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MEMORANDUM

TO: Board of Directors of YPF Sociedad Anónima

FROM: Andrews & Kurth L.L.P.

DATE: May 22, 1996

SUBJECT: Maxus Reorganization Proposals

This memorandum is being submitted to the Board of Directors of YPF in connection with proposals to authorize (a) the transfer of Maxus' environmental liabilities to a new indirect wholly owned subsidiary of YPF (Chemical Land Holdings, Inc., or "CLH") and the issuance by YPF of an undertaking to fund up to about $117 million of such liabilities, (b) the redemption of Maxus' $4.00 Cumulative Convertible Preferred Stock ("$4.00 Preferred"), (c) the transfer by Maxus to new Cayman Island subsidiaries of YPF of Maxus' properties and interests in Venezuela and Bolivia, and (d) the guarantee by YPF of the performance of all of Maxus' obligations under its $2.50 Cumulative Preferred Stock ("$2.50 Preferred"), in exchange for the consent by the holders thereof to certain amendments to Maxus' Certificate of Incorporation.

These proposals have grown out of extensive analysis by officers of YPF and Maxus, CS First Boston and Andrews & Kurth, and are believed by all participants to confer significant advantages and benefits on YPF. In this memorandum, we seek to explain various aspects of these reorganizations, with particular emphasis on the transfer of Maxus' environmental liabilities.

Background

Late last year, in view of the fact that Maxus' debt and preferred stock issues will eventually have to be refunded or otherwise retired, Nells Leon, Cedric Bridger and Roberto Monti requested CS First Boston and Andrews & Kurth to develop a master plan for dealing with this problem. Overlaying this issue is a major tax leakage that has begun to occur now that YPF has become taxable in Argentina. YPF cannot deduct Maxus' interest payments from its Argentine taxes, and Maxus gets no current benefit for those deductions under U.S. tax law because it does not currently generate taxable income in the U.S. A second major concern was that the addition of Maxus' operations to YPF's gave rise to a need to rationalize Maxus' global tax structure to minimize the aggregate impact of taxes on YPF's worldwide income. Finally, it was becoming increasingly obvious that the financial markets were going to penalize YPF for its acquisition of

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Maxus until YPF could demonstrate that it had made Maxus profitable. The third concern, then, and the one with which this memorandum primarily deals, was that additional environmental costs or losses at Maxus, which would flow through Maxus' income statement, would obscure the impressive progress that YPF and Mr. Monti's team were making at Maxus.

As the working groups began to consider and analyze various solutions to these three problems, it became apparent that the solutions to all three issues were closely related and in fact interdependent. While this memo deals primarily with the transfer of environmental liabilities out of Maxus, it will be important to keep the interdependence of these proposals in mind.

Maxus' Environmental Liabilities

At present, Maxus' primary environmental liability derives from indemnifications included in the contract by which Maxus, then named Diamond Shamrock Corporation, Maxus' predecessor, sold its former chemical manufacturing business to Occidental Chemical Company ("OxyChem"). The principal such indemnification is unlimited either as to time or as to amount. It is under this indemnification provision that Maxus, on behalf of OxyChem, has undertaken environmental studies and clean-up efforts at all three of its main liability sites: Kearny, New Jersey; Painesville, Ohio; and the former Newark plant site, including a portion of the adjacent Passaic River.

In its efforts to address these sites, Maxus is dealing with several federal agencies, including the Environmental Protection Agency ("EPA"), the Army Corps of Engineers, and the National Oceanic and Atmospheric Agency, as well as the Ohio and New Jersey environmental agencies. Collectively, these agencies have the power to require investigation and remediation of environmental damage consistent with the standard of "protecting the public health or welfare or the environment." (See, e.g., 42 U.S.C. Sec. 9606). This statutory standard leaves great latitude and discretion to the various agencies involved in a given site in the studies and remedies they can require. In practice, the remedy is developed in adversarial negotiations between the agency or agencies and the parties having the obligation to remediate, based on scientific and engineering studies as much as legal analyses.

These agencies also can require prospective financial assurances for remediation and other costs and impose liens on assets to insure compliance with binding orders. Maxus, on behalf of OxyChem, is entitled to initiate legal proceedings against any other company that can be shown to have contributed to the contamination at the site, and such other persons could be liable for the percentage that corresponds to the degree they contributed to the contamination. Provided (i) EPA identifies a party as responsible and (ii) EPA actively pursues a party for clean-up, that party would also be jointly and severally liable to EPA for the clean-up costs, along with OxyChem and, through OxyChem, Maxus. "Joint and several liability" means that any party with such liability, such as

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OxyChem, could be required to pay all of the costs of the clean-up even though it caused less than all of the damage.

A description of the three main sites and all other material known environmental liabilities is included in Maxus' Annual Report on Form 10-K filed with the United States Securities and Exchange Commission, relevant excerpts from which are appended to this memorandum as Annex A. Maxus has established a loss reserve of about $117 million as of March 31, 1996, against these liabilities. It is important to note, however, that under accounting principles a loss reserve may only include liabilities that the company can determine are reasonably likely to occur and as to which it can reasonably estimate the costs. That is to say that even if the Company believes that a loss is reasonably likely to occur but is unable to estimate the amount of such loss, such future loss would not be included in the reserve. It is possible, for instance, that the current loss reserve does not include all of the costs that Maxus will ultimately incur associated with the clean up of the main sites, because the nature of the remedy that will be required is not yet known for most of such sites. It is not unusual for the various stages involved in environmental clean-ups like these to take fifteen years. As matters develop over time, it may be necessary to increase Maxus' environmental loss reserve. If additional reserves are required to be taken, they will be accounted for as losses in the year in which the reserve is increased and would therefore, absent the proposed reorganization, run through Maxus' income statement.

In summary, it is generally impossible to estimate the costs of an environmental clean up before the remedy has been determined. Therefore, Maxus' environmental liabilities, particularly early-stage problems like the Passaic River, carry the potential of increases beyond the current amount of the reserve.

YPF's Current Responsibilities Regarding Maxus' Environmental Liabilities

As a shareholder of Maxus, YPF should have no direct liability for Maxus' environmental liabilities, so long as it observes certain guidelines in dealing with Maxus and its environmental operations. First, it must respect Maxus' corporate integrity and independence, so that a U.S. Court would not "pierce the corporate veil." These rules are basic and well known under U.S. corporate law, and YPF does not now and should not in the future have any cause to be concerned about this doctrine, so long as it respects the corporate formalities of Maxus' and CLH's separate existence. Another way in which a corporate parent can be found liable for environmental liabilities of a subsidiary is if the parent actually controls the day-to-day operations of the subsidiary or interferes with the environmental operations at the subsidiary in a way that impedes or degrades, financially or otherwise, the subsidiary's ability to discharge its environmental obligations effectively. Andrews & Kurth has previously issued a written memorandum to YPF setting forth these rules and

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guidelines, and YPF is currently behaving toward Maxus in a way that should not give rise to vicarious liability on this account.

Further, a court presiding over a bankruptcy of Maxus or CLH could be requested to reach the assets of YPF to satisfy creditors of Maxus or CLH (this doctrine is known as the "substantive consolidation" doctrine). The rules determining whether substantive consolidation would be allowed are in part somewhat similar to those described above with respect to "piercing of the corporate veil", but include a "balancing of interests" concept as well. The judicial decisions in this area are highly specific to the facts of each case. Courts examine whether the affiliated entities structured themselves and their affairs so as to maintain appropriate indicia of separateness, or whether (for example) they commingled assets, had coextensive boards and officers, issued no separate financial statements and dealt with each other not at arm's length. Creditor perceptions are also relevant: were the entities in fact perceived by those extending credit as separate or unitary? In addition to considering such factors, in ruling for or against substantive consolidation courts will also attempt to balance the interests of various creditors or creditor groups. Thus in a leading case the court analyzed the issue in terms not only of whether creditors dealt with the entities as a single economic unit and did not rely on their separate identities in extending credit, but also whether the affairs of the debtors proposed to be consolidated were so entangled that consolidation would benefit all creditors of those debtors. It is difficult to imagine any benefit to YPF creditors accruing from such an after-the-fact consolidation.

Substantive consolidation is an extraordinary remedy not lightly granted by courts. Indeed, Delaware bankruptcy courts, where Maxus or CLH would be entitled to file in bankruptcy, currently appear hostile to the doctrine. Finally, it is important to note that, as with the other two doctrines discussed above, any concern as to substantive consolidation does not arise because of the proposed reorganization. To put it another way, if appropriate formalities are observed we believe that none of these doctrines, including substantive consolidation, is any more likely to be applied to YPF in respect of Maxus or CLH after (and by virtue of events occurring in) the reorganization than it is in respect of Maxus in the event the proposed reorganization were not approved.

While we are not experts in or qualified to comment on Argentine law, we further believe that the fact that YPF is an Argentine company represents a significant additional difficulty with which any U.S. litigant trying to reach the assets of YPF would have to contend.

YPF's Indirect Liability for Maxus' Environmental Problems

It is critical to an understanding of the proposals being made to the Board, however, to understand that YPF nevertheless has substantial indirect exposure to Maxus' environmental liabilities.

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First, YPF paid over $700 million for all of Maxus' outstanding common stock. It has also undertaken to support Maxus' obligations, to the extent Maxus cannot fulfill them, for the benefit of Maxus' Preferred Stock holders (the so-called "Keep Well" agreement) until June 2004 in an amount up to all debt service requirements on indebtedness placed by YPF on Maxus' assets in connection with the acquisition of and subsequent merger with Maxus (the original principal amount of this bank debt was $425 million). YPF contributed $64 million to Maxus in the first quarter of 1996 and has announced that it expects to contribute a total of between $200 and $250 million to Maxus in 1996. In addition, as discussed above, YPF needs to move Maxus debt (which YPF has guaranteed and which totals about $1.2 billion) up to YPF so that YPF can obtain tax deductions for interest payments that are now being made on an after-tax basis. The redemption of the $4.00 Preferred, which is a step in that direction, would increase YPF's current cash investment in Maxus by about $217 million. (We understand there may be limits under Argentine law on how much of Maxus' debt can be refinanced at the YPF level without losing the deductibility of the interest payments, but we are not qualified to comment on this issue.)

In short, YPF has already exposed, or will by the end of this year will have exposed (assuming the Maxus $4.00 Preferred is redeemed) a total of about $1.1 billion in cash to Maxus' environmental liabilities. As time goes on, that figure will go up rapidly, and it should not be forgotten that YPF has guaranteed $1.2 billion of Maxus debt on top of its cash investment. To put it another way, YPF has already placed at risk to adverse developments an amount more than 10 times as large as Maxus' current loss reserve for environmental liabilities. Environmental projects are normally slow to develop (they frequently take 15 years from start to finish), and this figure can only grow with time.

Transfer of Maxus' Environmental Operations to a Subsidiary of YPF

In general terms, the proposal is to dividend up to a subsidiary of YPF the stock of Chemical Land Holdings, Inc. (CLH), currently a second-tier subsidiary of Maxus whose assets consists mainly of contaminated properties previously used in connection with discontinued operations of its former chemicals business or purchased by Maxus or its predecessors as a part of its overall environmental defense strategy. YPF would create a new U.S. subsidiary (YPF Holdings (USA), Inc.) to hold the stock of both Maxus and CLH. (A new international tax haven holding company subsidiary may be interposed between the new U.S. holding company and YPF.) CLH would assume Maxus' operational and financial responsibilities under the OxyChem indemnification agreements, supported by an undertaking from YPF to CLH to contribute capital to CLH so that CLH may meet its obligations for the assumed environmental liabilities up to the amount of the current environmental loss reserve (about $117 million at present), plus certain periodic amounts to cover general and administrative overhead expenses of CLH (estimated in the range of $10 million per year)(the "Undertaking"). Maxus would remain responsible for any environmental liabilities in

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excess of such amount, and would remain primarily liable to OxyChem under the indemnities. All payments made by YPF under the Undertaking would reduce YPF's obligations under the Keep Well.

CLH's principal asset would be the YPF Undertaking, which would be limited in amount. This mechanism is intended as a means of cutting off YPF's direct liability for Maxus' environmental liabilities. YPF would have no obligation to increase the amount of its contribution obligation to CLH under this Undertaking. If it became necessary to increase the loss reserve related to CLH's liabilities, YPF would have the choice either to increase the amount of the Undertaking by a like amount, in which case the loss reserve would run through the income statement only of YPF, or to decline to do so, in which case the loss reserve would be increased on the books of Maxus and would run through the income statement of both Maxus and YPF (on a consolidated basis). Obviously, a decision to increase the amount of the Undertaking would also increase YPF's direct financial responsibility in an amount equal to the amount of the increase, but not its indirect responsibility therefor.

In practice, we anticipate that YPF would under normal circumstances accept a request to increase the amount of the Undertaking, to preserve the advantages to it under this arrangement. If, however, the increase in the loss reserve were very high in relation to the amount of assets YPF already has at risk, YPF would have the option of refusing the increase, paying to CLH the amount of the Undertaking as it stood prior to the requested increase, and allowing CLH to default on its assumption of Maxus' liabilities under the OxyChem indemnity. It will be remembered that Maxus will remain primarily liable on that indemnity and that the proposed reorganization cannot change that relationship with OxyChem without OxyChem's consent, which will not be sought.

Advantages To YPF Expected From the Proposed Reorganization

We are informed that management of YPF sees the following advantages from this reorganization:

1. The reorganization will sharpen the management focus on Maxus' environmental liabilities and bring greater accountability to its operations in this area. The environmental response division currently has no revenues, no operations, no customers, no products. It is not a business at all, and its management problems are completely unlike, and in no way associated with, the rest of Maxus' operations. At present, it represents a major distraction at Maxus that diverts attention from Maxus' real business--exploring for and producing oil and gas.

2. After the reorganization, the costs and losses generated by the environmental liabilities will no longer run through Maxus' income statement. This will protect Maxus' financial results from inundation from additions to the loss reserve and permit the financial markets to see

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clearly the progress being made at Maxus in its E & P business. We believe CS First Boston will advise the Board that this is important. The financial effect on YPF is nil, because the results of the environmental group's operations flow through YPF's consolidated financial statements either way--through Maxus, as is currently the case, or through YPF Holdings, as would be the case after the reorganization.

3. It is intended that CLH will use the specialized and in some cases unique know-how Maxus has developed to supply environmental consulting services to other YPF divisions and, later, to third parties, creating a new profit center at YPF.

Redemption of Maxus' $4.00 Preferred

The principal "cost" of implementing the transfer of environmental liabilities to CLH, although it is in fact merely a refunding, is the redemption of Maxus' $4.00 Preferred. The redemption value of this series is approximately $217 million.

In order to enable YPF to deduct CLH's costs and losses against Maxus' income tax liability in the U.S., Maxus and CLH must remain in the same consolidated group for tax purposes under U.S. tax law. One of the requirements for consolidation is that the same parent own at least 80% of the value of all voting stocks of all companies to be consolidated. Since the $4.00 Preferred is a voting stock, it must be taken into account for this purpose. Because of the debt YPF has placed on Maxus' assets, it is believed that the common stock does not represent 80% or more of the value of Maxus combined voting stocks. Accordingly, the $4.00 Preferred must be taken out of the equation by redemption.

The $4.00 Preferred must eventually be dealt with, whether or not Maxus' environmental operations are reorganized, because it is convertible into Maxus common stock. The cash for such redemption is expected to come from a new issue of YPF crude oil receivable notes, probably in the form of a volumetric production payment. YPF will use the cash to purchase certain Latin American E & P assets from Maxus in connection with the global tax reorganization described at the beginning of this memorandum. Maxus will in turn use the proceeds of the sale of these properties to redeem its $4.00 Preferred.

Redemption of the $4.00 Preferred with YPF debt in this manner is also intended to accomplish part of YPF's goal of replacing debt or quasi-debt obligations at Maxus that must be serviced with after-tax dollars with YPF debt obligations that can be serviced with pre-tax pesos.

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Guarantee of Obligations Under Maxus' $2.50 Preferred

Once the $4.00 Preferred has been redeemed, we recommend that YPF attempt to obtain the consent of sufficient holders of the $2.50 to remove Article Ninth of Maxus' Certificate of Incorporation. Article Ninth contains numerous restrictions on any person that holds 5% or more of Maxus' common stock in dealing with Maxus' assets. It forbids any transfer of assets with a value of more than $25 million, loans of more that $25 million, dividends or guarantees of more than $25 million, and almost every other means of transferring value from Maxus to YPF, without either a majority vote of the holders of all classes of voting stock or the affirmative vote of a majority of the directors on Maxus' Board who were directors before YPF acquired Maxus. It is not feasible to obtain the vote of a majority of the preferred stockholders in such instances, because it is customary under U.S. practice for preferred stockholders to insist on being paid for such consents. That is the primary reason YPF has asked several directors of the "old" Maxus to remain on Maxus' Board, and YPF has had to rely on their approval in several instances.

Article Ninth cannot be amended or eliminated without the consent or approval of the holders of the requisite percentage of all classes of Maxus equity stock. Once Maxus redeems the $4.00 Preferred, only the common stock and the $2.50 Preferred will be left (other than the last of the $9.75 Preferred Stock, which is scheduled for redemption on February 1, 1997, and whose holder has already waived its rights under Article Ninth). The $2.50 Preferred was distributed retail and is widely held, and numerous holders of this series have in the past demanded that YPF guarantee Maxus' obligations to them. There is approximately $87.5 million of this Preferred outstanding, and the approval of the holders of two-thirds of the shares is necessary to amend Maxus' Certificate of Incorporation. Holders who did not consent would not receive the guarantee.

We do not believe YPF would permit a default under this or any other material obligation of Maxus, because of the damage that would be done to YPF's ability to finance its own operations, and YPF is formally obligated to support the preferred under the Keep Well anyway. Therefore, the addition of a YPF guarantee does not, as a practical matter, cost YPF anything (although it must be recognized that there are legal differences between a legal guarantee and the other obligations to support the preferred). The Keep Well is not well understood by the holders of the Maxus preferreds, and we believe that they would perceive significant value in the guarantee. That is why we believe it would be possible to obtain the approval of the holders of two-thirds of this series to eliminate Article Ninth in exchange for such a guarantee.

In our judgment, this would be clearly worth doing to remove the restrictions on YPF's flexibility to deal freely with Maxus' assets. Article Ninth could in the future represent a significant obstacle to major redeployments of Maxus' assets.

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The solicitation of consents from the holders of the $2.50 Preferred would be undertaken after the redemption of the $4.00 Preferred, and none of the other steps in the reorganization plan depends on its success.

Implementation of the Steps Recommended

The steps proposed to be taken to implement the proposed restructuring of the Maxus environmental liabilities are not easily summarized and are instead described in detail in Annex B to this Memorandum. As far as the board of directors of YPF is concerned, however, they will need to authorize and approve the following actions and matters if they decide to approve the reorganization plan:

1. The creation of a United States holding company subsidiary (tentatively "YPF Holdings (USA), Inc.") to hold the YPF investment of Maxus common stock and the contribution of the Maxus common stock to the equity of the holding company. An additional first-tier holding company subsidiary of YPF, to be organized in a tax haven country, should also be authorized if deemed advisable by management.

2. The election of directors of the first tier holding company.

3. The authorization of YPF to provide funds as an advance or capital contribution to Maxus in an amount sufficient to provide for the redemption of the Maxus $4.00 Preferred at par (approximately $217 million) and the approval of the execution of a proposed Redemption Funding Agreement with Maxus committing to deliver such funds so that Maxus may take actions to redeem the $4.00 Preferred.

4. The authorization of YPF to execute a Contribution Agreement among YPF, YPF Holdings and CLH. Under the Contribution Agreement, YPF will agree (i) jointly and severally with YPF Holdings to contribute funds (or advances at the option of YPF) to CLH, as and when requested by CLH subject to certain limitations, in an amount necessary for CLH to satisfy its obligations assumed under the proposed Assumption Agreement with Maxus (described in Annex B hereto) provided that the aggregate contributions or advances made under this provision do not exceed the environmental liability reserve on the consolidated balance sheet of Maxus as of June 30, 1996 (estimated at approximately $117 million); and (ii) jointly and severally with YPF Holdings to contribute funds (or advances at the option of YPF) to CLH, as and when requested by CLH, to fund general and administrative costs of CLH. Maxus will agree that all payments contributed by YPF and YPF Holdings to CLH (other than advances) will be credited to YPF's obligations under the Keep Well. YPF will effect all capital contributions to CLH through contributions to YPF Holdings.

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5. Authorization to guarantee Maxus' obligations under the $2.50 Preferred, which guarantee will be conditioned upon receipt of approvals of holders of a two-thirds of the outstanding shares of $2.50 Preferred in favor of removing Article Ninth from the Maxus Certificate of Incorporation and any other proposals deemed prudent or necessary by Maxus and YPF management.

6. Authorizations for matters related to the acquisition of certain Maxus Latin American properties.

Legal Consequences

Under U.S. law, and provided YPF observes the guidelines discussed earlier in this memorandum and in our earlier memorandum to YPF referred to above, there should be no legal difference in YPF's responsibility for these environmental liabilities, whether they are located in Maxus or CLH. Both would be indirect wholly owned subsidiaries, both would have assets currently sufficient to discharge the legally reserved for liabilities and both would be companies with professional staffs and operations. It is not currently foreseen that anyone would be disadvantaged by this transfer, including the various governmental agencies. It is possible that facts will arise in the future that are not now foreseen, or that the law will change adversely toYPF's position in the future, and we have not been requested to, nor do we, opine that this complex legal reorganization could in no aspect adversely affect defenses YPF now has against direct liability for Maxus' environmental liabilities.

In order for that concern to become relevant, however, Maxus' environmental liabilities would have to exceed the substantial investment YPF has already made in Maxus, all of which is currently exposed to these liabilities. While no one can predict the future, we believe, based on substantial familiarity with Maxus' environmental problems, that the chances this could occur are very small. In view of this, in view of the substantial legal defenses YPF would have against additional direct liability for these liabilities beyond the amount agreed to be paid in YPF's Undertaking to CLH, and in view of the significant advantages available to YPF in this reorganization, we believe the directors of YPF would be justified in making the business decision to approve the reorganization proposed.

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ANNEX A

settlement of the Company's sole interest rate swap agreement prior to its termination. This gain was recorded in other revenues, net. The Company also received a $5 million termination payment, which has been deferred.

Over the two-year period from January 1, 1993, to December 31, 1994, Maxus took steps to restructure its debt and equity position. The overall intent was to provide immediate funding for its major development and construction projects (the Sunray gas plant, the Northwest Java gas project and the development of Block 16 in Ecuador) and to match the repayment schedules of the debt with the future cash flow expected from these projects while maintaining necessary working capital balances required for flexibility. The Company was able to take advantage of lower interest rates and, at the same time, to extend the average debt maturities.

Debt rose significantly in 1993 due to the completion of two of the Company's major projects and the near completion of the initial phase of the Ecuador project. These projects contributed to substantial capital spending in 1993. To cover the shortfall between cash from operations and the cash used in investing activities, incremental new debt was issued. Of the $412 million proceeds received in 1993 from the issuance of long-term debt, $204 million was used to refinance currently maturing debt and to fund the early retirement of a portion of the Company's 11¼% sinking fund debentures, with the remainder partially funding the 1993 capital spending program.

During 1994, the Company issued $101 million of additional long-term debt. Debt issuances, along with a portion of the proceeds from asset sales, were used to repay approximately $170 million of debt obligations due 1994 and beyond and to prepay $63 million of $9.75 Preferred Stock due in February 1995.

In 1993, Maxus issued a new class of preferred stock, the $2.50 Preferred Stock. Of the $85 million in net proceeds received from the offering, $63 million was used to redeem 625,000 shares of $9.75 Preferred Stock as required in February 1994.

Accounting Standards

Effective April 1, 1995, the Company used the purchase method of accounting to record the acquisition of the Company by YPF. In a purchase method combination, the purchase price is allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. In connection with the purchase price allocation, the Company adopted Statement of Financial Accounting Standards No. 121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," which requires a review of long-lived assets for impairment whenever events or changes in circumstance indicate that the carrying amount of the asset may not be recoverable. Under SFAS 121, if the expected future cash flow of a long-lived asset is less than the carrying amount of the asset, an impairment loss shall be recognized to value the asset at its fair value. Maxus revalued its assets and liabilities to fair value in the purchase price allocation effective April 1, 1995. There was no impact on the Company's results of operations resulting from the adoption of SFAS 121 during the nine months ended December 31, 1995.

Environmental Matters

Federal, state and local laws and regulations relating to health and environmental quality in the United States, as well as environmental laws and regulations of other countries in which the Company operates, affect nearly all of the operations of the Company. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish in certain circumstances remedial obligations. In addition, especially stringent measures and special provisions may be appropriate or required in environmentally sensitive foreign areas of operation, such as those in Ecuador.

Many of the Company's United States operations are subject to requirements of the Safe Drinking Water Act, the Clean Water Act, the Clean Air Act (as amended in 1990), the Occupational Safety and Health Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), and other federal, as well as state, laws. Such laws address, among other things, limits on the discharge of wastes associated with oil and gas operations, investigation and clean-up of hazardous substances,

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and workplace safety and health. In addition, these laws typically require compliance with associated regulations and permits and provide for the imposition of penalties for noncompliance. The Clean Air Act Amendments of 1990 may benefit the Company's business by increasing the demand for natural gas as a clean fuel.

The Company believes that its policies and procedures in the area of pollution control, product safety and occupational health are adequate to prevent unreasonable risk of environmental and other damage, and of resulting financial liability, in connection with its business. Some risk of environmental and other damage is, however, inherent in particular operations of the Company and, as discussed below, the Company has certain potential liabilities associated with former operations. The Company cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of the regulatory agencies, could in the future require material expenditures by the Company for the installation and operation of systems and equipment for remedial measures and in certain other respects. Such potential expenditures cannot be reasonably estimated.

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

In addition, the Company agreed to indemnify Chemicals and Occidental for 50% of certain environmental costs incurred by Chemicals for which notice is given to the Company within 10 years after the Closing Date on projects involving remedial activities relating to chemical plant sites or other property used in the conduct of the business of Chemicals as of the Closing Date and for any period of time following the Closing Date, with the Company's aggregate exposure for this cost sharing being limited to $75 million. The total expended by the Company under this cost sharing arrangement was about $39 million as of December 31, 1995. Occidental Chemical Corporation ("OxyChem"), a subsidiary of Occidental, and Henkel Corporation ("Henkel"), an assignee of certain of Occidental's rights and obligations, have filed a declaratory judgment action in Texas state court with respect to the Company's agreement in this regard (see "*Legal Proceedings*").

In connection with the spin-off of Diamond Shamrock R&M, Inc., now known as Diamond Shamrock, Inc. ("DSI"), in 1987, the Company and DSI agreed to share the costs of losses (other than product liability) relating to businesses disposed of prior to the spin-off, including Chemicals. Pursuant to this cost-sharing agreement, the Company bore the first $75 million of such costs and DSI bore the next $37.5 million. Under the arrangement, such ongoing costs are now borne one-third by DSI and two-thirds by the Company. This arrangement will continue until DSI has borne an additional $47.5 million, following which such costs will be borne solely by the Company. As of December 31, 1995, DSI's remaining responsibility is approximately $8 million and is included in accounts receivable in the accompanying balance sheet.

For the year ended December 31, 1995, the Company spent $6 million in environmental related expenditures in its oil and gas operations. Expenditures in 1996 are expected to be approximately $8 million.

The Company's total expenditures for environmental compliance for disposed of businesses, including Chemicals, were approximately $38 million in 1995, $12 million of which were recovered from DSI under the above described cost-sharing agreement. Those expenditures are projected to be approximately $23 million in 1996 after recovery from DSI under such agreement.

At December 31, 1995, reserves for the environmental contingencies discussed herein totaled $119 million. Management believes it has adequately reserved for all environmental contingencies which are probable and can be reasonably estimated; however, changes in circumstances could result in changes, including additions, to such reserves in the future.

The insurance companies that wrote Chemicals' and the Company's primary and excess insurance during the relevant periods have to date refused to provide coverage for most of Chemicals' or the Company's cost of

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the personal injury and property damage claims related to environmental claims, including remedial activities at chemical plant sites and disposal sites. In two actions filed in New Jersey state court, the Company has been conducting litigation against all of these insurers for declaratory judgments that it is entitled to coverage for certain of these claims. In 1989, the trial judge in one of the New Jersey actions ruled that there is no insurance coverage with respect to the claims related to the Newark plant (discussed below). The trial court's decision was upheld on appeal and that action is now ended. The other suit, which is pending, covers disputes with respect to insurance coverage related to certain other environmental matters.

Newark, New Jersey. A consent decree, previously agreed upon by the U.S. Environmental Protection Agency (the "EPA"), the New Jersey Department of Environmental Protection and Energy (the "DEP") and Occidental, as successor to Chemicals, was entered in 1990 by the United States District Court of New Jersey and requires implementation of a remedial action plan at Chemicals' former Newark, New Jersey agricultural chemicals plant. Engineering for such plan, which will include an engineering estimate of the cost of construction, is progressing. Construction is expected to begin in 1997, cost approximately $22 million and take three to four years to complete. The work is being supervised and paid for by the Company pursuant to its above described indemnification obligation to Occidental. The Company has fully reserved the estimated costs of performing the remedial action plan and required ongoing maintenance costs.

Studies have indicated that sediments of the Newark Bay watershed, including the Passaic River adjacent to the plant, are contaminated with hazardous chemicals from many sources. Studies performed by the Company and others suggest that contaminants historically discharged by the Newark plant are buried under several feet of more recent sediment deposits and are not moving. The Company, on behalf of Occidental, negotiated an agreement with the EPA under which the Company is conducting further testing and studies to characterize contaminated sediment in a six-mile portion of the Passaic River near the plant site. The Company currently expects such testing and studies to be completed in 1999 and cost from $4 million to $6 million after December 31, 1995. The Company has reserved its estimate of the remaining costs to be incurred in performing these studies as of December 31, 1995. The Company has been conducting similar studies under its own auspices for several years. Until these studies are completed and evaluated, the Company cannot reasonably forecast what regulatory program, if any, will be proposed for the Passaic River or the Newark Bay watershed and therefore cannot estimate what additional costs, if any, will be required to be incurred.

Hudson County, New Jersey. Until 1972, Chemicals operated a chromium ore processing plant at Kearny, New Jersey. According to the DEP, wastes from these ore processing operations were used as fill material at a number of sites in Hudson County.

As a result of negotiations between the Company (on behalf of Occidental) and the DEP, Occidental signed an administrative consent order with the DEP in 1990 for investigation and remediation work at certain chromite ore residue sites in Kearny and Secaucus, New Jersey. The work is being performed by the Company on behalf of Occidental, and the Company is funding Occidental's share of the cost of investigation and remediation of these sites and is currently providing financial assurance for performance of the work in the form of a self-guarantee in the amount of $20 million subject to the Company's continuing ability to satisfy certain financial tests specified by the State. This financial assurance may be reduced with the approval of the DEP following any annual cost review. While the Company has participated in the cost of studies and is implementing interim remedial actions and conducting remedial investigations and feasibility studies, the ultimate cost of remediation is uncertain. The Company anticipates submitting its investigation and feasibility reports to the DEP in late 1996 or 1997. The results of the DEP's review of these reports could impact the cost of any further remediation that may be required. The Company has reserved its best estimate of the remaining cost to perform the investigations and remedial work as being $50 million at December 31, 1995. In addition, the DEP has indicated that it expects Occidental and the Company to participate with the other chromium manufacturers in the funding of certain remedial activities with respect to a number of so-called "orphan" chrome sites located in Hudson County, New Jersey. Occidental and the Company have declined participation as to those sites for which there is no evidence of the presence of residue generated by Chemicals. The Governor of New Jersey issued an Executive Order requiring state agencies to provide specific justification for

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any state requirements more stringent than federal requirements. The DEP has indicated that it may be revising its soil action level upwards towards the higher soil screening levels proposed by the EPA in 1994.

Painesville, Ohio. From about 1912 through 1976, Chemicals operated manufacturing facilities in Painesville, Ohio. The operations over the years involved several discrete but contiguous plant sites over an area of about 1,300 acres. The primary area of concern historically has been Chemicals' former chromite ore processing plant (the "Chrome Plant"). For many years, the site of the Chrome Plant has been under the administrative control of the EPA pursuant to an administrative consent order under which Chemicals is required to maintain a clay cap over the site and to conduct certain ground water and surface water monitoring. Many other sites have previously been clay-capped and one specific site, which was a waste disposal site from the mid-1960s until the 1970s, has been encapsulated and is being controlled and monitored. In September 1995, the Ohio Environmental Protection Agency (the "OEPA") issued its Directors' Final Findings and Order (the "Director's Order") by consent ordering that a remedial investigation and feasibility study (the "RIFS") be conducted at the former Painesville plant area. The Company has agreed to participate in the RIFS as required by the Director's Order. It is estimated that the total cost of performing the RIFS will be $3 million to $5 million over the next three years. In spite of the many remedial, maintenance and monitoring activities performed, the former Painesville plant site has been proposed for listing on the National Priority List under CERCLA; however, the EPA has stated that the site will not be listed so long as it is satisfactorily addressed pursuant to the Director's Order and OEPA's programs. The Company has accrued the estimate of its share of the cost to perform the RIFS. The scope and nature of any further investigation or remediation that may be required cannot be determined at this time; however, as the RIFS progresses, the Company will continuously assess the condition of the Painesville plant site and make any changes, including additions, to its reserve as may be required.

Other Former Plant Sites. Environmental remediation programs are in place at all other former plant sites where material remediation is required in the opinion of the Company. Former plant sites where remediation has been completed are being maintained and monitored to insure continued compliance with applicable laws and regulatory programs. The Company has reserved $6 million at December 31, 1995, related to these sites, none of which are individually material.

Third Party Sites. Chemicals has also been designated as a potentially responsible party ("PRP") by the EPA under CERCLA with respect to a number of third party sites, primarily off of Chemicals' properties, where hazardous substances from Chemicals' plant operations allegedly were disposed of or have come to be located. Numerous PRPs have been named at substantially all of these sites. At several of these, Chemicals has no known exposure. Although PRPs are almost always jointly and severally liable for the cost of investigations, cleanups and other response costs, each has the right of contribution from other PRPs and, as a practical matter, cost sharing by PRPs is usually effected by agreement among them. Accordingly, the ultimate cost of these sites and Chemicals' share of the costs thereof cannot be estimated at this time, but are not expected to be material except possibly as a result of the matters described below.

1. *Fields Brook; Ashtabula, Ohio.* At the time that Chemicals was sold to Occidental, Chemicals operated a chemical plant at Ashtabula, Ohio which is adjacent to Fields Brook. Occidental has continued to operate the Ashtabula plant. In 1986, Chemicals was formally notified by the EPA that it was a PRP for the Fields Brook site. The site is defined as Fields Brook, its tributaries and surrounding areas within the Fields Brook watershed. At least 15 other parties are presently considered to be financially responsible PRPs. In 1986, the EPA estimated the cost of sediment remediation at the site would be $48 million. The PRPs, including Occidental, have developed an allocation agreement for sharing the costs of the work in Fields Brook ordered by the EPA. Under the allocation, the Occidental share for Chemicals' ownership of the Ashtabula plant would be about five percent of the total, assuming all viable PRPs were to participate.

In 1990, the OEPA, as state trustee for natural resources under CERCLA, advised previously identified PRPs, including Chemicals, that the OEPA intended to conduct a Natural Resource Damage Assessment of the Fields Brook site to calculate a monetary value for injury to surface water, groundwater, air, and biological and geological resources at the site. Also, although Fields Brook empties into the Ashtabula River which flows into Lake Erie, it is not known to what extent, if any, the EPA will propose remedial action beyond Fields

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Brook for which the Fields Brook PRPs might be asked to bear some share of the costs. Until all preliminary studies and necessary governmental actions have been completed and negotiated or judicial allocations have been made, it is not possible for the Company to estimate what the response costs, response activities or natural resource damages, if any, may be for Fields Brook or related areas, the parties responsible therefore or their respective shares.

It is the Company's position that costs attributable to the Ashtabula plant fall under the Company's above-described cost sharing arrangement with Occidental under which the Company bears one-half of certain costs up to an aggregate dollar cap. Occidental, however, has contended that it is entitled to full indemnification from the Company for such costs, and the outcome of this dispute cannot be predicted. The Company has reserved its estimate of its share of potential cleanup costs based on the assumption that this site falls under the Occidental cost sharing arrangement.

2. *French Limited Disposal Site; Crosby, Texas.* The PRPs, including Chemicals (represented by the Company), entered into a consent decree and a related trust agreement with the EPA with respect to this disposal site. The consent decree was entered by the federal court as a settlement of the EPA's claim for remedial action. Chemical's share of the cost to complete remediation at this site at December 31, 1995 is expected to be approximately $500,000 and such amount is fully accrued.

3. *SCP/Carlstadt Site; Carlstadt, New Jersey.* Chemicals' share of remediation costs at this CERCLA site would be approximately one percent, based on relative volume of waste shipped to the site. An interim remedy has now been implemented at the site by the PRPs but no estimate can be made at this time of ultimate costs of remediation which may extend to certain off-site locations.

4. *Chemical Control Site; Elizabeth, New Jersey.* The DEP has demanded of PRPs (including Chemicals) reimbursement of the DEP's alleged $34 million (including interest through December 31, 1995) in past costs for its partial cleanup of this site. The PRPs and the EPA have settled the federal claims for cost recovery and site remediation, and remediation is now complete. Based on the previous allocation formula, it is expected that Chemicals' share of any money paid to the DEP for its claim would be approximately two percent. The Company has fully reserved its estimated liability for this site.

~~*Legal Proceedings*~~

In November 1995, OxyChem filed suit in Texas state court seeking a declaration of certain of the parties' rights and obligations under the sales agreement pursuant to which the Company sold Chemicals to Occidental. Henkel joined in said lawsuit as a plaintiff in January 1996. Specifically, OxyChem and Henkel are seeking a declaration that the Company is required to indemnify them for 50% of certain environmental costs incurred on projects involving remedial activities relating to chemical plant sites or other property used in connection with the business of Chemicals on the Closing Date which relate to, result from or arise out of conditions, events or circumstances discovered by OxyChem or Henkel and as to which the Company is provided written notice by OxyChem or Henkel prior to the expiration of ten years following the Closing Date, irrespective of when OxyChem or Henkel incurs and gives notice of such costs, subject to an aggregate $75 million cap. The Company believes that this lawsuit is without merit and intends to defend same vigorously. The Company has established reserves based on its 50% share of costs expected to be paid or incurred by OxyChem and Henkel prior to September 1996.

As of December 31, 1995, the Company had paid OxyChem and Henkel a total of approximately $39 million against said $75 million cap. The Company cannot predict what portion of the approximately $36 million remaining as of that date Occidental and Henkel may actually pay or incur prior to September 4, 1996, the tenth anniversary of the Closing Date if they accelerate spending with regard to such environmental costs; however, the Company has approximately $7 million reserved at December 31, 1995, based on 50% of OxyChem's and Henkel's historical annual expenditures. In the event OxyChem and Henkel prevail in this lawsuit, the Company could be required to provide up to approximately $29 million in additional reserves related to this indemnification.

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ANNEX B

STEPS FOR
PROPOSED MAXUS ENVIRONMENTAL REORGANIZATION

Step 1. Preparation of CLH. Finalize identification of liabilities to be assumed by Chemical Land Holdings Inc. ("CLH"). Merge related companies into CLH. Select new directors and officers of CLH (including an independent director, if possible). Prepare business plan for CLH. Resolve employee and other administrative issues. Finalize service agreement (and possibly tax sharing agreement) between Maxus and CLH. Prepare and adopt Maxus director and stockholder resolutions for the foregoing actions. Transfer stock of CLH to make CLH direct subsidiary of Maxus. *(Verify that no change in control provisions will be triggered in Maxus agreements.)*

Step 2. New U.S. Holding Company. YPF Sociedad Anónima ("YPF") incorporates YPF Holdings (USA), Inc. ("Holdings") in Delaware as a wholly-owned subsidiary of YPF. Select directors and officers. Prepare organizational resolutions.

Step 2A. Possible New Cayman Islands Holding Company. If deemed necessary or desirable by YPF management in connection with the possible transfer to YPF of certain South American assets of Maxus, a Cayman Islands holding company may be formed (YPF International (C.I.), Ltd.) as a direct subsidiary of YPF to hold Holdings stock and the stock of other Cayman Islands subsidiaries which will hold the South American assets transferred from Maxus. Select directors and officers. Prepare organizational resolutions.

Step 3. Maxus Bank Consents. Obtain consents of Maxus subsidiary bank group to contribution of Maxus common stock to Holdings and other applicable consents.

Step 4. Corporate Approvals. Boards of directors of YPF, Maxus, CLH and Holdings (and if formed, YPF International) approve the reorganization transactions, including (by Maxus) the dividend or other transfer of the CLH common stock to Holdings, and approval of all relevant agreements, including the Redemption Funding Agreement, Contribution Agreement and the Assumption Agreement (as each is described below). CLH stock value, presumably nominal, will have to be determined by the Maxus board. The transactions, including the dividend or other transfer of CLH common stock, will require approval of Maxus independent directors.

Step 5. Contribution to Holding Company. YPF contributes Maxus common stock to Holdings. (through YPF International, if it is formed). Thus, Maxus becomes a direct subsidiary of Holdings.

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Step 6. Commitment to Fund Maxus Preferred Stock Redemption. YPF and Maxus enter into a Redemption Funding Agreement wherein YPF agrees to provide necessary funding to redeem the $4.00 Preferred Stock of Maxus at par. Maxus calls $4.00 Preferred Stock for redemption.

Step 7. CLH Assumption of Maxus Environmental Liabilities. Maxus and CLH enter into an Assumption Agreement as follows:

- CLH agrees to assume Maxus' obligations under the Occidental indemnity and certain related liabilities (including related costs and settlement expenses) (the "Assumed Liabilities"). The Assumed Liabilities will include all defined costs and expenses included in the environmental liability reserve of Maxus accrued as of June 30, 1996. *(Note that Maxus remains liable to third parties such as Occidental for the Assumed Liabilities since no releases can be obtained, but such liabilities will be paid by CLH to the extent of funding under the Contribution Agreement described below and subject to the limitations in the Contribution Agreement.)*
- Maxus assigns to CLH (i) all benefits under the Diamond Shamrock indemnity after the date of CLH assumption, (ii) any future insurance proceeds covering future expenditures (but not recoveries from present insurance litigation), and (iii) any claims that Maxus may have against Diamond Shamrock, Occidental, any insurance carrier or any other third party for payment, contribution or reimbursement, of any cost assumed or paid by CLH from and after date of CLH assumption (other than claims under present insurance litigation).
- CLH agrees to certain covenants designed to maintain the corporate "separateness" of CLH.

Step 8. YPF Limited Commitment to Fund CLH. YPF, Holdings (and YPF International, if formed), Maxus and CLH enter into a Contribution Agreement as follows:

- YPF and Holdings (and YPF International, if formed) jointly and severally agree to provide funds to contribute or advance funds to CLH, as and when requested by CLH, for the purpose of (i) paying any Assumed Liabilities subject to a limitation that (a) aggregate funding for this purpose shall not exceed an amount equal to the environmental liability reserve of Maxus as of June 30, 1996 (estimated at approximately $120 million) and (b) no further funding shall be required after the aggregate amount actually expended by CLH in respect of such liabilities since June 30, 1996 equals or exceeds such amount and (ii) paying general and administrative costs and expenses of CLH. Funding of G&A expenses will be subject to review and approval of an annual or quarterly budget. *(The agreement will clarify that YPF should get credit under the "keepwell" covenant for funding made to CLH.)*

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- CLH and Maxus will periodically report to YPF and Holdings on the status of the environmental reserve and advise YPF and Holdings promptly of any anticipated additional accrual to the reserve. YPF and Holdings will not be required to fund CLH in excess of the accrued amount of the Maxus environmental reserve as of June 30, 1996 (other than for G&A expenses) unless YPF and Holdings agree otherwise.

Step 9. Redemption of Maxus Preferred Stock. Maxus redeems $4.00 Preferred Stock at par (plus accrued dividends) with funding from YPF.

Step 10. Transfer of CLH to Holdings. Maxus dividends or transfers CLH stock to Holdings. *See attached ownership diagram.*

Step 11. Repeal of Maxus Charter Provision; Guaranty of $2.50 Preferred Stock. Holdings approves the elimination of Article Ninth (interested party restrictions) from Maxus charter. YPF commits to guarantee dividends of Maxus $2.50 Preferred Stock for so long as stock remains outstanding. YPF commitment is conditioned on receipt of approval of Preferred stockholders of elimination of Article Ninth. Proposal is made to holders of $2.50 Preferred Stock at Maxus Annual Meeting. If approval is obtained, YPF enters into Preferred Stock Guaranty and the Maxus charter is so amended.

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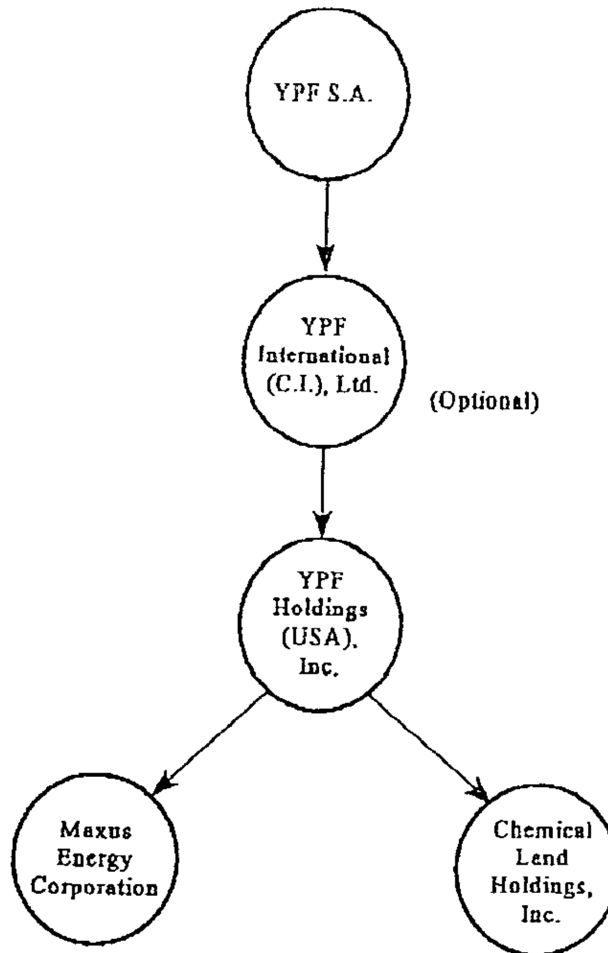
PROPOSED RESTRUCTURED YPF/MAXUS/CLH RELATIONSHIP



1. Chemical Land Holdings, Inc. ("CLH"), a subsidiary of Maxus, will assume certain environmental liabilities and obligations of Maxus. (Maxus remains liable as co-obligor.)

2. YPF will form YPF Holdings (USA), Inc. ("Holdings") (as a U.S. Delaware corporation) and possibly a second holding company, YPF International (C.I.), Ltd., and contribute common stock of Maxus to Holdings.

3. YPF and Holdings will agree with Maxus and CLH to make limited contributions of funds to CLH when and as needed.

4. Maxus will transfer capital stock of CLH to Holdings.

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