069	2.1 %
Industrial, Commercial and Governmental entities	151,511	1.9 %	69,315	1.5 %
Compressed Natural Gas	25,738	0.3 %	39,669	0.9 %
Subtotal	378,117	4.7 %	206,053	4.5 %
Processed Natural Gas	1,494	0.0 %	3,949	0.1 %
Other Gas Sales and Transportation and Distribution Services	86,570	1.1 %	41,918	0.8 %
MetroENERGÍA				
Total gas volumes delivered and transported by MetroENERGÍA	3,038,142	37.8 %	2,259,100	48.8 %
Other income	9,132	0.1 %	8,788	0.2 %
Total of Sales	8,038,203	100.0 %	4,627,357	100.0 %

METROGAS S.A.**INFORMATIVE SUMMARY OF ACTIVITY**

RESOLUTION No. 368/01 OF THE ARGENTINE SECURITIES COMMISSION

The table below presents the volumes of sales of natural gas and transportation and distribution services by MetroGAS by customer category for the year ended on December 31, 2016 and 2015, in millions of cubic meters:

	Volumes			
	For the years ended December 31,			
	2016	% of Volumes of gas delivered	2015	% of Volumes of gas delivered
	MMC		MMC	
<i>Gas sales:</i>				
Residential	1,988.3	28.3 %	1,913.3	26.9 %
Industrial, Commercial and Governmental entities	514.8	7.3 %	435.5	6.1 %
Compressed Natural Gas	349.0	5.0 %	-	0.0 %
Subtotal	2,852.1	40.6 %	2,348.8	33.0 %
<i>Transportation and Distribution Services</i>				
Power Plants	2,572.3	36.5 %	2,634.1	37.1 %
Industrial, Commercial and Governmental entities	792.0	11.3 %	776.5	10.9 %
Compressed Natural Gas	173.8	2.5 %	545.5	7.7 %
Subtotal	3,538.1	50.3 %	3,956.1	55.7 %
Other Gas Sales and Transportation and Distribution Services	642.9	9.1 %	800.5	11.3 %
Total delivered volume by MetroGAS	7,033.1	100.0 %	7,105.4	100.0 %
Total gas volumes delivered and transported by MetroENERGÍA	1,192.0	100.0 %	1,578.6	100.0 %

Operating Costs

Operating costs increased by 83.9% amounting to 6,904,281 during the year ended on December 31, 2016, respect to 3,753,736 registered during the previous fiscal year. This variation was mainly due to the increase in gas purchase costs and transportation and in payroll and other employee's benefits.

The costs of natural gas purchases increased by 91.5%, from 2,920,741 for the year ended on December 31, 2015 to 5,592,688 during the present fiscal year, mainly as a result of increased in average price gas purchased by MetroGAS and MetroENERGÍA. During the year ended on December 31, 2016 3,509 million cubic meters were purchased by MetroGAS, and 1,192 million cubic meters by MetroENERGÍA, which as a whole represent a 8,8% increase with respect to gas volumes purchased in the previous fiscal year.

Gas transportation costs increased by 88.6% during the year ended on December 31, 2016 as compared with the same period in previous fiscal year mainly due to the increase in average prices of transportation of MetroGAS. As a consequence the application of ENARGAS Resolutions No. 3,723/2016 and 4,053/2016 for TGN and 3,724/2016 and 4,054/2016 for TGS to power plants, industries and CNG customers.

METROGAS S.A.**INFORMATIVE SUMMARY OF ACTIVITY**

RESOLUTION No. 368/01 OF THE ARGENTINE SECURITIES COMMISSION

The table below shows the operating costs and expenses of the Company by type of expenses for the years ended on December 31, 2016 and 2015, in thousands of pesos.

	Operating costs			
	For the years ended December 31,			
	2016		2015	
	Thousands of Ps.	% of Total Operating Costs	Thousands of Ps.	% of Total Operating Costs
Cost of natural gas	5,592,688	81.0 %	2,920,741	77.9 %
Transportation of natural gas	612,499	8.9 %	324,686	8.6 %
Depreciation of properties, plant and equipment and Intangible assets	78,529	1.1 %	73,697	2.0 %
Payroll and other employee's benefits	329,130	4.8 %	222,523	5.9 %
Fixed assets maintenance	112,318	1.6 %	102,116	2.7 %
Sundry materials	24,732	0.3 %	12,880	0.3 %
Fees for sundry services	60,467	0.9 %	40,472	1.1 %
Taxes, rates and contributions	81,894	1.2 %	50,355	1.3 %
Other operating expenses	11,934	0.2 %	6,266	0.2 %
Total	6,904,281	100.0 %	3,753,736	100.0 %

Administrative Expenses

Administrative expenses increased by 43.1%, from 426,317 for the year ended on December 31, 2015 to 610,164 for the present fiscal year. This increase was mainly due to the increase in payroll and other employee's benefits, in taxes, rates and contributions and in fixed assets maintenance.

Selling Expenses

Selling expenses increased by 46.5%, from 499,754 for the year ended on December 31, 2015 to 732,018 for the present fiscal year. This increase was mainly due to the increase in taxes, rates and contributions, in doubtful account charge, in fees for sundry services and payroll and other employee's benefits.

Other income and expenses

Other income and expenses amounted to a loss of 4,168 for the year ended December 31, 2015 and a loss of 173,588 in the current fiscal year, mainly due to an increased in provisions for claims and contingencies during the year 2016.

Net Financial Results

During the year ended on December 31, 2016 net financial results was a loss of 1,048,287, as compared to a 1,133,214 loss for the previous fiscal year. The variation in financial results was mainly due to the lower exchange loss generated by the financial debt and the higher profit generated by the mutual funds, partially offset by the increase in interest accrued from the financial and commercial debt.

Income tax

During the year ended on December 31, 2016 the Company accrued gain of 66,527, as compared to a loss of 81,876 shown for the previous fiscal year. This variation was mainly due to the lower current tax determined of MetroENERGÍA in the current year with respect to the previous fiscal year and to the variation of deferred tax assets and liabilities of MetroENERGÍA and MetroGAS.

METROGAS S.A.**INFORMATIVE SUMMARY OF ACTIVITY**

RESOLUTION No. 368/01 OF THE ARGENTINE SECURITIES COMMISSION

Net cash flows from operating activities

Net cash flows from operating activities for the year ended on December 31, 2016 amounted to 766,108, as compared with 1,026,676 for the previous fiscal year. The variation is basically due to the lower funds generated by operating results and working capital.

Net cash flows used in investing activities

Net cash flows used in investment activities for the year ended on December 31, 2016 amounted to 545,829, mainly due to an increase in Properties Plant & Equipment, as compared with 298,546 used in the previous fiscal year.

Net cash flows used in financing activities

Net cash flows used in financing activities amounted to 460,191 for year ended on December 31, 2016 mainly due to the interest payment on financial and commercial debt compared to 233,218 used in the previous fiscal.

Liquidity and capital resources**Financing**

As of December 31, 2016, the financial debt accounted for by Company amounted to 2,894,594. Also, nominal debt amounted to 194,495 and U\$S 194,473 thousand as of December 31, 2016 and 2015, respectively.

METROGAS S.A.**INFORMATIVE SUMMARY OF ACTIVITY**

RESOLUTION No. 368/01 OF THE ARGENTINE SECURITIES COMMISSION

Comparative Structure of Consolidated Statement of financial position ⁽¹⁾⁽²⁾

Consolidated Statement of financial positions as of December 31, 2016, 2015, 2014, 2013 and 2012.

	12.31.16	12.31.15	12.31.14	12.31.13	12.31.12
	Thousands of Ps.				
Non current Assets	2,572,063	2,167,859	1,968,680	1,860,591	1,788,122
Current assets	4,035,710	1,857,638	836,487	484,407	432,380
Total assets	6,607,773	4,025,497	2,805,167	2,344,998	2,220,502
Non current Liabilities	3,189,968	2,666,712	1,649,189	1,260,707	1,490,369
Current Liabilities	4,789,983	2,126,555	1,363,040	660,174	562,846
Total Liabilities	7,979,951	4,793,267	3,012,229	1,920,881	2,053,215
Non-controlling interest	2,591	7,317	3,124	2,883	989
Equity attributable to the owners of the parent	(1,374,769)	(775,087)	(210,186)	421,234	166,298
Total Liabilities and Shareholders' Equity	6,607,773	4,025,497	2,805,167	2,344,998	2,220,502

(1) In accordance with the provisions of section 114 of Chapter XXXI – Temporary Provisions, of the Argentine Securities Commission (“CNV”) Regulations, as amended by CNV Resolution No. 592/2011, the Informative Summary accompanying the annual and quarterly financial statements for a fiscal year beginning as from January 1, 2013 the balances and income for the fiscal year/period must be presented in comparison with those of the previous fiscal year, both prepared under IFRS, as required under paragraph 16 (c) of Technical Resolution No. 26 (as amended by Technical Resolution No. 29), and no other comparative amounts will be presented.

(2) Information covered by the Independent auditors report.

METROGAS S.A.**INFORMATIVE SUMMARY OF ACTIVITY**

RESOLUTION No. 368/01 OF THE ARGENTINE SECURITIES COMMISSION

Comparative Consolidated Structure of Profit and loss and other comprehensive income ^{(1) (2)}

Consolidated Statements of Profit and Loss and Other Comprehensive Income for the years ended on December 31, 2016, 2015, 2014, 2013 and 2012.

	12.31.16	12.31.15	12.31.14	12.31.13	12.31.12
	Thousands of Ps.				
Revenues	8,038,203	4,627,357	3,184,474	1,936,211	1,481,375
Operating costs	(6,904,281)	(3,753,736)	(2,589,406)	(1,433,202)	(1,192,226)
Gross profit	1,133,922	873,621	595,068	503,009	289,149
Administration expenses	(610,164)	(426,317)	(335,371)	(228,647)	(169,984)
Selling expenses	(732,018)	(499,754)	(356,615)	(258,753)	(199,413)
Other income and expenses	(173,588)	(4,168)	6,700	47,266	(6,086)
Result before Temporary Economic Assistance	(381,848)	(56,618)	(90,218)	62,875	(86,334)
Temporary Economic Assistance	759,200	711,000	-	-	-
Operating income (loss)	377,352	654,382	(90,218)	62,875	(86,334)
Finance income	140,810	50,294	18,310	25,526	29,917
Finance cost	(1,189,097)	(1,183,508)	(533,450)	(367,131)	(171,517)
Net financial results	(1,048,287)	(1,133,214)	(515,140)	(341,605)	(141,600)
Debt restructuring result	-	-	-	757,470	-
Result before income tax	(670,935)	(478,832)	(605,358)	478,740	(227,934)
Income tax and minimum presumed income tax	66,527	(81,876)	(25,821)	(221,910)	49,106
Net result for the year	(604,408)	(560,708)	(631,179)	256,830	(178,828)
Other comprehensive result	-	-	-	-	-
Net and comprehensive result for the year	(604,408)	(560,708)	(631,179)	256,830	(178,828)

(1) In accordance with the provisions of section 114 of Chapter XXXI – Temporary Provisions, of the Argentine Securities Commission (“CNV”) Regulations, as amended by CNV Resolution No. 592/2011, the Informative Summary accompanying the annual and quarterly financial statements for a fiscal year beginning as from January 1, 2013 the balances and income for the fiscal year/period must be presented in comparison with those of the previous fiscal year, both prepared under IFRS, as required under paragraph 16 (c) of Technical Resolution No. 26 (as amended by Technical Resolution No. 29), and no other comparative amounts will be presented.

(2) Information covered by the Independent auditors report.

METROGAS S.A.**INFORMATIVE SUMMARY OF ACTIVITY**

RESOLUTION No. 368/01 OF THE ARGENTINE SECURITIES COMMISSION

Comparative Statistical Data

The information shown below makes reference to the years ended on December 31, 2016, 2015, 2014 2013 and 2012.

	12.31.16	12.31.15	12.31.14	12.31.13	12.31.12
	Volumes				
	In millions of cubic meters				
Gas purchased by MetroGAS	3,509	2,741	2,719	3,088	3,156
Gas contracted by third parties	4,373	5,225	5,106	5,468	5,947
	7,882	7,966	7,825	8,556	9,103
Volume of gas withheld:					
- Transportation	(472)	(493)	(478)	(528)	(566)
- Loss in distribution	(377)	(368)	(343)	(353)	(404)
- Transportation and processing of natural gas	-	-	-	(4)	(7)
Volume of gas delivered by MetroGAS	7,033	7,105	7,004	7,671	8,126
Volume of gas purchased and delivered by MetroENERGÍA	1,192	1,579	960	839	787

Comparative Ratios ^{(1) (2)}

The information below makes reference to the years ended on December 31, 2016, 2015, 2014 and 2013.

	12.31.16	12.31.15	12.31.14	12.31.13	12.31.12
Liquidity	0.84	0.87	0.61	0.73	0.77
Solvency	(0.17)	(0.16)	(0.07)	0.22	0.08
Immobilization	0.39	0.54	0.70	0.79	0.81
Profitability (3)	0.56	1.15	(5.82)	0.87	(0.70)

⁽¹⁾ In accordance with the provisions of section 114 of Chapter XXXI – Temporary Provisions, of the Argentine Securities Commission (“CNV”) Regulations, as amended by CNV Resolution No. 592/2011, the Informative Summary accompanying the annual and quarterly financial statements for a fiscal year beginning as from January 1, 2013 the balances and income for the fiscal year/period must be presented in comparison with those of the previous fiscal year, both prepared under IFRS, as required under paragraph 16 (c) of Technical Resolution No. 26 (as amended by Technical Resolution No. 29), and no other comparative amounts will be presented.

⁽²⁾ Information covered by the Independent auditors report.

⁽³⁾ As of December 31, 2016 and 2015, the ratio is not representative of the economic reality of the Company since it has negative result for the year and Equity

METROGAS S.A.**INFORMATIVE SUMMARY OF ACTIVITY**

RESOLUTION No. 368/01 OF THE ARGENTINE SECURITIES COMMISSION

Additional Information**Changes in MetroGAS Shares Prices:**

		Share Price on the Buenos Aires Stock Exchange (1)
		\$
December	2012	0.70
December	2013	1.29
December	2014	3.12
January	2015	2.90
February	2015	3.83
March	2015	4.24
April	2015	4.35
May	2015	4.00
June	2015	3.57
July	2015	3.56
August	2015	3.60
September	2015	3.00
October	2015	4.40
November	2015	7.90
December	2015	7.35
January	2016	8.45
February	2016	8.75
March	2016	9.00
April	2016	8.00
May	2016	7.00
June	2016	7.60
July	2016	8.15
August	2016	7.50
September	2016	9.02
October	2016	10.30
November	2016	10.25
December	2016	12.45

(1) Prices on the last business day of each month.

Perspectives

MetroGAS intends to focus its efforts on ensuring the continuity of its business, maintaining gas supply quality and reliability, complying with basic License rules and finally, on the basis of the outcome of the Integral Tariff Review process as set forth in the Comprehensive Letter of Understanding of Contractual Renegotiation, MetroGAS will define its new strategy towards the future and in relation to matters such as business planning, business policy and an the development of an investment plan.

Autonomous City of Buenos Aires, March 8, 2017

Marcelo Adrián Núñez
Chairperson

Independent Auditors' Report

To the President and Directors of
METROGAS SOCIEDAD ANÓNIMA
Gregorio Aráoz de Lamadrid 1360
Buenos Aires, Argentina

Report over consolidated financial statements

1. Identification of the consolidated financial statements subject to audit

We have audited the accompanying consolidated financial statements of METROGAS SOCIEDAD ANÓNIMA (an Argentine corporation, hereinafter mentioned as "METROGAS S.A." or the "Company") which include the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of loss and profit and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and other explanatory information included in notes 1 to 31.

The figures and other information corresponding to the fiscal year ended on December 31, 2015 are an integral part of the consolidated financial statements mentioned above and are presented with the purpose to be read only in relation to the figures and other information of the current year.

2. Company's Board of Directors responsibility for the consolidated financial statements

The Company's Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements of the Company in accordance with International Financial Reporting Standards ("IFRS") adopted by the Argentine Federation of Professional Councils in Economic Sciences ("FACPCE") as accounting professional standards, as they were approved by the International Accounting Standards Board ("IASB"), and incorporated by the Argentine Securities Commission ("CNV") to its regulation, as well as the internal control system that deems necessary to enable the preparation of financial statements that are free from material misstatements.

3. Auditors' responsibility

Our responsibility is to express an opinion on these accompanying consolidated financial statements based on our audit. We have conducted our audit in accordance with the International Standard on Auditing ("ISA") issued by the International Auditing and Assurance Standards Board ("IAASB") of the International Federation of Accountants ("IFAC") adopted in Argentina with the validity established by the FACPCE through Technical Resolution No. 32 and the Circulars of Adoption of Standards Issued by the IAASB and the IESBA of IFAC N ° 1 and 2. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures, substantially on a test basis, to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' professional judgment, including the assessment of the risks of material misstatement of the financial statements. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and Company's Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

4. Opinion

In our opinion, the consolidated financial statements referred to in section 1 of this report, presents fairly, in all material respects, the consolidated financial position of METROGAS S.A. and its controlled company as of December 31, 2016, their consolidated results of operations, their changes in consolidated shareholders' equity and their consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards.

5. Emphasis of Matter

Without modifying our previous opinion, we emphasize as mentioned in more detail in Note 16 that as a consequence of the magnitude of the accumulated losses at December 31, 2016, the Company has a negative Shareholders' Equity attributable to the parent company of thousands of Ps. 1,374,769, at that date, being subject to the provisions of Article 94 paragraph 5 and Article 96 of the Argentine General Corporate Law No. 19,550.

In addition, in Note 2.2.2.4 of the accompanying consolidated financial statements, the Company describes the progress made in the Integral Tariff Review process under the Transitory Agreement signed in February 2016.

English translation of statutory consolidated financial statements

This report and the consolidated financial statements referred to in section 1 have been translated into English for the convenience of English-speaking readers. The accompanying consolidated financial statements are the English translation of those originally issued by METROGAS SOCIEDAD ANÓNIMA in Spanish and presented in accordance with International Financial Reporting Standards.

Buenos Aires, Argentina
March 8, 2017

Deloitte & Co. S.A.

Ricardo C. Ruiz
Partner